WISCONSIN ENERGY CORP
Form 10-Q
August 02, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2012

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes [X]   No [ ]

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (June 30, 2012):

Common Stock, $.01 Par Value,	230,447,077 shares outstanding.

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WISCONSIN ENERGY CORPORATION

FORM 10-Q REPORT FOR THE QUARTER ENDED JUNE 30, 2012

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DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

Primary Subsidiaries	
We Power	W.E. Power, LLC
Wisconsin Electric	Wisconsin Electric Power Company
Wisconsin Gas	Wisconsin Gas LLC
Significant Assets	
OC 1	Oak Creek expansion Unit 1
OC 2	Oak Creek expansion Unit 2
PWGS 1	Port Washington Generating Station Unit 1
PWGS 2	Port Washington Generating Station Unit 2
VAPP	Valley Power Plant
Other Subsidiaries and Affiliates	
ATC	American Transmission Company LLC
ERGSS	Elm Road Generating Station Supercritical, LLC
WECC	Wisconsin Energy Capital Corporation
Federal and State Regulatory Agencies	
DOE	United States Department of Energy
DOJ	Wisconsin Department of Justice
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
IRS	Internal Revenue Service
MPSC	Michigan Public Service Commission
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
WDNR	Wisconsin Department of Natural Resources
Environmental Terms	
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CSAPR	Cross-State Air Pollution Rule
MACT	Maximum Achievable Control Technology
NOV	Notice of Violation
SO_2	Sulfur Dioxide
Other Terms and Abbreviations	
AQCS	Air Quality Control System
ARRs	Auction Revenue Rights
Compensation Committee	Compensation Committee of the Board of Directors
ERISA	Employee Retirement Income Security Act of 1974
Exchange Act	Securities Exchange Act of 1934, as amended
FTRs	Financial Transmission Rights
Junior Notes	

Wisconsin Energy's 2007 Series A Junior Subordinated Notes due 2067 issued in May 2007

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DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

LMP	Locational Marginal Price
MISO	Midwest Independent Transmission System Operator, Inc.
NDAA	National Defense Authorization Act
OTC	Over-the-Counter
Plan	The Wisconsin Energy Corporation Retirement Account Plan
Point Beach	Point Beach Nuclear Power Plant
PTF	Power the Future
WPL	Wisconsin Power and Light Company, a subsidiary of Alliant Energy Corp.
Measurements	
Btu	British Thermal Unit(s)
Dth	Dekatherm(s) (One Dth equals one million Btu)
MW	Megawatt(s) (One MW equals one million Watts)
MWh	Megawatt-hour(s)
Watt	A measure of power production or usage
Accounting Terms	
AFUDC	Allowance for Funds Used During Construction
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
OPEB	Other Post-Retirement Employee Benefits

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

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

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

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

- The impact of recent and future federal, state and local legislative and regulatory changes, including any changes in rate-setting policies or procedures; electric and gas industry restructuring initiatives; transmission or distribution system operation and/or administration initiatives; any required changes in facilities or operations to reduce the risks or impacts of potential terrorist activities or cybersecurity threats; required approvals for new construction, and the siting approval process for new generation and transmission facilities and new pipeline construction; changes to the Federal Power Act and related regulations and enforcement thereof by the Federal Energy Regulatory Commission (FERC) and other regulatory agencies; changes in allocation of energy assistance, including state public benefits funds; changes in environmental, tax and other laws and regulations to which we are subject; changes in the application of existing laws and regulations; and changes in the interpretation or enforcement of permit conditions by the permitting agencies.

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION -- (CONT'D)

- Current and future litigation, regulatory investigations, proceedings or inquiries, including FERC matters and Internal Revenue Service (IRS) audits and other tax matters.

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

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

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

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

- The impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and any regulations promulgated thereunder, including rules recently adopted and/or proposed by the U.S. Commodity Futures Trading Commission that may impact our hedging activities and related costs.

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

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

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

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

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

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

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

- Foreign governmental, economic, political and currency risks.

- Other business or investment considerations that may be disclosed from time to time in our Securities and Exchange Commission (SEC) filings or in other publicly disseminated written documents, including the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

INTRODUCTION

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

Utility Energy Segment: Our utility energy segment consists of: Wisconsin Electric, which serves electric customers in Wisconsin and the Upper Peninsula of Michigan, gas customers in Wisconsin and steam customers in metropolitan Milwaukee, Wisconsin; and Wisconsin Gas, which serves gas customers in Wisconsin. Wisconsin Electric and Wisconsin Gas operate under the trade name of "We Energies."

Non-Utility Energy Segment: Our non-utility energy segment consists primarily of We Power. We Power was formed in 2001 to design, construct, own and lease to Wisconsin Electric the new generating capacity included in our PTF strategy. See Item 1. Business and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2011 Annual Report on Form 10-K for more information on PTF.

We have prepared the unaudited interim financial statements presented in this Form 10-Q pursuant to the rules and regulations of the SEC. We have condensed or omitted some information and note disclosures normally included in financial statements prepared in accordance with GAAP pursuant to these rules and regulations. This Form 10-Q, including the financial statements contained herein, should be read in conjunction with our 2011 Annual Report on Form 10-K, including the financial statements and notes therein.

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WISCONSIN ENERGY CORPORATION
CONSOLIDATED CONDENSED INCOME STATEMENTS
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
	(Millions of Dollars, Except Per Share Amounts)			
Operating Revenues	$944.7	$991.7	$2,135.9	$2,320.4
Operating Expenses				
Fuel and purchased power	258.7	286.0	512.5	553.6
Cost of gas sold	75.0	121.8	312.5	464.2
Other operation and maintenance	267.9	298.9	554.2	612.4
Depreciation and amortization	90.3	82.3	177.9	163.6
Property and revenue taxes	30.2	28.3	60.5	56.6
Total Operating Expenses	722.1	817.3	1,617.6	1,850.4
Operating Income	222.6	174.4	518.3	470.0
Equity in Earnings of Transmission Affiliate	16.2	15.2	31.8	30.7
Other Income, net	8.6	14.4	24.6	26.9
Interest Expense, net	61.5	57.4	120.4	120.8
Income from Continuing Operations Before Income Taxes	185.9	146.6	454.3	406.8
Income Tax Expense	66.6	48.6	162.9	137.9
Income from Continuing Operations	119.3	98.0	291.4	268.9
Income from Discontinued Operations, Net of Tax	—	11.5	—	11.5
Net Income	$119.3	$109.5	$291.4	$280.4
Earnings Per Share (Basic)				
Continuing operations	$0.52	$0.42	$1.26	$1.15
Discontinued operations	—	0.05	—	0.05
Total Earnings Per Share (Basic)	$0.52	$0.47	$1.26	$1.20
Earnings Per Share (Diluted)				
Continuing operations	$0.51	$0.41	$1.25	$1.14
Discontinued operations	—	0.05	—	0.05
Total Earnings Per Share (Diluted)	$0.51	$0.46	$1.25	$1.19

Weighted Average Common Shares Outstanding (Millions)				
Basic	230.4	233.7	230.5	233.7
Diluted	233.1	236.6	233.1	236.6
Dividends Per Share of Common Stock	$0.30	$0.26	$0.60	$0.52

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

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WISCONSIN ENERGY CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2012	December 31, 2011
	(Millions of Dollars)	
Assets		
Property, Plant and Equipment		
In service	$13,595.4	$12,977.7
Accumulated depreciation	(3,915.7)	(3,797.8)
	9,679.7	9,179.9
Construction work in progress	604.7	921.3
Leased facilities, net	56.3	59.2
Net Property, Plant and Equipment	10,340.7	10,160.4
Investments		
Equity investment in transmission affiliate	362.1	349.7
Other	37.6	43.6
Total Investments	399.7	393.3
Current Assets		
Cash and cash equivalents	13.1	14.1
Restricted cash	17.9	45.5
Accounts receivable, net	297.3	349.4
Accrued revenues	201.5	252.7
Materials, supplies and inventories	335.0	382.0
Prepayments and other	372.1	382.5
Total Current Assets	1,236.9	1,426.2
Deferred Charges and Other Assets		
Regulatory assets	1,287.6	1,238.7
Goodwill	441.9	441.9
Other	180.8	201.6
Total Deferred Charges and Other Assets	1,910.3	1,882.2
Total Assets	$13,887.6	$13,862.1
Capitalization and Liabilities		
Capitalization		
Common equity	$4,081.1	$3,963.3
Preferred stock of subsidiary	30.4	30.4
Long-term debt	4,297.5	4,614.3
Total Capitalization	8,409.0	8,608.0
Current Liabilities		
Long-term debt due currently	334.8	32.6
Short-term debt	559.5	669.9
Accounts payable	267.5	325.7
Accrued payroll and vacation	89.2	105.9
Other	177.4	230.4
Total Current Liabilities	1,428.4	1,364.5
Deferred Credits and Other Liabilities		
Regulatory liabilities	906.2	902.0
Deferred income taxes - long-term	1,862.5	1,696.1

Deferred revenue, net	727.5	754.5
Pension and other benefit obligations	251.6	222.7
Other	302.4	314.3
Total Deferred Credits and Other Liabilities	4,050.2	3,889.6
Total Capitalization and Liabilities	$13,887.6	$13,862.1

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

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

	Six Months Ended June 30	
	2012	2011
	(Millions of Dollars)	
Operating Activities		
Net income	$291.4	$280.4
Reconciliation to cash		
Depreciation and amortization	183.8	169.2
Deferred income taxes and investment tax credits, net	141.2	137.0
Contributions to qualified benefit plans	—	(122.4)
Change in - Accounts receivable and accrued revenues	96.2	91.1
Inventories	47.0	40.0
Other current assets	16.7	10.2
Accounts payable	(60.2)	(38.7)
Accrued income taxes, net	5.7	59.2
Other current liabilities	(27.5)	11.4
Other, net	(85.6)	11.2
Cash Provided by Operating Activities	608.7	648.6
Investing Activities		
Capital expenditures	(314.0)	(347.1)
Investment in transmission affiliate	(6.6)	(4.6)
Proceeds from asset sales	2.8	38.5
Change in restricted cash	27.6	(37.2)
Other, net	(22.4)	(17.1)
Cash Used in Investing Activities	(312.6)	(367.5)
Financing Activities		
Exercise of stock options	38.6	29.6
Purchase of common stock	(77.0)	(51.6)
Dividends paid on common stock	(138.3)	(121.5)
Issuance of long-term debt	—	420.0
Retirement and repurchase of long-term debt	(10.0)	(456.9)
Change in short-term debt	(110.4)	(115.5)
Other, net	—	0.9
Cash Used in Financing Activities	(297.1)	(295.0)
Change in Cash and Cash Equivalents	(1.0)	(13.9)
Cash and Cash Equivalents at Beginning of Period	14.1	24.5
Cash and Cash Equivalents at End of Period	$13.1	$10.6

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

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WISCONSIN ENERGY CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1 -- GENERAL INFORMATION

Our accompanying unaudited consolidated condensed financial statements should be read in conjunction with Item 8, Financial Statements and Supplementary Data, in our 2011 Annual Report on Form 10-K. In the opinion of management, we have included all adjustments, normal and recurring in nature, necessary for a fair presentation of the results of operations, cash flows and financial position in the accompanying income statements, statements of cash flows and balance sheets. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results which may be expected for the entire fiscal year 2012 because of seasonal and other factors.

2 -- NEW ACCOUNTING PRONOUNCEMENTS

Presentation of Comprehensive Income: In June 2011, the Financial Accounting Standards Board (FASB) issued guidance on the presentation of comprehensive income. The guidance gives entities the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance is effective for fiscal years and interim periods beginning after December 15, 2011 and must be applied retrospectively. We adopted this guidance on January 1, 2012, and it did not have any material impact on us.

Fair Value Measurement: In May 2011, the FASB issued guidance amending existing guidance for measuring fair value and expanding required disclosures about fair value measurements. This guidance is effective for fiscal years and interim periods beginning after December 15, 2011 and must be applied prospectively. We adopted this guidance on January 1, 2012, and it did not have any material impact on us.

3 -- COMMON EQUITY

Stock Option Activity: During the first six months of 2012, the Compensation Committee granted 938,770 non-qualified stock options that had an estimated fair value of $3.34 per share. During the first six months of 2011, the Compensation Committee granted 458,180 non-qualified stock options that had an estimated fair value of $3.17 per share. The following assumptions were used to value the options using a binomial option pricing model:

	2012		2011	
Risk-free interest rate	0.1% - 2.0%		0.2% - 3.4%	
Dividend yield	3.9	%	3.9	%
Expected volatility	19.0	%	19.0	%
Expected forfeiture rate	2.0	%	2.0	%
Expected life (years)	5.9		5.5	

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

June 2012 11 Wisconsin Energy Corporation

The following is a summary of our stock option activity for the three and six months ended June 30, 2012:

Stock Options	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (Millions)
Outstanding as of April 1, 2012	10,851,131	$23.03		
Granted	—	$—		
Exercised	(1,279,600)	$20.09		
Forfeited	—	$—		
Outstanding as of June 30, 2012	9,571,531	$23.42		
Outstanding as of January 1, 2012	10,638,750	$21.65		
Granted	938,770	$34.88		
Exercised	(1,998,269)	$19.34		
Forfeited	(7,720)	$26.94		
Outstanding as of June 30, 2012	9,571,531	$23.42	5.6	$154.5
Exercisable as of June 30, 2012	7,845,366	$21.76	4.9	$139.7

The intrinsic value of options exercised was $21.6 million and $33.6 million for the three and six months ended June 30, 2012, and $9.9 million and $19.0 million for the same periods in 2011, respectively. Cash received from options exercised was $38.6 million and $29.6 million for the six months ended June 30, 2012 and 2011, respectively. The actual tax benefit realized for the tax deductions from option exercises for the same periods was zero and approximately $7.5 million, respectively.

All outstanding stock options to purchase shares of common stock were included in the computation of diluted earnings per share during the second quarter and first six months of 2012.

The following table summarizes information about stock options outstanding as of June 30, 2012:

	Options Outstanding			Options Exercisable		
		Weighted-Average			Weighted-Average	
Range of Exercise Prices	Number of Options	Exercise Price	Remaining Contractual Life (Years)	Number of Options	Exercise Price	Remaining Contractual Life (Years)
$12.71 to $19.74	2,188,544	$18.08	2.7	2,188,544	$18.08	2.7
$21.11 to $24.92	5,995,997	$23.14	5.8	5,541,467	$22.99	5.6
$29.35 to $34.88	1,386,990	$33.09	9.2	115,355	$32.60	9.1
	9,571,531	$23.42	5.6	7,845,366	$21.76	4.9

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The following table summarizes information about our non-vested options during the three and six months ended June 30, 2012:

Non-Vested Stock Options	Number of Options		Weighted-Average Fair Value
Non-vested as of April 1, 2012	1,732,770		$3.31
Granted	—		$—
Vested	(6,605	)	$3.30
Forfeited	—		$—
Non-vested as of June 30, 2012	1,726,165		$3.31
Non-vested as of January 1, 2012	3,103,770		$3.78
Granted	938,770		$3.34
Vested	(2,308,655	)	$3.96
Forfeited	(7,720	)	$3.25
Non-vested as of June 30, 2012	1,726,165		$3.31

As of June 30, 2012, total compensation costs related to non-vested stock options not yet recognized was approximately $2.4 million, which is expected to be recognized over the next 18 months on a weighted-average basis.

Restricted Shares: During the first six months of 2012, the Compensation Committee granted 94,959 restricted shares to directors, officers and other key employees. These awards have a three-year vesting period, and generally, one-third of the award vests on each anniversary of the grant date. During the vesting period, restricted share recipients have voting rights and are entitled to dividends in the same manner as other shareholders.

The following restricted stock activity occurred during the three and six months ended June 30, 2012:

Restricted Shares	Number of Shares		Weighted-Average Grant Date Fair Value
Outstanding as of April 1, 2012	210,912		
Granted	—		$—
Released	(15,762	)	$19.38
Forfeited	(453	)	$31.02
Outstanding as of June 30, 2012	194,697		
Outstanding as of January 1, 2012	192,558		
Granted	94,959		$34.46
Released	(88,422	)	$30.65
Forfeited	(4,398	)	$30.83
Outstanding as of June 30, 2012	194,697		

We record the market value of the restricted stock awards on the date of grant, and then we charge their value to expense over the vesting period of the awards. The intrinsic value of restricted stock vesting was $0.7 million and $3.3 million for the three and six months ended June 30, 2012, and $0.2 million and $2.3 million for the same periods in 2011, respectively. The actual tax benefit realized for the tax deductions from released restricted shares was zero for the three and six months ended June 30, 2012, and $0.1 million and $0.7 million for the same periods in 2011, respectively.

As of June 30, 2012, total compensation cost related to restricted stock not yet recognized was approximately $3.9 million, which is expected to be recognized over the next 24 months on a weighted-average basis.

Performance Units: In January 2012 and 2011, the Compensation Committee granted 346,570 and 435,690 performance units, respectively, to officers and other key employees under the Wisconsin Energy Performance Unit Plan. Under the grants, the ultimate number of units that will be awarded is dependent upon the achievement of certain financial performance of our stock over a three-year period. Under the terms of the award, participants may earn between 0% and 175% of the base performance unit award. All grants are settled in cash. We are accruing compensation costs over the three-year period based on our estimate of the final expected value of the awards. Performance units earned as of December 31, 2011 and 2010 vested and were settled during the first quarter of 2012 and 2011, and had a total intrinsic value of $26.7 million and $12.6 million, respectively. The actual tax benefit realized for the tax deductions from the settlement of performance units was approximately $9.7 million and $4.3 million, respectively. As of June 30, 2012, total compensation cost related to performance units not yet recognized was approximately $29.1 million, which is expected to be recognized over the next 20 months on a weighted-average basis.

Restrictions: Wisconsin Energy's ability as a holding company to pay common dividends primarily depends on the availability of funds received from its non-utility subsidiary, We Power, and its utility subsidiaries. Various financing arrangements and regulatory requirements impose certain restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances. In addition, under Wisconsin law, Wisconsin Electric and Wisconsin Gas are prohibited from loaning funds, either directly or indirectly, to Wisconsin Energy. See Note I -- Common Equity in our 2011 Annual Report on Form 10-K for additional information on these and other restrictions.

We do not believe that these restrictions will materially affect our operations or limit any dividend payments in the foreseeable future.

Comprehensive Income: Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to owners.

There was no material other comprehensive income for the three and six months ended June 30, 2012 or 2011.

Share Repurchase Program: In May 2011, our Board of Directors authorized a share repurchase program that allows us to repurchase up to $300 million of our common stock through the end of 2013. Through June 30, 2012, we have repurchased $100.0 million of our common stock pursuant to this program at an average cost of $30.79 per share. The share repurchase program does not obligate Wisconsin Energy to acquire any specific number of shares and may be suspended or terminated by the Board of Directors at any time. In addition, through our independent agents, we purchase shares on the open market to fulfill exercised stock options and restricted stock awards. The following table identifies the shares purchased by the Company in the following periods:

	Six Months Ended June 30			
	2012		2011	
	Shares	Cost	Shares	Cost
	(In Millions)			
Under May 2011 share repurchase program	—	$—	—	$—
To fulfill exercised stock options and restricted stock awards	2.1	75.7	1.6	50.8
Total	2.1	$75.7	1.6	$50.8

4 -- ASSET SALES, DIVESTITURES AND DISCONTINUED OPERATIONS

The following table summarizes the net impacts of discontinued operations on our earnings for the three and six months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
	(Millions of Dollars)			
Income from Continuing Operations	$119.3	$98.0	$291.4	$268.9
Income from Discontinued Operations, net of tax (a)	—	11.5	—	11.5
Net Income	$119.3	$109.5	$291.4	$280.4

(a) During 2011, we reached a favorable resolution of uncertain state and federal tax positions associated with our previously discontinued manufacturing business.

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

5 -- LONG-TERM DEBT

In January 2011, we issued a total of $420 million of long-term debt ($205 million aggregate principal amount of 4.673% Series B Senior Notes due January 19, 2031 and $215 million aggregate principal amount of 5.848% Series B Senior Notes due January 19, 2041) and used the net proceeds to repay short-term debt incurred to finance the construction of Oak Creek expansion Unit 2 (OC 2) and for other corporate purposes. The Series B Senior Notes are secured by a collateral assignment of the leases between Elm Road Generating Station Supercritical, LLC (ERGSS) and Wisconsin Electric related to OC 2.

On April 1, 2011, we used cash and short-term borrowings to retire $450 million of long-term debt that matured.

As of June 30, 2012, we were in compliance with all financial covenants.

6 -- FAIR VALUE MEASUREMENTS

Fair value measurements require enhanced disclosures about assets and liabilities that are measured and reported at fair value and establish a hierarchal disclosure framework which prioritizes and ranks the level of observable inputs used in measuring fair value.

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We primarily apply the market approach for recurring fair value measurements and attempt to utilize the best available information. Accordingly, we also utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We are able to classify fair value balances based on the observability of those inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 -- Pricing inputs are unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Instruments in this category consist of financial instruments such as exchange-traded derivatives, cash equivalents and restricted cash investments.

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Level 2 -- Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Instruments in this category include non-exchange-traded derivatives such as Over-the-Counter (OTC) forwards and options.

Level 3 -- Pricing inputs include significant inputs that are generally less observable from objective sources. The inputs in the determination of fair value require significant management judgment or estimation. At each balance sheet date, we perform an analysis of all instruments subject to fair value reporting and include in Level 3 all instruments whose fair value is based on significant unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the instrument.

The following tables summarize our financial assets and liabilities by level within the fair value hierarchy:

Recurring Fair Value Measures	As of June 30, 2012			
	Level 1	Level 2	Level 3	Total
	(Millions of Dollars)			
Assets:				
Restricted Cash	$17.9	$—	$—	$17.9
Derivatives	2.7	12.1	9.9	24.7
Total	$20.6	$12.1	$9.9	$42.6
Liabilities:				
Derivatives	$0.5	$7.5	$—	$8.0
Total	$0.5	$7.5	$—	$8.0

Recurring Fair Value Measures	As of December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(Millions of Dollars)			
Assets:				
Restricted Cash	$45.5	$—	$—	$45.5
Derivatives	0.3	14.6	5.7	20.6
Total	$45.8	$14.6	$5.7	$66.1
Liabilities:				
Derivatives	$8.2	$1.0	$—	$9.2
Total	$8.2	$1.0	$—	$9.2

Restricted cash consists of certificates of deposit and government backed interest bearing securities and represents the settlement we received from the United States Department of Energy (DOE) during the first quarter of 2011, which is being returned, net of costs incurred, to customers. Derivatives reflect positions we hold in exchange-traded derivative contracts and OTC derivative contracts. Exchange-traded derivative contracts, which include futures and exchange-traded options, are generally based on unadjusted quoted prices in active markets and are classified within Level 1. Some OTC derivative contracts are valued using broker or dealer quotations, or market transactions in either the listed or OTC markets utilizing a mid-market pricing convention (the mid-point between bid and ask prices), as appropriate. In such cases, these derivatives are classified within Level 2. Certain OTC derivatives may utilize models to measure fair value. Generally, we use a similar model to value similar instruments. Valuation models utilize various inputs which include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs (i.e., inputs derived principally from or corroborated by observable market data by correlation or other means). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain OTC derivatives are in less active markets with a lower availability of pricing information which might not be observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3.

The following table summarizes the changes to derivatives classified as Level 3 in the fair value hierarchy:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
	(Millions of Dollars)			
Beginning Balance	$2.2	$2.1	$5.7	$5.9
Realized and unrealized gains (losses)	—	—	—	—
Purchases	10.9	16.1	10.9	16.1
Issuances	—	—	—	—
Settlements	(3.2)	(3.6)	(6.7)	(7.4)
Transfers in and/or out of Level 3	—	—	—	—
Balance as of June 30	$9.9	$14.6	$9.9	$14.6
Change in unrealized gains (losses) relating to instruments still held as of June 30	$—	$—	$—	$—

Derivative instruments reflected in Level 3 of the hierarchy include MISO Financial Transmission Rights (FTRs) that are measured at fair value each reporting period using monthly or annual auction shadow prices from relevant auctions. Changes in fair value for Level 3 recurring items are recorded on our balance sheet. See Note 7 -- Derivative Instruments for further information on the offset to regulatory assets and liabilities.

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

Financial Instruments	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions of Dollars)			
Preferred stock, no redemption required	$30.4	$26.1	$30.4	$25.1
Long-term debt, including current portion	$4,531.4	$5,248.0	$4,541.4	$5,179.9

The carrying value of net accounts receivable, accounts payable and short-term borrowings approximates fair value due to the short-term nature of these instruments. The fair value of our preferred stock is estimated based upon the quoted market value for the same or similar issues. The fair value of our long-term debt, including the current portion of long-term debt, but excluding capitalized leases and unamortized discount on debt, is estimated based upon quoted market value for the same or similar issues or upon the quoted market prices of U.S. Treasury issues having a similar term to maturity, adjusted for the issuing company's bond rating and the present value of future cash flows. Based on these assessments, the above items have been classified within Level 2.

7 -- DERIVATIVE INSTRUMENTS

We utilize derivatives as part of our risk management program to manage the volatility and costs of purchased power, generation and natural gas purchases for the benefit of our customers and shareholders. Our approach is non-speculative and designed to mitigate risk and protect against price volatility. Regulated hedging programs require prior approval by the Public Service Commission of Wisconsin (PSCW).

We record derivative instruments on the balance sheet as an asset or liability measured at its fair value, and changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met or we receive regulatory treatment for the derivative. For most energy related physical and financial contracts in our regulated operations that qualify as derivatives, the PSCW allows the effects of the fair market value accounting to be offset to regulatory assets and liabilities. We do not offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivatives executed with the same counterparty under the same master netting arrangement. As of June 30, 2012, we recognized $16.3 million in regulatory assets and $22.0 million in regulatory liabilities related to derivatives in comparison to $29.6 million in regulatory assets and $21.7 million in regulatory liabilities as of December 31, 2011.

We record our current derivative assets on the balance sheet in prepayments and other current assets and the current portion of the liabilities in other current liabilities. The long-term portion of our derivative assets of $0.1 million is recorded in other deferred charges and other assets as of June 30, 2012, and the long-term portion of our derivative liabilities of $1.5 million is recorded in other deferred credits and other liabilities as of June 30, 2012. Our Consolidated Condensed Balance Sheets as of June 30, 2012 and December 31, 2011 include:

	June 30, 2012		December 31, 2011	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
	(Millions of Dollars)			
Natural Gas	$5.0	$0.1	$2.1	$9.1
Fuel Oil	—	0.5	0.3	0.1
FTRs	9.9	—	5.7	—
Coal	9.8	7.4	12.5	—
Total	$24.7	$8.0	$20.6	$9.2

Our Consolidated Condensed Income Statements include gains (losses) on derivative instruments used in our risk management strategies under fuel and purchased power for those commodities supporting our electric operations and under cost of gas sold for the natural gas sold to our customers. Our estimated notional volumes and gains (losses) were as follows:

	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011	
	Volume	Gains (Losses) (Millions of Dollars)	Volume	Gains (Losses) (Millions of Dollars)
Natural Gas	18.5 million Dth	$(14.2)	18.9 million Dth	$(6.6)
Fuel Oil	2.1 million gallons	0.8	3.4 million gallons	2.1
FTRs	5,296 MW	1.6	6,191 MW	1.5
Total		$(11.8)		$(3.0)

	Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
	Volume	Gains (Losses) (Millions of Dollars)	Volume	Gains (Losses) (Millions of Dollars)
Natural Gas	38.9 million Dth	$(30.4)	38.3 million Dth	$(17.2)
Fuel Oil	3.8 million gallons	1.4	6.6 million gallons	2.5
FTRs	10,654 MW	2.2	12,543 MW	5.3
Total		$(26.8)		$(9.4)

As of June 30, 2012 and December 31, 2011, we posted collateral of $7.9 million and $11.9 million, respectively, in our margin accounts. These amounts are recorded on the balance sheets in other current assets.

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8 -- BENEFITS

The components of our net periodic pension and Other Post-Retirement Employee Benefits (OPEB) costs for the three and six months ended June 30 were as follows:

	Pension Costs			
	Three Months Ended June 30		Six Months Ended June 30	
Benefit Plan Cost Components	2012	2011	2012	2011
	(Millions of Dollars)			
Net Periodic Benefit Cost				
Service cost	$5.4	$3.3	$10.8	$7.9
Interest cost	16.4	17.1	32.8	33.8
Expected return on plan assets	(22.2)	(20.4)	(44.8)	(41.1)
Amortization of:				
Prior service cost	0.6	0.5	1.2	1.1
Actuarial loss	10.3	9.0	20.2	17.1
Net Periodic Benefit Cost	$10.5	$9.5	$20.2	$18.8

	OPEB Costs			
	Three Months Ended June 30		Six Months Ended June 30	
Benefit Plan Cost Components	2012	2011	2012	2011
	(Millions of Dollars)			
Net Periodic Benefit Cost				
Service cost	$2.4	$2.4	$5.2	$5.2
Interest cost	5.1	5.1	10.2	10.4
Expected return on plan assets	(4.8)	(4.1)	(9.6)	(8.4)
Amortization of:				