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Issue Summary Memo

DRAFT
October 1, 2004

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Merger & Acquisition Services
Deloitte & Touche LLP

HEADLINES

Quality of Earnings

Operating Income by Business

US$ in millions	Total Utility	WPS ESI	WPS PDI	Other	Grand Total
2002	152.1	16.8	(12.0)	(1.7)	155.2
2003	105.5	42.1	(7.7)	(9.2)	130.7
Increase (Decrease)	(46.6)	25.3	4.3	(7.5)	(24.5)

- The decrease in utility operating earnings was primarily due to an increase in utility costs, employee benefits and additional decommissioning costs. The increase in decommissioning costs of approximately $36.4 million was virtually offset by miscellaneous income recorded from realized gains on assets in a nuclear decommissioning trust.

- We suggest that Alliant Energy review with its bankers or other appropriate advisors the impact of the ESI business on WPSRC's stock price given ESI's recent robust earnings. Issues to consider include the expected sustainability of those earnings, the ease with which competitors could enter the business, whether WPSRC has indeed created a niche business or has unique knowledge, processes or skills that others could not easily duplicate, and to what extent competition could reduce margins in the areas that ESI is currently generating significant margins.

Purchase Accounting

- Determining which entity is the acquirer for accounting purposes and the value of the acquiree are important decisions that affect the accounting for the transaction. The criteria for determining the acquirer for accounting purposes and the value of the acquiree are included in the detail section of this report.

- For purposes of determining the acquisition value, the stock price of the acquiring company a few days before and after the announcement date is used. For purposes of assigning fair value to net assets, the measurement date is when the transaction closes as opposed to the announcement date.

- Accounting standards require that the acquired company's net assets be written up to their fair value which would include the ATC investment, energy contracts and certain other assets such as land and the synfuel investment. Additionally, the write-up to fair value would remove deferred gains from WPSRC's financial statements. Income from the Synfuel investment and land sales would be significantly reduced in post merger earnings. All these items will affect reported earnings after the transaction closes.

- Accounting rules for regulated utilities do not require the regulated net assets to be written up to fair value. However, there may be some net assets in the regulated business that would be required to be written up to fair value – for example excess land or net assets that are disallowed for regulatory purposes.

- Any costs associated with a plan to exit an activity of WPSRC would be reflected as a component of purchase price while the accounting for similar exit activities at Alliant Energy would be to expense when incurred.

Other Significant Accounting Issues

- Upon the sale of the Kewaunee nuclear power plant, WPSRC will be entitled to retain the non-qualified decommissioning trust assets which were $119 million at June 2004. These trust assets may ultimately be returned to customers through rate adjustments.

- The passed audit adjustments proposed by WPSRC's auditors were determined to be immaterial individually and in the aggregate.

- The company records assets and liabilities associated with risk management activities primarily for energy related contracts that meet the accounting definition of a derivative and various other derivatives. Below is a summary listing of the risk management assets and liabilities.

	Jun-04			
US$ in millions	Energy Trading	Hedges	Utility	Total
Assets	410.8	50.1	11.9	472.8
Liabilities	398.5	30.5	-	429.0
Net	12.3	19.6	11.9	43.8

A summary of the ESI margins resulting from gas and electric operations is presented below and includes the impact that energy contracts had on WPSRC's earnings:

US$ in millions	FY02	FY03
Gas sales	$ 245.1	$ 2,696.7
Cost of gas	205.8	2,657.0
	39.3	39.7
Electric sales	114.8	382.2
Cost of power	103.2	341.8
	11.6	40.4
Total margin	$ 50.9	$ 80.1

Source - DT workpapers

- Within regulatory assets, environmental remediation costs of $41 million will be filed for recovery in the 2005 rate case. In terms of the $15.2 million minimum pension liability, PSCW staff is recommending that OCI be reduced in determining the level of common equity for rate setting purposes.

- As of June 30, 2004, the company and its subsidiaries had entered into $941 million of guarantees primarily related to their trading activities.

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SCOPE AND BASIS OF REVIEW

Issue Focus

Deloitte & Touche LLP has been engaged by Alliant Energy Corporation ("Alliant Energy") to assist in performing due diligence with respect to your proposed investment in WPSRC (the "company"). We have analyzed selected historical financial statements and other accounting, financial and operating data of the company, with a primary emphasis on:

- Potential Transaction Issues, including the effects of purchase accounting
- Significant Accounting Issues related to WPSRC
- Quality of Net Assets

Our comments and observations are focused principally on those matters that, based on our discussions with you, we believe would be of significance or interest to you or might require further consideration.

This memo may not encompass all the schedules or other materials sent or verbal comments previously made to you. Other factors not discussed or referred to in this memo should be considered in evaluating the merits of the transaction, including the consideration to be paid.

Scope of Services

Our observations described in this memo are based on financial information through June 30, 2004, unless otherwise noted. Although our analyses and inquiries may have covered certain financial data subsequent to June 30, 2004, the availability of only limited financial information precluded further investigation beyond this date.

The analyses and inquiries that we performed through October 1, 2004, are detailed in *Appendix 1—Summary of Due Diligence Services* and can be summarized as follows:

- Read and analyzed publicly available information in the company's SEC filings and on its web site; materials provided in the data room; and additional information we requested and received from the company.

- Read the working papers of Deloitte & Touche LLP, the company's independent auditors, and held discussions with:
  - Fred Moseley, audit partner
  - P.J. DiStefano, audit manager
- Interviewed management, principally:
  - Diane Ford, Controller
  - Greg Lower, ESI Controller
  - Barth Wolf, Manager – Legal Services
  - George Wiesner, Former PDI Controller

We have not discussed in detail our specific observations with management of the company nor provided them with a copy of this memo or any of the attachments.

Scope Limitations

We generally did not duplicate the matters that would be addressed by you, your legal counsel or other professionals engaged to perform due diligence. At your request, we did not perform any services related to

- Litigation
- Environmental exposures
- Income taxes including §29 credits and state NOLs
- WPS ESI
- Information Systems

With respect to income taxes, Thelen Reid & Priest LLP was responsible for evaluating all matters related to income tax reporting, exposures and financial reporting therefore.

With respect to WPS ESI, Ernst & Young LLP was responsible for evaluating ESI's business operations, strategy and trading activities, including the financial reporting therefore.

Our services with respect to employee benefits, risk management and non-utility energy transacting, were very limited.

Given the short time frame and the limited access to company personnel and information, our analyses and inquiries were substantially less comprehensive than we may have otherwise performed; therefore, our observations to date are preliminary and subject to further due diligence analyses and inquiries, if any. Had the scope of our work not been restricted, we may have identified additional matters that you may consider relevant to your investment decision.

As is customary in the profession, the company's independent auditors withheld access to certain of their working papers that they considered proprietary (generally related to planning, internal accounting controls, audit programs). However, we have no means of verifying which working papers have actually been withheld from us.

Open Items

Significant items that are not yet complete are summarized in *Matters Requiring Follow-Up*.

This draft contains certain outstanding matters, identified by square brackets ("[ ]"), that require clarification or confirmation by company management. Accordingly, we reserve the right to amend this memo as appropriate. Although, as we have discussed with you, we have no responsibility for updating the services performed.

Restrictions on Use and Distribution

This memo is intended solely for the information and confidential internal use of Alliant Energy Corporation and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this memo.

See our engagement letter dated September 17, 2004 and Appendix *A—Certain Terms of Engagement* for additional detail on the scope and limitations of our engagement.

Purchase Accounting Considerations

Summary

Purchase accounting issues that should be considered upon the acquisition of WPSRC are described below. We understand that a definitive purchase and sale agreement is not currently available and the terms of the transaction have not been finally negotiated. However, we wanted to provide you with accounting guidance that should be considered to determine the appropriate purchase accounting treatment.

Determination of Acquirer

The first step in purchase accounting is to determine the accounting acquirer in the transaction.

In accordance with FAS No. 141, the entity that issues the equity interests is generally the acquiring entity. Commonly, the acquiring entity is the larger entity. However, the facts and circumstances surrounding a business combination sometimes indicate that a smaller entity acquires a larger one. In some business combinations, the combined entity assumes the name of the acquired entity. Thus, in identifying the acquiring entity in a combination effected through an exchange of equity interests, all pertinent facts and circumstances shall be considered, in particular:

- The relative voting rights in the combined entity after the combination—all else being equal, the acquiring entity is the combining entity whose owners as a group retained or received the larger portion of the voting rights in the combined entity.
- The composition of the governing body of the combined entity—all else being equal, the acquiring entity is the combining entity whose owners or governing body has the ability to elect or appoint a voting majority of the governing body of the combined entity.
- The composition of the senior management of the combined entity—all else being equal, the acquiring entity is the combining entity whose senior management dominates that of the combined entity. Senior management generally consists of the chairman of the board, chief executive officer, chief operating officer, chief financial officer, and those divisional heads reporting directly to them, or the executive committee if one exists.
- The terms of the exchange of equity securities—all else being equal, the acquiring entity is the combining entity that pays a premium over the market value of the equity securities of the other combining entity or entities.

Once the terms of the transaction are defined, we can offer more guidance as to which entity is the acquirer for accounting purposes.

Determination of Value

Assuming that WPSRC is the acquired company for accounting purposes, the value of WPSRC for purchase accounting should be determined as follows:

In accordance with FAS No. 141 paragraph 22, the "fair value of securities traded in the market is generally more clearly evident than the fair value of an acquired entity. Thus, the quoted market price of an equity security issued to effect a business combination generally should be used to estimate the fair value of an acquired entity after recognizing possible effects of price fluctuations, quantities traded, issue costs, and the like. The market price for a reasonable period before and after the date that the terms of the acquisition are agreed to and announced shall be considered in determining the fair value of securities issued."

EITF 99-12 defines the reasonable period of time as "the securities should be valued based on market prices a few days before and after the measurement date determined…but that the measurement period would not include any dates after the date the business combination is consummated."

Determination of Fair Value of Net Assets

For purposes of assigning the fair value to the acquired company's net assets, the fair value of the individual assets and liabilities is determined when the transaction closes as opposed to the announcement date.

Utility Purchase Accounting

For utility property, plant and equipment (PP&E) subject to traditional cost-of-service regulation and Statement 71, depreciated original cost is typically equal to fair value (for other utility assets and liabilities under the same conditions, book value is typically equal to fair value). If an amount paid for utility PP&E exceeds its original cost depreciated, and that higher amount is recoverable through future rates, the fair value of PP&E has been increased and an acquisition adjustment should be recorded as a component of utility plant. If the excess payment is not included in future rates, that amount typically represents goodwill. Because the FERC's Uniform System of Accounts does not have an account for goodwill, many utilities have recorded goodwill in the acquisition adjustment account for regulatory reporting. An appropriate reclassification is necessary for GAAP-based financial statements. The FERC's accounting policy staff issued guidance in July 2003, which states that "amounts so allocated to utility plant in excess of depreciated original cost at the date of acquisition should be an acquisition adjustment in Account 114 and the excess of the cost of the acquired company over the sum of the amounts assigned to all identifiable assets acquired and liabilities assumed should be recorded as goodwill in Account 186, "Miscellaneous Deferred Debits."

Exiting WPSRC Activities

In accordance with EITF 95-3, a cost "resulting from a plan to exit an activity (for example, severance or relocation) of an acquired company should be recognized as a liability assumed as of the consummation date of the acquisition only if the cost is not associated with or is not incurred to generate revenues of the combined entity after the consummation date and it meets either of the following criteria:

- The cost has no future economic benefit to the combined company, is incremental to other costs incurred by either the acquired company or the acquiring company in the conduct of activities prior to the consummation date, and will be incurred as a direct result of the plan to exit an activity of the acquired company. The notion of incremental does not contemplate a diminished future economic benefit to be derived from the cost but, rather, the absence of the cost in either company's activities immediately prior to the consummation date.
- The cost represents an amount to be incurred by the combined company under a contractual obligation of the acquired company that existed prior to the consummation date and will either continue after the plan is completed with no economic benefit to the combined company or be a penalty incurred by the combined company to cancel that contractual obligation.

Any such costs associated with a plan to exit an activity of WPSRC would be reflected as a component of goodwill.

It is not appropriate to account for exiting Alliant Energy activities as acquisition costs. Rather these costs should be expensed as incurred.

Synfuel

WPSRC's investment in ECO 12 (i.e. the synfuel investment) should be recorded at fair value which will eliminate the $8.0 deferred gain recorded on the balance sheet as of June 30, 2004 and the recognition of the deferred gain in the income statement after the transaction closes. Also, the higher fair value assigned must be amortized against earnings. WPSRC is also recognizing interest income on notes receivable attributable to this investment. The interest rate on these receivables should be adjusted to current rates in purchase accounting. .

Land

WPSRC owns land that will be required to be written up to its fair value. Future sales of land recorded at fair value would reduce the gains currently being recognized by WPSRC.

Energy Marketing Business

WPSRC's contracts will be required to be recorded at fair value (whether or not the contracts are derivatives for accounting purposes) which would affect the profitability of the non-regulated business after the transaction closes. Additionally, an allocation to intangible assets may be required for these energy contracts which would increase amortization expense. For example, if PDI has a power sales contract with terms that are favorable compared to market, that contract is recorded as an asset at its fair value at closing and that amount is subsequently amortized to earnings.

ATC Investment

The ATC investment will likely have a significant write up to fair value. The higher fair value could result in a subsequent impairment charge to earnings if the value subsequently declines. The combined company will likely continue the equity method of accounting for the ATC investment as the combined company will only have two of the five voting shareholders of ATC Management Inc. and ATC would not likely be treated as a variable interest entity. Also refer to the discussion above regarding utility purchase accounting. As ATC's activities are currently 100% covered by FAS No. 71, the excess of fair value over WPS's carrying amount would likely be assigned to non-amortizable goodwill as part of the equity method of accounting.

Wisconsin River Power

Wisconsin River Power is currently owned 50% by WPS and 50% by Alliant Energy. Alliant Energy will consolidate this investment in its financial statements after the transaction closes. Also refer to the discussion above regarding utility purchase accounting.

Benefit Plans

As indicated in the 2003 Form 10-K, WPSRC's regulated operation is the plan sponsor for the qualified retirement plans and the postretirement plans. Benefit plans covering both regulated and non-regulated employees can cause complex allocation determinations.

Tax Credits

If a valuation allowance is required for WPSRC's significant tax credit carry forwards, any subsequent reduction of the valuation allowance does not increase earnings, but instead will decrease goodwill. If a change in the valuation allowance occurs for the Alliant Energy deferred tax assets at the acquisition date, this change would be recorded in the combined company's income statement in the quarter the transaction closes.

Pre-existing Contracts

Under new accounting rules (EITF 04-1) that are under consideration and could be in effect by the time the transaction closes, all pre-existing contracts between WPSRC and Alliant Energy would be accounted for at closing as if the contracts settled the fair market value. This settlement could require either gains or losses to be recorded in Alliant Energy's financial statements prior to applying purchase accounting.

Plant Rail Leases

Alliant Energy has joint plant rail car leases that have not been accounted for as leases. Once the transaction occurs, this accounting treatment may change and could require the plant rail leases to be recorded as capital leases on the balance sheet after the acquisition.

Goodwill

The goodwill arising from this transaction will be allocated to both the regulated and non-regulated business. There is a potential risk of subsequent goodwill impairment if, for instance, goodwill is assigned to the energy trading unit and the "market" for energy trading businesses declines. In addition, in a prior small acquisition by WPSRC, WPSRC's regulator allowed recovery of some of the premium over book value in rates. While Alliant Energy may not request such rate treatment, if allowed, that portion of goodwill or "acquisition adjustment" would be amortized to earnings.

Emission Allowances

PDI power plants have emission allowances. As part of the acquisition, these emission allowances are considered separate intangibles assets should be recorded at fair value and amortized against earnings as used.

Push Down Accounting

Summary

Although, the definitive agreement is not currently available, we wanted to provide you with accounting guidance regarding "push down" accounting, (i.e. basis of accounting of purchased assets and liabilities in the acquired company's financial statements). This will impact the separate financial statements of WPSC as we understand WPSC is expected to continue to file as a separate registrant after closing.

Summarization of Push Down Rules

The SEC staff believes that purchase transactions that result in an entity becoming substantially wholly owned establish a new basis of accounting for the purchased assets and liabilities. When the form of ownership is within the control of the parent, the basis of accounting for purchased assets and liabilities should be the same, regardless of whether the entity continues to exist or is merged into the parent's operations. Therefore, it is the SEC staff's view that a company's cost of acquisition should be "pushed down," i.e., used to establish a new accounting basis in the acquired company's separate financial statements. A related question concerning the SEC staff's view is if the acquired company has public debt or preferred stock outstanding. The SEC staff recognizes that the existence of "significant" outstanding public debt or preferred stock might affect the parent's ability to control the form of ownership. Although encouraging its use, the staff generally does not insist on push-down accounting in these circumstances.

Although the SEC staff has adopted a policy of requiring push-down accounting for subsidiaries in certain circumstances, such policy has not been adopted by the FASB. Thus, push-down accounting is not required for non-SEC registrants that are subsidiaries of other companies but which issue separate financial companies. However, if these companies ultimately fall within SEC jurisdiction (or the public debt/preferred stock is eliminated in the case of an SEC registrant), they will have to adjust their financial statements retroactively to give effect to their parent company's acquisition price. Also, push-down accounting is acceptable for non-SEC registrants in those circumstances that, under SEC policies, would lead to push-down accounting adjustments.

When options regarding purchase and push-down accounting exist as a result of a business combination, the accounting, tax, regulatory, financial and economic consequences that result from such alternatives should be identified, analyzed and evaluated. The company should specifically consider the implications of the Wisconsin Commission orders addressing Wisconsin Gas Company's use of push down accounting after its acquisition by Wisconsin Energy Corporation.

[Open – Need to obtain the WPSRC Debt Agreements, which were not available in the data room]

Operating Income Bridge Analysis

2002 to 2003

Summary

Below is an analysis that bridges the results for the years ended December 31, 2002 and 2003 for revenue and operating costs.

		Regulated		Non-regulated							
		WPS & UPPCO		WPS ESI				WPS PDI			
US$ in millions	**2002**	Electric Rate Increases	Gas Rate Increases	Adoption of EITF 02-03	Acquisition	Higher Gas Prices	Other	Other	Other Operating Costs	Unexplained	**2003**
Revenue:											
Nonregulated Revenue	**410.8**	-	-	1,127.4	500.0	954.5	138.8	23.0	-	(16.9)	**3,137.6**
Utility Revenue	**1,050.3**	51.0	93.5	-	-	-	-	-	-	(11.1)	**1,183.7**
Total Revenue	**1,461.1**	51.0	93.5	1,127.4	500.0	954.5	138.8	23.0	-	(28.0)	**4,321.3**
											-
Operating Costs:											**-**
Nonregulated Cost	**339.7**	-	-	1,127.4	494.0	954.5	112.9	20.1	-	(32.0)	**3,016.6**
Utility Cost	**419.0**	23.6	92.4	-	-	-	-	-	-	(2.7)	**532.3**
Operating and Maintenance Expense	**412.5**	-	-	-	-	-	-	-	60.7	(13.7)	**459.5**
Depreciation and Decommissioning Expense	**94.8**	-	-	-	-	-	-	-	43.6	-	**138.4**
Taxes Other than Income	**39.9**	-	-	-	-	-	-	-	3.9	-	**43.8**
Total Operating Costs	**1,305.9**	23.6	92.4	1,127.4	494.0	954.5	112.9	20.1	108.2	(48.4)	**4,190.6**
											-
Operating Income	**155.2**	27.4	1.1	-	6.0	-	25.9	2.9	(108.2)	20.4	**130.7**

Source - Public Filings

Although it would appear that each business (WPS, UPPCO, WPS ESI and WPS PDI) increased its operating income for the period from 2002 to 2003, the net amount of Other Operating Costs and Unexplained Costs of $87.8 million should almost entirely be allocated to the utility segment. This allocation would result in a decrease in 2003 operating income for the combined utility business as presented below.

Operating Income by Business

US$ in millions	Total Utility	WPS ESI	WPS PDI	Other	Grand Total
2002	152.1	16.8	(12.0)	(1.7)	155.2
2003	105.5	42.1	(7.7)	(9.2)	130.7
Increase (Decrease)	(46.6)	25.3	4.3	(7.5)	(24.5)

Source - Form 10K

WPS & UPPCO

Described below are the changes to WPS & UPPCO revenue and operating costs for 2003 compared to 2002.

Electric Rate Increases

Revenues increased $51.0 million in the electric utility segment due primarily to retail and wholesale electric rate increases for the company's Wisconsin and Michigan customers in accordance with new rate orders.

Overall, the electric utility margin increased $27.4 million due primarily to the electric rate increases and change in sales mix. The margin increase was partially offset by the effect of cooler weather in 2003.

Gas Rate Increases

The gas utility segment revenues increased $93.5 million primarily due to an increase in the average cost of natural gas in 2003. This increase was partially offset by a decrease in retail natural gas rates.

The increase in the natural gas utility margin of $1.1 million can be attributed to an increase in natural gas volumes due to colder weather.

WPS ESI

Described below are the changes in WPS ESI revenue and operating costs for 2003 compared to 2002.

Adoption of EITF 02-03

Approximately $1.1 billion of the increase in sales and operating costs relates to the required adoption of EITF 02-03.

Acquisition

Revenues increased $500 million due to the acquisition of a retail natural gas business in Canada.

Operating income increased approximately $6.0 million due to the acquisition.

Higher Gas Prices

Revenues and related operating costs increased $954.5 million in 2003 due to higher natural gas prices than in 2002.

Other

Revenues increased approximately $138.8 million within the electric business due to the New Jersey Basic Generation Services program and increased prices and expansion within existing service territories.

Margins increased $25.9 million due to acquisition synergies, improved management of retail operations in Michigan and the New Jersey Basic Generation Services program.

WPS PDI

Revenues increased $23 million and margins increased $2.9 million primarily due to the generating assets acquired in New York, revenues from the Combined Locks Energy Center and an increase in generation at the Maine and Canada hydroelectric plants. These increases were partially offset by an expired contract and capacity outtake contract in Wisconsin both of which were not renewed.

Other Operating Costs

Summarized below are additional operating costs of $108.2 million incurred in 2003 compared to 2002.

US$ in millions	Utility Expenses	Employee Benefits	Specific WPS ESI	Add'tl expense due to gain on trust assets	Plant additions	Gross receipts taxes	Total
Operating Costs:				(a)			
Operating and Maintenance Expense	30.7	18.0	12.0	-	-	-	60.7
Depreciation and Decommissioning Expense	-	-	-	37.4	6.2	-	43.6
Taxes Other than Income	-	-	-	-	-	3.9	3.9
Total Operating Costs	30.7	18.0	12.0	37.4	6.2	3.9	108.2

(a) - Offset in other income

Source - Public Filings

Specific WPS ESI

WPS ES operating and maintenance costs increased $12 million due to business expansion costs for the acquisition of the retail natural gas business in Canada and the retail electric business in Michigan.

June 2003 to June 2004

Summary

Summarized below is an analysis that bridges the results for the six months ended June 2003 to the six months ended June 2004 for revenue and operating costs.

		Regulated		Non-regulated					
		WPS & UPPCO		WPS ESI		WPS PDI			
US$ in millions	**Jun-03**	Rate increases and sales volume	Decrease in natural gas volumes & other	Acquisition and higher commodity prices	Higher volumes from portfolio optimization	Several Plant Outages	Other Operating Costs	Unexplained	**Jun-04**
Revenue:									
Nonregulated Revenue	**1,631.0**	-	-	27.0	116.3	(13.5)	-	(4.1)	**1,756.7**
Utility Revenue	**622.7**	37.3	(2.5)					5.0	**662.5**
Total Revenue	**2,253.7**	37.3	(2.5)	27.0	116.3	(13.5)	-	0.9	**2,419.2**
Operating Costs:									
Nonregulated Cost	**1,571.7**	-	-	22.8	111.0	(11.5)	-	(4.3)	**1,689.7**
Utility Cost	**304.8**	5.4	(6.9)	-	-	-	-	4.3	**307.6**
Operating and Maintenance Expense	**236.6**	-	-	-	-	-	21.2	-	**257.8**
Depreciation and Decommissioning Expense	**51.1**	-	-	-	-	-	-	1.2	**52.3**
Taxes Other than Income	**21.5**	-	-	-	-	-	-	1.8	**23.3**
Total Operating Costs	**2,185.7**	5.4	(6.9)	22.8	111.0	(11.5)	21.2	3.0	**2,330.7**
									-
Operating Income	**68.0**	31.9	4.4	4.2	5.3	(2.0)	(21.2)	(2.1)	**88.5**

Source - Public Filings

WPS & UPPCO

The changes in the regulated business for the six months ended June 2004 compared to the six months ended June 30, 2003 are as follows:

Rate Increases and Sales Volume

Electric utility revenues increased $37.3 million primarily due to retail and wholesale electric rate increases for Wisconsin Public Service's Wisconsin and Michigan customers and due to higher sales volumes.

The electric margins at Wisconsin Public Service increased $31.9 million due primarily to retail and wholesale electric rate increases and an increase in overall electric utility sales volumes. The higher margins were partially offset by purchased power costs that were higher for the six months ended June 30, 2004, compared to the same period in 2003 due to the unscheduled outage at the Kewaunee nuclear power plant.

Decrease in Natural Gas Volumes and Other

Gas utility revenues decreased $2.5 million in the six months ended June 30, 2004, compared to the six months ended June 30, 2003. The lower revenue was driven by a decrease in natural gas volumes due to warmer weather during the heating season. This decrease was partially offset by an authorized rate increase and an increase in the cost of natural gas.

The gas utility margin increased by $4.0 million due primarily to authorized rate increases.

WPS ESI

The changes in WPS ESI's results of operations for the six months ended June 30, 2004 compared to the six months ended June 30, 2003 are as follows:

Acquisition and Higher Commodity Prices

WPS ESI's natural gas revenues increased $27.0 million. This increase was primarily due to the acquisition the Canadian retail natural gas business and higher commodity prices. This increase was partially offset by lower sales volumes from physical wholesale transactions that resulted from a decrease in the price volatility of natural gas compared to the prior year.

Overall, the natural gas margins at WPS ESI increased $4.2 million. The margin related to retail natural gas operations increased $17.5 million which was primarily due to higher natural gas volumes in Ohio. The margin increase was offset by a $13.3 million decrease in wholesale natural gas margins which was primarily due to favorable settlements of liabilities with several counterparties in 2003 and reduced natural gas transaction opportunities in 2004.

Higher Volumes from Portfolio Optimization

WPS ESI's electric revenues increased $116.3 million primarily due to higher volumes from portfolio optimization strategies and other wholesale transactions.

In total, the WPS ESI wholesale electric margin increased $5.3 million. The higher wholesale electric margin was comprised of a $3.4 million increase driven by the portfolio optimization strategies and higher marketplace energy prices and a $1.9 million increase related to other wholesale electric transactions.

WPS PDI

The changes in WPS PDI's results of operations for the six months ended June 30, 2004 compared to the six months ended June 30, 2003.

Several Plant Outages

WPS PDI's revenue decreased $13.5 million primarily due to a decrease in revenues from its Combined Locks Energy Center, its steam boiler in Oregon and its generation facility in Beaver Falls, New York. The lower revenues at the Combined Locks Energy Center were primarily due to decreased demand for energy by the counterparty to a power purchase agreement in place at this facility and an unplanned plant outage. The decrease in revenues from the steam boiler in Oregon was largely due to a 30-day planned outage. The decrease in revenue for the Beaver Falls facility was due to an unplanned plant outage in 2004.

WPS PDI's margin decreased $2.0 million due to an increase in the cost of coal utilized in the generation process at the Niagara Falls generation facility and the unplanned plant outage experienced at the Beaver Falls facility.

Other Operating Costs

Summarized below are the changes in operating costs of $21.2 million for the six months ended June 30, 2004 compared to June 30, 2003.

US$ in millions	Utility Costs	Transmission rates	Benefit Costs	Automated meter reading system & purchase of DePere	Costs associated with business expansion	Lower costs from outages	Total
Operating Costs:							
Nonregulated Cost	-	-	-	-	-	-	-
Utility Cost	-	-	-	-	-	-	-
Operating and Maintenance Expense	12.0	5.7	5.3	3.4	6.0	(11.2)	21.2
Depreciation and Decommissioning Expense	-	-	-	-	-	-	-
Taxes Other than Income	-	-	-	-	-	-	-
Total Operating Costs	12.0	5.7	5.3	3.4	6.0	(11.2)	21.2

Source - Public Filings

Non-operating Income Bridge Analysis

2002 to 2003

Summary

Below is an analysis that bridges other income (expense), discontinued operations, and the cumulative effect of a change in accounting principle for the years ended December 31, 2003 and 2002.

US$ in millions	2002	Miscellaneous Income, net	Minority Interest	Sunbury	EITF 02-03	Unexplained	2003
Other Income (Expense):							
Miscellaneous Income	**47.8**	16.8	-	-	-	(1.0)	**63.6**
Interest Expense & Distributions on Trust Securities	**(55.8)**	-	-	-	-	0.2	**(55.6)**
Minority Interest	**-**	-	5.6	-	-	-	**5.6**
Total Other Income (Expense)	**(8.0)**	16.8	5.6	-	-	(0.8)	**13.6**
Discontinued Operations	**(6.0)**	-	-	(9.9)	-	(0.1)	**(16.0)**
Cumulative Effect of a Change in Accounting Principles	**-**	-	-	-	3.2	-	**3.2**

Source - Public Filings

Miscellaneous Income, net

An analysis of the $16.8 million of miscellaneous income and other items is as follows:

US$ in millions	2002	Gain on Decommissioning Trust Assets	Land Sale	Equity Investment Earnings	Lower Synthetic Fuel Gains	Synthetic Fuel Losses	Unexplained	2003
Other Income (Expense):								
Miscellaneous Income	**47.8**	36.4	6.2	8.1	(30.4)	(3.5)	(1.0)	**63.6**
Total Other Income (Expense)	**47.8**	36.4	6.2	8.1	(30.4)	(3.5)	(1.0)	**63.6**

Source - Public Filings

Minority Interest

In 2002, WPS PDI sold its 30% interest in its subsidiary (ECO Coal Pelletization #12 LLC). As a result, $5.6 million of losses that could not previously be allocated to the minority partner were allocated to WPS PDI’s partner in 2002 and reported as income by PDI in 2002.

Sunbury

The increased loss of $9.9 million was due to a decrease in sales in 2003. Sales decreased due to an expiration of a sales contract, an increase in variable production expenses related to increased emission costs and an increase in operating costs.

EITF 02-03

In 2003, the company recorded the effect of a cumulative change in accounting for $3.2 million due to adopting EITF 02-03.

June 2003 to June 2004

Summary

Below is an analysis that bridges the six months ended June 30, 2003 to the six months ended June 30, 2004.

US$ in millions	**Jun-03**	Equity Earnings	Deferred Financing Costs	Lack of 1st Quarter Allocation	Sunbury	EITF 02-03	Unexplained	**Jun-04**
Other Income (Expense):								
Miscellaneous Income	**8.9**	3.5	(1.5)	-	-	-	-	**10.9**
Interest Expense & Distributions on Trust Securities	**(27.8)**	-	-	-	-	-	1.3	**(26.5)**
Minority Interest	**2.3**	-	-	(1.2)	-	-	-	**1.1**
Total Other Income (Expense)	**(16.6)**	3.5	(1.5)	(1.2)	-	-	1.3	**(14.5)**
Discontinued Operations	**(10.9)**	-	-	-	2.6	-	-	**(8.3)**
Cumulative Effect of Change in Accounting Principles	**3.2**	-	-	-	-	(3.2)	-	**-**

Source - Public Filings

Equity Earnings

Equity earnings increased $3.5 million related to the investments in American Transmission Company and Guardian Pipeline.

Deferred Financing Costs

A write-off of previously deferred financing costs associated with the redemption of the trust preferred securities in the first quarter of 2004 totaled $1.5 million.

Lack of 1st Quarter Allocation

The decrease in operating losses allocated to the minority interest is due to WPS PDI's partner not being allocated any production from the synthetic fuel facility in the first quarter of 2004 as the partner requested additional production in December 2003.

Sunbury

The reduced loss of $2.6 million was due to a $2.1 million decrease in operating and maintenance expenses which were partially offset by a reduction in margins.

EITF 02-03

The change in accounting principles occurred in 2003 and thus, there is no cumulative adjustment for 2004.

Passed Audit Misstatements

2003 Year-end Passed Audit Adjustments

The earnings impact of unrecorded audit adjustments in 2003 was approximately $286,000. Refer to the table below for a summary of the unrecorded adjustments to the statement of operations and reclassifications to the balance sheet. Refer to Schedule 1 for a complete listing of the reclassifications and adjustments.

Summarized Schedule of Unrecorded Audit Adjustments and Reclassifications

US$ in millions	Debit/(Credit)
Balance Sheet:	
Total Asset Effect	(8.8)
Total Liability Effect	8.4
Statement of Operations:	
Total Revenue Effect	4.3
Total Expense Effect	(4.1)
Interest Expense Effect	0.1
Pre-tax income Effect	0.3
Tax Effect of Uncorrected Misstatements @23.4%	-
Net Income Effect	0.3

Source - Management Representation Letters

The above adjustments and reclassifications were included in the report to the Audit Committee and the management representation letter signed by management of WPSRC. These adjustments were determined to be immaterial individually and in the aggregate.

Although it appears that the company has a number of audit adjustments, management indicated that they have a quick, early close and most of the audit adjustments proposed were actually identified by management but were not recorded as they were deemed insignificant.

2004 Quarterly Passed Review Adjustments

Passed review adjustments for the first quarter of 2004 represented income of $250,000 while passed review adjustments in the second quarter of 2004 represented unrecorded income of $1.7 million. See Schedules 2 and 3 for details of these passed quarterly review adjustments.

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Risk Management Activities

Summary

The company records assets and liabilities associated with risk management activities primarily for energy related contracts that meet the accounting definition of a derivative and various other derivatives. You should consider the impact of the company's methodology for designating energy contracts and derivative financial instruments and the impact that changes such as the sale of the Sunbury generation plant may have on the associated interest rate swap (as further discussed below). You should also consider the company's valuation techniques and internally generated reserves associated with risk management activities.

A summary of risk management assets and liabilities is as follows:

US$ in millions	Energy Trading	Hedges	Utility	Dec 03 Total	Energy Trading	Hedges	Utility	Jun 04 Total
Assets	578.1	35.9	8.4	622.4	410.8	50.1	11.9	472.8
Liabilities	582.1	27.4		609.5	398.5	30.5		429.0
Net	(4.0)	8.5	8.4	12.9	12.3	19.6	11.9	43.8

Source - DT work papers

Energy Trading

The energy transacting contracts are primarily comprised of a portfolio managed by WPS ESI.

During 2003 WPSRC began accounting for energy trading contracts in accordance with EITF 02-03 ("02-03") which was issued to supplement and ultimately rescind the guidance established by EITF 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." EITF 02-03 prescribes accounting for energy contracts not accounted for as derivatives under FAS No. 133 and precludes market to market accounting for all non-derivative contracts entered into after October 25, 2002. As a result of this accounting, changes in the fair value of energy contracts not designated as hedges are recorded in earnings in the period of such change. In addition, transactions associated with energy contracts that settle physically are recorded on a gross basis in the income statement. Upon adoption of 02-03, WPSRC also recorded a $3.5 million loss from the cumulative effect of this accounting change as of January 1, 2003.

A summary of the ESI margins resulting from gas and electric operations is presented below and includes the impact that energy contracts had on WPSRC's earnings:

US$ in millions	FY02	FY03
Gas sales	$ 245.1	$ 2,696.7
Cost of gas	205.8	2,657.0
	39.3	39.7
Electric sales	114.8	382.2
Cost of power	103.2	341.8
	11.6	40.4
Total margin	$ 50.9	$ 80.1

Source - DT workpapers

Hedges

The company has recorded fair value hedges for derivatives used to mitigate the risk of changes in the price of natural gas inventory held as well as changes in foreign currency for its Canadian operations. WPSRC also has cash flow hedges consisting primarily of commodity contracts associated with energy marketing activities and a swap used to fix the interest rate for the full term of a note payable related to the Sunbury generation plant.

A summary of the fair value and cash flow hedges is as follows:

	Dec 03				Jun-04			
	Fair Value		Cash flow		Fair Value		Cash flow	
US$ in millions	Natural Gas	Foreign Currency	Commodity Contracts	Interest Rate	Natural Gas	Foreign Currency	Commodity Contracts	Interest Rate
Asset	0.3	10.6	25.0	-	1.1	3.7	38.8	-
Liability	4.0	4.3	9.0	10.1	2.0	2.2	13.2	7.5
Net	(3.7)	6.3	16.0	(10.1)	(0.9)	1.5	25.6	(7.5)

Source - DT work papers and Data room

Changes in fair value hedges are generally recorded in earnings in the period of such change and were not significant during 2003. Changes in cash flow hedges are typically recorded as a component of other comprehensive income until either settlement or discontinuation of the underlying transaction at which time the amount is recognized in earnings.

Valuation

The company uses quoted market prices to determine the fair value of derivatives to the extent such a market exists. Otherwise internally developed valuation techniques are performed. In determining the fair value of its derivative portfolio, WPSRC has also included valuation reserves for estimated costs associated with holding and servicing its physical contracts. The balance of the reserve was approximately $9.0 and $11.0 million as of December 31, 2002 and 2003, respectively. Management stated that they are changing the process for determining the operations reserve to consider credit risk on a contract by contract basis but do not expect a significant impact of such change.

You should consider the internal valuation techniques and reserve balances in your assessment of WPSRC financial position and results of operations.

Utility

The company defers gains and losses incurred from derivative assets and liabilities for its Wisconsin retail utility operations in accordance with a regulatory accounting letter from the PSCW. WPSRC has recorded a corresponding regulatory liability associated with the assets scheduled above.

FAS No. 149

WPSRC's regulated entities have entered into a limited number of natural gas and electric purchase contracts with customers that are accounted for as derivatives. Regulatory approval has been obtained from the PSCW for recognition of a regulatory asset or liability under Statement 71 for the fair value of derivative amounts as a result of such contracts. Thus, WPSRC management believes any gains or losses resulting from the eventual settlement of these contracts will be collected from or refunded to customers. The balance sheet effect of this treatment is insignificant.

Nuclear Decommissioning Trust

Summary

WPSRC has qualified and non-qualified decommissioning trusts associated with the ultimate decommissioning of its Kewaunee nuclear power plant. Upon sale of the plant (which is further discussed herein) the company will be entitled to retain the non-qualified decommissioning trust assets which will be included as a component of the gain or loss on the sale transaction and ultimately returned to customers through rate making. The sales agreement also stipulates that the value of the qualified trust assets must exceed $391.9 at closing. WPSRC's trust assets currently exceed its share of the stipulated amount of required assets by $10 million.

A summary of qualified and non-qualified decommissioning trust assets maintained by WPSRC is presented below and includes the tax component of the unrealized gain on decommissioning trust assets that is described in the Regulatory Asset and Liability section of this report.

US$ in millions	Dec-03	Jun-04
Non-qualified	115.1	119.0
Qualified	239.7	240.6
Total	354.8	359.6

Source - Form 10-k and audit work papers

The non-qualified trust assets are comprised primarily of equity securities. The qualified trust assets are comprised primarily of cash equivalent and fixed income investments. The non-qualified trust should be periodically evaluated due the volatility of its investments.

During 2003, the company also recorded approximately $37 million of miscellaneous income associated with the realization of gains on the decommissioning trust assets. A corresponding expense in accordance with WPSRC's regulatory practice was recorded as a component of decommissioning and depreciation expense.

Asset Retirement Obligations

Summary

Below is a summary of the asset retirement obligations recorded by the company as of December 31, 2003 and June 30, 2004.

US$ in millions	2003	Jun-04		Entity	Account Recorded
Kewaunee Final Decommissioning	344.0	354.0		WPS	Long-term Liabilities
Kewaunee Final Decommissioning Regulatory Liability	66.9	66.9	(a)	WPS	Regulatory Liability
Closure of Ash Basin	2.1	2.2		WPS PD	Liability held for sale
Total	413.0	423.1			

(a) - We did not obtain the June 2004 amount but estimated the amount to be the same as December 2003

Source - 2003 Form 10K and Data Room

WPS

As of June 2004, the company has recorded a $354 million liability which primarily relates to the final decommissioning of the Kewaunee nuclear plant. Wisconsin Public Service has a legal obligation to decommission the irradiated portions of the Kewaunee nuclear plant in accordance with the Nuclear Regulatory Commission's minimum decommissioning requirements. In accordance with Statement No. 71, Wisconsin Public Service established a regulatory liability to record the differences between ongoing expense recognition under Statement No. 143 and the ratemaking practices for retirement costs authorized by the Public Service Commission of Wisconsin which equaled $66.9 million at December 2003 and is included in regulatory liabilities.

WPS PDI

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

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Regulatory Assets and Liabilities

Summary

The following regulatory assets and liabilities are reflected in the company's balance sheets as of December 31, 2002 and 2003 and June 30, 2004.

US$ in millions	2002	2003	Jun-04
Regulatory Assets:			
DePere Energy Center	47.8	47.7	46.5
Environmental Remediation Costs	40.0	41.0	41.0
Minimum Pension Liability	-	15.2	15.2
Other	23.1	23.8	24.7
Total	110.9	127.7	127.4
Regulatory Liabilities:			
Cost of Removal Reserve	-	180.0	?
Asset Retirement Obligations	-	66.9	?
Unrealized Gain on Decommissioning Trust	13.0	22.5	?
Other	36.7	35.0	?
Total	49.7	304.4	295.6

Source - Form 10K and Data room Document

DePere Energy Center

On December 16, 2002, WPSRC completed the purchase of the 180-megawatt De Pere Energy Center. Concurrent with the purchase, a long –term purchase power contract was terminated. The $120.4 million purchase included a $72 million payment upon closing and a $48.4 million payment in December 2003. As a result of the purchase, WPSRC reversed its recorded capital lease obligation of $72 million and the remaining difference between the purchase price was recorded as a regulatory asset of $47.8 million, of which $45.6 is under the jurisdiction of the PSCW and the remainder under the FERC and Michigan Public Service Commission. Amortization of the regulatory asset is over 20 years and began January 1, 2004 in Wisconsin and in 2003 for the other jurisdictions. WPSRC is recovering carrying costs on the unrecovered regulatory asset.

The transaction also included a new power purchase agreement with the Fox Energy Center, a 235-megawatt gas fired facility which is currently under construction in Wisconsin and scheduled for completion in June 2005. WPS will purchase 150-megawatts commencing in 2005, increasing to 235-megawatts annually in 2006 through 2015 from this plant. WPSRC has concluded that this agreement is not a lease for accounting purposes.

Environmental Remediation Costs

This amount consists of amounts spent of approximately $52.3 million at December 2003 less an estimated $12.7 million insurance recovery. The company will file for recovery in the 2005 rate case over a five to six year period and thus, the company is not yet recovering its carrying costs.

Minimum Pension Liability

At December 31, 2003, WPSRC recorded a minimum pension liability related to its Administrative Employees' Retirement Plan. The adjustment normally would be a charge to other comprehensive income, but WPSRC determined that the portion related to regulated operations, $15.2 million, should be recorded as a regulatory asset. On December 24, 2003, WPSRC requested a letter from the PSCW confirming this treatment. The PSCW's policies regarding the appropriate regulatory treatment for costs accounted for under FAS No. 87 and 88 are set forth in a generic order dated October 29, 1992. In its January 13, 2004 response, the WPSRC confirmed that "while it cannot predict what actions this Commission or any future Commission may take with regards to rate recovery of pension-related costs, at this time they are not aware of any proposed change to the Commission's policies with regard to the rate-making treatment for utilities' pension-related costs."

Based on discussion with management, in the current rate proceedings, PSCW staff is recommending that OCI be reduced in determining the level of common equity for rate setting purposes.

Cost of Removal Reserve

At December 31, 2003, WPSRC reclassified $180 million of the cost of removal that was determined not to have an associated legal obligation from nuclear decommissioning and other cost of removal/accumulated depreciation to regulatory liabilities under Statement 71. This amount represents costs recovered through rates charged customers to remove from service utility property plant and equipment. Any excess amount collected for this purpose will be potentially refunded to utility customers.

Asset Retirement Obligations

Upon adoption of Statement 143 on January 1, 2003, WPSRC recorded an asset retirement obligation of $324.8 million for the decommissioning of the Kewaunee nuclear power plant and other identified legal retirement obligations. The difference between previously recorded liabilities of $290.5 million and the cumulative effect of adopting Statement 143 was recorded as a regulatory liability under Statement 71.

Unrealized Gain on Decommissioning Trust

Investments in the Kewaunee nuclear power plant's qualified and nonqualified decommission trusts are recorded at fair value. The investments are presented on WPSRC's balance sheet net of related income tax effects on unrealized gains and represent the amount of assets available to accomplish decommissioning. The nonqualified trust investments designated to pay income taxes when unrealized gains become realized are classified as other assets. At December 31, 2003, the amount classified as other assets was $22.5 million. A corresponding regulatory liability of $22.5 million has been recorded to reflect the expected reduction in future rates as unrealized gains in the nonqualified trust are realized. In connection with the anticipated sale of Kewaunee, the funds collected from customers for the decommissioning obligation related to the nonqualified trust are expected to be refunded to customers in accordance with yet-to-be-determined regulatory guidelines.

Discontinued Operations

Summary

WPSRC has entered into sales agreements associated with its Sunbury operations and the Kewaunee nuclear power plant. For financial reporting purposes, the company has analyzed each transaction in accordance with FAS No. 144 and has concluded that Sunbury qualifies for discontinued operation treatment. WPSRC believes the proposed Kewaunee sale does not currently qualify for treatment as an asset held for sale and due to continuing involvement and other factors, will never qualify to be reported as discontinued operations.

The Sunbury asset purchase agreement was not included in the data room.

Guarantees

Summary

Below is a summary listing of the guarantees entered into by the company and its subsidiaries.

US$ in millions	2002	2003	Jun-04
Guarantees of Subsidiary Debt	38.8	39.7	27.2
Guarantees Supporting Commodity Transactions of Subsidiaries	584.3	874.4	872.0
Standby Letters of Credit	22.7	61.1	35.7
Surety Bonds	6.4	1.1	0.6
Other Guarantee	-	5.5	5.5
Total	652.2	981.8	941.0

Source - Form 10K

Guarantees of Subsidiary Debt

This balance mainly represents outstanding debt at two WPS PDI subsidiaries in the amount of $27 million.

Guarantees of Supporting Commodity Transactions of Subsidiaries

The Board of Directors authorized management to issue corporate guarantees in the amount of up to $1.2 billion to support WPS ESI. As of June 30, 2004 the amount of the guarantees to support the operations of WPS ESI is $842.9 million.

Other

The company has a detailed schedule that tracks and controls the reporting and monitoring of these guarantees as well as the company's compliance with its limitations.

Within the Form 10K, it was disclosed that WPSRC has obligations totaling $395.6 million for either capacity or energy related to purchase power through 2015. Through discussions with management, it was noted that these contracts actually only extend through 2009.

Variable Interest Entities

Summary

The company performed an assessment of variable interest entities during 2003 and 2004 and identified the WPSR Capital Trust I as a special purpose entity that required deconsolidation. The primary impact of the deconsolidation was a $50 million reduction of mezzanine equity, a $51.5 million increase in debt, and the establishment of an asset representing the investment in the trust of $1.5 million.

The company evaluated various entities which were determined to be excluded from the scope of FIN 46 due to exceptions presented in paragraph 4 and 6 of the interpretation. The company also considered the impact of its equity ownership in the synthetic fuel processing plant and its purchase power and sales agreements, but does not believe these entities or agreements need to be consolidated or deconsolidated.

Employee Benefits

Summary of Benefits

The company provides to certain employees, benefits that include medical, dental and life insurance as well as pension, 401(k), ESOP benefits, and other post retirement and post employment benefits. Other post retirement and post employment benefits include survivor income benefits, long-term disability benefits, and post employment retirement medical, dental and life insurance.

The company also offers to certain employees and directors certain long-term and short-term incentive compensation plans as well as deferred compensation plans. See list of benefits provided below.

Purchase Accounting

The company has exposures related to employee benefits that must be estimated that are subject to significant judgment including self-insurance reserves and assumptions used in calculating long-term benefits for pension, post-retirement and post-employment obligations. Purchase accounting requires these obligations to be recorded at fair value and the use of new assumptions at the acquisition date in the calculation of the liability related to the long-term benefits. We have not been engaged and have not performed due diligence procedures associated with these exposures but recommend you and your other professional service advisors consider the exposures and purchase accounting impact of these benefits.

List of Plans and Benefits

The following is a list of the plans and benefits provided by the company. See discussion of eligibility and accounting treatment below.

- Pension Benefits - *(FAS No. 87)*
  - Administrative and non-administrative plans
  - Pension restoration plan (unfunded)
  - Supplemental employee retirement plan (SERP)
- Post Retirement Benefits - *(FAS No. 106)*
  - Medical and dental benefits
  - Post retirement life insurance
- Post Employment Benefits – *(FAS No. 112)*
  - Survivor income benefits
- 401(k) and ESOP
- Active Employee Benefits*)*
  - Medical and dental benefits
  - Life insurance benefits
- Incentive Compensation
  - Short-term Omnibus incentive plan (4 sub plans)
  - Long-term incentive plans (rolling 3 year plan)
  - Stock option plans (directors and key employees)

Pension, Post-retirement and Post-employment Benefits

The company has a pension plan that is accounted for in accordance with *FAS No. 87* and includes a minimum pension liability recorded in the regulated and non-regulated segments. The company also offers post-retirement benefits such as medical, dental and life insurance to union and non-union employees and post-employment benefits including survivor income and long-term disability to other certain employees. The company accounts for the post-retirement and post-employment benefits in accordance with *FAS No. 106* and *112*, respectively. The company uses a third party actuary to calculate the pension, post-retirement and post-employment liability. Purchase accounting requires the pension and post-retirement benefits to be revalued using new assumptions as of the acquisition date.

401(k) and ESOP

The company offers 401(k) benefits to both union and non-union employees and matches contributions through an ESOP. The amounts are funded through a third party managed trust.

Incentive Plan

There appears to be a compensation plan based on achieving net income goals which resulted in a 2003 payout as follows:

US$ in millions	2003
Executive Plan - Executive	1.6
"B" Incentive Plan - Exempt	1.3
"C" Incentive Plan - Exempt	0.8
Goal Sharing:	
Exempt	1.6
Non-union	0.5
Total	5.8

Source - Audit Work Papers

Bonus Plan

The bonus plan had a total 2003 payout of $2.4 million to 55 employees with a range from approximately $10,000 to $323,000 per employee.

The PSWC traditionally has not provided for recovery through rates charged to customers for incentive compensation plans. As a result, WPSRC does not recover bonus or goals plan costs through rates.

Equity Investments

Summary

Below is a summary of the company's equity investments as of December 31, 2003.

	2003	
US$ in millions	Investment Amount	Earnings Recorded
American Transmission Company	79.9	10.1
Guardian Pipeline	27.4	1.2
Wisconsin River Power Company	12.8	4.7
Other	4.9	?
Total	125.0	16.0

Source - Form 10K

American Transmission Company

See ATC Investment under Purchase Accounting Considerations.

Synthetic Fuel

Summary

The company has recorded activity associated with its synthetic fuel operation which is summarized below. Many agreements associated with these activities expire in 2007. The company has net equity in synthetic fuel operations of approximately $1.6 million at December 31, 2003 and a deferred gain of approximately $9.2 million and $8.0 million at December 31, 2003 and June 30, 2004, respectively.

US$ in millions	FY02	FY03	YTD Jun-04
Loss from operations	(10.3)	(20.9)	(10.9)
Gain on disposal	38.0	7.6	3.8
Minority interest		5.6	1.1
Income tax	(12.3)	2.7	2.1
Tax credits	23.2	18.1	8.8
Net impact	38.6	13.1	4.9

Source - Data room and Form 10-k

Gain on Disposals

WPSRC has several transactions which resulted in gains on disposal. The first transaction occurred in 2001 and was fully recognized in earnings during 2002. During 2002 the company sold 30% of its interest in the synthetic fuel operation and entered into two financing arrangements associated with the sale. The company is accounting for the transaction on the installment method and has recorded a deferred gain as noted below. The company also had a note receivable of approximately $13.0 million that is generating a portion of the interest income presented below. The company anticipates recognizing the deferred gain and other income associated with the sale as follows:

US$ in millions	2003	2004	2005	2006	2007	Total
Deferred gain	2.3	2.3	2.3	2.3	2.3	11.5
Variable note payment	3.2	3.6	3.7	3.9	4	18.4
Interest on fixed note	2.1	1.7	1.3	0.9	0.4	6.4
	7.6	7.6	7.3	7.1	6.7	36.3

Source - Data room

At June 30, 2004, the company has a deferred gain recorded on the balance sheet of approximately $8.0 million which is being amortized over the period of the installment sale. The amortization of the deferred gain as well as the interest components are included in the gain on disposal recorded in the income statement in 2003 and YTD June 30, 2004 presented above.

Asset Impairment

Long-lived Tangible Assets

In accordance with FAS No. 144, the company performed an asset impairment analysis for each of the PDI long lived assets. The results of these impairment analyses indicated that no impairment existed as of September 30, 2004 although, the margin at the Westwood facility was nominal and could result in a write-down of this asset in purchase accounting. Additionally, not enough information was provided in either the auditor work papers or the data room to adequately address the underlying assumptions used in the analyses. We recommend that you consider this in purchase accounting and in considering the value of the PDI business.

Goodwill

Goodwill recorded by the company was $36.4 million at June 30, 2004. The goodwill relates to the merger with Wisconsin Fuel and Light. The company performed its annual impairment test in accordance with FAS No. 142 during the second quarter of 2003 resulting in no impairment. See discussion of impairment methodology below.

Wisconsin Fuel and Light – Impairment Analysis Methodology

Based on the impairment analyses prepared by the company, the goodwill relative to its gas utility segment does not appear to be impaired. All of the value indicators suggest that the fair value of the gas utility segment is well in excess of the carrying value including goodwill. Shareholder value reports were used to determine the fair market value. The annual impairment test used valuation metrics from the January 7, 2004 A.G. Edwards publication for the current market expectations. The valuation metrics from the October 2, 2001 A.G. Edwards publication were used for the merger market expectations. These metrics have not changed from that date. Nothing has occurred during the second quarter of 2004 that would suggest these metrics have materially changed for the type of companies being assessed.

Unbilled Revenue

Summary

WPS and UPPCO record unbilled gas and electric revenue monthly for gas and electric sales to customers from the date of their last meter read to month end. The amount of unbilled revenue is allocated to customers based on estimated historical use per customer class, except large commercial and industrial customers who are billed actual electric usage. A significant assumption included in WPS's calculation of unbilled revenue is the likelihood that historical usage and rates per customer class are consistent with the current period of accrual. You should consider the impact of management's assumptions associated with unbilled revenues in your assessment of the accrued unbilled revenue and related revenue stream.

A summary of unbilled revenue is presented below.

US$ in millions	FY02	FY03
WPSC	47.3	51.3
UPPCO	3.0	3.2
ESI	55.6	35.5
	105.9	90.0

Source - DT workpapers

Inventory

Summary

The company's inventory consists of the following as of December 31, 2002 and 2003:

US$ in millions	Dec-02	Dec-03
Fossil fuel		
WPSC	$ 16.3	$ 14.9
UPPCO	0.2	0.5
PDI	2.1	1.5
	18.6	16.9
Gas in storage		
ESI	60.7	110.5
WPSC	31.0	50.9
	91.7	161.4
	$ 110.3	$ 178.3

Source - DT workpapers

The accounting treatment for fossil fuel and gas storage inventory at WPSC and UPPCO is prescribed by regulatory accounting under each entity's respective commission.

Natural gas storage for ESI is generally reported at the lower of cost or net realizable value. As a result, inventory should be written down if the spot price of gas falls below the cost of gas which may also result in a charge to earnings, depending on the company's hedging strategy. Additionally, current accounting treatment may allow for forward sales contracts to be marked to market, while inventory levels remain at cost which may impact earnings in various periods. We also noted based on discussions with management that ESI's accounting policy to determine the cost of injections in storage is different than others in its industry and could provide ESI with the potential to manage earnings. We have not performed due diligence procedures with respect to ESI, but recommend you consider the volatility generated by the accounting described above in your assessment of the company's historical and prospective earnings.

Accounts Receivable

Summary

Customer and other accounts receivable are comprised primarily of balances at ESI, regulated utility operations, and PDI. A summary is provided below. As noted, a separate reserve is not provided for receivables at PDI. Additionally, we have not performed due diligence procedures regarding the accounts receivable and the related reserve for uncollectible accounts at ESI.

US$ in millions	Dec 02	Dec 03
Customer and other accounts receivable, gross		
ESI	178.6	377.3
WPSC	105.0	108.0
UPPCO	7.6	9.8
PDI	8.5	13.1
Other	0.7	0.8
	300.4	509.0
Reserve for uncollectible		
ESI	3.0	1.9
WPSC	3.8	4.4
UPPCO	0.3	0.3
	7.1	6.6
Customer and other accounts receivable, net	293.3	502.4

Source - DT workpapers

Regulated Operations

WPS records utility revenue on the accrual basis of accounting including unbilled receivables which are excluded from the balances listed above and discussed separately.

WPS

The PSCW prescribes that only specific write-offs are charged to income for utility operations in Wisconsin. As a result of this accounting, changes in the reserve for uncollectible accounts are debited or credited against the regulatory asset. It appears from the audit work papers that WPS had a regulatory asset equal to the reserve for uncollectible accounts receivable at December 31, 2003 and 2002

UPPCO

At UPPCO, the company estimated a reserve for uncollectible accounts receivable based on a three year historical average. Changes in the reserve may be reflected in earnings.

PDI

PDI has a limited number of customers which comprise the majority of the accounts receivable balance. The company does not believe a reserve for uncollectible receivables is necessary. We did not identify indicators of uncollectible receivables, but recommend you consider the appropriateness of management's assertion.

Revenue Recognition

Summary

The company's revenues are primarily comprised of activity at ESI and the regulated utilities. The change in percentage of revenues between ESI and the utilities illustrated below primarily results from the company's adoption of EITF 02-03 which is separately discussed in the Risk Management Activities section of this report and is subject to due diligence procedures by your other advisors.

We have discussed significant estimates associated with the utility revenues in the discussion of unbilled revenue and accounts receivable. A summary of revenue by segment is summarized below:

	FY02		FY03	
US$ in millions	Amount	% of total	Amount	% of total
Utilities	1,050.3	72%	1,183.7	27%
ESI	358.8	25%	3,063.2	71%
Other	52.0	4%	74.4	2%
Total	1,461.1		4,321.3	

Source - Form 10-k and DT workpapers

Legal and Environmental

Environmental

WPS has a cooperative arrangement with the Wisconsin Department of Natural resources to prioritize its work on ten former manufactured gas plant sites. WPS estimates future undiscounted investigation and cleanup costs to be in the range of $36.2 million to $40.6 million. At December 31, 2003, WPS had a $36.2 million liability accrued for cleanup with a corresponding regulatory asset recorded. WPS has received $12.7 million in insurance recoveries that have been recorded as a reduction of a regulatory asset that had been created. WPS expects to recover cleanup costs, net of insurance recoveries, in future customer rates. Under current PSCW policies, WPS will not recover carrying costs associated with cleanup expenditures and expects to include long-term operation and maintenance costs associated with these sites in future rate requests. The sites and estimated cleanup costs are as follows:

US$ in millions	Estimated Site and Clean-Up Costs
Marinette, WI	7.1
Sheboygan, WI Gas Plant 1	0.4
Sheboygan, WI Gas Plant 2	11.2
Oshkosh, WI	3.8
Stevens Point, WI	0.9
Green Bay, WI	2.2
Two Rivers, WI	5.0
Menominee, MI	3.1
Manitowoc, WI	4.4
Wausau, WI	2.5
Total	40.6

Source - Form 10K

We understand that WPS has limited ability to recover its remaining cleanup costs through its existing insurance coverage because of prior settlements with it carriers and an unfavorable Wisconsin court decision. A subsequent, favorable court decision has resulted in WPS, with the assistance of a law firm, reassessing its potential for insurance recovery. Additionally, there may be insurance carrier recovery potential from the Wisconsin Fuel and Light sites.

WPS also has an informal agreement under which it has agreed to pay 17% of the investigation and remediation costs associated with the GENCO Ash Landfill located in the Upper Peninsula of Michigan. WPS's estimated share of the cost is $280,500.

Legal

In 2003 a fuse plug at the Silver Lake reservoir owned by WPs was breached. Silver Lake is located in Michigan's Upper Peninsula near Marquette, Michigan. It is the uppermost impound of the Dead River Hydroelectric Project, and is used by WPS to store spring runoff of regulated releases and power generation late in the year. As a result of heavy rain experienced in the area, the fuse plug that had been recently installed at Silver Lake was activated, releasing sustained flows to the fuse flow plug spillway channel. These sustained flows ultimately led, contrary to design expectations, to the erosion of the entire fuse plug embankment and foundation. This resulted in the release of 25,300 acre-feet of water from the Silver River into the Dead River. The release of water eroded the river banks on the Dead River, and resulted in large releases from WPS's dams downstream. The Tourist Park dam owned by the Marquette Board of Light & Power was overtopped and failed. The debris and water carried downstream from the Tourist Park Dam failure entered into the cooling water intake of Wisconsin Electric Power Company's Presque Isle coal-fired thermal power station, ultimately shutting it down. As of early 2004, no lawsuits had been filed, and WPS has been working with federal and state agencies in their investigations. WPS's insurance carriers have been informed of the incident. Through September 2004 claims of approximately $62 million have been filed, the two largest from Cleveland-Cliff and Wisconsin Electric. WPS believes it is insured in amounts that are sufficient to cover its responsibilities and that deductibles and self-retentions on the policies are not material. It has $100 million of coverage for claims, with a $1 million deductible, and $350 million coverage for its property damages, with a $1 million deductible. WPS also expects to receive a significant third-party contribution from the design engineer for the fuse plug. In 2003, WPS received approval from the Michigan Public Service Commission and the FERC for deferral of costs that are not reimbursable through insurance or recoverable through its power supply cost recovery mechanism. Recovery of costs deferred will be addressed in future rate proceedings. As of December 31, 2003, WPS had deferred $3.2 million and expensed $1 million of costs. WPS also recorded a $1.6 million insurance receivable.

The PSCW has established certain requirements for all utilities subject to its jurisdiction with respect to stray voltage. WPS believes that it is in compliance with the requirements but it is involved with seven cases involving stray voltage problems. In 2003 the Supreme Court of Wisconsin ruled that a utility could be liable in tort to a farmer for damages from stray voltage even though the utility had complied with the PSCW's requirements. One of the pending cases, Russell Allen v. PSCW, was on appeal as of September 2004 in the Wisconsin Court of Appeals from a jury verdict that awarded the plaintiff $750,000 of economic damages and $1 million for nuisance. WPS has insurance coverage for the claims, but the policies have a $1 million self-insurance retention per occurrence. As of December 31, 2003, four pending cases had trial dates between January 2004 and January 2005. The remaining cases were settled favorably or dismissed by the plaintiff. Based upon the information known, and the availability of insurance, WPS believes that the total cost to it of resolving these types of actions will not be material.

As of December 31, 2003, WPS had $505,000 for probable and estimable claims. WPS's policy is to only accrue for claims with a loss exposure that exceeds $25,000.

Acquisitions

Summary

WPSRC has been involved in a number of acquisitions and divestitures. Below is a summary of the activity for 2002 through 2004 for these transactions.

	Year of Activity					
US$ in millions	2002	2003	2004	Acqusition or Divestiture?	Purchase Price	Comments
Quest Energy, LLC	X			Acquisition	0.7	Exercised option and acquired 100% interest
DePere Energy Center	X			Acquisition	120.4	Created new agreement
ECO Coal Pelletization (Syn Fuel)	X	X	X	Both	n/a	Acquired in 2001 and sold 30% interest in 2002
Canadian Retail Gas Business	X			Acquisition	61.1	2 year earnout ending October 31, 2004
CH Resources, Inc	X			Acquisition	59.2	Changed name to WPS Empire State, Inc.
Kewaunee Plant			X	Divestiture	130.0	Retaining non-qualified decommissioning trust
Transmission Line (TL)		X		n/a	n/a	Owns a 19.8% investment in TL
Guardian Pipeline		X		Acquisition	26.0	Accounted for as an equity investment
Sunbury		X		Divestiture	n/a	Classified as an asset held for sale
Advantage Energy			X	Acquisition	?	3 year earnout payment

Source - Data Room

Canadian Retail Gas Business

The Canadian Retail Gas Business has a two year earnout that ends in October 31, 2004.

Advantage Energy Agreement

The Advantage Energy agreement has a three year earnout that began in 2004.

Utility Wholesale Power Sale Results

We have asked for data about the operating results for electric power wholesale opportunity sales to assist in assessing the volatility of utility earnings. WPS is in the process of responding to this request.

Change in Control Provisions

Summary

Change in control provisions as noted in our review of the data room documents are as follows.

Key Executives

Effective August 15, 2003, Charles Schrock was promoted to President and COO-Generation, and Lawrence T. Borgard was named President and COO-Energy Delivery. The individual employment contracts for each executive provide for a continuance of salary and benefits for a maximum period of three years after a change in control or anticipated change in control. Each employment and severance agreement also provides a cash termination payment should there be a termination of the officer's employment after a change in control or anticipated change in control. Generally, total termination payments are not to exceed the present value of 2.99 times the executive's salary and annual bonuses for the five years immediately preceding a change in control. Certain officers may receive termination payments plus a tax gross up payment exceeding 2.99 times average annual salary, portions of which may not be tax deductible by WPS.

Summary Change of Control Provisions

Below is a summary of the change of control provisions which are included in agreements with approximately ten executives.

The term "Change in Control" shall mean the occurrence of any;

- any person is or becomes the beneficial owner of securities representing at least 30% of the combined voting power
- one half of the members are not continuing directors.
- there shall be consummated a merger, consolidation or reorganization with any other corporation as a result of which less than 50% of the outstanding voting securities of the surviving entity are owned by the former shareholders'
- there shall be consummated any merger of the company or share exchange involving the company in which the company in which each of the holders of the company's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger
- there shall be consummated any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the company to a person which is not a wholly owned subsidiary of the company
- shareholder approve any plan or proposal for the liquidation/dissolution of the company

Other Employees

Per review of available employment agreements we noted that several other employees have termination payment clauses in their contacts. These payments are generally payable when termination occurs without cause.

Stock Option

As part of its long-term incentive compensation plans, the Company offers stock option plans which are issued to directors and certain key employees at the discretion of the board of directors. Key employee awards are made under the *1999 Stock Option Plan,* and the *2001 Omnibus Incentive Compensation Plan.*

Change in Control

Below is the change of control provisions from the stock option agreements.

Change in control of the company shall be deemed to have occurred if:

- any person is or becomes the beneficial owner of securities of the company representing at least 30% of the combined voting power of the company's then outstanding securities;
- one-half or more of the members of the Board are not continuing Directors;
- there shall be consummated any merger, consolidation or reorganization of the company with any other corporation as a result of which less than 50% of the outstanding voting securities of the surviving or resulting entity are owned by the former shareholders of the company other than a shareholder who is an affiliate or associate of any party to such consolidation or merger;
- there shall be consummated any merger of the company or share exchange involving the company in which the company is not the continuing or surviving corporation other than a merger of the company in which each of the holders of the company's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger;
- there shall be consummated any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company to a Person which is not a wholly owned subsidiary of the Company; or
- the shareholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company.

Other Deal Issues and Observations

Information Technology Controls

The company had Jefferson Wells perform a Sarbanes Oxley and NERC review of its information technology controls. Jefferson Wells identified "a number of significant issues regarding lack of controls for systems security and a formal business continuity plan." Overall, there were ten improvements noted that were both classified as high and medium priority items. The most significant improvement was WPSRC's lack of a disaster recovery plan for its core IT areas. The company responded to Jefferson Wells' recommendation for a disaster recovery plan by indicating that a formal disaster recovery plan is planned to be implemented by December 2005.

Management Comment Letter

The company received a management comment letter from Deloitte & Touche. Deloitte & Touche identified 19 internal control issues and management provided its responses to each control issue. Based on our reading of the management comment letter, it appears that the most significant control issue was that there were some cash flow hedges that were not properly recorded as cash flow hedges. The magnitude of this issue was not quantified.

Recent SEC Correspondence

The company received an SEC comment letter on May 28, 2003. The letter related to the company's December 31, 2002 Form 10-K and March 31, 2003 Form 10-Q, as well as the Form S-3 filed in 2003. The comments were addressed by the company and subsequently cleared by the SEC in August of 2003.

Sarbanes Oxley

The company engaged KPMG to perform Sarbanes Oxley 404 readiness. The company and KPMG have documented, tested, and assessed the internal controls on 198 sub-processes. The company has not identified any material weaknesses. However, the company did identify some deficiencies and some areas that were considered significant deficiencies for remediation as discussed below. As of September 8, 2004, the Company has completed the work on 97% of the sub-processes.

Readiness costs for the company (approximately $1.2 million) were just slightly above the FEI Survey Average. External costs were primarily for KPMG to assist with project management, provide consultation, and assist with documentation of controls.

Audit of Internal Controls

WPSRC's external auditors (Deloitte & Touche) have started their audit of the company's internal controls in compliance with Sarbanes Oxley in May 2004. Since that time, they have completed or started walk-throughs and design effectiveness on about half of the sub-processes. They estimate they are about 40% complete with their overall review. Deloitte & Touche has not found any material weaknesses. However, they have also identified deficiencies and some significant deficiencies. The company is in the process of remediating all of these deficiencies and expects to be in compliance with Sarbanes Oxley 404 by year-end 2004.

Issues Noted and Remediation Status

Deficiencies along with the remediation status noted by the company were as follows:

- General Computer Controls
  - Program change controls (partially remediated)
  - System access and monitoring (substantially remediated)
  - Back up and recovery (remediated)
- Process Controls
  - Energy trading (partially remediated)
  - Financial reporting (remediated)
  - Policies and procedures (development, updating, and documentation) (substantially remediated)

Value of ESI Business

We suggest that Alliant Energy review with its bankers or other appropriate advisors the impact of the ESI business on WPSRC's stock price given its recent robust earnings. Issues to consider include the expected sustainability of those earnings, the ease with which competitors could enter the business, whether WPSRC has indeed created a niche business or has unique knowledge, processes or skills that others could not easily duplicate, and to what extent competition could reduce margins in the areas that ESI is currently generating significant margins.

MATTERS REQUIRING FOLLOW-UP

We have not yet received the following items that were requested from the company

- WPSRC Debt Agreements
- Sunbury Asset Purchase Agreement
- Excess Power Purchase Agreements
- Emission Allowance details

ATTACHMENTS

Naming Conventions

Appendices

1 Summary of Due Diligence Services

2 Certain Terms of Engagement

Schedules

1 2003 Passed Audit Adjustments and Reclassifications

2 Q1 2004 Passed Review Adjustments and Reclassifications

3 Q2 2004 Passed Review Adjustments and Reclassifications

Naming Conventions

The following naming conventions are used in this memo.

"company", "WPSRC"	WPS Resources Corporation
WPS, WPSC	Wisconsin Public Service Corporation
UPPCO	Upper Peninsula Power Company
Utility	WPS and UPPCO, collectively
WPS ESI	WPS Energy Services
WPS PDI	WPS Power Development
"Alliant Energy"	Alliant Energy Corporation
EPS	Earnings per share
PSCW	Public Service Commission of Wisconsin
2003 & FY03	Fiscal year ended December 31, 2003
GAAP	Generally accepted accounting principles in the United States
NOL	Net Operating Losses
SAB	SEC Staff Accounting Bulletin
SEC	US Securities and Exchange Commission
SG&A	Selling, general and administrative
US$	Convention for referencing the reporting currency. All dollar amounts are in millions unless otherwise noted.
YTD	Year to date

Appendix 1 Summary of Due Diligence Services

[Insert summary of due diligence and other transaction services here]

Appendix 2 Certain Terms of Engagement

We conducted our services in accordance with the *Statement on Standards for Consulting Services* established by the American Institute of Certified Public Accountants ("AICPA").

The services we provide may include advice and recommendations, but all decisions in connection with the implementation of such advice and recommendations shall be the responsibility of, and made by, Alliant Energy Corporation[1]. In connection with the performance of our services, we are entitled to rely on all decisions and approvals made by Alliant Energy Corporation.

Alliant Energy Corporation is responsible for obtaining all necessary authorizations and consents from the company in order to permit us to perform our engagement on your behalf, including disclosure of company confidential information to us in connection with the proposed transaction.

Our services are limited in nature and do not comprehend all matters relating to the company that might be pertinent or necessary to your evaluation of the proposed transaction. Accordingly, our work should not be taken to supplant other inquiries and procedures that you should undertake in connection with your evaluation of the proposed transaction. The sufficiency of the work we performed is solely the responsibility of Alliant Energy Corporation. Consequently, we make no representation as to the sufficiency of our work for your purposes. In addition, we have no responsibility for performing any services beyond those we have agreed to with you or for updating our work.

Our services do not constitute an audit conducted in accordance with generally accepted auditing standards, or an examination of internal controls, or other attestation or review services, in accordance with standards established by the AICPA. Neither we nor this memo nor any other communications express an opinion or any other form of assurance with respect to any matters as a result of our work including, without limitation, concerning the (i) financial statements of the company or any financial or other information, or operating or internal controls of the company, taken as a whole, for any date or period, (ii) merits of the proposed transaction, including, without limitation, the consideration to be paid, (iii) future operations of the company, or (iv) fairness of the contemplated terms of the proposed transaction.

[1] Throughout this Appendix, the word "you" or "your" refers to Alliant Energy Corporation

The company's financial statements, including, without limitation, the application of generally accepted accounting principles ("GAAP") to record the effects of the proposed transaction, are the responsibility of the company's management. Accordingly, our comments, if any, relating to the accounting treatment of selected balances or transactions or the application of GAAP to the proposed transaction as a whole are intended to serve only as general guidance to assist you to better understand certain accounting matters related to the company and the potential effects of the proposed transaction. These comments are necessarily based on our preliminary understanding of the pertinent facts and circumstances and on current authoritative literature and are, therefore, subject to change. Our comments do not constitute a report on the application of accounting principles in accordance with standards established by the AICPA.

Our services do not constitute (i) a recommendation regarding the acquisition or financing of any business, assets, liabilities or securities; (ii) a market or financial feasibility study; (iii) a fairness or solvency opinion; or (iv) an examination or compilation of, or the performance of agreed-upon procedures with respect to, prospective financial information in accordance with standards established by the AICPA. Our services, this memo, and any other communications are not intended to be, and shall not be construed to be, "investment advice" within the meaning of the Investment Advisers Act of 1940. It is understood that we will not provide, nor will we be responsible for providing, legal advice.

Financial forecasts are the responsibility of your management or the company's management, as the case may be. In this regard, your management or the company's management, as the case may be, is responsible for representations about its plans and expectations and for disclosure of significant information that might affect the ultimate realization of the forecasted results, and we have no responsibility therefore or for the achievability of the results forecasted. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Our work is heavily dependent upon you and your representatives and advisors, and the company and its representatives and advisors, having provided us not only accurate and complete versions of materials and information requested by us, but also all relevant materials and information and full and accurate answers to our questions. We have no responsibility for the accuracy or completeness of information provided by, or on behalf of, you or the company even if we had reason to know or should have known of such inaccuracy or incompleteness. This engagement cannot be relied upon to disclose errors or fraud should they exist.

This memo and any attachments are solely for your informational purposes and internal use in connection with the proposed transaction and are not intended to be relied upon by or for the benefit of any other person or entity. Neither this letter nor any attachments will be circulated, quoted, disclosed, or distributed by you to, nor will reference to this letter or any attachments be made by you to anyone, without our prior written authorization.

Schedule 1 2003 Passed Audit Adjustments and Reclassifications

US$ in thousands

1. To adjust accumulated depreciation and loss on property disposal			
	Dr. Accumulated Depreciation-Nonutility Property	119	
	Cr. Loss on Disposition of Property		119
2. to correct recorded installation costs of meters			
	Dr. Utility Plant in Service	159	
	Cr. Deferred Meter and Transformer Installation Costs		159
3. To adjust deferred taxes for WPSC and UPPCO			
	Dr. Accumulated Deferred Income Taxes	216	
	Cr. Regulatory Liabilities		216
4. To reclassify insurance recoveries from current to long-term			
	Dr. Other A/R - Current	3,900	
	Cr. LT Receivables		3,900
5. To reclassify construction projects that have been placed in service			
	Dr. Utility Plant in Service	1,400	
	Cr. Construction WIP		1,400
6. To true-up unbilled revenue for the difference between estimated and actual revenues			
	Dr. Unbilled Revenue	97	
	Cr. Revenue		97
7. To record effects of TCC contract			
	Dr. ST Risk Management Assets	667	
	Dr. LT Risk Management Assets	593	
	Cr. ST Risk Management Liabilities		667
	Cr. LT Risk Management Liabilities		593
8. To recognize imputed interest on prepaid power transaction and reverse fee recorded			
	Dr. Interest Expense	188	
	Dr. Risk Management Liability	409	
	Cr. Operating Expense		597
9. To recognize effect of foreign currency contracts			
	Dr. ST Risk Management Assets	242	
	Dr. LT Risk Management Assets	49	
	Cr. ST Risk Management Liabilities		189
	Cr. LT Risk Management Liabilities		40
	Cr. Unrealized Gain on Risk Management Assets		62

10. To reverse invoice			
	Dr. Operating Revenue	180	
	Cr. A/R		180
11. To adjust A/R allowance			
	Dr. Bad Debt Expense	141	
	Cr. Allowance for Doubtful Accts		141
12. To reverse receivable and liability for margin account			
	Dr. ST Risk Management Liabilities	8,847	
	Cr. Due from Broker		8,847
13. To reverse receivable and liability for margin account			
	Dr. ST Risk Management Liabilities	848	
	Cr. Due from Broker		848
14. To record effect of Boralex			
	Dr. Risk Management ST Assets	303	
	Cr. Risk Management ST Liability		256
	Cr. Unrealized Gain on Risk Management Assets		47
15. To adjust for effect of an input error			
	Dr. Other Comprehensive Income	77	
	Dr. Deferred Tax Asset	52	
	Cr. Risk Management ST Assets		129
16. To reclassify liability to fund ECO #12 operations			
	Dr. Equity Methid Investment	1,100	
	Cr. Accrued Liability		1,100
17. To adjust accrued payroll expense			
	Dr. Accrued Liability	104	
	Cr. Payroll Expense		104
18. To adjust carrying value of emission allowances			
	Dr. Operating Expense	486	
	Cr. Emission Allowance		486
19. To present certain nonregulated energy sales in net basis			
	Dr. Nonregulated Revenues	4,089	
	Cr. Cost of Nonregualted Energy sold		4,089

Entry	Account	Dr.	Cr.
20. To reclassify deferred taxes from noncurrent to current			
	Dr. LT Accumulated Deferred Tax Liability	1,658	
	Cr. ST Accumulated Deferred Tax Liability		1,658
21. To accrue for CWIP in process at December 2003			
	Dr. Construction WIP	272	
	Cr. A/P		272
22. To record over-collected gas costs			
	Dr. Other Gas Revenue	117	
	Cr. Other Accrued Liabilities		117
23. To reclassify current refundable taxes			
	Dr. Prepaid Taxes	1,900	
	Cr. Accumulated Deferred Income Tax		1,900

Source - 2003 Management Representation Letter

Schedule 2 Q1 2004 Passed Review Adjustments and Reclassifications

1.	Dr. Investments	250.0
	Cr. Gain on investments	(250.0)
	to record distribution of stock from cost method of investment	
2.	Dr. Gain on property sale-non operating	172.0
	Cr. Gain on property sale-operating	(172.0)
	to reclassidfy a gain on the sale of property held by the company into operating expenses	
3.	Dr. Short term risk mgt liabilities	7,053.4
	Dr. Long term risk management liabilities	9,689.0
	Dr. Unrealized gains/losses	167.5
	Cr. Short term risk mgt assets	(7,111.4)
	Cr. Long term risk management assets	(9,798.5)
	To reverse mark to market for non-derivative transactions	
4.	Dr. Unrealized gain/loss on risk mgt acitivities	628.0
	Cr. Short term risk management assets	(628.0)
	To reverse mark to market transactions erroneously recorded	

Schedule 3 Q2 2004 Passed Review Adjustments and Reclassifications

US$ in thousands

1. To correct overstatement of cash flow hedge adjustment (ESI)			
	Dr. Other Comprehensive Income	71.0	
	Cr. Mark to Market Gains		71.0
2. To record income tax adjustment regarding Quest settlement (ESI)			
	Dr. Deferred Income Tax Asset	520.0	
	Dr. Current Income Tax Expense	520.0	
	Cr. Deferred Income Tax Expense		520.0
	Cr. Income Tax Payable		520.0
3. To reclassify negative GST tax payable as a tax asset (ESI)			
	Dr. GST Tax Asset	1,027.0	
	Cr. GST Tax Payable		1,027.0
4. To reverse overstated purchase power payable (WPSC)			
	Dr. Purchase Power Payable	57.0	
	Cr. Purchase Power		57.0
5. To reverse overaccrual of gas transportation (ESI)			
	Dr. Accounts Payable	509.0	
	Cr. Cost of Gas		509.0
6. To record equity in earnings due to a special land sale (WPSC)			
	Dr. Investments	1,025.0	
	Cr. Earnings from Equity Investment		1,025.0
7. To correct mark to market on PDI options - Sunbury (Discontinued Operations)			
	Dr. Risk Management Assets	488.0	
	Cr. Gain on Financial Instruments		488.0
8. To accrue an estimated liability for settlement of a conflict in the assignment of a contract (ESI)			
	Dr. Operating Expense	371.0	
	Cr. Accounts Payable		371.0

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