WPS RESOURCES CORP
Form 10-K
March 10, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from ________________ to ___________________

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

Securities registered pursuant to Section 12(b) of the Act

:

Title of each class	Name of each exchange on which registered

WPS RESOURCES CORPORATION	Common Stock, $1 par value	New York Stock Exchange
	Rights to purchase Common Stock pursuant to Rights Agreement dated December 12, 1996	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act

:

WISCONSIN PUBLIC SERVICE CORPORATION

Preferred Stock, Cumulative, $100 par value

5.00% Series	5.08% Series
5.04% Series	6.76% Series

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

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

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

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

State the aggregate market value
of the voting and non-voting common equity held by
nonaffiliates of the Registrants.

WPS RESOURCES CORPORATION	$1,294,801,899.09 as of June 28, 2002
WISCONSIN PUBLIC SERVICE CORPORATION	$0 as of June 28, 2002

Number of shares outstanding of each class
of common stock, as of February 14, 2003

WPS RESOURCES CORPORATION	Common Stock, $1 par value, 32,014,856 shares
WISCONSIN PUBLIC SERVICE CORPORATION	Common Stock, $4 par value, 23,896,962 shares. WPS Resources Corporation is the sole holder of

Wisconsin Public Service Corporation
Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Definitive proxy statement for the WPS Resources Corporation Annual Meeting of Shareholders to be held on May 15, 2003 is incorporated by reference into Part III.

WPS RESOURCES CORPORATION
and
WISCONSIN PUBLIC SERVICE CORPORATION

FORM 10-K
ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION
For the Year Ended December 31, 2002

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EXHIBITS FILED HEREWITH

10.8 Agreement and Amendment to Key Executive Employment and Severance Agreement entered into between WPS Resources Corporation and each of the following: Phillip M. Mikulsky and

	Larry L. Weyers
10.9	Key Executive Employment and Severance Agreement entered into between WPS Resources Corporation and each of the following: Larry B. Borgard, Diane L. Ford, David W. Harpole, Richard E. James, Thomas P. Meinz, Joseph P. O'Leary, Mark A. Radtke, Charles A. Schrock, Bernard J. Treml, and Daniel J. Verbanac.
10.10	Key Executive Employment and Severance Agreement entered into between WPS Resources Corporation and each of the following: Bradley A. Johnson, Barbara A. Nick, and Barth J. Wolf.
10.18	Severance Arrangement between WPS Resources Corporation and Joseph P. O'Leary
12.1	WPS Resources Corporation Ratio of Earnings to Fixed Charges
12.2	Wisconsin Public Service Corporation Ratio of Earnings to Fixed Charges and Preferred Dividends
21	Subsidiaries of the Registrants
23	Independent Auditors' Consents
24	Powers of Attorney
99.1	Written Statement of the WPS Resources Corporation Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
99.2	Written Statement of the WPS Resources Corporation Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
99.3	Written Statement of the Wisconsin Public Service Corporation Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
99.4	Written Statement of the Wisconsin Public Service Corporation Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

Forward-Looking Statements

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

- expectations regarding future revenues or expenses,
- estimated future capital expenditures,
- expected costs of purchased power in the future,
- costs of decommissioning nuclear generating plants,
- recovery of deferred costs,
- future cleanup costs associated with manufactured gas plant sites and

- statements regarding trends or estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations.

We cannot predict the course of future events or anticipate the interaction of multiple factors beyond our control and their effect on revenues, project timing, and costs. Some risk factors that could cause results different from any forward-looking statement include those described in the RISK FACTORS section of ITEM 1 of this Form 10-K and the following:

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

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

PART I

ITEM 1. BUSINESS

A. GENERAL

WPS Resources Corporation

WPS Resources was incorporated in Wisconsin in 1993 as a holding company for regulated utility and nonregulated business units. Approximate percentages of revenues, net income, and assets for 2002 and the year ended December 31, 2002 of WPS Resources and its principal operating subsidiaries are:

2002	Percent of Revenues *	Percent of Net Income *	Percent of Assets *
Wisconsin Public Service Corporation	38%	76%	58%
Upper Peninsula Power Company	2%	3%	4%
WPS Energy Services, Inc.	56%	10%	27%
WPS Power Development, Inc.	5%	22%	11%
WPS Resources Corporation	0%	(12%)	2%

* The percentages above do not total 100% due to intercompany transactions.

Wisconsin Public Service, WPS Energy Services, and WPS Power Development are Wisconsin corporations. Upper Peninsula Power is a Michigan corporation. Wisconsin Public Service and Upper Peninsula Power are regulated utilities. WPS Energy Services and WPS Power Development are nonregulated entities.

Wisconsin Public Service Corporation

Wisconsin Public Service, which began operations in 1883, is a regulated electric and natural gas utility serving an 11,000 square mile service territory in northeastern Wisconsin and an adjacent portion of the Upper Peninsula of Michigan. In 2002, Wisconsin Public Service served 407,696 electric retail customers and 295,816 natural gas retail customers. Wholesale electric service is provided to various customers, including municipal utilities, electric cooperatives, energy marketers, other investor-owned utilities, and a municipal joint action agency.

2002 Operating Revenues

State	Wisconsin	96%	Michigan	4%
Customers	Electric	69%	Natural gas	31%
Electric	Retail	87%	Wholesale	13%
Natural gas	Retail	100%	Wholesale	0%

Upper Peninsula Power Company

Upper Peninsula Power, established in 1884, is a regulated utility providing electric service to a 4,500 square mile area of Michigan's Upper Peninsula. In 2002, Upper Peninsula Power provided retail electric service to 50,770 customers and wholesale electric service was provided to 437 customers. Total revenues consisted of 89% retail sales and 11% wholesale sales.

WPS Resources Capital Corporation

WPS Resources Capital Corporation was created in 1999 as an intermediate holding company for the nonregulated subsidiaries of WPS Resources. At the end of 2002, WPS Resources Capital Corporation had total assets of $1.2 billion, consisting primarily of its investments in WPS Energy Services and WPS Power Development.

WPS Energy Services, Inc.

WPS Energy Services, established in 1994, is a nonregulated subsidiary of WPS Resources Capital Corporation. WPS Energy Services provides energy and related products and services in the nonregulated energy market throughout the Midwest and northeastern United States and in the adjacent provinces of Canada. WPS Energy Services had revenues of $1.5 billion in 2002 and assets of $877 million at December 31, 2002.

WPS Power Development, Inc.

WPS Power Development, established in 1995, is also a nonregulated subsidiary of WPS Resources Capital Corporation. Energy-related services provided by WPS Power Development include project development, engineering and management services, and operations and maintenance services. WPS Power Development currently owns, through its subsidiaries, electric generation facilities in Wisconsin, Maine, Pennsylvania, New York, and New Brunswick, Canada, a 23.3% interest in a synthetic fuel processing facility located in Kentucky, and steam production facilities located in Arkansas and Oregon. WPS Power Development had revenues of $145.2 million in 2002 and assets of $358.1 million at December 31, 2002.

B. ELECTRIC UTILITY OPERATIONS

Electric Operations

WPS Resources' regulated electric utility operations are provided through Wisconsin Public Service and Upper Peninsula Power. Wisconsin Public Service generates and distributes electric energy in northeastern Wisconsin. The cities of Green Bay, Oshkosh, Wausau, and Stevens Point are the largest communities served at the electric retail level. In Michigan, Upper Peninsula Power provides electric energy in the northern half of Michigan's Upper Peninsula. The largest community served at the electric retail level is the Houghton/Hancock area. Wisconsin Public Service also provides retail electric energy to a small portion of Michigan's Upper Peninsula, primarily in the City of Menominee.

Generating Capacity

In 2002, Wisconsin Public Service reached a firm net design peak of 1,947 megawatts on the afternoon of July 17. At the time of this summer peak, our total firm resources, (i.e., generation plus firm purchases) totaled 2,432 megawatts. The summer time period is the most relevant for capacity planning purposes. We expect future supply reserves to meet the minimum 18% planning criteria, imposed by the Public Service Commission of Wisconsin, through 2004.

For additional information regarding our generation facilities, see ITEM 2. PROPERTIES in this Form 10-K.

In 2002, Upper Peninsula Power purchased 82% of its total energy requirements. Remaining energy requirements were supplied by hydroelectric and combustion turbine facilities owned by Upper Peninsula Power. During 2002, Upper Peninsula Power purchased at wholesale 65 megawatts of firm power from Wisconsin Public Service. Upper Peninsula Power also purchased at wholesale non-firm power from Wisconsin Public Service and Alliant Energy Corporation among others. The purchases from Wisconsin Public Service represented 80% of Upper Peninsula Power's total energy requirements in 2002. Upper Peninsula Power has contracted for 65 megawatts of capacity and energy from Wisconsin Public Service for 2003.

On December 16, 2002, Wisconsin Public Service acquired the 180-megawatt De Pere Energy Center from Calpine Corporation and terminated the related existing purchased power agreement for approximately $120 million, $72 million of which was paid at closing with the remainder due in December 2003.

Wisconsin Public Service owns a 50% interest in Wisconsin River Power Company. Wisconsin River Power is the owner and operator of a combustion turbine, two dams and related hydroelectric plants, on the Wisconsin River, which have an aggregate installed capacity of approximately 50 megawatts.

Wisconsin Public Service began installation, in 2002, of an 83-megawatt gas-fired combustion turbine at its Pulliam plant site. The unit will be operational in 2003.

Kewaunee Nuclear Power Plant

General

The Kewaunee plant is a pressurized water reactor plant with a nameplate capacity of 562 megawatts. The Kewaunee plant is jointly-owned by Wisconsin Public Service (59%) and Wisconsin Power and Light (41%). Nuclear

Management Company, LLC operates the plant. Nuclear Management Company is owned by five utilities in the upper Midwest and operates the six nuclear power plants of these utilities. The plants are located in Iowa, Minnesota, Wisconsin, and Michigan. WPS Resources owns a 20% interest in Nuclear Management Company.

The Kewaunee plant's operating license expires in 2013. Wisconsin Public Service is considering whether or not to seek extension of the plant-operating license to 2033.

Plant Regulation

Based upon the performance of the Kewaunee plant during 2002, Wisconsin Public Service does not anticipate any significant increase in the number of inspection hours or level of scrutiny by the Nuclear Regulatory Commission regarding the general operations of the plant.

In accordance with Nuclear Regulatory Commission industry requirements, during the scheduled spring 2003 refueling outage a visual inspection of the Kewaunee plant reactor vessel head will be conducted. A visual inspection of the head was last performed during the fall 2001 refueling outage and no problems were identified. There has been no indication of any problems with the vessel head during the current operating cycle and Wisconsin Public Service does not anticipate a problem with the visual inspection during the upcoming refueling outage.

After evaluating the cost of continued required inspections of the existing reactor vessel head and the cost to replace the reactor vessel head, the Kewaunee plant owners have submitted a construction authorization request to the Public Service Commission of Wisconsin for replacement of the reactor vessel head. The replacement is scheduled to occur during the fall 2004 refueling outage at a total cost of approximately $20 million. Wisconsin Public Service is in the process of requesting recovery of its share of these costs in its electric rates.

Production

During 2002, the plant produced 4.7 million megawatt hours of electricity. This exceeded the plant's past production record of 4.4 million megawatt hours set in 1999.

Radioactive Waste Storage

The Midwest Compact Commission continues to monitor the availability of disposal facilities for the low-level radioactive waste created by all Midwest generators. A site at Barnwell, South Carolina has been available for the storage of low-level radioactive waste from the Kewaunee plant in the past. The availability of this site for future waste storage is uncertain. As a result of technological advances, waste compaction, and the reduction of waste generated, the Kewaunee plant has on-site low-level radioactive waste storage capacity sufficient to store all low-level waste expected at the plant through 2013 when the current plant operating license is set to expire.

Security

As a result of the events of September 11, 2001, additional security measures were implemented at the Kewaunee plant. The plant is in compliance with current security requirements and Nuclear Management Company continues to monitor industry and regulatory activity in this area.

Plant Capacity

As a result of instrumentation improvements to be made during the spring 2003 refueling outage, net production capacity at the plant is expected to increase by approximately 5 megawatts. We anticipate approval, from the Nuclear Regulatory Commission, to use improved instrumentation in the second quarter of 2003. It is expected that additional capacity improvements will be pursued through other changes at the plant before the scheduled 2004 refueling outage to further increase plant capacity by an additional 25 megawatts.

Depreciation and Decommissioning

At December 31, 2002, the net carrying amount of our investment in the Kewaunee plant, including construction work in progress, was approximately $90.4 million. The cost in current dollars for our 59% share of the estimated costs to decommission the Kewaunee plant is $313 million. Wisconsin Public Service decommissioning trust assets at December 31, 2002 totaled $290.5 million. Currently Wisconsin Public Service is required to annually contribute $2.6 million to the decommissioning trust. These annual contributions to the trust are subject to change based on future rate case filings. To date, the Public Service Commission has determined these costs to be reasonable and allowed their recovery in rates.

During 2002, $15.7 million of depreciation expense related to unrecovered plant investment was recognized, compared with $3.3 million recognized in 2001. The 2002 annual decommissioning funding requirement was $2.6 million.

Additional discussion of Kewaunee plant matters is included in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION and the NOTES TO WPS RESOURCES CONSOLIDATED FINANCIAL STATEMENTS.

Fuel Supply

Electric Generation Mix

Wisconsin Public Service's electric generation mix for 2002 and 2001 was:

Energy Source		2002	2001
	Coal	56.1%	61.4%
	Purchased power	20.6%	22.9%
	Nuclear	18.5%	11.2%
	Natural gas/fuel oil	2.4%	2.6%
	Hydro	2.4%	1.9%

Fuel Costs

Wisconsin Public Service's fuel costs for 2002 and 2001 were:

Fuel Cost by Source Cost (per million Btus)	2002	2001
Coal	$1.11	

		$1.10
Nuclear	0.44	0.41
Natural gas	4.28	4.42
Fuel oil	6.01	6.83

Coal

Coal is the primary fuel source for Wisconsin Public Service, most of which is from the Powder River Basin mines located in Wyoming. Powder River Basin coal is very low in sulfur and meets the standards of the 1990 Clean Air Act for 2002 and beyond. This coal has been our least-cost coal source from any of the subbituminous coal-producing regions in the United States.

Wisconsin Public Service continues to test alternative coal sources for its Pulliam and Weston plants. Alternative sources could provide more competitive market pricing and higher Btu content. Coal with higher Btu content increases generation output and provides flexibility in meeting peak electric demands.

Most of the coal purchased by Wisconsin Public Service for its wholly-owned plants and purchased by Wisconsin Power and Light for the jointly-owned Edgewater and Columbia plants is done through relatively short-term contracts of up to five years duration. Historically, Wisconsin Public Service has purchased the subbituminous coal directly from the producer. In order to capitalize on market opportunities for 2003, approximately 23% of the coal requirements for the wholly-owned plants and 22% for the jointly-owned plants were awarded to a marketer. For 2003, 95% of the wholly-owned and jointly-owned plant requirements are under contract. One long-term contract, for our wholly-owned plants, covers approximately 24% of total requirements and has take-or-pay obligations totaling $81.1 million for the years 2003 through 2016.

Wisconsin Public Service contracts for coal transportation for its plants under contracts of up to five years duration. Over 90% of our coal transportation is under competitive transportation agreements, which we expect to continue to contribute to competitive fuel costs.

See Note 15 in NOTES TO WPS RESOURCES CONSOLIDATED FINANCIAL STATEMENTS-COMMITMENTS AND CONTINGENCIES.

Nuclear Fuel Cycle

Wisconsin Public Service purchases uranium concentrates, conversion services, enrichment services, and fabrication services for nuclear fuel assemblies at the Kewaunee plant either on the spot market, through a bidding process, or using existing contracts. Wisconsin Public Service removes and replaces approximately one-third of the 121 fuel assemblies from the reactor every 18 months. Wisconsin Public Service stores spent fuel assemblies at the plant site pending permanent disposal by the United States Department of Energy.

Wisconsin Pubic Service's uranium inventory policy is to maintain sufficient inventory for up to two reactor refuelings. As of December 31, 2002, approximately 160,000 pounds of yellowcake (a processed form of uranium ore), or its equivalent, were held in inventory for the plant. Each refueling requires approximately 500,000 pounds of yellowcake. It is expected that approximately 825,000 pounds of yellowcake will be acquired in 2003 to meet the requirements of the inventory policy. Inventory includes uranium under contract.

Conversion services are complete for the nuclear fuel reload scheduled in 2003.

Wisconsin Public Service has contracted for a fixed quantity of enrichment services through the year 2004. Wisconsin Public Service has the option of purchasing future enrichment services under an existing contract or purchasing from the spot market.

Wisconsin Public Service has contracted for fuel fabrication services for the next six reloads.

If, for any reason, the Kewaunee plant is forced to terminate operations, we do not expect the maximum exposure to the co-owners related to fuel contracts to exceed $4.6 million. This exposure is due to a long-term fuel fabrication contract with Westinghouse. No financial penalties associated with the present uranium supply, conversion service, or enrichment agreements exist. Wisconsin Public Service believes uranium inventories could be sold on the spot market.

Spent Nuclear Fuel Disposal

The federal government is responsible for the disposal or permanent storage of spent nuclear fuel. The U.S. Department of Energy is currently preparing an application to license a permanent spent fuel storage facility in the Yucca Mountain area of Nevada.

Spent nuclear fuel is currently being stored at the Kewaunee plant. At current production levels, the plant has sufficient storage for all fuel assemblies until 2009 with full core offload. Additional capacity will be needed by 2010 to maintain full core offload capability.

Funding Decontamination and Decommissioning of Federal Facilities

The Energy Policy Act of 1992 requires nuclear power companies to fund the decontamination and decommissioning of Department of Energy facilities relating to the processing of nuclear fuel. As a result, we are required to pay a surcharge for uranium enrichment services purchased from the Federal government prior to October 23, 1992. On an inflation-adjusted basis, our portion of the obligation related to the Kewaunee plant is approximately $600,000 per year through the year 2007, at which time the payments end. Madison Gas and Electric, a former 17.8% owner of the Kewaunee plant, has agreed to continue to pay its portion of this annual assessment through 2007.

Wisconsin Public Service and a number of other nuclear power companies sued the Department of Energy in the United States Court of Federal Claims seeking a refund of the previously paid decontamination and decommissioning surcharge payments. In 2002, the Court ruled in favor of the Department of Energy. Wisconsin Public Service and the other utilities involved in the suit have decided to not appeal the decision.

Regulatory Matters

Wisconsin Regulatory Matters

In 2002, the Public Service Commission of Wisconsin took action on the following issues affecting WPS Resources' regulated operations in Wisconsin:

- Wausau to Duluth transmission line,
- rate recovery of costs incurred regarding the start-up and continuing operating costs of American Transmission Company,
- automated meter reading system,
- revised rules regarding the recovery of purchased electric power and electric generation fuel costs, and
- rate applications.

On November 26, 2002, Wisconsin Public Service, along with Minnesota Power Company and American Transmission Company, filed a joint application with the Public Service Commission of Wisconsin regarding an increase in the estimated cost to complete the Wausau to Duluth transmission line. The Public Service Commission of Wisconsin originally approved the 220-mile 345-kilovolt transmission line on October 30, 2001 at an estimated cost of $166 million. The applicants are required to notify the Public Service Commission of Wisconsin whenever cost estimates increase by more than ten percent. Current estimates anticipate the cost to complete the project to be $396 million. This updated cost estimate reflects additional costs to the project resulting from time delays, added regulatory requirements, changes and additions to the project at the request of local governments and American Transmission Company management, and overhead costs. The application requests that the Public Service Commission of Wisconsin issue an amended order approving the new estimated cost. For more information on American Transmission Company, see Note 10 in NOTES TO WPS RESOURCES CONSOLIDATED FINANCIAL STATEMENTS - INVESTMENTS IN AFFILIATES, AT EQUITY METHOD.

On November 8, 2002, Wisconsin Public Service entered into an agreement with American Transmission Company for the transfer of primary responsibility for the Wausau to Duluth project from Wisconsin Public Service to American Transmission Company and the reimbursement of Wisconsin Public Service's costs on the project to date. The parties are awaiting approval of the agreement by the Federal Energy Regulatory Commission and the Public Service Commission of Wisconsin. At year-end, Wisconsin Public Service had approximately $18.5 million invested in the project.

In 2002, the Public Service Commission of Wisconsin approved the recovery of costs deferred in 2000 and 2001 related to start-up costs and increased operating costs resulting from the creation of American Transmission Company. These deferred costs were completely recovered in 2002. The order also provides for operating costs of the American Transmission Company/Midwest Independent System Operator to be recovered through an escrow mechanism that will be trued up annually through a rate phase-in period, that ends in 2005.

During 2002, Wisconsin Public Service temporarily suspended installation of its automated meter reading system while the technology was reviewed in response to potential stray voltage issues. The independent review was completed in 2002 and results presented to the Public Service Commission of Wisconsin. The Public Service Commission of Wisconsin approved continuation of the program and Wisconsin Public Service resumed the installation of automated electric meters in 2002. The resumption of installation of automated gas meters requires the Public Service Commission of Wisconsin approval, which is expected in early 2003.

In 2002, the Public Service Commission of Wisconsin completed new rules related to the recovery of fuel costs for electric generation and purchased power from ratepayers. The new rules provide for a decrease in the regulatory lag in adjusting rates, a deferral mechanism for catastrophic supply events, and an improved procedure for customer intervention in the process.

Effective January 1, 2002, the Public Service Commission of Wisconsin granted interim rate relief of $55.5 million in electric rate increases and $11.2 million in natural gas rate increases. A final rate order for 2002 authorized a $58.6 million electric rate increase and a $10.6 million natural gas rate increase. Wisconsin Public Service refunded the over collection of natural gas revenues in July 2002. The final rate order provides for a 12.3% return on equity, based on a capital structure of 55% common equity. The final rate order was effective June 22, 2002.

In March 2002, Wisconsin Public Service filed a request with the Public Service Commission of Wisconsin for a $50.7 million electric rate increase and an $8.7 million natural gas rate increase for the 2003/2004 biennium. The rate request asks for a 12.6% return on equity with no change in the capital structure. The request is needed to cover increases in medical benefit costs, Kewaunee's scheduled refueling outage, a portion of the costs for a proposed 500-megawatt coal-fired generation plant to be completed in 2008, construction of a combustion turbine at the Pulliam plant, higher rate base, taxes, and depreciation. In the fourth quarter of 2002, Wisconsin's newly elected governor appointed a new chair of the Public Service Commission. On February 20, 2003, the Public Service Commission of Wisconsin ruled on the requested rate increase for Wisconsin Public Service. A final written order is anticipated in March 2003. The order will authorize a 12.0% return on equity with no change in the capital structure.

Michigan Regulatory Matters

Effective January 1, 2002, all electric retail customers of investor-owned utilities in Michigan had the right to choose their electric generation supplier. At this time, no customers have chosen an alternative electric supplier and no alternative electric suppliers have offered to provide generation service to any customers in Michigan's Upper Peninsula.

Wisconsin Public Service filed for a 9% increase in electric rates in the first quarter of 2003 and anticipates new rates to be effective by the end of 2003. Wisconsin Public Service has not had an electric rate increase in Michigan since 1986. The rate increase is needed to realize the authorized rate of return on equity, redesign rates to reduce rate subsidies between ratepayer classes, provide rate designs consistent with the Michigan electric energy market, and compensate for the increased costs of business.

On August 2, 2002, Upper Peninsula Power filed for a 2003 rate increase. The Michigan Public Utility Commission authorized new rates on December 20, 2002, which became effective on December 21, 2002. The approved rates include a revenue increase of $4.9 million in base rates based on an 11.4% return on equity. In addition, the rate order allows transmission related costs to be recovered through the power supply cost mechanism. As a result, Upper Peninsula Power anticipates recovery of an additional $3.6 million from retail customers in 2003. This allows these costs to be recovered in a manner similar to a fuel adjustment.

Federal Energy Regulatory Commission Matters

Midwest Independent Transmission System Operator, the first Regional Transmission Organization approved by the Federal Energy Regulatory Commission, began operations in the first quarter of 2002. American Transmission Company, which is partially owned by WPS Resources and its subsidiaries, is a member of Midwest Independent Transmission System Operator.

In 2002, the Federal Energy Regulatory Commission issued a Notice of Proposed Rule Making proposing a standard wholesale electric market design. Comments are due back to the Federal Energy Regulatory Commission in the first quarter of 2003, with a proposed rule issued in April 2003 with a subsequent comment period. It is expected to take several years to implement and perfect the standard market design across the nation.

In 2002, Wisconsin Public Service filed for a triennial review of its market-based rate authority using the latest Federal Energy Regulatory Commission market power review methods.

Wisconsin Public Service intends to file for an increase in wholesale electric rates with the Federal Energy Regulatory Commission in the first quarter of 2003. The request will be based on the Public Service Commission of Wisconsin audit of Wisconsin Public Service's Wisconsin rate request for 2003. Wisconsin Public Service has not had an electric rate increase in its Federal Energy Regulatory Commission rates since 1987. If the filing meets all Federal Energy Regulatory Commission criteria, new rates could be implemented, subject to refund, as early as 61 days after the initial filing. If the rate case is litigated to a conclusion, the process can take up to three years to complete. The rate increase is requested to recover the authorized rate of return, the costs of new generation, to unbundle generation and transmission rates to properly reflect rising transmission costs from the American Transmission Company, and to obtain formula rates to reduce the need for future rate cases.

Hydroelectric Licenses

Wisconsin Public Service, Upper Peninsula Power, and Wisconsin River Power have long-term licenses from the Federal Energy Regulatory Commission for all of their hydroelectric facilities with the exception of Bond Falls. The Bond Falls hydroelectric facility operates under an annual license from the Federal Energy Regulatory Commission with all the terms and conditions of the prior long-term license until such time as the Federal Energy Regulatory Commission acts on the licensing application filed by Upper Peninsula Power. In 2002, the Federal Energy Regulatory Commission issued a final Environmental Impact Statement for the Bond Falls Hydroelectric Project. The Environmental Impact Statement is the basis for a new license. Issuance of the new license is expected in early 2003. The license will have a term of 30 to 50 years from the date the Federal Energy Regulatory Commission claimed jurisdiction over the Bond Falls facility.

In 2001 the Federal Energy Regulatory Commission issued a 40-year license for the Dead River facility, owned by Upper Peninsula Power Company effective October 3, 2002.

Other Matters

Research and Development

The only member of WPS Resources' consolidated entity that incurs significant research and development costs is Wisconsin Public Service. Electric research and development expenditures for Wisconsin Public Service totaled $0.3 million for 2002, $1.1 million for 2001, and $1.8 million for 2000. These expenditures were primarily charged to electric operations as incurred.

Customer Segmentation

In 2002, twenty-eight paper mills accounted for 11% of Wisconsin Public Service's electric revenues. There is no single customer, or small group of customers, the loss of which would have a materially adverse effect on the electric business of Wisconsin Public Service in the current regulatory environment.

Seasonality

The electric sales of Wisconsin Public Service and Upper Peninsula Power follow a seasonal pattern due to the air conditioning requirements of customers. Annual electric sales are also impacted by the variability of summer temperatures. In 2002, Wisconsin Public Service reached a firm net design peak of 1,947 megawatts on the afternoon of July 17 largely due to the demand created by air conditioning.

Competition

The Wisconsin legislature and the Public Service Commission of Wisconsin have decided not to provide retail electric customers the ability to choose their electric supplier at this time. Wisconsin utilities have continued to refine regulated tariffs in order to provide customers with the true cost of electric energy to each class of customer, by reducing or eliminating rate subsidies among different ratepayer classes.

Working Capital Requirements

For a detailed discussion of the expected capital needs for WPS Resources regulated electric operations see Capital Requirements in ITEM G below.

Electric Operating Statistics

WISCONSIN PUBLIC SERVICE CORPORATION	2002	2001	2000
Operating revenues (Millions)			
Residential and farm	$249.9	$214.0	$195.4
Small commercial and industrial	197.7	173.3	164.1
Large commercial and industrial	152.4	137.4	134.3
Resale and other	96.9	86.0	82.2
Total	$696.9	$610.7	$576.0
Kilowatt-hour sales (Millions)			
Residential and farm	3,028.9	2,865.6	2,797.6
Small commercial and industrial	3,442.9	3,310.9	3,257.0
Large commercial and industrial	4,095.1	4,024.0	4,117.7
Resale and other	3,012.8	2,418.4	2,234.6
Total	13,579.7	12,618.9	12,406.9
Customers served (End of period)			
Residential and farm	362,718	356,497	351,440
Small commercial and industrial	43,915	43,305	42,570
Large commercial and industrial	241	227	225
Resale and other	894	898	890
Total	407,768	400,927	395,125
Average kilowatt-hour price (Cents)			
Residential and farm	8.25	7.47	6.98
Small commercial and industrial	5.74	5.23	5.04
Large commercial and industrial	3.72	3.41	3.26
Production capacity (Summer - kilowatts)			
Coal	1,339,000	1,334,100	1,303,200
Nuclear	312,700	205,200	204,200
Hydroelectric	43,300	40,500	40,700
Combustion turbine	378,120	375,450	386,200
Other	8,000	8,000	7,600
Purchased capacity	14,900	14,900	14,900
Total system capacity	2,096,020	1,978,150	1,956,800
Generation and purchases (Thousands of kilowatt-hours)			
Coal	8,056,530	8,179,997	8,295,098
Nuclear	2,638,284	1,480,429	1,565,612
Hydroelectric	337,480	253,475	249,747
Purchases and other	3,256,898	3,355,554	2,926,876
Total	14,289,192	13,269,455	13,037,333
Steam fuel costs (Cents per million Btu)			
Fossil	112.993	112.483	109.990
Nuclear	44.156	40.680	45.241
Total	96.369	101.255	99.766
System peak - firm (Kilowatts)	1,947,000	2,014,000	1,793,000
Annual load factor	74.54%	70.61%	80.05%

Electric Operating Statistics

UPPER PENINSULA POWER COMPANY	2002	2001	2000
Operating revenues (Millions)			
Residential and farm	$25.3	$26.3	$26.3
Small commercial and industrial	18.9	20.6	21.0
Large commercial and industrial	9.8	11.1	10.8
Resale and other	12.0	7.0	8.6
Total	$66.0	$65.0	$66.7
Kilowatt-hour sales (Millions)			
Residential and farm	277.9	265.4	269.3
Small commercial and industrial	257.7	253.9	259.4
Large commercial and industrial	227.4	215.5	203.5
Resale and other	204.9	179.1	178.3
Total	967.9	913.9	910.5
Customers served (End of period)			
Residential and farm	45,279	44,865	44,460
Small commercial and industrial	5,479	5,474	5,446
Large commercial and industrial	12	12	12
Resale and other	437	404	386
Total	51,207	50,755	50,304
Average kilowatt-hour price (Cents)			
Residential and farm	9.10	9.98	9.78
Small commercial and industrial	7.34	8.11	8.08
Large commercial and industrial	4.31	5.17	5.32
Production capacity (Summer - kilowatts)			
Natural gas	17,700	17,700	17,700
Hydroelectric	30,000	30,000	30,000
Combustion turbine	55,000	55,000	55,000
Purchased capacity	65,000	65,000	65,000
Total system capacity	167,700	167,700	167,700
Generation and purchases (Thousands of kilowatt-hours)			
Natural gas	5,062	9,444	524
Hydroelectric	162,542	109,355	104,144
Purchases and other	884,612	878,107	890,156
Total	1,052,216	996,906	994,824
Steam fuel costs (Cents per million Btu)			
Fossil	368.410	427.746	933.630
System peak - firm (Kilowatts)	160,869	158,124	146,100
Annual load factor	67.27%	65.90%	71.47%

C.

NATURAL GAS UTILITY OPERATIONS

Principal Markets, Products and Services

Wisconsin Public Service provides regulated natural gas utility services to nearly 300 municipalities in northeastern Wisconsin and adjacent portions of Michigan's Upper Peninsula. Natural gas customers and gas throughput on the Wisconsin Public Service gas system are:

	2002	2001	% Increase (Decrease)
Wisconsin - customers			
Sales	$289,915	$284,489	1.9
Transportation	565	558	1.3
TOTAL	$290,480	$285,047	1.9
Michigan - customers			
Sales	$ 5,320	$ 5,290	0.6
Transportation	16	16	0.0
TOTAL	$ 5,336	$ 5,306	0.6
Throughput (dekatherms) *			
Sales	44,699,232	37,860,819	18.1
Transportation	37,391,223	33,718,400	10.9
WPSC electric generation	2,634,024	2,692,974	(2.2)
TOTAL	84,724,479	74,272,193	14.1

* A dekatherm is equivalent to one million Btus of energy.

The gas throughput of Wisconsin Public Service follows a seasonal pattern due to the heating requirements of customers. Annual gas sales are also impacted by the variability of winter temperatures.

Wisconsin Public Service has no single customer that accounts for a significant portion of natural gas throughput. The largest industry segment among Wisconsin Public Service's natural gas customers is the paper industry.

Sources and Availability of Natural Gas

Wisconsin Public Service manages a portfolio of natural gas supply contracts, storage services, and pipeline transportation services designed to meet its varying load pattern at the lowest reasonable cost.

Wisconsin Public Service contracts for fixed-term firm natural gas supplies with approximately 15 natural gas suppliers each year (in the United States and Canada) to meet the December through February peak day demand of firm system sales customers. Wisconsin Public Service purchases additional natural gas supplies on the monthly spot market through fixed-term firm contracts as required to supplement natural gas supplies. As of December 31, 2002, the domestic natural gas supply contracts had remaining terms of up to three months, and the Canadian gas supply contracts had remaining terms of up to ten months. Wisconsin Public Service intends to contract for domestic natural gas supplies for terms of two years or less to minimize potential stranded natural gas supply contract costs if retail natural gas deregulation should proceed in Wisconsin.

Under current regulatory practice, the Public Service Commission of Wisconsin and the Michigan Public Service Commission allow Wisconsin Public Service to pass increases or decreases in the cost of natural gas on to customers through a purchased gas adjustment clause. Changes in the cost of natural gas are reflected in both gas revenues and gas purchases, thus having little or no impact on net income.

Wisconsin Public Service contracts with ANR Pipeline Company for firm underground storage capacity located in Michigan. Wisconsin Public Service's total firm storage capacity with ANR Pipeline is approximately 11.6 million dekatherms.

Besides providing the ability to manage significant changes in daily natural gas demand, storage also provides the ability to purchase natural gas at high load factors on a year-round basis, thus lowering supply cost volatility. Natural gas from storage provides up to 47% of our supply on winter peak days, approximately 28% of our winter sales volumes, and approximately 19% of our total annual sales volumes.

Wisconsin Public Service also contracts with third-party natural gas suppliers for high deliverability storage. This high deliverability storage capacity is designed to deliver natural gas when other supplies cannot be delivered during extremely cold weather in the producing areas, which can temporarily limit wellhead natural gas supplies.

Wisconsin Public Service holds firm long-term transportation capacity on ANR Pipeline through October 2010. Wisconsin Public Service also holds firm transportation capacity with Viking Gas Transmission Company to deliver natural gas from its interconnection with TransCanada Pipelines near Emerson, Manitoba, to the interconnection of Viking Gas Transmission with ANR Pipeline near Marshfield, Wisconsin. The Canadian natural gas suppliers at Emerson hold firm capacity on TransCanada Pipelines from Emerson back into the Canadian production areas in Alberta, Canada.

Competition

Competition with other forms of energy exists in varying degrees, particularly for large commercial and industrial customers who have the ability to switch between natural gas and alternate fuels. Wisconsin Public Service offers interruptible natural gas sales and natural gas transportation service for these customers to enable them to reduce their energy costs. Transportation customers purchase their natural gas from third-party gas suppliers at unregulated prices, and contract with Wisconsin Public Service to transport the natural gas from ANR Pipeline to their facilities. Additionally, some customers still purchase their natural gas commodity directly from Wisconsin Public Service, but have elected to do so on an interruptible basis, as a means to reduce their costs. Customers continue to switch between firm system supply, interruptible system supply, and transportation service each year as the economics and service options change.

Working Capital Requirements

Wisconsin Public Service currently anticipates no large construction projects or capital needs for the gas utility segment of its operations.

Regulatory Matters

For a discussion of regulatory matters affecting regulated natural gas operations, see Wisconsin Regulatory Matters under ITEM 1B. ELECTRIC UTILITY OPERATIONS.

Natural Gas Operating Statistics

Wisconsin Public Service Corporation	2002	2001	2000
Operating revenues (Millions)			
Residential	$182.6	$178.4	$147.4
Small commercial and industrial	42.9	38.3	28.9
Large commercial and industrial	61.9	70.4	64.8
Other	23.3	34.5	23.4
Total	$310.7	$321.6	$264.5
Therms delivered (Millions)			
Residential	250.8	211.3	203.4
Small commercial and industrial	69.6	51.8	45.1
Large commercial and industrial	123.7	114.4	123.7
Other	27.4	28.0	34.4

Total therm sales	471.5	405.5	406.6
Transportation	373.9	337.2	294.5
Total	845.4	742.7	701.1
Customers served (End of period)			
Residential	268,391	263,420	213,976
Small commercial and industrial	24,082	23,242	18,285
Large commercial and industrial	2,758	3,114	2,840
Other	1	1	1
Transportation customers	584	576	368
Total	295,816	290,353	235,470
Average therm price (Cents)			
Residential	72.80	84.42	72.48
Small commercial and industrial	61.68	73.94	64.13
Large commercial and industrial	49.99	61.54	52.38

D. WPS ENERGY SERVICES, INC.

WPS Energy Services is a diversified, nonregulated energy supply and services company with its principal operations in Illinois, Maine, Michigan, Ohio, Wisconsin, and the Canadian Provinces of Ontario and Quebec. WPS Energy Services operates in the retail and wholesale nonregulated energy marketplace. Its emphasis is on servicing commercial, industrial, and wholesale customers, as well as "aggregated" small commercial and residential customers, in the northeast quadrant of the United States and adjacent portions of Canada. Aggregated customers are associations or groups of customers which have joined together to negotiate purchases of electric or natural gas energy as a larger group. These associations and groups, in turn, may consist of individuals, municipalities or other types of customers. WPS Energy Services had 132 employees as of December 31, 2002.

WPS Energy Services provides individualized energy supply options and strategies that allow customers to manage energy needs while capitalizing on opportunities resulting from deregulation. WPS Energy Services provides natural gas, electric and alternate fuel products, real-time energy management services, energy utilization consulting, and project management.

WPS Energy Services' competitors consist of regulated utilities, large energy traders, and other energy marketers. WPS Energy Services competes with other energy providers on the basis of price, reliability, service, consumer convenience, performance, and reputation.

In 2002, total electric power sales were 6,953,284 megawatt-hours. WPS Energy Service's 2002 retail natural gas sales were 135.7 billion cubic feet and total wholesale natural gas sales were 233.8 billion cubic feet. It is WPS Energy Services' policy to secure supply for all sales commitments through purchase contracts with entities we believe to be creditworthy. WPS Energy Services also has generation contracts with WPS Power Development.

WPS Energy Services has a delinquent receivables balance of $2.1 million as a result of rules related to the former hierarchy of application for customer payments in the Ohio electric aggregation program. This resulted in the customer remittances being applied first to the customer's current and past due balances with the utility and then to the customer's current and past due balance with WPS Energy Services. WPS Energy Services has established an allowance for doubtful accounts of $1.9 million related to these delinquent receivables, resulting in a bad debt expense ratio which is considerably in excess of the ratio experienced by the serving utility. WPS Energy Services will continue to experience bad debts in the program, but at a reduced rate as a result of consistently dropping delinquent customers from the program. The Public Utility Commission of Ohio has proposed a payment hierarchy, which is more equitable to the energy marketers. The proposed payment hierarchy would help to reduce the level of delinquent receivables at WPS Energy Services. WPS Energy Services filed a complaint and requested a hearing with the Public Utility Commission of Ohio to enforce a purchase of receivables provision that affects the aggregation program and on December 12, 2002, the Commission issued a ruling which would minimize the amount of exposure to delinquent receivables going forward through an interim purchase rate of 96% for service rendered after the customers' first scheduled meter read in 2003. This rate will be adjusted retroactively once a permanent settlement is reached. In the absence of a favorable settlement, WPS Energy Services will evaluate its participation in the Ohio aggregation program once the current product price commitments expire. WPS Energy Services believes the reserve for delinquent receivables it has created is adequate.

On January 8, 2002, WPS Energy Services received a license to operate as an alternative electric supplier to sell electric energy to Michigan retail customers. WPS Energy Services became 1 of 14 licensed alternative electric suppliers in the state. WPS Energy Services is also a Federal Energy Regulatory Commission licensed marketer and is transacting business in Maine, Ohio, Pennsylvania, New York and Wisconsin.

On November 1, 2002, WPS Energy Services acquired an existing book of retail gas business in the Canadian provinces of Ontario and Quebec. Consideration for the purchase consists of an earn-out to the seller based on the margin generated during the two years ending October 31, 2004. The retail volumes of this book of business have the potential to equal WPS Energy Services' current retail gas volumes.

Quest Energy Holdings, LLC, an independent Michigan limited liability company, the owners of Quest Energy, LLC, appointed WPS Energy Services as manager of Quest Energy LLC effective November 19, 2002. The appointment as manager, as well as other factors including the provision of substantial financial support resulted in Quest's financial statements being consolidated with those of WPS Resources as of December 31, 2002. Since May 2000, WPS Resources has provided financial support to Quest in the form of an interest-bearing convertible note with an initial maturity date of May 2005, secured by the assets of Quest. WPS Resources assigned the option to convert the indebtedness of Quest to equity to WPS Energy Services. Effective January 29, 2003, WPS Energy Services exercised the option and converted the indebtedness to equity, making Quest Energy LLC a wholly-owned subsidiary of WPS Energy Services. For more information on Quest, see Note 6 in NOTES TO WPS RESOURCES CONSOLIDATED FINANCIAL STATEMENTS - ACQUISITIONS AND SALES OF ASSETS.

WPS Energy Services applied mark-to-market accounting in accordance with Emerging Issues Task Force Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The Financial Accounting Standards Board created the Emerging Issues Task Force to provide guidance clarifying accounting standards. Issue 98-10 was rescinded in October 2002 under Emerging Issue Task Force Issue 02-03 "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." Therefore, WPS Energy Services' contracts are now accounted for under Statement of Financial Accounting Standard No. 133. In accordance with Issue 02-03, in the first quarter of 2003 WPS Energy Services will be reversing the portion of the risk management assets and liabilities that will no longer be accounted for under mark-to-market accounting, with a positive after-tax cumulative effect of a change in accounting principle to income of approximately $3 million. Contracts that will continue to be marked-to-market have terms no longer than 4 years and most mature within the next 24 months. Most contracts are valued on a forward curve derived from exchange based or liquid over-the-counter market quotations. Reserves for potential costs and risks are considered in determining the fair value of these contracts.

WPS Energy Services is party to leases, with independent third parties, related to several of its regional offices.

WPS Energy Services works with WPS Power Development to supply fuel for its gas-fired production facilities and sell the electric energy produced by its current operations as well as future acquisitions.

WPS Energy Services believes that its business, in the aggregate, is not seasonal, even though certain products sell more heavily in some seasons than in others. Sales of natural gas generally peak in the winter months, while sales of electric energy generally peak in the summer months. In 2002, 71% of WPS Energy Services gross margin came from natural gas operations, 24% from electric operations, and 6% from other operations.

Currently, capital requirements of WPS Energy Services are financed through WPS Resources.

Although WPS Energy Services is not dependent on any one customer, a significant percentage of its retail sales volume is derived from the paper and allied products and food and kindred products industries. WPS Energy Services' concentration of sales in any single market sector is decreasing as it expands into the Michigan retail electric and Canadian retail natural gas markets.

WPS Energy Services has an 81.5% interest in a 3 billion cubic foot natural gas storage field in Michigan, which became commercially operational in February 2002. The storage field allows for additional flexibility in supplying retail and wholesale customers, sale of storage services to the market, and potential power peaking services.

WPS Energy Services is not directly subject to significant environmental regulations at this time.

WPS Energy Services is currently represented in the bankruptcy proceedings of Enron. WPS Energy Services is in a net payable position with Enron, for which a liability is reflected on its balance sheet. In November 2002, the electric portion of the overall position was settled with Enron. Negotiations on the remaining gas positions are currently underway, with a settlement expected in 2003.

See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION for additional information regarding nonregulated operations.

E. WPS POWER DEVELOPMENT, INC.

WPS Power Development develops, owns, and operates nonregulated electric generation facilities and provides services to the electric power generation industry in the United States and Canada. Services include project development, engineering and management services, and operation and maintenance services. WPS Power Development has expertise in cogeneration, distributed generation, generation from renewable resources, and generation plant repowering projects. As of December 31, 2002, WPS Power Development had 211 employees, approximately 107 are members of the International Brotherhood of Electrical Workers Local 1600 Union.

WPS Power Development owns:

- a 473-megawatt coal-fired Sunbury Generation Station in Pennsylvania,
- a 107.2-megawatt combined cycle natural gas-fired combustion turbine, located in Syracuse, New York,
- a 93.5-megawatt combined cycle natural gas-fired combustion turbine, located in Beaver Falls, New York,
- 69 megawatts of hydro and fossil-fueled generation assets located in northern Maine and New Brunswick, Canada,
- a 58-megawatt fluidized-bed facility, currently operating primarily on coal, located in Niagara Falls, New York,
- two-thirds of the Stoneman Power Plant, a 53-megawatt coal-fired steam plant located in southwestern Wisconsin, with plans to expand it to a 250-megawatt coal-fired generating facility by 2008 or 2009 at a cost of approximately $300 million, provided appropriate contractual arrangements can be put in place,
- a 50-megawatt combined cycle natural gas-fired combustion turbine located in Combined Locks, Wisconsin,
- the 30-megawatt Westwood Generating Station, which burns waste anthracite coal material, located in Pennsylvania,
- a 23% interest in a facility in Kentucky which produces synthetic fuel from coal fines,
- steam boilers in Arkansas and Oregon, and
- landfill and wood waste gas-generating facilities in Wisconsin.

On October 25, 2002, the agreement related to WPS Power Development's purchase of the Tracy Pinon power station from Sierra Pacific Resources became terminable. WPS Power Development and Sierra Pacific have each expressed their intent to terminate the agreement.

Coal requirements for WPS Power Development owned plants are estimated at 1.3 million tons annually. Of this amount, approximately 50% will be met through the burning of coal silt. In 2002, WPS Power Development purchased all of its coal supplies through the spot market and short-term contracts. In 2003, WPS Power Development expects to supply approximately 80% of its annual coal needs through annual coal contracts and its reserves of coal and coal silt. At December 31, 2002, WPS Power Development had an estimated six-year reserve of coal silt for its Westwood facility. The remaining coal requirements will be purchased through the spot market.

In 2003, coal transportation for approximately 20% of annual coal requirements will be supplied under a two-year contract with Norfolk Southern Railroad. A two-year coal transportation agreement with the B&P Railroad was acquired with the acquisition of the Niagara Falls facility from CH Resources in 2002. The remaining coal transportation is contracted through short-term agreements with a variety of transportation providers.

Gas-fired plants of WPS Power Development provide electric supply for WPS Energy Services' sales. Additionally, WPS Energy Services supplies the gas to operate these facilities. WPS Energy Services does not dispatch these facilities unless economical fuel is available to meet the energy commitments.

All the Federal Energy Regulatory Commission hydroelectric facility licenses held by WPS Power Development are current. The 33-megawatt hydroelectric facility owned in New Brunswick, Canada is not subject to licensing.

Although identifiable price peaks do not occur at any certain time of the year, WPS Power Development believes the nonregulated energy market is subject to seasonal impacts. Generally in the summer months, the demand for electric energy is high, which increases the price at which energy can be sold. In periods of high residential fuel consumption, generally the winter months, the purchase price of oil and natural gas increases.

Equity and working capital requirements of WPS Power Development are generally financed through WPS Resources. Project nonrecourse debt financing is in place for the Sunbury, Maine, and Canadian generation plants owned by WPS Power Development.

Of WPS Power Development's approximately 915 megawatts of existing capacity, fixed price contracts are in place to sell approximately 290 megawatts. All 290 megawatts are firm commitments. The remainder of the energy production of WPS Power Development is sold into the open market.

The generation assets of WPS Power Development are subject to regulations on sulfur dioxide and nitrogen oxide emissions similar to those that apply to Wisconsin Public Service. In addition, the Sunbury generation facilities of WPS Power Development are located in an ozone non-attainment area. As a result, these generation facilities are subject to additional restrictions on emissions of nitrogen oxide. WPS Power Development acquired emission credits sufficient to meet all emission requirements through the year 2002. Although WPS Power Development has some emission credits for 2003, additional credits may need to be purchased to meet its 2003 requirements.

In 2002, WPS Power Development's Combined Locks Energy Center received a notice of violation from the Wisconsin Department of Natural Resources regarding nitrogen oxide emissions. The Combined Locks Energy Center was removed from operation in August 2002 due to the nitrogen oxide emission rates reported in compliance tests. WPS Power Development conducted additional compliance testing in December 2002. Based on these compliance tests, the facility was returned to service in December 2002. Fines or penalties associated with this event, if any, are not expected to be material. The unit is currently operating at full capacity.

In 2002, WPS Power Development acquired three generation facilities as part of its acquisition of CH Resources for $59.2 million.

On December 19, 2002, WPS Power Development sold a 30% interest in ECO Coal Pelletization #12, LLC, the company WPS Power Development owns which holds our interest in the synthetic fuel project. WPS Power Development received consideration of $3.0 million cash, as well as a fixed note and a variable note. Payments under the variable note are contingent upon the synthetic fuel production facility achieving specified levels of synthetic fuel production. In conjunction with the sale, WPS Power Development has agreed to make certain payments to a third party financial advisor that arranged the transaction, consisting of an up-front payment of $1.5 million which was paid at the time of closing, and projected payments in 2003 and 2004 of approximately $1.9 million per year. At December 31, 2002, a deferred gain of $11.6 million was reflected on WPS Power Development's balance sheet. This deferred gain represents the present value of future payments under the fixed note and the up-front cash payments net of transaction costs. It does not include an amount for the variable note which is contingent upon the synthetic fuel production allocation. WPS Power Development anticipates recognizing cumulative pretax income of approximately $36 million over the period of 2003 to 2007 as a result of this transaction, assuming all contingencies are satisfied.

WPS Power Development operates primarily in the nonregulated markets of Pennsylvania-New Jersey-Maryland and New York Independent System Operator. WPS Power Development competes for sales of electric production with both regulated and nonregulated energy producers within these markets.

F. ENVIRONMENTAL MATTERS

WPS Resources and its subsidiaries are subject to federal, state, and local regulations regarding environmental impacts of their operations on air and water quality and solid waste. The application of federal and state restrictions to protect the environment can involve review, certification, or issuance of permits by various federal and state authorities, including the United States Environmental Protection Agency and the various states' environmental agencies, including the Wisconsin Department of Natural Resources. These restrictions may limit, prevent, or substantially increase the cost of operation of generation facilities and may require substantial investments in new equipment at existing installations. Such restrictions may require substantial additional investments for new projects and may delay or prevent completion of projects. We cannot forecast the effects of such regulation on our generation, transmission, and other facilities or operations.

Wisconsin Public Service is subject to regulation by the United States Environmental Protection Agency and the Wisconsin Department of Natural Resources with respect to thermal and other discharges from its power plants into Lake Michigan and other waters of Wisconsin. Wastewater discharge permits, with a term of five years, were re-issued by the Wisconsin Department of Natural Resources for the Kewaunee plant in 2000, for the Pulliam plant and Weston Unit 3 in 2002, and for Weston Units 1 and 2 in 2001.

Manufactured Gas Plant Remediation

Wisconsin Public Service continues to investigate the environmental cleanup of ten manufactured gas plant sites, two of which were previously owned by Wisconsin Fuel and Light. As of the fall of 2002, cleanup of the land portion of the Oshkosh site, Stevens Point site and two sites at Sheboygan were substantially complete. Groundwater treatment and monitoring at these sites will continue into the future. River sediment remains to be addressed at the Oshkosh site, as well as other sites with sediment contamination. Wisconsin Public Service anticipates that work will commence on the land portion of the Green Bay site in the first quarter of 2003. Cleanup at the remaining sites located in Two Rivers, Marinette, and Menominee has not yet been scheduled.

Effective with the Wisconsin Fuel and Light merger, Wisconsin Public Service acquired two former manufactured gas plant sites in Manitowoc and Wausau. Wisconsin Fuel and Light began the cleanup of the land portion of the Manitowoc site in 1994, and the cleanup is substantially complete. Groundwater treatment and monitoring of the Manitowoc site continues. Wisconsin Public Service has not addressed river sediments near the former Manitowoc gas plant site. Wisconsin Public Service has undertaken and is continuing its site investigation work at the Wausau site.

Costs of the cleanups completed to date were within the range expected for these sites. Wisconsin Public Service estimates remaining future undiscounted investigation and cleanup costs for all remaining site work to be in the range of $38.7 million to $43.7 million. Wisconsin Public Service may adjust these estimates in the future contingent upon remedial technology, regulatory requirements, and the assessment of natural resource damages. Wisconsin Public Service currently has a $38.7 million liability recorded for gas plant cleanup with an offsetting regulatory asset. Wisconsin Public Service expects to recover cleanup costs net of insurance recoveries in future customer rates. Under current Public Service Commission of Wisconsin policies, Wisconsin Public Service will not recover carrying costs associated with the cleanup expenditures. Wisconsin Public Service has received $12.7 million in insurance recoveries, which were recorded as a reduction in the regulatory asset.

Clean Air Regulations

The United States Environmental Protection Agency has designated southeastern Wisconsin as an ozone non-attainment area. Under the Clean Air Act, the State of Wisconsin developed a nitrogen oxide reduction plan for Wisconsin's ozone non-attainment area. The nitrogen oxide reductions begin in 2003 and gradually increase to 2007. This plan affects Edgewater Unit 4, of which Wisconsin Public Service owns 31.8%. A compliance plan for this unit was initiated in 2000. The plan includes a combination of combustion optimization and emission trading at a cost to Wisconsin Public Service of about $5 million. About 70% of the project has been completed.

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

Air quality modeling by the Wisconsin Department of Natural Resources revealed that Weston Units 1 and 2 contribute to a modeled exceedance of the sulfur dioxide ambient air quality standard (the current and projected fuel meets the sulfur content limit). Wisconsin Public Service and the Wisconsin Department of Natural Resources developed a plan to eliminate the modeled exceedance by extending the existing stacks at Weston Units 1 and 2 by 55 feet and limiting the sulfur content of the fuel to 1.2 pounds per million Btu. The cost of the stack extension is about $0.9 million. The United States Environmental Protection Agency is studying the proposal related to increasing the stack height. To date the United States Environmental Protection Agency has been unwilling to agree with this approach unless further studies are done to support the stack height increase. If the United States Environmental Protection Agency does not accept this proposal, additional reduction in sulfur content of fuel burned or significant operational limitations may result. Wisconsin Public Service is cooperating with the Wisconsin Department of Natural Resources to develop an approach to resolve this issue.

In November 1999, the United States Environmental Protection Agency announced the commencement of a Clean Air Act enforcement initiative targeting the utility industry. This initiative resulted in the issuance of several notices of violation/findings of violation and the filing of lawsuits against utilities. In these enforcement proceedings, the U.S. Environmental Protection Agency claims that the utilities made modifications to the coal-fired boilers and related equipment at the utilities' electric generating stations without first obtaining appropriate permits under the U.S. Environmental Protection Agency 's pre-construction permit program and without installing appropriate air pollution control equipment. In addition, the U.S. Environmental Protection Agency is also claiming, in certain situations, that there were violations of the Clean Air Act's "new source performance standards." In the matters where actions have been commenced, the federal government is seeking penalties and the installation of pollution control equipment.

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

On May 22, 2002, Wisconsin Public Service received a follow-up request from the Environmental Protection Agency seeking additional information regarding specific boiler-related work performed on Pulliam Units 3, 5 and 7, as well as information on Wisconsin Public Service's life extension program for Pulliam Units 3-8 and Weston Units 1 and 2. Wisconsin Public Service made an initial response to the Environmental Protection Agency's follow-up information request on June 12, 2002, and filed a final response on June 27, 2002.

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

Depending upon the results of the Environmental Protection Agency's review of the information, the Environmental Protection Agency may seek additional information from Wisconsin Public Service and/or third parties who have information relating to the boilers, close out the investigation, or issue a "notice of violation" or "finding of violation" asserting that a violation of the Clean Air Act occurred. To date, the Environmental Protection Agency has not responded to the 2002 follow-up filings made by Wisconsin Public Service and Wisconsin Power and Light.

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

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

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

At the end of December, 2002 the Environmental Protection Agency issued new rules governing the federal new source review program. The rules are not yet effective in Wisconsin. They are also not retroactive.

The Wisconsin Department of Natural Resources initiated a rulemaking effort to control mercury emissions. Coal-fired generation plants are the primary targets of this effort. The proposed rule was open to comment in October 2001. As proposed, the rule requires phased-in mercury emission reductions reaching 90% reduction in 15 years. Wisconsin Public Service estimates that it could cost approximately $105 million per year to achieve the proposed 90% reductions.

Other Environmental Issues

Groundwater testing, at a former ash disposal site of Upper Peninsula Power indicated elevated levels of boron and lithium. Supplemental remedial investigations were performed, and a revised remedial action plan was developed. The Michigan Department of Environmental Quality approved the plan in January 2003. A liability of $1.5 million and an associated regulatory asset of $1.5 million was recorded for estimated future expenditures associated with remediation of the site. Upper Peninsula Power received an order permitting deferral and future recovery of these costs.

See the section titled WPS Power Development, Inc. under ITEM 1E, for a description of various issues related to environmental liabilities regarding the operations of WPS Power Development, Inc.

G. CAPITAL REQUIREMENTS

WPS Resources and Wisconsin Public Service make large investments in capital assets. Construction expenditures, including nuclear fuel for Wisconsin Public Service are expected to be approximately $736 million for the period 2003 through 2005. This includes expenditures for investment in construction for new generating facilities, an automated meter reading system, corporate infrastructure, nuclear fuel, corporate software and hardware, security, a nuclear reactor vessel head, and a combustion turbine. Additional expenditures will be needed through 2008 to complete these generating facilities. Other Wisconsin Public Service capital requirements for the 2003 through 2005 period include Kewaunee decommissioning trust fund contributions of $7.8 million.

WPS Resources expects to make capital contributions of up to $80 million for the period 2003 through 2005 to fund construction of the Wisconsin Public Service portion of the Wausau to Duluth transmission line, which will be transferred to American Transmission Company in exchange for an increase in equity ownership in American Transmission Company. Additional expenditures will be needed through 2008 to complete the transmission project.

Upper Peninsula Power will incur construction expenditures of approximately $39 million for the period 2003 through 2005, primarily for electric distribution improvements and repairs at hydroelectric facilities.

There are no commitments for additional acquisition expenditures for the nonregulated subsidiaries at this time. Future nonregulated projects may be financed through nonrecourse project financings.

WPS Resources issued $100.0 million of 5.375% 10-year senior unsecured notes in November 2002. Approximately $55.0 million of the net proceeds from the issuance of these notes were used to repay short-term debt incurred to provide equity capital to our subsidiaries and the remainder was used for other corporate purposes.

In 2000, WPS Resources began issuing new shares of its common stock under its Stock Investment Plan and under certain stock-based employee benefit plans. Equity increased $28.3 million in 2002, as a result of these plans.

Wisconsin Public Service issued $150.0 million of 4.875% 10-year senior notes in December 2002 under a shelf registration for the offering and sale of up to $300 million in long-term debt. The senior notes are secured by a pledge of first mortgage bonds and may become unsecured when Wisconsin Public Service retires all of its outstanding first mortgage bonds. Wisconsin Public Service used approximately $72 million of the net proceeds from the issuance of the senior notes to acquire the De Pere Energy Center and $69.0 million to retire short-term debt. The balance of the net proceeds was used for other corporate purposes. Wisconsin Public Service retired $50.0 million of 7.30% first mortgage bonds in October 2002. An additional $50.0 million of 6.80% first mortgage bonds were retired on February 1, 2003.

WPS Resources may issue additional debt and/or common stock in 2003. Wisconsin Public Service expects to issue additional bonds under its shelf registration in 2003.

H. EMPLOYEES

At December 31, 2002, WPS Resources and its subsidiaries employed 2,963 people. Of this number, 2,410 were employees of Wisconsin Public Service, 169 were employees of Upper Peninsula Power, 211 were employees of WPS Power Development, and 132 were employees of WPS Energy Services, with the remainder employed by WPS Resources and its remaining subsidiaries.

Of the Wisconsin Public Service employees, 1,831 were electric utility employees and 579 were gas utility employees. Local 310 of the International Union of Operating Engineers represents 1,302 of these employees. The current collective bargaining agreement with Local 310 expires on October 25, 2003. Negotiations on a new agreement are scheduled to begin in July 2003.

Local 510 of the International Brotherhood of Electrical Workers, AFL-CIO represents 132 employees of Upper Peninsula Power. The current collective bargaining agreement with Local 510 expires on April 30, 2005.

Local 1600 of the International Brotherhood of Electrical Workers, AFL-CIO represents approximately 107 employees at the Sunbury generation station owned and operated by a subsidiary of WPS Power Development. The current collective bargaining agreement with Local 1600 expires on May 12, 2003. Preliminary discussions have begun on this contract.

I. RISK FACTORS

You should carefully consider the following risk factors, as well as the other information included or incorporated by reference in this Form 10-K in connection with any investment in the common stock of WPS Resources or other securities of WPS Resources or Wisconsin Public Service. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known or that we currently believe to be immaterial may also adversely affect us.

We operate in an increasingly competitive and changing industry, which may affect our future earnings.

The energy industry has been undergoing dramatic structural change for several years, resulting in increasing competitive pressure on electric and natural gas utility companies. Increased competition may create greater risks to the stability of utility earnings generally and may in the future reduce our utility earnings from retail electric and natural gas sales. While the future of deregulation in the utility industry and its impact on our future is uncertain, the certainty of change is evident. At the present time, Wisconsin has not adopted legislation or regulations that would allow customers to choose their electric supplier. All Michigan electric customers were able to choose their electric generation suppliers beginning January 1, 2002 as a result of the Customer Choice Act.

To the extent competitive pressures increase and the pricing and sale of electricity assumes more of the characteristics of a commodity business, the economics of our business may come under increasing pressure. In addition, regulatory changes may increase access to electric transmission grids by utility and nonutility purchasers and sellers of electricity, thus potentially resulting in a significant number of additional competitors in wholesale power generation.

Our ability to achieve growth in our nonregulated generation business depends upon the availability of suitable projects for purchase or development.

Our strategy for the growth of our nonregulated generation business depends upon our ability to identify and complete acquisitions and development projects at appropriate prices. Our nonregulated electric generation segment has achieved growth through acquisition and we expect that it will continue to grow through acquisition. There can be no assurance that the projects we have acquired to date or projects that we may acquire in the future will perform as expected or that the returns from those projects will support the indebtedness incurred to acquire them or the capital expenditures needed to maintain or develop them. In addition, many of our competitors are seeking opportunities to acquire or develop energy assets. This competition may adversely affect our ability to make investments or acquisitions.

Changes in state regulatory policy and authorized retail rates of our utility subsidiaries may have a material impact on our income.

The Public Service Commission of Wisconsin regulates Wisconsin Public Service's retail utility rates in the State of Wisconsin, including Wisconsin Public Service's permitted ratio of debt-to-equity and allowable return on equity. Wisconsin Public Service is generally required to file a rate case with the Public Service Commission of Wisconsin every two years based on a forward-looking test year period. The Michigan Public Service Commission regulates the retail utility rates in the State of Michigan of both Wisconsin Public Service and Upper Peninsula Power. The Federal Regulatory Commission also regulates wholesale rates and other issues affecting Wisconsin Public Service. Over time there may be substantial changes in the regulatory environment in any or all of these jurisdictions, and any changes could have an adverse effect on the revenues and income of our utility subsidiaries.

If we are unable to sell electricity generated from our facilities at market prices, our revenues and profit margins will be negatively affected.

The Federal Energy Regulatory Commission has authorized us to sell generation from our nonregulated facilities at market prices. The Federal Energy Regulatory Commission retains the authority to modify or withdraw our market based rate authority. If the Federal Energy Regulatory Commission determines that the market is not workably competitive, that we possess market power or that we are not charging just and reasonable rates, then the Federal Energy Regulatory Commission may require us to sell power at a price based upon the costs we incur in producing the power. Our revenues and profit margins will be negatively affected by any reduction by the Federal Energy Regulatory Commission of the rates we may receive.

If market prices for electric energy or natural gas decline below our cost of production our revenues and profit margins will be negatively affected.

If market prices for electric energy decline below the cost of production at our nonregulated facilities, these units may be temporarily shut down and alternative sources of energy found to meet energy commitments.

Significantly increased fuel and purchased power costs may have an adverse effect on our nonregulated business.

Our nonregulated subsidiaries, WPS Power Development and WPS Energy Services, may experience increased expenses, including interest costs and uncollectibles, higher working capital requirements and possibly some level of price sensitive reduction in volumes sold as a result of increases in the cost of fuel or purchased power. Our regulated utilities, however, are generally allowed to pass on higher natural gas costs, electric production fuel costs and purchased power costs to their customers when they exceed defined parameters.

We remain liable for the safe operation, maintenance, and decommissioning of our share of the Kewaunee plant and our share of the expenses of implementing process improvements at the Kewaunee plant.

We remain liable for the safe operation, maintenance, and decommissioning of our 59% share of the Kewaunee plant even though we transferred operation of the plant to Nuclear Management Company.

We could incur material expenses as a result of our obligations to comply with existing and new environmental laws and regulations.

We are subject to extensive environmental regulations in connection with the ongoing conduct of our business and to civil and criminal liability for failure to comply with these regulations. We are also generally responsible for all on site liabilities associated with the environmental condition of our power generation facilities, former manufactured gas plant sites and other facilities which we have previously owned and/or operated or currently own and/or operate regardless of when the liabilities arose and whether they are currently known or unknown.

In addition, as part of an industry wide focus, capital expenditures at two of our coal-fired facilities have been the subject of a formal request for information from the Environmental Protection Agency. If an enforcement proceeding or litigation in connection with this investigation, or in connection with any proceeding for noncompliance with environmental laws, were commenced and resolved against us, we could be required to invest significantly in new emission control equipment, accelerate the timing of other capital expenditures, pay penalties and/or halt certain operations. Moreover, new environmental laws and regulations, or new interpretations of existing laws and regulations, affecting our operations or facilities may be adopted which may cause us to incur additional material expenses.

We are a holding company and our ability to access the revenues and assets of our subsidiaries is subject to a number of limitations.

In general, any claim of WPS Resources against the assets of its subsidiaries is subject to the prior rights of the creditors of those subsidiaries. In addition, the Wisconsin public utility holding company law prohibits public utility subsidiaries from making loans to, or pledging their credit for, nonutility members of a Wisconsin public utility holding company system, including the holding company.

Orders of the Public Service Commission of Wisconsin limit the amount of ordinary dividends that Wisconsin Public Service may pay to WPS Resources and require that the debt-to-equity ratio of Wisconsin Public Service remain within a specified range. The articles of incorporation of Wisconsin Public Service also limit the amount of dividends it may pay on its common stock if its common stock and common stock surplus account are less than 25% of its total capitalization. Bond indenture provisions currently limit the amount of dividends, which may be paid by Upper Peninsula Power to WPS Resources.

Substantially all of the physical assets of Wisconsin Public Service and Upper Peninsula Power secure outstanding bond issues of Wisconsin Public Service and Upper Peninsula Power. Many of the generating assets of WPS Power Development's subsidiaries have been mortgaged to secure acquisition financing.

The Wisconsin Public Utility Holding Company Law requires that corporate holding companies of Wisconsin Public Utilities be corporations organized under the laws of Wisconsin and contains other provisions, which could delay or prevent the acquisition of a Wisconsin Public Utility Holding Company and thus adversely affect the value of our common stock.

Subject to an exception for certain holding companies organized or created before November 28, 1985, the Wisconsin public utility holding company law requires that any corporation that is a direct or indirect holding company of a Wisconsin public utility be incorporated under the laws of Wisconsin, thereby limiting the number of potential acquirers of WPS Resources. The Wisconsin public utility holding company law also precludes the acquisition of 10% or more of the voting shares of a holding company of a Wisconsin public utility unless the Public Service Commission of Wisconsin has first determined that the acquisition is in the best interests of utility consumers, investors and the public. Those interests may, to some extent, be mutually exclusive. These provisions of the Wisconsin public utility holding company law may delay, or reduce the likelihood of, a sale or change of control of WPS Resources, thus reducing the likelihood that shareholders will receive a takeover premium for their shares. These provisions are currently being challenged by another Wisconsin holding company in the federal courts.

Provisions in our articles of incorporation, bylaws and the Wisconsin Business Corporation Law and our shareholder rights plan may inhibit a takeover, which could adversely affect the value of our common stock.

Our articles of incorporation, bylaws and shareholder rights plan, as well as provisions of the Wisconsin Business Corporation Law, also contain provisions that could delay or prevent a change of control or changes in our management that a shareholder might consider favorable and may prevent you from receiving a takeover premium for your shares.

Internal Revenue Service policies may materially limit the economic benefit we can realize from our synthetic fuel production facility.

We have significantly reduced our consolidated federal income tax liability for the past three years through tax credits available to us under Section 29 of the Internal Revenue Code for the production and sale of solid synthetic fuel from coal. Our ability to further utilize these credits and maximize the value of our synthetic fuel production facility is limited by Section 29. As a result, we have sold portions of our synthetic fuel facility, or the right to production therefrom, to third parties, which can utilize the additional credits available given the production capacity of the facility. The Internal Revenue Service strictly enforces compliance with all of the technical requirements of Section 29. Compliance with Section 29 is likely to be audited by the Internal Revenue Service. Future tax legislation may affect the value of the credits and our share of the facility.

J. Available Information

WPS Resources' Internet address is http://www.wpsr.com and Wisconsin Public Service's Internet address is http://www.wisconsinpublicservice.com. WPS Resources and Wisconsin Public Service make available free of charge on WPS Resources' Internet website their Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after they electronically file such material with, or furnish such material to, the Securities and Exchange Commission. Access to these reports and amendments on WPS Resources' website does not include access to the exhibits and supplemental schedules electronically filed with the reports or amendments. WPS Resources and Wisconsin Public Service are not including the information contained on or available through their websites as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

A. UTILITY

Wisconsin Public Service Facilities

The following table summarizes information on the electric generation facilities of Wisconsin Public Service, including jointly-owned facilities:

Type	Name	Location	Fuel	Rated Capacity (a) (Megawatts)
Steam	Pulliam	Green Bay, WI	Coal	389.0 (b)
	Weston	Wausau, WI	Coal and Gas	482.0 (c)
	Kewaunee	Kewaunee, WI	Nuclear	315.6 (d)
	Columbia - Units 1 and 2	Portage, WI	Coal	349.3 (d)
	Edgewater Unit 4	Sheboygan, WI	Coal	106.4 (d)
Total Steam				1,642.3
Hydroelectric	Various (15 Plants)			52.4 (e)

Combustion Turbine and Diesel	Various (10 Plants)	Gas, Oil, or Diesel	465.7 (f)
Wind			1.9
Landfill Generation	Various (2 Plants)		4.5
Total System			2,166.8

(a) Based on capacity ratings for August 2003.

(b) This plant has six units.

(c) This plant has three units. Two units burn only coal and the other unit can burn coal or natural gas.

(d) These facilities are jointly-owned by Wisconsin Public Service and various other utilities. Nuclear Management Company operates the Kewaunee plant. Wisconsin Power and Light operates the Columbia and Edgewater units. The capacity indicated is our portion of total plant capacity based on the percent of ownership.

(e) Includes 12.4 megawatts purchased from Wisconsin River Power, which is operated and 50% owned by Wisconsin Public Service.

(f) Wisconsin Public Service and Marshfield Electric and Water Department jointly own 76.2 megawatts of combustion turbine peaking capacity. Wisconsin Public Service is the operator of these jointly-owned facilities. The reported capacity of any jointly-owned facilities includes only Wisconsin Public Service's share. Also includes 8.5 megawatts purchased from Wisconsin River Power.

As of December 31, 2002, Wisconsin Public Service owned 115 distribution substations and 20,212 miles of electric distribution lines. Effective January 1, 2001, all transmission property of Wisconsin Public Service was transferred to American Transmission Company.

Gas properties include approximately 6,686 miles of main, 83 gate and city regulator stations, and 268,763 lateral services. All natural gas facilities are located in Wisconsin except for distribution facilities in and near the City of Menominee, Michigan.

Substantially all of Wisconsin Public Service's utility plant is subject to a first mortgage lien.

Upper Peninsula Power Facilities

The following table summarizes information on the electric generation facilities of Upper Peninsula Power:

Type	Name	Location	Fuel	Rated Capacity (a) (Megawatts)
Steam	Warden	L'Anse, MI	Gas	18.8 (b)
Hydroelectric	Various (9 plants)		Hydro	30.5 (c)
Combustion Turbine	Portage	Houghton, MI	Oil	19.4

	Gladstone	Gladstone, MI	Oil	19.7
Total System				88.4

(a) Based on summer 2003 rated capacity.

(b) The J. H. Warden station was taken out of service on January 1, 1994 and is in standby or inactive reserve status.

(c) Included in the nine hydroelectric plants are Escanaba 1, Escanaba 3, and Boney Falls, which generate a total of 4.5 megawatts. All energy produced at these facilities is sold directly to a paper industry customer located in Escanaba, Michigan.

Upper Peninsula Power owns 2,826 miles of electric distribution lines.

Effective June 28, 2001 all transmission property of Upper Peninsula Power was transferred to American Transmission Company.

Substantially all of Upper Peninsula Power's utility plant is subject to a first mortgage lien.

B. NONREGULATED

WPS Resources Corporation

Asset Management Strategy

In 2001, WPS Resources initiated a 5 to 7 year program involving the assessment of all assets of its subsidiaries, which are no longer needed for operations, and identifying alternative uses to maximize their value. As part of this strategy an initial agreement with the State of Wisconsin was entered into in 2001 to ultimately transfer ownership of forest and waterfront land along the Peshtigo River in northeastern Wisconsin to the State over a 4 year period.

Under this agreement, we sold approximately 5,700 acres of land on the Peshtigo River in northeastern Wisconsin from Wisconsin Public Service to the Wisconsin Department of Natural Resources for $13.5 million. The sale agreement with the Department of Natural Resources also includes options for the Department to purchase, in 2003 and 2004, approximately 5,000 additional acres at less than fair market value, for $11.5 million if all options are exercised. The value associated with the difference between the option price and the fair market value will be treated as a charitable contribution. Other asset management transactions in 2002 resulted in pretax gains of $3.3 million recognized in 2002.

WPS Power Development Facilities

The following table summarizes information on the electric generation facilities of WPS Power Development, including jointly-owned facilities:

Type	Name	Location	Fuel	Nameplate Capacity (Megawatts)

Steam	Sunbury	Shamokin Dam, PA	Coal	425.0
	Niagara Falls	Niagara Falls, NY	Coal	58.0
	Stoneman	Cassville, WI	Coal	35.0 (a)
	Westwood	Tremont, PA	Culm	30.0
	Wyman	Yarmouth, ME	Oil	21.0 (b)
Combined Cycle	Syracuse	Syracuse, NY	Gas/Oil	107.2
	Beaver Falls	Beaver Falls, NY	Gas/Oil	93.5
	Combined Locks	Combined Locks, WI	Gas	50.0
Hydroelectric	Tinker	New Brunswick, Canada	Hydro	33.5
	Squa Pan	Northern Maine	Hydro	1.5
	Caribou	Northern Maine	Hydro	0.8
Combustion Turbine and Diesel	Various (6 Plants)		Gas, Oil, or Diesel	59.7
Total System				915.2

(a) Mid-American Power, owns the Stoneman facility. PDI Stoneman, Inc. (a wholly-owned subsidiary of WPS Power Development, Inc.) and B. M. Stoneman, Inc., (a wholly-owned subsidiary of Burns and McDonnell) own 66-2/3% and 33-1/3%, respectively, of Mid-American Power. The amount reported in the above table represents our two-thirds interest in the plant. PDI Stoneman signed a letter of intent with Burns and McDonnell on November 15, 2002 to purchase their one-third share of Mid-American Power, LLC. The asset transfer is expected to take place during the first quarter of 2003. The purchase price is $0.6 million and is to be paid at a future date contingent on the development of the Cassville Energy Center.

(b) WPS Power Development owns a 3.3455% interest in the Wyman plant. The plant is a 619-megawatt oil-fired facility.

ITEM 3. LEGAL PROCEEDINGS

Stray Voltage Claims

From time to time Wisconsin Public Service has been sued by dairy farmers who allege that they have suffered loss of milk production and other damages allegedly due to "stray voltage" from the operation of the Wisconsin Public Service's electrical system. Past cases have been resolved without any material adverse effect on WPS Resources' financial statements. Currently, there are eight such cases pending in state court in Wisconsin, although one of the cases has been settled and is in the process of being dismissed.

The Public Service Commission of Wisconsin has established certain requirements for all utilities subject to its jurisdiction with respect to stray voltage. The Public Service Commission of Wisconsin's orders have defined what constitutes "stray voltage," established a level of concern at which some utility corrective action is required, and set forth test protocols to be employed in evaluating whether a stray voltage problem exists. Based upon the information available to it to date, Wisconsin Public Service believes that it was in compliance with the Public Service Commission of Wisconsin's orders, and that none of the eight plaintiffs had a stray voltage problem as defined by the Public Service Commission of Wisconsin. There is currently pending before the Supreme Court of Wisconsin a case in which another utility is arguing that there is no basis for civil liability for stray voltage without evidence that the utility violated the Public Service Commission of Wisconsin's standards. While it is possible that the Court may decide the case without reaching that issue, it is also possible that the Court will determine whether, and if so under what conditions, a dairy farmer can maintain an action for stray voltage without proof that the utility has violated the Public Service Commission of Wisconsin's standards.

The seven remaining cases pending against Wisconsin Public Service have been assigned separate trial dates in 2003 and 2004. Discovery is in different stages for the different cases. In those cases reviewed to date by expert witnesses retained by Wisconsin Public Service, the experts do not believe that there is scientific basis for concluding that electricity has harmed or damaged the plaintiffs or their cows. Accordingly, Wisconsin Public Service is vigorously defending and contesting these actions.

Wisconsin Public Service has insurance coverage for these claims, but the policies have a current $1.0 million self-insured retention per occurrence. The case with by far the largest damage claim is *Russell Allen v. Wisconsin Public Service Corporation*, in which plaintiff's economist has projected more than $14 million in damages for a 26-year period. Based on a number of factors developed in the case, including the expert's own deposition testimony, Wisconsin Public Service believes the $14 million figure is excessive and improper. The *Allen* case is scheduled for trial in Green Bay, Wisconsin in May 2003. Defense costs for the *Allen* case have exceeded the self-insured retention. Based upon the information known at this time and the availability of insurance, Wisconsin Public Service believes that the total cost to resolve the remaining seven actions will not be material.

Some of the remaining seven cases include a claim for punitive damages. All assert a claim for treble damages under a Wisconsin Statute, Section 196.64. In light of the information it now has, Wisconsin Public Service does not believe there is any basis for the award of treble damages in these cases. If a jury awarded such damages, and if the total of defense costs and the verdict exceeded the self-insured retention, Wisconsin Public Service believes its insurance policies would cover such a verdict.

Kewaunee Nuclear Power Plant

On February 5, 1997, Wisconsin Public Service Corporation entered into a "time is of the essence" contract with Finmeccanica S.p.A., Azienda Ansaldo Divisione Nucleare ("Finmeccanica") that required Finmeccanica to deliver two replacement steam generators, as well as other components, materials and documentation to the Kewaunee Nuclear Power Plant by April 1, 2000. The contract provided for liquidated and other damages to be paid to Wisconsin Public Service in the event Finmeccanica failed to meet the delivery schedule in the contract. Finmeccanica did not deliver the replacement steam generators to the plant until December 13, 2000, and did not deliver the final data required under the contract until February 28, 2001, thus triggering the liquidated damages provision in the contract.

Notwithstanding its failure to timely perform, Finmeccanica has sought to impose back charges against Wisconsin Public Service for alleged cost overruns in an amount exceeding $10 million. Finmeccanica alleges that any delay in delivery of the replacement steam generators is excused because it was caused by the actions of Wisconsin Public Service.

After failing to reach a negotiated resolution of its dispute with Finmeccanica, on March 1, 2000 Wisconsin Public Service filed suit against Finmeccanica in the federal court in the Eastern District of Wisconsin. In its complaint, Wisconsin Public Service alleges that Finmeccanica's failure to timely deliver the replacement steam generators is not excused and that the delay caused substantial damages to Wisconsin Public Service.

In response to Wisconsin Public Service's complaint, on July 2, 2001 Finmeccanica moved to dismiss the complaint on the ground that the parties' contract required arbitration of any disputes between Wisconsin Public Service and Finmeccanica. On March 28, 2002, the Court issued an order denying Finmeccanica's motion. Thereafter, on April 15, 2002 Finmeccanica filed its answer and counterclaim denying Wisconsin Public Service's allegations and asserting a claim against Wisconsin Public Service for damages in an unspecified amount. Discovery is ongoing, and is scheduled to continue through early 2004.

Funding Decontamination and Decommissioning of Federal Facilities

See the section titled Funding Decontamination and Decommissioning of Federal Facilities under PART I, ITEM 1B, ELECTRIC UTILITY OPERATIONS, Fuel Supply, for a description of various proceedings relating to decontamination and decommissioning liabilities.

Environmental

See the section titled Environmental Matters under ITEM 1F for a description of various environmental proceedings.

Regulatory Matters

On July 17, 2002, Citizens Utility Board filed a petition for judicial review of the Public Service Commission of Wisconsin's final decision in Docket 6690-UR-113, Wisconsin Public Service Corporation's 2002 rate case. Citizens Utility Board sought reversal of the Public Service Commission of Wisconsin's decision to allow Wisconsin Public Service Corporation to recover approximately $8.3 million in deferred costs incurred in complying with certain Nuclear Regulatory Commission regulations applicable to the Kewaunee plant. On January 10, 2003, the Dane County Circuit Court issued a Decision and Order in Case No. 02-CV-2231 affirming the Public Service Commission of Wisconsin and dismissing the Petition for Review. Citizens Utility Board did not appeal the circuit court's decision.

WPS Energy Services

See the section titled WPS Energy Services, Inc. under ITEM 1D for a description of status of bankruptcy proceedings involving Enron.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders of either WPS Resources or Wisconsin Public Service during the fourth quarter of the fiscal year.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANTS

A. Executive Officers of WPS Resources Corporation
as of January 1, 2003

Name and Age		Current Position and Business Experience During Past Five Years	Effective Date
Larry L. Weyers	57	Chairman, President, and Chief Executive Officer	02-12-98
		President and Chief Executive Officer	05-01-97
Thomas P. Meinz	56	Senior Vice President - Public Affairs	12-24-00
		Vice President - Public Affairs	02-12-98
		Vice President - Power Supply and Engineering	02-23-97 *
Phillip M. Mikulsky	54	Senior Vice President - Development	02-12-98
		Vice President - Development	09-01-95
Joseph P. O'Leary **	48	Senior Vice President and Chief Financial Officer	06-04-01
		Vice President - Finance, United Stationers Corporation	05-01-99
		Vice President - Tower Leasing, 360 Degree Communications	11-01-98
		Vice President and Controller, 360 Degree Communications	03-01-96
Diane L. Ford	49	Vice President - Controller and Chief Accounting Officer	07-11-99
		Controller and Chief Accounting Officer	05-01-97
Richard E. James	49	Vice President - Corporate Planning	12-29-96
Bernard J. Treml	53	Vice President - Human Resources	02-12-98
		Vice President - Human Resources	05-09-94 *
Barbara A. Nick	44	Assistant Vice President - Corporate Services	04-14-02
		Manager - Corporate Services	11-20-00
		Assistant to the President	10-31-99
		Director of Wholesale Energy Services	11-29-98 *
		Co-Director of Wholesale Energy Services	05-19-96 *
Bradley A. Johnson	48	Treasurer	06-23-02
		Assistant Treasurer	04-01-01
		Corporate Planning Executive	12-31-95
Barth J. Wolf	45	Secretary and Manager - Legal Services	09-19-99
		Assistant Secretary and Manager - Legal Services	07-12-98
		Manager - Legal and Risk Management	05-19-96 *

* Identifies experience with Wisconsin Public Service Corporation.

** Prior to joining WPS Resources, Joseph P. O'Leary's responsibilities at United Stationers included leading the finance, treasury, and accounting functions. United Stationers was the largest provider of wholesale business office products in North America. At 360 Degree Communications, Mr. O'Leary led the start-up of a new business to lease tower space to wireless communications service providers. Prior to that he led the accounting, purchasing, and cellular fraud control functions for 360 Degree Communications. 360 Degree Communications was a provider of cellular, long distance, and paging services/products to over 2.6 million customers in 15 states.

NOTE: All ages are as of December 31, 2002. None of the executives listed above are related by blood, marriage, or adoption to any of the other officers listed or to any director of the Registrants. Each officer holds office until his or her successor has been duly elected and qualified, or until his or her death, resignation, disqualification, or removal.

B. Executive Officers of Wisconsin Public Service Corporation
as of January 1, 2003

Name and Age		Current Position and Business Experience During Past Five Years	Effective Date
Larry L. Weyers	57	Chairman, President, and Chief Executive Officer	04-14-02
		Chairman and Chief Executive Officer	02-12-98
		President and Chief Executive Officer	05-04-97
Thomas P. Meinz	56	Senior Vice President-Public Affairs	12-24-00
		Vice President - Public Affairs	02-12-98
		Vice President - Power Supply and Engineering	02-23-97

		Power Supply and Engineering Executive	01-14-96
Joseph P. O'Leary *	48	Senior Vice President and Chief Financial Officer	06-04-01
		Vice President - Finance, United Stationers Corporation	05-01-99
		Vice President - Tower Leasing, 360 Degree Communications	11-01-98
		Vice President and Controller, 360 Degree Communications	03-01-96
Lawrence T. Borgard	41	Vice President - Distribution and Customer Service	11-25-01
		Vice President - Transmission and Engineering	07-23-00
		Vice President - Transmission	07-11-99
		General Manager - Transmission	04-05-98
		Manager - Transmission Planning and Operations	04-06-97
David W. Harpole	47	Vice President Energy Supply	04-14-02
		Assistant Vice President Energy Supply	11-12-00
		Manager Corporate Services	04-19-98
		Manager Power Plant Design and Construction	12-31-95
Diane L. Ford	49	Vice President - Controller	07-11-99
		Controller	03-01-92
Bernard J. Treml	53	Vice President - Human Resources	05-09-94
Bradley A. Johnson	48	Treasurer	06-23-02
		Assistant Treasurer	04-01-01
		Corporate Planning Executive	12-31-95
Barth J. Wolf	45	Secretary and Manager - Legal Services	09-19-99
		Assistant Secretary and Manager - Legal Services	07-12-98
		Manager - Legal and Risk Management	05-19-96

* Prior to joining Wisconsin Public Service, Joseph P. O'Leary's responsibilities at United Stationers included leading the finance, treasury, and accounting functions. United Stationers was the largest provider of wholesale business office products in North America. At 360 Degree Communications, Mr. O'Leary led the start-up of a new business to lease tower space to wireless communications service providers. Prior to that he led the accounting, purchasing, and cellular fraud control functions for 360 Degree Communications. 360 Degree Communications was a provider of cellular, long distance, and paging services/products to over 2.6 million customers in 15 states.

NOTE: All ages are as of December 31, 2002. None of the executives listed above are related by blood, marriage, or adoption to any of the other officers listed or to any director of the Registrants. Each officer holds office until his or her successor has been duly elected and qualified, or until his or her death, resignation, disqualification, or removal.

PART II

ITEM 5. MARKET FOR REGISTRANTS' COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

WPS Resources Corporation Common Stock Two-Year Comparison

Share Data	Dividends Per Share	Price Range High	Price Range Low
2002			
1st Quarter	$ .525	39.93	35.65
2nd Quarter	.525	42.68	37.00

3rd Quarter	.535	41.12	30.47
4th Quarter	.535	39.95	32.64
Total	$2.12		
2001			
1st Quarter	$ .515	36.625	31.000
2nd Quarter	.515	35.250	32.200
3rd Quarter	.525	35.400	32.000
4th Quarter	.525	36.800	33.250
Total	$2.08		

WPS Resources is the sole holder of Wisconsin Public Service's common stock.

Dividend Restrictions

WPS Resources' principal subsidiary, Wisconsin Public Service, is restricted by a Public Service Commission of Wisconsin order limiting the payment of normal common stock dividends to no more than 109% of the previous year's common stock dividend, without approval of to the Public Service Commission of Wisconsin. Return of capital payments may be declared in order to maintain Wisconsin Public Service's common equity at levels consistent with those allowed by the Public Service Commission of Wisconsin, provided that the return of capital does not cause the common equity ratio to fall below prescribed levels. Wisconsin law prohibits Wisconsin Public Service from making loans to WPS Resources and its nonregulated subsidiaries and guaranteeing their obligations.

Wisconsin Public Service's Articles of Incorporation contain certain limitations on the payment of cash dividends. These limitations are not expected to limit any dividend payments in the foreseeable future.

At December 31, 2002, WPS Resources had $398 million of retained earnings available for dividends.

Upper Peninsula Power's indentures relating to its first mortgage bonds contain certain limitations on the payment of cash dividends on its common stock, which is held solely by WPS Resources. Under the most restrictive of these provisions, approximately $8 million of retained earnings were available at December 31, 2002 for the payment of common stock cash dividends by Upper Peninsula Power.

Common Stock

Listed:	New York Stock Exchange
Ticker Symbol:	WPS
Transfer Agent and Registrar:	American Stock Transfer and Trust Company 59 Maiden Lane New York, NY 10038

Effective with the close of trading on February 8, 2002, WPS Resources' common stock was added to the Standard and Poor's MidCap 400 Index.

As of December 31, 2002, there were 22,768 common stock shareholders of record.

See ITEM 11 of this Form 10-K for additional information regarding Equity Compensation Plans.

ITEM 6. SELECTED FINANCIAL DATA

WPS RESOURCES CORPORATION
COMPARATIVE FINANCIAL STATEMENTS AND
FINANCIAL STATISTICS (1998 TO 2002)

As of or for Year Ended December 31 (Millions, except per share amounts, return on average equity, and number of shareholders and employees)	2002	2001	2000	1999	1998
Total operating revenues	$2,674.9	$2,675.5	$1,949.0	$1,098.5	$1,063.7
Income available for common shareholders	109.4	77.6	67.0	59.6	46.6
Total assets	3,207.9	2,870.0	2,816.1	1,816.5	1,510.4
Preferred stock of subsidiaries	51.1	51.1	51.1	51.2	51.2
Long-term debt and capital lease obligation	824.4	727.8	660.0	584.5	343.0
Shares of common stock (less treasury stock and shares in deferred compensation trust)					
Outstanding	31.8	31.1	26.4	26.8	26.5
Average	31.7	28.2	26.5	26.6	26.5
Basic earnings per average share of common stock	$3.45	$2.75	$2.53	$2.24	$1.76
Diluted earnings per average share of common stock	3.42	2.74	2.53	2.24	1.76
Dividend per share of common stock	2.12	2.08	2.04	2.00	1.96
Stock price	$38.82	$36.55	$36.8125	$25.125	$35.25
Book value per share	$24.62	$23.02	$20.76	$20.01	$19.52
Return on average equity	14.6%	12.8%	12.3%	11.3%	9.0%
Number of common stock shareholders	22,768	23,478	24,029	25,020	26,319
Number of employees	2,963	2,856	3,030	2,900	2,673

WISCONSIN PUBLIC SERVICE CORPORATION
COMPARATIVE FINANCIAL STATEMENTS AND
FINANCIAL STATISTICS (1998 TO 2002)

As of or for Year Ended December 31 (Millions, except weather information)	2002	2001	2000	1999	1998
Operating revenues	$1,007.6	$932.3	$840.5	$719.4	$652.5
Earnings on common stock	83.1	80.6	70.4	67.1	54.1
Total assets	1872.6	1,730.9	1,503.2	1,409.9	1,267.6
Long-term debt, net	442.5	415.6	370.1	373.1	304.0
Weather information					
Cooling degree days	586	546	330	481	519
Cooling degree days as a percent of normal	122.9%	116.9%	70.7%	103.0%	107.0%

Heating degree days	7,509	7,139	7,841	7,273	6,530
Heating degree days as a percent of normal	96.9%	91.9%	98.2%	91.7%	82.4%

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

RESULTS OF OPERATIONS - WPS RESOURCES CORPORATION

WPS Resources Corporation is a holding company. Our wholly-owned subsidiaries include two regulated utilities, Wisconsin Public Service Corporation and Upper Peninsula Power Company. Another wholly-owned subsidiary, WPS Resources Capital Corporation, is a holding company for our nonregulated businesses including WPS Energy Services, Inc. and WPS Power Development, Inc.

2002 Compared with 2001

WPS Resources Corporation Overview

WPS Resources' 2002 and 2001 results of operations are shown in the following table:

WPS Resources' Results (Millions, except share amounts)	2002	2001	Change
Consolidated operating revenues	$2,674.9	$2,675.5	-%
Income available for common shareholders	$109.4	$77.6	41%
Basic earnings per share	$3.45	$2.75	25%
Diluted earnings per share	$3.42	$2.74	25%

The increase in earnings per share was largely driven by a gain at WPS Power Development related to the 2001 sale of part of its synthetic fuel operations. The sale occurred in the fourth quarter of 2001, and we deferred recognition of a portion of the related gain on the sale pending the satisfaction of certain contingencies. In addition, WPS Energy Services' net income increased 72%, primarily due to improved natural gas margins. A full year contribution from gas utility operations acquired in the spring of 2001, warmer than normal weather during the heating season in 2001, and a rate increase approved by regulators resulted in increased earnings from our gas utility in 2002. Even with the 2002 rate increases approved by regulators, we were unable to earn the full return approved by them.

Overview of Utility Operations

Utility operations include the electric utility operations at Wisconsin Public Service and Upper Peninsula Power and the natural gas utility operations at Wisconsin Public Service. Income available for common shareholders attributable to electric utility operations was $61.0 million in 2002 compared with $58.8 million in 2001. Income available for common shareholders attributable to gas utility operations was $18.4 million in 2002 and $8.9 million in 2001.

Utility margins at Wisconsin Public Service were impacted positively by a Public Service Commission of Wisconsin interim rate order, which was effective January 1, 2002, authorizing a 10.3% increase in Wisconsin retail electric rates and a 4.7% increase in Wisconsin retail natural gas rates. In late June 2002, Wisconsin Public Service received a final 2002 rate order which authorized a 10.9% increase in Wisconsin retail electric rates and a 3.9% increase in Wisconsin retail natural gas rates. The final order authorized a lower retail natural gas rate increase than was approved in the interim order resulting in a $0.4 million refund to Wisconsin Public Service's natural gas customers.

Electric Utility Margins

The consolidated electric utility margin represents electric revenue less cost of sales exclusive of intercompany transactions. Our consolidated electric utility margin increased $85.0 million, or 19%, due to the Wisconsin retail electric rate increases at Wisconsin Public Service and higher overall electric utility sales volumes.

WPS Resources' Consolidated Electric Utility Results *(Millions)*	2002	2001	2000
Revenues	$741.6	$654.4	$623.8
Fuel and purchased power costs	220.4	218.2	199.0
Margins	$521.2	$436.2	$424.8
Sales in kilowatt-hours	13,717.2	12,741.0	12,565.0

Our consolidated electric utility revenues increased $87.2 million, or 13%, in 2002 as the result of the electric rate increases and an 8% increase in overall electric sales volumes at Wisconsin Public Service. Sales volumes were up 25% for lower margin, wholesale customers while sales to higher margin, residential customers increased 6% and sales to higher margin, commercial and industrial customers increased 3%. Summer weather was 7% warmer in 2002 than in 2001, and 23% warmer than normal.

Increased fuel costs for power generation were partially offset by lower purchased power expenses. Our consolidated fuel expense for generation plants increased $4.9 million, or 4%, in 2002. Our consolidated purchased power expense, however, decreased $2.7 million, or 3%, in 2002. Overall generation from Wisconsin Public Service's plants increased 10% while purchased volumes decreased 3%. The change in the energy supply mix was largely due to the availability of less expensive power generation from the Kewaunee Nuclear Power Plant. Wisconsin Public Service increased its ownership interest in the Kewaunee plant to 59% in September 2001. Although Upper Peninsula Power's purchased volumes remained fairly consistent, the unit cost of its purchased power decreased 9%.

The Public Service Commission of Wisconsin allows Wisconsin Public Service to adjust prospectively the amount billed to Wisconsin retail customers for fuel and purchased power if costs fall outside a specified range. Wisconsin Public Service is required to file an application to adjust rates either higher or lower when costs are plus or minus 2% from forecasted costs on an annualized basis. Wisconsin Public Service did not submit any fuel filings in 2002.

Gas Utility Margins

The consolidated gas utility margin represents natural gas revenues less purchases exclusive of intercompany transactions. Effective April 1, 2001, the gas utility margin at Wisconsin Public Service includes the merged Wisconsin Fuel and Light Company operations.

Wisconsin Public Service Corporation's Gas Utility Results *(Millions)*	**2002**	2001	2000
Revenues	$310.7	$321.6	$264.5
Purchase costs	198.6	230.2	185.1
Margins	$112.1	$ 91.4	$ 79.4
Throughput in therms	845.4	742.7	701.1

An increase in overall natural gas throughput volumes of 14% and the Wisconsin retail gas rate increase resulted in a higher gas utility margin of $20.7 million, or 23%, in 2002. Increased overall gas throughput volumes were partially the result of including 12 months of operations for former Wisconsin Fuel and Light in 2002 compared with the inclusion of 9 months of operations in 2001. Gas throughput volumes were also affected by a heating season that was 5% colder in 2002 than in 2001, but 3% milder than normal.

Wisconsin Public Service's gas revenues decreased $10.9 million, or 3%, in 2002 and gas purchase costs decreased $31.6 million, or 14%, largely as the result of a 26% decrease in the average unit cost of natural gas in 2002. Wisconsin Public Service passes changes in the cost of gas on to customers through a purchased gas adjustment clause, as allowed by the Public Service Commission of Wisconsin and the Michigan Public Service Commission under current regulatory practice.

Other Utility Expenses/Income

Utility operating and maintenance expense increased $67.6 million in 2002 largely due to amortization of regulatory deferrals, increased benefit costs, higher transmission expenses associated with American Transmission Company, increased expenses at the Kewaunee plant (as a result of Wisconsin Public Service acquiring additional ownership interest in the plant), and increased energy conservation expenses.

Utility depreciation and decommissioning expense increased $7.8 million in 2002 largely due to additional plant assets at Wisconsin Public Service, including its increased ownership interest in the Kewaunee plant. Lower depreciation expense of $5.5 million related to decreased decommissioning earnings partially offset the increased plant asset depreciation.

Utility miscellaneous income decreased $8.1 million in 2002 primarily as the result of lower earnings of $5.7 million on Wisconsin Public Service's nuclear decommissioning trust assets. Due to regulatory practice, a decrease in earnings on the trust assets is largely offset by decreased depreciation expense.

Overview of Nonregulated Operations

Nonregulated operations consist of the natural gas, electric, and other sales at WPS Energy Services, a diversified energy supply and services company, and the operations of WPS Power Development, an electric generation asset development company.

WPS Energy Services' net income increased to $11.0 million in 2002 compared with $6.4 million in 2001 primarily due to a higher gas margin. WPS Power Development's net income increased to $24.0 million in 2002 compared with $2.3 million in 2001 largely due to recognition of a gain related to the 2001 sale of a portion of its synthetic fuel operations.

Overview of WPS Energy Services

WPS Energy Services' principal businesses involve nonregulated gas and electric sales. Revenues at WPS Energy Services were $1.5 billion in 2002 compared with $1.6 billion in 2001, a decrease of 6%. The decrease was the result of a lower unit cost of natural gas in 2002 partially offset by additional natural gas and electric sales volumes. The lower unit cost of natural gas is also reflected in cost of sales, thus having no impact on margin. Net income increased $4.6 million, or 72%, in 2002 due to increased gas margins and improved operations.

WPS Energy Services' Margins

WPS Energy Services Gas Results

(Millions except sales volumes)	**2002**	2001	2000
Nonregulated natural gas revenues	$1,248.1	$1,406.3	$919.5
Nonregulated natural gas cost of sales	1,213.2	1,390.4	908.2
Margins	$ 34.9	$ 15.9	$ 11.3

Wholesale sales volumes in billion cubic feet	233,800	242,800	153,300
Retail sales volumes in billion cubic feet	135,700	104,500	75,300

Nonregulated gas revenues at WPS Energy Services decreased $158.2 million, or 11%, in 2002 primarily as the result of lower natural gas prices in 2002. The nonregulated gas margin increased $19.0 million, or 119%, in 2002 due to improved management of the retail gas procurement and volume risk processes and increased retail sales volumes.

WPS Energy Services Electric Results

(Millions)	**2002**	2001	2000
Nonregulated electric revenues	$244.5	$165.0	$33.8
Nonregulated electric cost of sales	232.8	150.3	29.4
Margins	$ 11.7	$ 14.7	$ 4.4
Wholesale sales in kilowatt-hours	4,250.0	1,696.6	557.6
Retail sales in kilowatt-hours	2,703.6	1,944.7	601.7

Nonregulated electric revenues at WPS Energy Services increased $79.5 million, or 48%, in 2002 due to higher sales volumes. The nonregulated electric margin decreased $3.0 million, or 20%, in 2002 primarily due to the slow economy which produced less favorable market conditions for opportunity sales in 2002.

WPS Energy Services' Other Expenses

Operating expenses at WPS Energy Services increased $7.3 million in 2002 largely due to costs associated with business expansion and increased bad debt expense.

Overview of WPS Power Development

Revenues at WPS Power Development were $145.2 million in 2002 compared with $141.5 million in 2001, an increase of 3%. The increase was primarily due to the operation of the generation assets obtained from CH Resources in the second quarter of 2002 and the operation of the Combined Locks Energy Center. Partially offsetting these increases were a change in accounting from consolidation to equity method accounting for WPS Power Development's synthetic fuel operations and lower revenues from steam sales.

WPS Power Development's Margin

WPS Power Development's Production Results *(Millions)*	**2002**	2001	2000
Nonregulated other revenues	$145.2	$141.5	$128.1
Nonregulated other cost of sales	93.3	110.2	94.8
Margins	$ 51.9	$ 31.3	$ 33.3

WPS Power Development experienced an increase of $20.6 million, or 66%, in its margin in 2002. The margin increased $6.7 million at the Sunbury generation plant in 2002 due to lower fuel costs and lower prices for spot market purchases (which allowed Sunbury to meet its firm contracts at a lower cost). The operation of the generation assets obtained in the June 2002 CH Resources acquisition and the startup of the Combined Locks Energy Center contributed to WPS Power Development's higher margin in 2002. A change in accounting for WPS Power Development's synthetic fuel operations also increased 2002 margins. As a result of the 2001 sale of a portion of WPS Power Development's synthetic fuel operations, WPS Power Development no longer consolidates these operations as a part of revenue and cost of sales. The remaining interest in the synthetic fuel operations is now accounted for under the equity method of accounting with such amounts recorded as a component of miscellaneous income.

WPS Power Development's Other Expenses/Income/Tax Credits

Operating expenses at WPS Power Development increased $8.1 million in 2002 primarily due to maintenance and other expenses at the Sunbury generation plant, including costs related to a staff reduction that was announced November 7, 2002 and took effect in January 2003. Costs associated with the generation assets obtained in the CH Resources acquisition and operation of the Combined Locks Energy Center also contributed to increased operating expenses in 2002.

Depreciation expense increased $3.1 million in 2002 due to additional plant assets at WPS Power Development, including the Combined Locks Energy Center and the assets obtained in the CH Resources acquisition. A nitrogen oxide reduction project at Sunbury also contributed to increased depreciation expense in 2002.

WPS Power Development's miscellaneous income increased $24.9 million in 2002 primarily as the result of recognizing a pretax gain of $38.0 million (approximately $22.8 million after tax) related to the 2001 sale of part of WPS Power Development's synthetic fuel operations. WPS Power Development recognized a pretax gain of $2.2 million (approximately $1.3 million after tax) on the sale in the fourth quarter of 2001 and deferred the remaining portion of the gain pending satisfaction of certain contingencies, including the receipt of a private letter ruling from the Internal Revenue Service. The contingencies were satisfied in 2002 and the remaining gain was recognized. WPS Power Development also recognized royalties of $2.3 million in 2002 related to its synthetic fuel operations. Partially offsetting these factors were equity method losses for WPS Power Development's synthetic fuel operations.

WPS Power Development recorded synthetic fuel tax credits of $23.3 million in 2002, an increase of approximately $1.8 million over 2001.

Overview of Holding Company and Other Operations

Holding Company and Other operations include the operations of WPS Resources and WPS Resources Capital as holding companies and the nonutility activities at Wisconsin Public Service and Upper Peninsula Power. Holding Company and Other operations experienced a net loss of $5.0 million in 2002 compared with net income of $1.3 million in 2001. A net loss was experienced in 2002 primarily due to interest expense from financing to provide funds for subsidiary operations.

Our asset management strategy resulted in pretax gains of $3.3 million in 2002 compared with pretax gains of approximately $17 million in 2001. WPS Resources' asset management strategy, which was initiated in 2001, is a five to seven-year plan intended to optimize shareholder return from the sale, development, or use of certain assets. In addition, earnings on equity investments were higher in 2002 compared with 2001 primarily due to our investment in American Transmission Company.

Tax Credits

We used tax credits to the extent the tax law permits to reduce our current federal income tax liability, and the remaining credits increased our alternative minimum tax credit available for future years. Approximately $15 million of alternative minimum tax credits were carried over from 2002, which brings the cumulative credits being carried forward to approximately $36 million. Alternative minimum tax credits can be used in future years to reduce our regular tax liability, subject to various limitations. Based on a review of all known facts and circumstances, management has concluded that it is more likely than not that we will be able to use these credits in the future to reduce our federal income tax liability.

Weighted Average Shares

The weighted average number of outstanding shares of WPS Resources' common stock increased 3.5 million shares during 2002. The increase was largely due to issuing 2.3 million additional shares through a public offering in the fourth quarter of 2001 and issuing 1.8 million shares in the merger of Wisconsin Fuel and Light into Wisconsin Public

Service in the second quarter of 2001. Additional shares were also issued in 2002 under the Stock Investment Plan.

2001 Compared with 2000

WPS Resources Corporation Overview

WPS Resources' 2001 and 2000 results of operations are shown in the following table:

WPS Resources' Results (Millions, except share amounts)	2001	2000	Change
Consolidated operating revenues	$2,675.5	$1,949.0	37%
Income available for common shareholders	$77.6	$67.0	16%
Basic earnings per share	$2.75	$2.53	9%
Diluted earnings per share	$2.74	$2.53	8%

Consolidated operating revenues increased in 2001 due to sales volume growth for all business segments and higher natural gas prices in the first part of 2001. In addition, rate increases at Wisconsin Public Service contributed to increased revenues in 2001. The Public Service Commission of Wisconsin authorized a 5.4% increase in Wisconsin retail electric rates and a 1.5% increase in Wisconsin retail natural gas rates effective January 1, 2001.

Increased profitability at our nonregulated segments offset a decrease in earnings at our electric and natural gas utility segments. Higher earnings resulted from a gain on the sale of hydro lands as part of our asset management strategy, increased natural gas and electric utility margins, increased electric and natural gas margins at WPS Energy Services, additional tax credits at WPS Power Development and a gain on the sale of a portion of WPS Power Development's investment in its synthetic fuel operations. Partially offsetting these factors were increased operating expenses at all segments and a lower margin at WPS Power Development.

Overview of Utility Operations

Income available for common shareholders attributable to electric utility operations was $58.8 million in 2001 compared with $60.7 million in 2000. Income available for common shareholders attributable to gas utility operations was $8.9 million in 2001 and $11.6 million in 2000.

Electric Utility Margins

Our consolidated electric utility margin increased $11.4 million, or 3%, in 2001 primarily due to a 5.4% Wisconsin retail electric rate increase at Wisconsin Public Service, which became effective on January 1, 2001, and higher sales volumes to most customer classes at Upper Peninsula Power and Wisconsin Public Service. Summer weather was 66% warmer in 2001 than in 2000, and 17% warmer than normal. Partially offsetting these factors was a 2% decrease in sales to large commercial and industrial customers at Wisconsin Public Service due to declining economic conditions.

Affecting the electric utility margin was a change in the customer mix at Wisconsin Public Service in 2001. Sales to lower margin, non-firm customers increased more than sales to higher margin customers. The lack of new retail electric rates at Upper Peninsula Power also affected the margin negatively.

Our consolidated fuel expense for production plants decreased $5.2 million, or 4%, in 2001 largely due to decreased production at Wisconsin Public Service's combustion turbine generation plants. Our consolidated purchased power expense, however, increased $24.4 million due to an increase in power purchases and a 19% increase in the cost per kilowatt-hour of power purchases made by Wisconsin Public Service in 2001 compared with 2000. Power purchases were 21% higher in 2001 due to warmer summer weather and the availability of economically priced energy. Also contributing to increased power purchases were a scheduled outage at Wisconsin Public Service's nuclear plant and an unscheduled outage at one of its fossil-fueled generation plants.

Wisconsin Public Service's Kewaunee plant was off-line for a scheduled refueling and replacement of its steam generators which began in late September 2001. The Kewaunee plant returned to service in early December as scheduled. Wisconsin Public Service is a 59% owner of the Kewaunee plant. Wisconsin Public Service's Pulliam Unit 7 was off-line for unscheduled repairs in the fourth quarter of 2001 and returned to service in February 2002. Wisconsin Public Service chose to take advantage of purchased power during these outages because of economically favorable pricing.

The Public Service Commission of Wisconsin allows Wisconsin Public Service to adjust prospectively the amount billed to Wisconsin retail customers for fuel and purchased power if costs fall outside a specified range. In the third quarter of 2001, Wisconsin Public Service submitted a fuel filing with the Public Service Commission of Wisconsin requesting a $1.9 million retail electric rate reduction. The rate reduction was approved and implemented on September 3, 2001. Wisconsin Public Service submitted an additional fuel filing in November 2001, and a rate reduction of $0.3 million was approved and implemented on December 8, 2001.

Gas Utility Margins

Effective April 1, 2001, the gas utility margin at Wisconsin Public Service includes the merged Wisconsin Fuel and Light Company operations.

The gas utility margin at Wisconsin Public Service increased $12.0 million, or 15%, in 2001. This increase was due to a 1.5% increase in Wisconsin retail natural gas rates effective January 1, 2001, and a 6% increase in overall natural gas throughput volumes. Increased gas throughput volumes were largely the result of Wisconsin Public Service's acquisition of Wisconsin Fuel and Light in the second quarter of 2001. Gas throughput volumes to large commercial and industrial customers, however, decreased 9% as a result of customers switching to the gas transport customer class and declining economic conditions. Gas throughput volumes to gas transport customers increased 15%. In addition, gas throughput volumes to interruptible customers decreased 6%. Gas throughput volumes were negatively affected by winter weather, which was 9% milder in 2001 than in 2000 and 8% milder than normal.

Wisconsin Public Service's natural gas revenues increased $57.1 million, or 22%, as the result of an increase in the average unit cost of natural gas in the first half of 2001, increased throughput as a result of Wisconsin Public Service's acquisition of Wisconsin Fuel and Light in the second quarter of 2001, and the 1.5% increase in Wisconsin retail gas rates.

Wisconsin Public Service's natural gas purchase costs increased $45.1 million, or 24%, in 2001 largely due to a higher average unit cost of natural gas in the first half of 2001. The higher natural gas prices experienced earlier in 2001 were passed on to customers and are reflected in both revenues and gas purchases, thus having little impact on margin.

Other Utility Expenses/Income

Utility operating expenses increased $36.3 million in 2001 largely due to increased transmission expenses associated with the transfer of assets to American Transmission Company, increased payments to the Wisconsin Department of Administration for energy conservation activities, increased maintenance costs at the Kewaunee plant during its refueling outage, and higher write-offs of uncollectible accounts.

The Public Service Commission of Wisconsin allowed a portion of the higher transmission costs to be deferred. The deferred transmission costs, $4.4 million for 2001, were recovered in 2002 Wisconsin retail rates.

Lower earnings on the nuclear decommissioning fund contributed to a decrease in other income from utility operations in 2001. Due to regulatory practice, lower earnings on the nuclear decommissioning fund were largely offset by decreased depreciation expense. An extension in the Kewaunee plant's assumed depreciable life and a reduction in the nuclear decommissioning fund contribution also contributed to decreased depreciation expense.

Interest expense increased due to the issuance of additional long-term debt by Wisconsin Public Service in August 2001.

Overview of Nonregulated Operations

WPS Energy Services' net income increased to $6.4 million in 2001 compared with $1.7 million in 2000. WPS Power Development's net income increased to $2.3 million in 2001 compared with $0.9 million in 2000.

Overview of WPS Energy Services

Revenues at WPS Energy Services grew to $1.6 billion in 2001 compared with $955.6 million in 2000, an increase of 67%. This increase was the result of additional natural gas and electric sales volumes coupled with a higher unit cost of natural gas in the first half of 2001. The higher unit cost of natural gas is also reflected in cost of sales, thus having no impact on margin. Income increased $4.7 million in 2001 due to increased sales and improved operations.

WPS Energy Services' Margins

Nonregulated gas revenues at WPS Energy Services increased $486.8 million, or 53%, primarily as the result of sales volume growth and higher natural gas prices in the first half of 2001. The nonregulated gas margin increased $4.6 million, or 41%, in 2001 due to increased sales volumes and exiting from unprofitable market segments.

Nonregulated electric revenues at WPS Energy Services increased $131.2 million, or 388%, in 2001. The nonregulated electric margin increased $10.3 million, or 234%, in 2001. Higher electric sales volumes in existing and newly-entered retail electric markets, increased electric wholesale activities, as well as impacts from marketing energy from WPS Power Development's Sunbury plant, contributed to these increases.

WPS Energy Services' Other Expenses

Operating expenses at WPS Energy Services increased $8.5 million in 2001 largely due to costs associated with business expansion and higher bad debt expense.

Overview of WPS Power Development

Revenues at WPS Power Development increased $13.4 million, or 10%, in 2001 primarily due to higher revenues from its steam operations of $7.1 million and higher revenues at its Sunbury generation plant of $7.0 million. WPS Power Development's income was $2.3 million in 2001 compared with $0.9 million in 2000. Additional tax credits of approximately $4 million from its synthetic fuel operation was the primary factor in WPS Power Development's increased income in 2001.

WPS Power Development's Margin

WPS Power Development experienced a decrease of $2.0 million in its margin in 2001. The primary factors in this decrease were a $2.8 million margin decrease at Sunbury due to higher fuel costs as a result of purchasing coal at current market prices, and higher costs of replacement power during outages. WPS Power Development recovered a portion of the fuel cost increase through settlement with its coal supplier. The Sunbury margin decrease was partially offset by higher margins at the Westwood generation plant, which was acquired in September 2000.

WPS Power Development's Other Expenses/Income/Tax Credits

Operating expenses at WPS Power Development increased $4.5 million in 2001 primarily due to costs associated with operations at the Westwood plant, higher payroll expenses, and increased development costs for potential new projects.

Miscellaneous income increased $1.8 million in 2001 primarily due to recognizing a pretax gain of $2.2 million (approximately $1.3 million after tax) related to the 2001 sale of a portion of WPS Power Development's synthetic fuel operations.

WPS Power Development recorded synthetic fuel tax credits of $21.5 million in 2001, an increase of approximately $4 million over 2000.

Overview of Holding Company and Other Operations

Holding Company and Other operations experienced net income of $1.3 million in 2001 compared with a net loss of $7.9 million in 2000.

Miscellaneous nonutility income included pretax gains of approximately $17 million including a pretax gain of $13.1 million on the sale of hydro lands at Wisconsin Public Service in December 2001. The sale of these hydro lands was a significant transaction in a five to seven-year asset management strategy to optimize shareholder return from the sale, development, or use of certain assets. In addition, earnings on equity investments were higher in 2001 compared with 2000 primarily due to our investment in American Transmission Company.

Interest expense increased due to additional short-term borrowing at WPS Resources for working capital needs in the first half of 2001.

Tax Credits

We used tax credits to the extent the tax law permits to reduce our current federal income tax liability, and the remainder increased our alternative minimum tax credit available for future years. Approximately $10 million of alternative minimum tax credits where carried over from 2001, which brought the cumulative credits being carried forward to approximately $21 million at the end of 2001.

BALANCE SHEET - WPS RESOURCES

2002 Compared With 2001

Customer and other receivables increased $45.3 million in 2002 and accrued unbilled revenues increased $49.4 million in 2002, both as the result of increased sales volumes at Wisconsin Public Service and WPS Energy Services due to colder weather and customer growth. Wisconsin retail rate increases at Wisconsin Public Service also contributed to these higher balances.

Current assets from risk management activities increased $70.6 million in 2002 and current liabilities from risk management activities increased $149.6 million. Long-term assets from risk management activities decreased $16.1 million in 2002 and long-term liabilities from risk management activities decreased $36.0 million. These variances were largely due to changes in forward prices and increased volumes.

Property, plant, and equipment increased $146.6 million due to additional plant assets at Wisconsin Public Service, including construction of portions of the Pulliam combustion turbine and the Wausau to Duluth transmission line, and additional plant assets at WPS Power Development, including the assets obtained in the CH Resources acquisition and capital expenditures at the Sunbury generation plant.

Accounts payable increased $117.4 million in 2002 largely due to the $48.4 million payable as the result of Wisconsin Public Service's purchase of the De Pere Energy Center in December 2002. Increased natural gas purchases at Wisconsin Public Service and WPS Energy Services as the result of colder weather and customer growth also contributed to the higher accounts payable balance.

Long-term debt increased $96.6 million in 2002 due to the issuance in the fourth quarter of 2002 of senior unsecured notes at WPS Resources and senior notes, which were secured by first mortgage bonds, at Wisconsin Public Service. Extinguishment of the capital lease obligation related to the De Pere Energy Center and the retirement of first mortgage bonds at Wisconsin Public Service partially offset these factors.

LIQUIDITY AND CAPITAL RESOURCES - WPS RESOURCES

Financing

WPS Resources normally uses internally generated funds and commercial paper borrowing to satisfy most of its capital requirements. We may periodically issue long-term debt and common stock to reduce short-term debt, maintain desired capitalization ratios, and fund future growth. We may seek nonrecourse financing for funding some nonregulated acquisitions. WPS Resources' commercial paper borrowing program provides for working capital requirements of the nonregulated businesses and Upper Peninsula Power. Wisconsin Public Service has its own commercial paper borrowing program. The specific forms of long-term financing, amounts, and timing depend on the availability of projects, market conditions, and other factors.

WPS Resources and Wisconsin Public Service completed the syndication of revolving credit lines of $180 million and $100 million, respectively, during the third quarter of 2002.

The current credit ratings for WPS Resources and Wisconsin Public Service are listed in the table below.

Credit Ratings	Standard & Poor's	Moody's
WPS Resources Corporation		
Senior unsecured debt	A	Aa3
Commercial paper	A-1	P-1
Trust preferred securities	BBB+	A1
Credit line syndication	-	Aa3
Wisconsin Public Service Corporation		
Bonds	AA-	Aa1
Preferred stock	A	A1
Commercial paper	A-1+	P-1
Credit line syndication	-	Aa2

The above ratings reflect a 2002 Standard & Poor's downgrade of WPS Resources' senior unsecured debt rating from A+ to A and the trust preferred securities rating from A to BBB+. At the same time, Standard & Poor's affirmed WPS Resources' commercial paper rating of A-1 and affirmed all of Wisconsin Public Service's previous ratings. We believe these ratings continue to be among the best in the energy industry, and they have allowed us to access commercial paper and long-term debt markets on favorable terms. Credit ratings are not recommendations to buy, are subject to change, and each rating should be evaluated independently of any other rating.

In 2002, we issued new shares of common stock under our Stock Investment Plan and under certain stock-based employee benefit plans. Equity increased $28.3 million in 2002 as a result of these plans. WPS Resources also repurchased $1.3 million of existing common stock for stock-based compensation plans in 2002.

WPS Resources issued $100.0 million of 5.375% 10-year senior unsecured notes in November 2002. We used approximately $55 million of the net proceeds from the issuance of these notes to repay short-term debt incurred to provide equity capital to our subsidiaries and the remainder for other corporate purposes.

Wisconsin Public Service issued $150.0 million of 4.875% 10-year senior notes in December 2002 under a shelf registration for the offering and sale of up to $300 million in long-term debt. The senior notes are secured by a pledge of first mortgage bonds and may become unsecured if Wisconsin Public Service retires all of its outstanding first mortgage bonds. Wisconsin Public Service used approximately $72 million of the net proceeds from the issuance of the senior notes to acquire the De Pere Energy Center and $69 million to retire short-term debt. The balance of the net proceeds was used for other corporate purposes. Wisconsin Public Service retired $50.0 million of 7.30% first mortgage bonds in October 2002. An additional $50.0 million of 6.80% first mortgage bonds were retired on February 1, 2003.

WPS Resources may issue additional debt and/or common stock in 2003. The size of the debt and common stock issues is contingent on the level of future investment activity by our subsidiaries. Wisconsin Public Service expects to issue additional debt in 2003.

Regulatory

On March 28, 2002, Wisconsin Public Service filed an application with the Public Service Commission of Wisconsin to modify its Wisconsin retail electric and natural gas rates for 2003 and 2004. In order to ensure reliable energy into the future and to recover increased costs, Wisconsin Public Service requested retail electric rate increases of 8.3% in 2003 and 4.9% in 2004 and retail natural gas rate increases of 2.7% in 2003 and 1.4% in 2004. Wisconsin Public Service requested a 12.6% return on equity, with equity constituting 55% of the capital structure. On February 20, 2003, the Public Service Commission of Wisconsin ruled on the requested rate increase, including a 12.0% return on equity with no change in the capital structure. A final order is anticipated by mid March 2003.

On December 20, 2002, the Michigan Public Service Commission approved an 8.95% increase in retail electric rates for customers of Upper Peninsula Power. The Commission granted an 11.4% return on equity.

On February 6, 2003, Wisconsin Public Service filed an application with the Michigan Public Service Commission for new electric rates for its Michigan retail customers. Wisconsin Public Service requested a 9% increase in Michigan electric rates, its first request since 1986. Since it is uncertain as to when the Michigan Public Service Commission will review its request, Wisconsin Public Service also filed for a 5.8% interim rate increase. If approved, the interim rates will be in effect until final rates are approved.

Wisconsin Public Service intends to file for an increase in wholesale electric rates with the Federal Energy Regulatory Commission in the first quarter of 2003. If the filing meets all the necessary criteria, new rates could be implemented, subject to refund, as early as sixty-one days after the initial filing. If the rate case is litigated to a conclusion, the process could take up to three years to complete.

Asset Sales, Acquisitions, and Construction

On September 3, 2002, Wisconsin Public Service received a certificate of authority from the Public Service Commission of Wisconsin to construct an 83-megawatt combustion turbine unit at its Pulliam plant location. Construction of the unit, which is expected to cost approximately $39 million, should be complete in June 2003.

On December 16, 2002, Wisconsin Public Service purchased the 180-megawatt De Pere Energy Center and terminated the related existing purchased power agreement. Wisconsin Public Service paid $72.0 million at the close of the transaction, with the remaining $48.4 million due in December 2003. As a result of this transaction, Wisconsin Public Service extinguished its capital lease obligation and entered into a purchased power agreement for up to 235 megawatts from a plant yet to be constructed. The new purchased power agreement is contingent on timely plant construction. Wisconsin Public Service expects to recover a substantial portion of the remaining payment in future customer rates.

As part of its regulated utility operations, Wisconsin Public Service expects to submit an application for a Certificate of Public Convenience and Necessity to the Public Service Commission of Wisconsin in late 2003 for approval to build a 500-megawatt coal-fired generation facility near Wausau, Wisconsin. Wisconsin Public Service anticipates receiving approval from the Public Service Commission of Wisconsin in 2004. The facility is estimated to cost approximately $700 million, assuming the Public Service Commission of Wisconsin allows a current return on construction costs. The facility will be funded with internally generated funds, debt issues, and equity. WPS Resources may need to issue additional common stock to fund equity to Wisconsin Public Service.

Effective June 1, 2002, WPS Power Development acquired CH Resources, Inc. from Central Hudson Energy Services, Inc. for $59.2 million.

On November 1, 2002, WPS Energy Services acquired an existing book of retail gas business in Canada. Consideration for the purchase consists of an earn-out to the seller based on a percent of margin on the volume delivered during the two years ending October 31, 2004. The retail volumes of this book of business have the potential to equal WPS Energy Services' current retail gas volumes.

WPS Energy Services was appointed manager of Quest Energy, LLC in November 2002. The appointment as manager, as well as other factors including the provision of substantial financial support, resulted in the consolidation of Quest's financial statements with those of WPS Resources at December 31, 2002. WPS Resources assigned the right to convert its interest bearing note and other indebtedness from Quest to equity to WPS Energy Services in January 2003 and on January 29, 2003, the conversion was exercised at which time Quest became a wholly-owned subsidiary of WPS Energy Services.

In December 2001 Wisconsin Public Service sold approximately 5,700 acres of land on the Peshtigo River in northeastern Wisconsin to the Wisconsin Department of Natural Resources for $13.5 million. This sale was a significant transaction in WPS Resources' five to seven-year asset management strategy which was initiated in 2001. The agreement with the Department of Natural Resources includes two options, one exercisable in 2003 and the other in 2004, whereby the Department may acquire, at less than fair value, approximately 5,000 additional acres for $11.5 million if both options are exercised. The value associated with the difference between the option price and the fair value will be treated as a charitable contribution. As part of our asset management strategy, we sold additional assets in 2002 for gains of $3.3 million.

On December 19, 2002, WPS Power Development sold a 30% interest in ECO Coal Pelletization #12, LLC, the company WPS Power Development owns which holds our interest in the synthetic fuel project. WPS Power Development received consideration of $3.0 million cash, as well as a fixed note and a variable note. Payments under the variable note are contingent upon the synthetic fuel production facility achieving specified levels of synthetic fuel production. In conjunction with the sale, WPS Power Development has agreed to make certain payments to a third party broker, consisting of an up-front payment of $1.5 million which was paid at the time of closing, and projected payments in 2003 and 2004 of approximately $1.9 million per year. At December 31, 2002, a deferred gain of $11.6 million was reflected on WPS Power Development's balance sheet. This deferred gain represents the present value of future payments under the fixed note and the up-front cash payments net of transaction costs. It does not include an amount for the variable note which is contingent upon the synthetic fuel production allocation. WPS Power Development anticipates recognizing cumulative pretax income of approximately $36 million over the period from 2003 to 2007 as a result of this transaction, assuming all contingencies are satisfied.

Sunbury Generation Plant

As a result of market conditions, the Sunbury generation plant has not met our projected near-term financial performance levels. WPS Power Development expects to contribute up to $12 million of additional capital to Sunbury Generation, LLC for operational needs in 2003. This amount is in addition to the $24.1 million that WPS Resources and WPS Power Development infused into Sunbury Generation in 2002, primarily for the project to reduce nitrogen oxide emissions from the plant. The nitrogen oxide reduction project was anticipated when the plant was acquired. We initially projected that Sunbury Generation would generate sufficient cash flow in 2002 for operations, with the exception of capital expenditures, but market conditions in which Sunbury Generation participates have degraded for capacity. Although Sunbury's operating performance is now nearing industry standards for equivalent availability, market conditions continue to be depressed. If present market conditions persist, additional capital may be needed in 2004 for operational needs. In an effort to mitigate the impact of these market conditions, we have initiated several cost control measures at Sunbury Generation, including a reduction in the work force at Sunbury effective January 2003. See discussion of critical accounting policies for additional information.

Combined Locks Energy Center

WPS Power Development temporarily removed the Combined Locks Energy Center from operation in August 2002 due to emission compliance testing results. WPS Power Development successfully retested the unit in December 2002. The unit was returned to service in December 2002. Fines or penalties associated with this event, if any, are not expected to be material.

WPS Energy Services Aggregation Program

WPS Energy Services has a delinquent receivables balance of $2.1 million as a result of rules related to the former hierarchy of application for customer payments in the Ohio electric aggregation program. This resulted in the customer remittances being applied first to the customer's current and past due balances with the utility and then to the customer's current and past due balance with WPS Energy Services. WPS Energy Services has established an allowance for doubtful accounts of $1.9 million related to these delinquent receivables, resulting in a bad debt expense ratio which is considerably in excess of the ratio experienced by the serving utility. WPS Energy Services continues to experience bad debt in the program, but at a reduced rate as a result of consistently dropping delinquent customers from the program. The Public Utility Commission of Ohio has proposed a payment hierarchy which is more equitable to the energy marketers. The proposed payment hierarchy would help to reduce the level of delinquent receivables at WPS Energy Services. WPS Energy Services filed a complaint and requested a hearing with the Public Utility Commission of Ohio to enforce a purchase of receivables provision that affects the aggregation program and on December 12, 2002, the Ohio Commission issued a ruling which would minimize the amount of exposure to delinquent receivables going forward through an interim purchase rate of 96% for service rendered after the customers' first scheduled meter read in 2003. We expect that this rate will be adjusted retroactively once a permanent settlement is reached. In the absence of a favorable settlement, WPS Energy Services will evaluate its participation in the Ohio aggregation program once the current product price commitments expire. WPS Energy Services believes the reserve for delinquent receivables it has created is adequate.

Basic Generation Service Auction

On February 3, 2003, WPS Energy Services participated in a basic generation service auction conducted by the four regulated electric distribution companies in New Jersey. The auction allowed third party suppliers to bid for the right to serve a fixed percentage of the electric distribution companies' basic generation service load. WPS Energy Services was awarded 700 megawatts of fixed price load and 250 megawatts of hourly priced load. The hourly priced load will be supplied from WPS Power Development's Sunbury generation plant. Contracts have been executed with third party generation suppliers to provide energy for the fixed price load. The supply contracts mirror WPS Energy Services' sales contracts to the electric distribution companies, providing effectively hedged transactions. Service to the

New Jersey electric distribution companies begins August 1, 2003 and ends May 31, 2004. WPS Energy Services' sales awarded under the basic generation service auction are to the regulated electric distribution companies, not to retail customers, thus eliminating direct retail customer credit risk.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS - WPS RESOURCES

The following table summarizes the contractual obligations of WPS Resources, including its subsidiaries.

Contractual Obligations As of December 31, 2002 (Millions)	Total Amounts Committed	Payments Due By Period: Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
Long-term debt principal and interest payments	$1,286.9	$ 118.9	$175.0	$102.4	$ 890.6
Operating leases	9.2	3.2	4.4	0.5	1.1
Unconditional purchase obligations	1,752.5	960.4	484.6	97.7	209.8
Total contractual cash obligations	$3,048.6	$1,082.5	$664.0	$200.6	$1,101.5

Long-term debt principal and interest payments represent bonds, notes, and loans held by WPS Resources and its subsidiaries. We record all principal obligations on the balance sheet.

Unconditional purchase obligations represent mainly commodity purchase contracts of WPS Resources and its subsidiaries. The energy supply contracts at WPS Energy Services have offsetting energy sale contracts. Wisconsin Public Service expects to recover the costs of its contracts in future customer rates.

As part of normal business, WPS Resources and its subsidiaries enter into various guaranties providing financial or performance assurance to third parties on behalf of certain subsidiaries. These guaranties are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes.

The guaranties issued by WPS Resources include intercompany guaranties between parents and their subsidiaries, which are eliminated in consolidation, and guaranties of the company's own performance. As such, all of WPS Resources' guaranties are excluded from the recognition, measurement, and disclosure requirements of Financial Accounting Standards Board Interpretation No. 45, "Guarantors' Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others."

At December 31, 2002 and December 31, 2001, outstanding guaranties totaled $655.8 million and $518.4 million, respectively, as follows:

WPS Resources' Outstanding Guaranties (Millions)	December 31, 2002	December 31, 2001
Guaranties of subsidiary debt	$ 38.8	$ 39.1
Guaranties supporting commodity transactions of subsidiaries	584.3	415.2
Standby letters of credit	22.7	18.4
Surety bonds	6.4	42.4
Other guaranties	3.6	3.3
Total guaranties	$655.8	$518.4

WPS Resources' Outstanding Guaranties
(Million)

Commitments Expiring	Total Amounts Committed At December 31, 2002	Less than 1year	1 to 3 years	4 to 5 years	Over 5 years
Guaranties of subsidiary debt	$ 38.8	$ 11.6	$ -	$ -	$27.2
Guaranties supporting commodity transactions of subsidiaries	584.3	437.8	135.5	2.9	8.1
Standby letters of credit	22.7	16.1	-	6.5	0.1
Surety bonds	6.4	0.5	0.1	0.1	5.7
Other guaranties	3.6	0.9	-	2.7	-
Total guaranties	$655.8	$466.9	$135.6	$12.2	$41.1

At December 31, 2002, WPS Resources held $38.8 million in corporate guaranties supporting indebtedness. Of that total, $38.6 million supports outstanding debt at two WPS Power Development's subsidiaries. The underlying debt related to these guaranties is reflected in the consolidated balance sheet.

The WPS Resources Board of Directors has authorized management to issue corporate guaranties in the aggregate amount of up to $900 million to support the business operations of WPS Energy Services. WPS Resources primarily issues the guaranties to counterparties in the wholesale electric and natural gas marketplace to meet the counter-parties' requirements and permit WPS Energy Services to operate within these markets. The amount of guaranties actually issued by WPS Resources to support the business operations at WPS Energy Services at December 31, 2002 was $506.1 million. The amount supported is dependent on the amount of outstanding business WPS Energy Services actually has with the counterparties holding the guaranties at any point in time. WPS Resources reflects WPS Energy Services' obligations supported by these parental guaranties on its consolidated balance sheet either as accounts payable or liabilities from risk management activities.

The WPS Resources Board of Directors has authorized corporate guaranties as needed to support certain specific business operations of WPS Power Development. At December 31, 2002 WPS Resources issued $29.4 million in corporate guaranties to support the business operation of WPS Power Development, which are reflected in the above table. WPS Resources issues the guaranties for indemnification obligations related to business purchase agreements and counter-parties in the wholesale electric marketplace to meet their credit requirements and permit WPS Power Development to operate within these markets. The amount supported is dependent on the amount of the outstanding obligation that WPS Power Development has with the parties holding the guaranties at any point in time. WPS Resources reflects WPS Power Development's obligations supported by these parental guaranties on its consolidated balance sheet as either accounts payable or other liabilities.

The remaining $48.8 million of corporate guaranties consist of a $48.4 million guaranty reflected on Wisconsin Public Service's balance sheet supporting the termination agreement related to the acquisition of the De Pere Energy Center and $0.4 million of guaranties supporting operations at WPS Resources' smaller subsidiaries.

WPS Resources issued $22.7 million in standby letters of credit to financial institutions for the benefit of third parties that have extended credit to certain subsidiaries. If a subsidiary does not pay amounts when due under a covered contract, the counterparty may present its claim for payment to the financial institution, which will request payment from WPS Resources. Any amounts owed by our subsidiaries are reflected in the consolidated balance sheet.

At December 31, 2002, WPS Resources purchased $4.7 million of surety bonds from the Commonwealth of Pennsylvania for waste management and disposal largely related to our WPS Power Development operations in that state. The remaining $1.7 million of surety bonds were purchased for various purposes including worker compensation coverage and obtaining various licenses, permits and rights-of-way. Liabilities incurred as a result of activities covered by surety bonds are included in the consolidated balance sheet.

Other guaranties of $3.6 million listed on the above table include guaranties of subsidiary indebtedness that is available to the subsidiary but not outstanding as of December 31, 2002. Since this amount is not outstanding at the end of the year, it is not reflected on the consolidated balance sheet.

Wisconsin Public Service makes large investments in capital assets. Net construction expenditures, including nuclear fuel, are expected to be approximately $736 million in the aggregate for the 2003 through 2005 period. The Public Service Commission of Wisconsin has not yet approved some of these expenditures. Significant anticipated expenditures during this three year period include:

- construction of generation facilities - $193 million
- automated meter reading - $60 million
- corporate services infrastructure - $49 million
- nuclear fuel - $34 million
- corporate software systems and hardware - $30 million
- security - $19 million
- nuclear reactor vessel head - $12 million
- combustion turbine - $10 million

Other capital requirements for the three-year period include a contribution of $7.8 million to the Kewaunee plant's decommissioning trust fund.

Upper Peninsula Power is expected to incur construction expenditures of about $39 million in the aggregate for the period 2003 through 2005, primarily for electric distribution improvements and repairs and safety measures at hydro facilities.

Significant capital expenditures identified at WPS Power Development for 2003 through 2005 include $12 million at the Sunbury facility, including $3.1 million for handling nitrogen oxide emissions at the Sunbury facility. Other capital expenditures for WPS Power Development for 2003 through 2005 could be significant depending on its success in pursuing development and acquisition opportunities. When appropriate, WPS Power Development may seek nonrecourse financing for a portion of the cost of these acquisitions.

Capital expenditures identified at WPS Energy Services for 2003 through 2005 include $1.7 million for software and systems upgrades.

Wisconsin Public Service, along with co-applicants Minnesota Power and American Transmission Company, continues to pursue the development of the 220-mile, 345-kilovolt Wausau, Wisconsin to Duluth, Minnesota transmission line and expects the project to proceed despite opposition primarily from local landowners, the Citizens Utility Board, and environmental groups.

Under an agreement recently reached with American Transmission Company, which will own and operate the completed line, Wisconsin Public Service will be reimbursed for its project costs to date, approximately $18.5 million, following approval of the agreement by the Public Service Commission of Wisconsin and the Federal Energy Regulatory Commission. Under the agreement, American Transmission Company will assume primary responsibility for the overall management of the project. Wisconsin Public Service will continue to be responsible for obtaining property rights necessary for the project and construction of the project. WPS Resources will fund 50% of future project costs and receive additional equity in American Transmission Company. For the period 2003 through 2005, we expect to make capital contributions of up to $80 million for our portion of the Wausau to Duluth transmission line. Additional contributions will be required through 2008 to complete the transmission line. WPS Resources may terminate its funding obligation if total project costs exceed the revised estimate of $396 million announced by American Transmission Company on November 11, 2002. This updated cost estimate reflects additional costs to the project resulting from time delays, added regulatory requirements, changes and additions to the project at the request of local governments and American Transmission Company's management, and overhead costs.

The applicants filed petitions with the Public Service Commission of Wisconsin for approval to transfer primary responsibility for the project to American Transmission Company and the revised cost estimate. We anticipate receiving approval of the agreement transferring primary responsibility for the project to American Transmission Company some time in 2003. We also anticipate receiving approval of project continuation with new cost estimates in 2003. Completion of the line is expected in 2008.

TRADING ACTIVITIES - WPS RESOURCES

WPS Energy Services currently measures the fair value of contracts, including NYMEX exchange and over-the-counter contracts, natural gas options, natural gas and electric power physical fixed price contracts, basis contracts, and related financial instruments on a mark-to-market basis using both quoted market prices and modeling techniques. The primary input for natural gas pricing is the settled forward price curve of the NYMEX exchange which includes spreads, contracts, and options. Basis natural gas pricing is derived from published indices and documented broker quotes. WPS Energy Services bases electric prices on published indices and documented broker quotes. The following table provides an assessment of the factors impacting the change in the net value of WPS Energy Services' assets and liabilities from risk management during the 12 months ended December 31, 2002.

WPS Energy Services, Inc. Mark-to-Market Roll Forward (Millions)	Natural Gas	Electric	Total
Fair value of contracts at January 1, 2002	$25.4	$ 6.3	$31.7
Less contracts realized or settled during period	13.0	1.0	14.0
Plus fair value of new contracts entered into during period	8.8	2.2	11.0
Changes in fair value attributable to changes in valuation techniques and assumptions	0.2	(0.3)	(0.1)
Other changes in fair value	(28.5)	3.8	(24.7)
Fair value of contracts outstanding at December 31, 2002	$ (7.1)	$11.0	$ 3.9

The fair value of contracts at January 1, 2002 and December 31, 2002, reflect the values reported on the balance sheet for net mark-to-market assets and liabilities as of those dates. Contracts realized or settled include the value of contracts in existence at January 1, 2002 that were no longer included in the net mark-to-market assets as of December 31, 2002. Mark-to-market gains and losses related to contracts, that were entered into subsequent to January 1, 2002, and are still included in WPS Energy Services' portfolio at December 31, 2002, are included in the fair value of new contracts entered into during the period. These amounts include amounts paid for the purchase of energy contracts and the mark-to-market gain or loss at the inception of these contracts. There were, in many cases, offsetting positions entered into and settled during the period resulting in gains or losses being realized during the current period. The realized gains or losses from these offsetting positions are not reflected in the table above. Although WPS Energy Services strives to maintain a balanced book of back-to-back transactions, any ineffectiveness from its risk management activity for 2002 has been included under "fair value of new contracts entered into during period" in the table above. The "Other changes in fair value" line in the table primarily represents the change in the fair value of gas storage contracts from January 1, 2002 and December 31, 2002, the acquisition of a retail gas portfolio in Canada, and the accounting consolidation of the Quest electric portfolio. In compliance with generally accepted accounting principles, WPS Energy Services adjusts the value of natural gas storage at the end of each reporting period to fair value. The January 1, 2002 amount has been revised to include the adjustment to fair value of the natural gas storage.

In October 2002, the Emerging Issues Task Force Issue 02-03 "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities," rescinded Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," which required energy trading contacts to be accounted for at fair value. The rescission was effective immediately for new contracts entered into after October 25, 2002. WPS Energy Services accounted for those energy trading contracts which existed at October 25, 2002 at fair value at December 31, 2002.

WPS Energy Services, Inc.
Contract Aging at Fair Value

Source of Fair Value (Millions)	Maturity less than 1 year	Maturity 1 to 3 years	Maturity 4 to 5 years	Maturity in excess of 5 years	Total fair value
Prices actively quoted	$(24.9)	$(0.3)	-	-	$(25.2)
Prices provided by external sources	15.8	(0.9)	-	-	14.9
Prices based on models and other valuation methods	9.1	5.1	-	-	14.2
Total fair value	-	$ 3.9	-	-	$ 3.9

Prices actively quoted includes NYMEX contracts. Prices provided by external sources includes basis swaps and over-the-counter contracts. Prices based on models and other valuation methods includes some retail natural gas and electric contracts due to the volume optionality that exists in those contracts. We derive the pricing for all contracts in the above table from active quotes or external sources. Pricing is the most significant variable in the mark-to-market calculations.

CRITICAL ACCOUNTING POLICIES - WPS RESOURCES

In May 2002, the Securities and Exchange Commission issued proposed rules regarding the identification and disclosure of accounting estimates a company makes in applying its accounting policies and the disclosure of initial adoption by a company of an accounting policy that has a material impact on its financial presentation. Under the first part of the proposal, a company would have to identify the accounting estimates reflected in its financial statements that required it to make assumptions about matters that were highly uncertain at the time of estimation. Disclosures about those estimates would then be required if different estimates that the company reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the presentation of the company's financial condition, changes in financial condition or results of operations.

The Securities and Exchange Commission accepted comments on the proposed rules through July 19, 2002 and has not made any final decisions since that time. In anticipation of at least parts of this proposed rule being made final, we have identified the following accounting policies to be critical to the understanding of our financial statements because their application requires significant judgment and reliance on estimations of matters that are inherently uncertain.

Price Risk Activities

The fair values of commodity and trading contracts recorded for WPS Resources under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," and Emerging Issues Task Force Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," are based on estimates that are critical to our financial statements. Fair value is determined using internal models, third party quotes or a combination of the two methods. Changes in the expected energy and gas market prices could cause variability to the fair values of the derivatives. Such changes would be reflected on the balance sheets, statements of income, and/or as a component of other comprehensive income.

As a component of the fair value determination, WPS Energy Services maintains reserves to account for the estimated costs of servicing and holding certain of its contracts, the reserves are based on estimates of administrative costs, credit/counter party risk, and servicing margin with both fixed and variable components. Variability can occur if fundamental changes in service cost or risk require an adjustment to the reserve components. The estimates were derived from historical data.

The following table shows the effect of changing both the administrative costs and credit/counter party risk assumptions.

Change in assumption	Effect to operating reserve
100% increase	$2.3 million
50% decrease	$(1.2) million

These potential changes to the operating reserve would be shown as part of the Nonregulated cost of fuel, gas and purchased power on the Consolidated Statements of Income and Liabilities from risk management activities on the Consolidated Balance Sheets.

Acquisitions

The methodology that WPS Resources uses to account for WPS Power Development's acquisitions employs a number of steps; the first relates to the allocation of the initial purchase price. An independent appraiser is retained to allocate the purchase price to the various assets and liabilities, if any, acquired in the acquisition using Statement of Financial Accounting Standards No. 141, "Business Combinations," and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as guidance. The appraiser uses a combination of the following three methodologies to calculate fair market value:

- replacement cost,
- discounted cash flows, and
- recent sales of similar assets in the specific geographic region.

WPS Power Development management reviews these calculations.

Once the purchase price has been allocated to the various asset classes, engineers from WPS Power Development assist in the assignment of depreciation lives for the various assets acquired. Industry standards, physical condition, and company experience with various assets are used as a basis for developing the respective depreciation lives. A significant change in these estimates would impact reported income, either higher or lower depending on the change to the depreciable life, as well as impacting the carrying value of these assets on the balance sheet.

Asset Impairment

WPS Resources annually reviews its assets for impairment. Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," and Statement No. 142, "Goodwill and Other Intangible Assets," are the basis for these analyses.

The review for impairment of tangible assets is more critical to WPS Power Development than to our other segments because of its significant investment in property, plant, and equipment and lack of access to regulatory relief that is available to our regulated segments. We believe that the accounting estimate related to asset impairment of power plants is a "critical accounting estimate" because: (1) the estimate is susceptible to change from period to period because it requires company management to make assumptions about market sales pricing, production costs, and generation volumes and (2) the impact that recognizing an impairment would have on the assets reported on our balance sheet and the net loss on our income statement could be material. Management's assumptions about future market sales prices and generation volumes require significant judgment because actual market sales prices and generation volumes have fluctuated in the past as a result of changing fuel costs, environmental changes, and required plant maintenance and are expected to continue to do so in the future.

The primary estimates used at WPS Power Development in this process are future revenue streams and operating costs. A combination of input from both internal and external sources is used to project revenue streams. WPS Power Development's operations group projects future operating costs with input from external sources for fuel costs and forward energy prices. These estimates are modeled over the projected remaining life of the power plants using the model defined in Statement No. 144. WPS Power Development evaluates property, plant, and equipment for impairment whenever indicators of impairment exist. Statement 144 requires that if the sum of the undiscounted expected future cash flows from a company's asset is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. The amount of impairment recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset.

WPS Power Development owns nine power plants. Six power plants, including the Sunbury generating plant, were reviewed for impairment as of September 30, 2002. We determined that the sum of the undiscounted expected future cash flows from the property, plant, and equipment as of September 30, 2002, exceeded the carrying value of those assets.

The Sunbury generating plant represents 6.7% of WPS Resources' Property, plant, and equipment. At September 30, 2002, the estimate of future cash flows, on an undiscounted basis, was greater than the $108.7 million carrying value of the Sunbury generating plant. Any increases in estimated future cash flows would have no impact on the carrying value of the Sunbury generating plant. An increase of 20% in fuel expenses or a 20% increase in operating expenses would result in decreased future cash flows, but would also have no impact on the carrying value of the Sunbury generating plant. In contrast, a decrease of 20% in revenue rates would reduce the estimate of future cash flows to less than the carrying value of the Sunbury generating plant. In that case, an impairment loss would be recognized that would have reduced WPS Resources' Total assets at December 31, 2002 by 3.4% and decreased Income before taxes for the year by 31.8%.

The merger of Wisconsin Fuel and Light into Wisconsin Public Service in 2001 resulted in Wisconsin Public Service recording goodwill related to its gas utility segment. The goodwill is tested for impairment yearly based on the guidance of Statement No. 142. The test for impairment includes assumptions about future profitability of the gas utility segment and the correlation between our gas utility segment and published projections for other similar gas utility segments. A significant change in the gas utility market and/or our projections of future profitability could result in a loss being recorded on the income statement related to a decrease in the goodwill asset, as a result of the impairment test.

Accruals

Our regulated gas and electric utilities and WPS Energy Services accrue estimated amounts of revenue for services rendered but not yet billed. Estimated unbilled sales are calculated using actual generation and throughput volumes, recorded sales, and weather factors. The estimated unbilled sales are assigned different rates based on historical customer class allocations. Any difference between actual sales and the estimates or weather factors would cause a change in the estimated revenue.

WPS Resources reserves for potential uncollectible customer accounts as an expense on the income statement and an uncollectible reserve on the balance sheet. Due to the nature of the nonregulated energy marketing business having higher credit risk, the reserve is more critical to WPS Energy Services than to our other segments. At WPS Energy Services, the reserve is based on historical uncollectible experience and specific customer identification where practical. If the assumption that historical uncollectible experience matches current customer default is incorrect, or if a specific customer with a large account receivable that has not previously been identified as a risk defaults, there could be significant changes to the expense and uncollectible reserve balance.

Accruals for Pension and Postretirement Benefits

The costs of providing non-contributory defined pension benefits and other postretirement benefits described in Note 16 to the Consolidated Financial Statements, are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience.

Pension costs, for example, are impacted by actual employee demographics (including age, compensation levels, and employment periods), the level of contributions we make to the plan, and earnings on plan assets. Changes made to the plan provisions may also impact current and future pension costs. Pension costs may also be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets and the discount rates used in determining the projected benefit obligation and pension costs.

Other postretirement benefit costs, for example, are impacted by actual employee demographics (including age and compensation levels), the level of contributions we make to the plans, earnings on plan assets, and health care cost trends. Changes made to the plan provisions may also impact current and future other postretirement benefit costs. Other postretirement benefit costs may also be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets, health care cost trend rates, and the discount rates used in determining the postretirement benefit obligation and postretirement costs.

WPS Resources' pension plan assets and other postretirement benefit plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity market returns as well as changes in general interest rates may result in increased or decreased pension costs in future periods. Likewise, changes in assumptions regarding current discount rates and expected rates of return on plan assets could also increase or decrease recorded pension costs. Changes in assumptions regarding current discount rates, health care cost trend rates, and expected rates of return on plan assets could also increase or decrease recorded other postretirement benefit costs. Management believes that such changes in costs would be recovered at our regulated segments through the ratemaking process.

The following chart reflects the sensitivities associated with a change in certain actuarial assumptions by the indicated percentage. The chart below reflects an increase or decrease in the percentage for each assumption, and how each change would impact the projected benefit obligation, our reported prepaid pension asset on the balance sheet, and our reported annual pension cost on the income statement as they relate to our two large qualified pension plans. Each sensitivity below reflects an evaluation of the change based solely on a change in that assumption only.

Actuarial Assumption (Millions, except percentages)	Change in Assumption	Impact on Projected Benefit Obligation	Impact on Prepaid Pension Asset	Impact on Pension Cost
Discount rate	(0.5)%	$31.9	$(1.4)	$ 1.4
Discount rate	0.5%	(28.9)	1.3	(1.3)
Rate of return on plan assets	(0.5)%	N/A	(2.7)	2.7
Rate of return on plan assets	0.5%	N/A	2.7	(2.7)

The following chart reflects the sensitivities associated with a change in certain actuarial assumptions by the indicated percentage. The chart below reflects an increase or decrease in the percentage for each assumption, and how each change would impact the projected other postretirement benefit obligation, our reported other postretirement benefit liability on the balance sheet, and our reported annual other postretirement benefit cost on the income statement. Each sensitivity below reflects an evaluation of the change based solely on a change in that assumption only.

Actuarial Assumption (Millions, except percentages)	Change in Assumption	Impact on Postretirement Benefit Obligation	Impact on Postretirement Benefit Liability	Impact on Postretirement Benefit Cost
Discount rate	(0.5)%	$18.2	$1.5	$1.5
Discount rate	0.5%	(16.6)	(0.8)	(0.8)
Health care cost trend rate	(1.0)%	(32.5)	(3.0)	(3.0)

Health care cost trend rate	1.0%	41.2	5.0	5.0
Rate of return on plan assets	(0.5)%	N/A	0.6	0.6
Rate of return on plan assets	0.5%	N/A	(0.6)	(0.6)

In selecting an assumed discount rate, we consider long-term Corporate Aa rated bond yield rates. In selecting an assumed rate of return on plan assets, we consider past performance and economic forecasts for the types of investments held by the plan. The market value of WPS Resources' plan assets was affected by sharp declines in equity markets since the third quarter of 2000.

For the past three years, pension plan assets earned $41.2 million in 2000 and lost $13.7 million and $47.8 million in 2001 and 2002, respectively. As a result of our plan asset return experience and the declining interest rate environment, we could be required in some future period to recognize an additional minimum liability as prescribed by Statement No. 87. The liability would be recorded as an intangible asset and a possible reduction to common equity through a charge to Other comprehensive income. The charge to Other comprehensive income would be restored through common equity in future periods to the extent fair value of trust assets exceeded the accumulated benefit obligation. Also, pension cost and cash funding requirements could increase in future years without improved asset returns.

For the past three years, other postretirement benefit plan assets earned $7.9 million in 2000 and lost $4.4 million and $14.8 million in 2001 and 2002, respectively. In selecting assumed health care cost trend rates, we consider past performance and forecasts of health care costs. WPS Resources adjusted its health care cost trend rates upwards each of the last two years in an attempt to keep our health care cost trend rates in line with the rapidly increasing health care costs the country and WPS Resources have faced. Also, other postretirement benefit cost and cash funding could increase in future years without improved asset returns.

Regulatory Accounting

The electric and gas utility segments of WPS Resources follow Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," and our financial statements reflect the effects of the different ratemaking principles followed by the various jurisdictions regulating these segments. We defer certain expenses and revenues that regulators have authorized for deferral as regulatory assets and regulatory liabilities. Future recovery of deferred expenses recorded as regulatory assets is not assured, but is subject to review by regulators in a rate proceeding for prudence and reasonableness. Management regularly assesses whether these regulatory assets are probable of future recovery by considering factors such as regulatory environment changes and the status of any pending or potential deregulation legislation. Once approved, we recognize these deferred expenses in income over the rate recovery period. If not approved, these deferred expenses would be recognized in income in the then current period.

If our electric and gas utility segments no longer meet the criteria for applying Statement No. 71, we would discontinue its application as defined under Statement No. 101, "Regulated Enterprises - Accounting for the Discontinuation of Application of FASB Statement No. 71." Assets and liabilities recognized solely due to the actions of rate regulation may no longer be recognized on the balance sheet and would be classified as an extraordinary item in income for the period in which the discontinuation occurs. A write-off of all WPS Resources' regulatory assets and regulatory liabilities at December 31, 2002 would result in a 3.5% decrease in Total assets, a 1.5% decrease in Total liabilities and shareholders' equity, and a 44.6% decrease in Income before taxes.

Tax Provision

Estimates of current and future year taxable income are used to determine the estimated period ended income tax provision, including determining the estimated current and future tax benefit of federal and state tax credits produced in the period. The income tax provision also includes an estimate of the future tax benefit related to state net operating loss carryovers. Determination of current year taxable income and the ability to utilize tax credits and net operating loss carryovers will not be settled until several years after the close of the tax year. Estimates of future year taxable income reflect management's current understanding of the economics related to projected operations and markets. Changes in either estimate of taxable income could cause a significant change in management's estimated income tax provision.

RELATED PARTY TRANSACTIONS - WPS RESOURCES

WPS Resources has investments in related parties which are accounted for under the equity method of accounting. These include the investment at WPS Investment, LLC, a consolidated subsidiary of Wisconsin Public Service, in American Transmission Company LLC and Wisconsin Public Service's investment in Wisconsin River Power Company.

Wisconsin Public Service recorded revenues from American Transmission of $12.9 million in 2002 and $11.3 million in 2001. Wisconsin Public Service recorded transmission expenses from American Transmission of $21.4 million in 2002 and $31.0 million in 2001. Upper Peninsula Power recorded revenues from American Transmission of $5.8 million in 2002 and $2.7 million in 2001. Upper Peninsula Power recorded transmission expenses from American Transmission of $3.4 million in 2002 and $3.3 million in 2001.

Wisconsin Public Service recorded revenues from Wisconsin River Power of $2.5 million in 2002 and $1.7 million in 2001. Wisconsin Public Service recorded power purchases from Wisconsin River Power of $2.1 million in 2002 and $1.7 million in 2001.

TRENDS - WPS RESOURCES

Environmental

We are subject to federal, state, and local regulations regarding environmental impacts of our operations on air and water quality and solid waste. The application of federal and state restrictions to protect the environment can involve review, certification, or issuance of permits by various federal and state authorities, including the United States Environmental Protection Agency and the various states' environmental agencies, including the Wisconsin Department of Natural Resources. These restrictions may limit, prevent, or substantially increase the cost of the operation of generation facilities and may require substantial investments in new equipment at existing installations. Such restrictions may require substantial additional investments for new projects and may delay or prevent completion of projects. We cannot forecast the effects of such regulation on our generation, transmission, and other facilities or operations.

Wisconsin Public Service continues to investigate the environmental cleanup of ten manufactured gas plant sites, two of which were previously owned by Wisconsin Fuel and Light. Wisconsin Public Service anticipates that work will commence on the land portion of the Green Bay site in 2003. Costs of previous cleanups were within the range expected for these sites.

The United States Environmental Protection Agency has designated southeastern Wisconsin as an ozone non-attainment area. Under the Clean Air Act, the State of Wisconsin developed a nitrogen oxide reduction plan for Wisconsin's ozone non-attainment area. This plan affects Edgewater Unit 4, of which Wisconsin Public Service owns

31.8%. A compliance plan for this unit includes a combination of combustion optimization and emission trading at a cost to Wisconsin Public Service of about $5 million. About 70% of the project has been completed. In addition, Wisconsin Public Service is participating in voluntary efforts to reduce nitrogen oxide levels at the Columbia Energy Center. Wisconsin Public Service owns 31.8% of Columbia. The Public Service Commission of Wisconsin has approved recovery of the costs associated with voluntary nitrogen oxide reductions.

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

The Wisconsin Department of Natural Resources initiated a rulemaking effort aimed at the control of mercury emissions. Wisconsin Public Service estimates that it could cost $105 million per year for it to achieve the proposed mercury emission reductions of 90% phased in over 15 years.

Energy and Capacity Prices

Prices for electric energy and capacity have been extremely volatile over the past two years. WPS Resources' nonregulated entities are impacted by this volatility which has been driven by the exit of many of the largest speculative traders, the slow-down in the economy, and significant overbuilding of generation capacity.

Although electric energy prices are currently favorable due to high natural gas prices, we expect that electric capacity prices will continue to be depressed for several years. Pressure on capacity prices will continue until existing reserve margins are depleted either by load growth or capacity retirements. WPS Power Development is impacted by pricing exhibited in the external marketplace but attempts to manage its assets with a combination of long and short-term contracts. WPS Power Development attempts to execute bilateral contracts for a longer term and actively participates in real-time markets for the short-term. WPS Energy Services is not as affected by pricing pressures as it structures its deals with back-to-back transactions which hedge pricing changes.

Credit Risk

Companies participating in energy commodity markets face significant credit risk. Credit risk represents the potential loss should a counter party fail to perform under its contractual obligation. Credit assurance is often required when WPS Energy Services enters into a transaction that creates a future obligation to a counter party. WPS Energy Services currently satisfies credit assurance through parental guaranties from WPS Resources.

WPS Energy Services reduces the need for credit assurance through netting agreements. These netting agreements allow WPS Energy Services and the counter party to net their respective positions with each other, with only the party in the net owe position remitting payment to the other party. Another method of reducing the need for credit assurance is to employ multilateral netting through a credit clearing house. By clearing transactions through a credit clearing house, only net credit positions are required to be posted. The energy commodity industry views credit clearing as the preferred solution to the current credit environment which has barred many entities from participating in energy markets.

WPS Energy Services extends credit to certain customers without specific assurances, such as parental guaranties. WPS Energy Services has stringent credit standards for its retail customers and also extends limited trade credit to wholesale market participants based on the credit rating of the entity.

Industry Restructuring

The energy industry has been undergoing dramatic structural change for several years, resulting in increasing competitive pressure on electric and natural gas utility companies. Increased competition may create greater risks to the stability of utility earnings generally and may reduce future utility earnings from retail electric and natural gas sales. The future of deregulation in the utility industry and its impact on our future is uncertain. At the present time, Wisconsin has not adopted legislation or regulations that would allow customers to choose their electric supplier. All Michigan electric customers were able to choose their electric generation suppliers beginning January 1, 2002 as a result of the Customer Choice Act. At this time, no customers have chosen an alternative electric supplier and no alternative electric suppliers have offered to serve any customers in Michigan's Upper Peninsula.

To the extent competitive pressures increase and the pricing and sale of electricity assumes more of the characteristics of a commodity business, the economics of our business may come under increasing pressure. In addition, regulatory changes may increase access to electric transmission grids by utility and nonutility purchasers and sellers of electricity, thus potentially resulting in a significant number of additional competitors in wholesale power generation.

In 2002, the Federal Energy Regulatory Commission issued a Notice of Proposed Rule Making proposing a standard wholesale electric market design. It is expected to take several years to implement and perfect the standard market design.

New Accounting Standards

WPS Resources adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," on January 1, 2003. Statement No. 143 requires legal asset retirement obligations to be recognized at fair value in the period incurred. Upon initial recognition of the asset retirement liability, the cost of the asset retirement is capitalized as part of the related long-lived asset and depreciated over the useful life of the asset. The liability is then accreted over time by applying the interest method of allocation to the liability.

Following Statement No. 143, Wisconsin Public Service identified the final decommissioning of its Kewaunee plant as a legal retirement obligation and recorded a liability of approximately $326 million as of January 1, 2003. Amounts related to nuclear decommissioning previously recorded in accumulated depreciation (approximately $291 million) were reclassified to the asset retirement obligation liability. Wisconsin Public Service did not have any cumulative effect of adopting the new statement to recognize in net income.

WPS Power Development identified closure of an ash basin at the Sunbury generation plant as an asset retirement obligation. WPS Power Development recognized an asset retirement obligation liability of $2.0 million on January 1, 2003 and a negative after-tax cumulative effect of adopting the new statement of $0.3 million to net income.

The Emerging Issues Task Force Issue 02-03, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities," requires revenues related to derivative instruments classified as trading to be reported net of related cost of sales both prospectively and retroactively. Under Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," WPS Energy Services classified all its activities as trading. Consistent with Issue 02-03, effective January 1, 2003, WPS Energy Services classifies those transactions that are speculative in nature to be trading activities. WPS Energy Services does not anticipate that the classification of revenues and cost of sales under Issue 02-03 will be significantly different than its historical presentation prior to implementation of Issue 02-03.

The Emerging Issues Task Force rescinded Issue 98-10 thus precluding mark-to-market accounting for energy trading contracts that are not derivatives. At January 1, 2003, WPS Energy Services reevaluated contracts entered into on or prior to October 25, 2002 under Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," and recorded a positive after-tax cumulative effect of a change in accounting principle of approximately $3 million to net income.

Market Growth

WPS Energy Services expects to continue expanding in the northeastern quadrant of the United States and adjacent portions of Canada. WPS Energy Services is continuing to maintain a balance of retail and wholesale natural gas and electric business, utilizing WPS Power Development's assets where applicable.

The addition of the Canadian natural gas retail business to WPS Energy Services' portfolio and WPS Energy Services' geographical expansion into Canadian markets has contributed to the balance between its wholesale and retail segments.

The integration of WPS Energy Services' marketing efforts and WPS Power Development's generation efforts in Maine continues to drive a large percentage of WPS Energy Services' retail electric margin. WPS Energy Services and WPS Power Development are also working together in developing and executing strategies to improve the profitability of our Pennsylvania generation plants and develop integrated market capabilities in New York.

Equity Markets

Due to the sharp declines in the United States' equity markets since the third quarter of 2000, the value of the assets held in our pension, postretirement and nuclear decommissioning trusts decreased. As a result, additional contributions may be required in the future to meet our obligations to pay benefits, and to decommission the Kewaunee plant. Wisconsin Public Service anticipates that any additional contributions to decommission the Kewaunee plant would be recoverable through the ratemaking process. Likewise, additional expenses for pension and postretirement benefits related to regulated operations would likely be recovered in future rates.

IMPACT OF INFLATION - WPS RESOURCES

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States and report operating results in terms of historic cost. The statements provide a reasonable, objective, and quantifiable statement of financial results; but they do not evaluate the impact of inflation. Under rate treatment prescribed by utility regulatory commissions, Wisconsin Public Service's and Upper Peninsula Power's projected operating costs are recoverable in revenues. Because rate forecasting assumes inflation, most of the inflationary effects on normal operating costs are recoverable in rates. However, in these forecasts, Wisconsin Public Service and Upper Peninsula Power are only allowed to recover the historic cost of plant via depreciation.

RESULTS OF OPERATIONS - WISCONSIN PUBLIC SERVICE CORPORATION

Wisconsin Public Service Corporation is a regulated electric and natural gas utility. Electric operations accounted for approximately 69% of revenues in 2002, while gas operations contributed 31% to 2002 revenues.

2002 Compared with 2001

Wisconsin Public Service Corporation Overview

Wisconsin Public Service's 2002 and 2001 results of operations are shown in the following table:

Wisconsin Public Service's Results

(Millions)	2002	2001	Change
Operating revenues	$1,007.6	$932.3	8%
Earnings on common stock	83.1	80.6	3%

Sales volume growth and Wisconsin retail rate increases contributed to increased revenues in 2002.

Earnings from electric utility operations were $58.6 million in 2002 compared with $57.9 million in 2001. Earnings from gas utility operations were $18.4 million in 2002 compared with $8.9 million in 2001. A full year contribution from gas utility operations acquired in the spring of 2001, warmer than normal weather during the heating season in 2001, and a rate increase approved by regulators resulted in increased earnings from gas utility operations in 2002. Even with the 2002 rate increases approved by regulators, Wisconsin Public Service was unable to earn the full return approved by them.

Utility margins at Wisconsin Public Service were impacted positively by a Public Service Commission of Wisconsin interim rate order which was effective January 1, 2002 authorizing a 10.3% increase in Wisconsin retail electric rates and a 4.7% increase in Wisconsin retail natural gas rates. In late June 2002, Wisconsin Public Service received a final 2002 rate order which authorized a 10.9% increase in Wisconsin retail electric rates and a 3.9% increase in Wisconsin retail natural gas rates. The final order authorized a lower retail natural gas rate increase than was approved in the interim order resulting in a $0.4 million refund to Wisconsin Public Service's natural gas customers.

Electric Utility Margins

Wisconsin Public Service's electric utility margin increased $81.8 million, or 21%, in 2002 primarily due to the Wisconsin retail electric rate increases.

Electric Utility Results *(Millions)*	2002	2001	2000
Revenues	$696.9	$610.7	$576.0
Fuel and purchased power	217.2	212.8	191.1
Margins	$479.7	$397.9	$384.9
Sales in kilowatt-hours	13,579.7	12,618.9	12,406.9

Wisconsin Public Service's electric utility revenues increased $86.2 million, or 14%, in 2002 as the result of the electric rate increases and an 8% increase in overall electric sales volumes. Sales volumes were up 25% for lower margin, wholesale customers while sales to higher margin, residential customers increased 6% and sales to higher margin, commercial and industrial customers increased 3%. Summer weather was 7% warmer in 2002 than in 2001, and 23% warmer than normal.

Increased fuel costs for power generation were partially offset by lower purchased power expenses. Wisconsin Public Service's fuel expense for generation plants increased $4.9 million, or 4%, in 2002. Wisconsin Public Service's purchased power expense, however, decreased $0.5 million, or 1%, in 2002. Overall generation from Wisconsin Public Service's plants increased 10% while purchased volumes decreased 3%. The change in the energy supply mix was largely due to the availability of less expensive power generation from the Kewaunee Nuclear Power Plant. Wisconsin Public Service increased its ownership interest in the Kewaunee plant to 59% in September 2001.

The Public Service Commission of Wisconsin allows Wisconsin Public Service to adjust prospectively the amount billed to Wisconsin retail customers for fuel and purchased power if costs fall outside a specified range. Wisconsin Public Service is required to file an application to adjust rates either higher or lower when costs are plus or minus 2% from forecasted costs on an annualized basis. Wisconsin Public Service did not submit any fuel filings in 2002.

Gas Utility Margins

Effective April 1, 2001, the gas utility margin at Wisconsin Public Service includes the merged Wisconsin Fuel and Light Company operations.

Wisconsin Public Service Corporation's Gas Utility Results *(Millions)*	**2002**	2001	2000
Re			