WISCONSIN PUBLIC POWER INC.

FINANCIAL STATEMENTS

Including Independent Auditors' Report

December 31, 2007 and 2006

WISCONSIN PUBLIC POWER INC.

TABLE OF CONTENTS

December 31, 2007 and 2006

Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Wisconsin Public Power Inc.

We have audited the accompanying statement of net assets of Wisconsin Public Power Inc. as identified in the accompanying table of contents as of December 31, 2007 and 2006, and related statements of revenues, expenses and changes in net assets and statement of cash flows for the years then ended as well as the statement of fiduciary net assets as of December 31, 2007 and statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of Wisconsin Public Power Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wisconsin Public Power Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended as well as the activities of the fiduciary fund as of December 31, 2007 and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the footnotes, WPPI adopted the provisions of GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions (OPEB)* effective January 1, 2007.

The Management Discussion and Analysis information enclosed in this report is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Virchow, Krause & Company, LLP

Madison, Wisconsin
February 29, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

WISCONSIN PUBLIC POWER INC.

Management Discussion and Analysis

December 31, 2007 and 2006

Financial Statement Overview

Wisconsin Public Power Inc. (WPPI) discusses and analyzes the condensed financial statements for the years ended December 31, 2007 and 2006 in this overview. The information presented should be read in conjunction with WPPI's financial statements and the accompanying notes.

WPPI follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

WPPI's financial statements include the following. The Statement of Net Assets provides information about the nature and amount of assets and obligations (liabilities) of WPPI as of the end of the year. The Statement of Revenues, Expenses, and Changes in Net Assets reports revenues and expenses for the current year. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash.

Condensed Statement of Net Assets

(dollars in millions)

	2007	2006	2005	2007-2006 Change	2006-2005 Change
Assets					
Current assets	$128.6	$127.6	$102.9	$1.0	$24.7
Noncurrent assets	180.5	218.7	256.9	-38.2	-38.2
Deferred costs	32.1	30.9	30.0	1.2	0.9
Capital assets, net	237.5	182.0	152.4	55.5	29.6
Total assets	$578.7	$559.2	$542.2	$19.5	$17.0
Liabilities and Net Assets					
Current liabilities	$46.9	$34.4	$42.3	$12.5	-$7.9
Deferred credits and other liabilities	55.3	51.7	48.6	3.6	3.1
Long-term debt	381.2	389.0	393.6	-7.8	-4.6
Total liabilities	483.4	475.1	484.5	8.3	-9.4
Net assets	95.3	84.1	57.7	11.2	26.4
Total liabilities and net assets	$578.7	$559.2	$542.2	$19.5	$17.0

Assets

Total assets of WPPI, on December 31, 2007 were $578.7 million, which is an increase of $19.5 million compared to 2006. Total assets on December 31, 2006 were $559.2 million, which is an increase of $17.0 million compared to 2005. During 2007 and 2006 the major contributors to the change in total assets were the changes in capital assets and noncurrent assets.

The largest increase in WPPI's assets is capital assets. Capital assets increased by $55.5 million in 2007 and $29.6 million in 2006 largely as a result of construction work in progress which increased $60.0 million in 2007 and $34.4 million in 2006, offset by normal depreciation. The increase is due to the construction of the Elm Road Project located in Oak Creek, Wisconsin. WPPI has an 8.33% ownership or approximately 51 MW in each of the two 615 MW supercritical coal-fired generators being built by Wisconsin Energy Corporation. The first unit has a guaranteed in-service date of September 29, 2009 and the second unit has a guaranteed in-service date of September 29, 2010. The Elm Road Project is on schedule at this time and is within budget. Please refer to Footnote 11 of WPPI's 2007 financials for a discussion of the current permit status of the Elm Road Project.

Noncurrent assets decreased by $38.2 million in both 2007 and 2006. These decreases in noncurrent assets are primarily related to moving construction and funds for debt service during construction from noncurrent to current assets. The construction funds and borrowed debt service funds for the Elm Road Project are split between funds that are anticipated to be needed in the coming year (current assets) and funds needed more than one year into the future (noncurrent assets). Each year funds are moved to current assets from noncurrent assets to cover the coming year's construction needs and interest payments. WPPI moved $54.1 million in 2007 and $57.0 million in 2006 from noncurrent to current assets to meet the upcoming obligations associated with Elm Road.

Noncurrent assets also include WPPI's investment in the American Transmission Company LLC (ATC). WPPI continues to increase its investment in ATC. In 2007, investment in ATC increased by $6.5 million due to capital contributions of $4.5 million and $2.0 million of earnings retained by ATC. Investment in ATC increased by $11.0 million in 2006 due to $9.4 million in capital contributions by WPPI and $1.6 million in earnings remaining invested in ATC. WPPI had approximately a 5.5% ownership in ATC as of December 31, 2007.

Another impact on noncurrent assets in 2007 and 2006 was additions to the Renewals and Replacements Fund. In 2007, WPPI had a net increase of $3.4 million in the Renewals and Replacements Fund. WPPI contributed $5.0 million to the Renewals and Replacements Fund, with $3.7 million for future capital improvements and $1.3 million related to future long-term maintenance. The contributions were offset by $1.6 million WPPI used in 2007 primarily for capital projects at Boswell 4. The 2007 balance in the Renewal and Replacements Fund of $15.4 million is composed of $8.1 million for capital projects and $7.3 million for future long-term maintenance projects. In 2006, the Renewals and Replacements Fund increased by $6.1 million primarily from the addition of $5.8 million of net earnings to the Fund for future capital projects.

Current assets increased by $1.0 million in 2007 and $24.7 million in 2006. Moving construction and debt service funds to current assets for Elm Road as discussed above is the primary reason for the increase of $24.7 million in 2006.

Deferred Costs increased by $1.2 million in 2007 and $0.9 million in 2006. The increase in both years is primarily related to the fair market value of WPPI's interest rate swaps discussed in the Liabilities section.

Liabilities

During 2007 current liabilities increased by $12.5 million primarily due to a $7.5 million increase in accounts payable related to accrued purchased power expenses and Elm Road project expenditures, as well as a $3.2 million increase in the current maturities of long-term debt. In 2006, current liabilities decreased by $7.9 million primarily related to $6.5 million line of credit that was paid in full and the decrease of $2.5 million in current maturities of long-term debt.

Deferred costs (assets) and deferred credits and other liabilities (liabilities) are both impacted by the mark-to-market value of the interest rate swaps. WPPI entered into variable-to-fixed interest rate swaps to hedge the variable interest rate bond series 2003B, 2003C, and 2005B ("swaps"). In 2006, WPPI adopted the principles of regulatory asset and liability accounting in accordance with SFAS No. 71 to record the unrealized gains or losses from the annual mark-to-market calculations on interest rate swaps. In 2007, the interest rate swaps had a negative fair market value of $3.9 million which is shown as a deferred credit. The corresponding regulatory asset is shown in deferred costs. In 2006, the interest rate swaps had a positive fair market value of $1.7 million which is shown as a deferred cost. The regulatory liability in the same amount is shown in deferred credits. Since the fair market value went from positive to negative the net impact on deferred costs and deferred liabilities in 2007 compared to 2006 was $2.3 million. In 2006 the net impact compared to 2005 was $1.7 million.

Over time, WPPI has deferred revenues for the purpose of stabilizing future rates to the Rate Stabilization Fund. There were no revenues deferred to the Rate Stabilization Fund in 2007. The balance of the Rate Stabilization was $36.6 million at the end of 2007. In 2006 new members contributed $0.8 million to the Rate Stabilization Fund, which increased the Rate Stabilization Fund to $36.6 million in 2006 from $35.8 million at the end of 2005.

Long-term debt decreased by $7.8 million in 2007 and by $4.6 million in 2006 due to the reclassification of long-term debt to current maturities and amortizations of the premiums and losses on reacquired debt.

Change in Net Assets

The change in net assets was $11.2 million in 2007. The increase in 2007 is primarily due to the additional revenue collected through WPPI's rates to members that were designed to collect 145% of debt service, the increase in equity in ATC that is retained in ATC and other investment income. The change in net assets was $26.4 million in 2006. The increase in 2006 was a result of the increase in net assets from continuing operations, including $15.4 million of one-time revenues from refunds related to the sale of the Kewaunee Nuclear Power Plant by Wisconsin Power and Light (WPL) and Wisconsin Public Service Corporation (WPS) and a refund from a WPL rate case that WPPI's Board of Directors has directed be used, in ways that will provide long term benefits for WPPI members and their customers.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

(dollars in millions)

	2007	2006	2005	2007-2006 Change	2006-2005 Change
Operating revenues	$339.0	$294.7	$306.1	$44.3	-$11.4
Operating expenses	334.7	272.5	297.0	62.2	-24.5
Operating income	4.3	22.2	9.1	-17.9	13.1
Nonoperating revenues (expenses)	0.5	4.1	-3.1	-3.6	7.2
Future costs to be (returned) recovered	6.0	-1.1	0.6	7.1	-1.7
Cum effect of change in accounting principle	0.4	1.2	0.0	-0.8	1.2
Change in net assets	$11.2	$26.4	$6.6	-$15.2	$19.8
Beginning year net assets	84.1	57.7	51.1	26.4	6.6
End of year net assets	95.3	84.1	57.7	11.2	26.4

Operating Revenue

Total operating revenues in 2007 were $339.0 million which is a $44.3 million or 15.0% increase from 2006. The increase in total operating revenues in 2007 was driven by the increase in revenue from sales to members[1] and sales to others, which was offset by a decrease in other income as discussed below.

Total operating revenues in 2006 were $294.7 million which is an $11.4 million or 3.7% decrease from 2005. The decrease in operating revenues in 2006 is the result of decreased sales to members and sales to others, offset by an increase in other income as a result of one-time revenues received in 2006 as discussed below.

Revenue from sales to members increased by $54.8 million or 21.8% in 2007 from 2006 as a result of higher operating expenses, primarily purchased power expenses, that were collected from members and an increase in the megawatt hours sold to members. Revenue from sales to members decreased $2.3 million or 0.9% in 2006 from 2005, primarily as a result of lower purchased power and fuel expenses in 2006 compared to 2005.

Energy sales to members were 5,290,102 MWh in 2007, 5,024,694 MWh in 2006 and 4,941,385 MWh in 2005. Energy sales to members in 2007 increased by 265,408 MWh or 5.3% from 2006 as a result of new members, weather and load growth. WPPI had two new members in 2007 and six new members in 2006. These new members accounted for 158,416 MWh or approximately 60% of the increase in energy sales to members in 2007 compared to 2006. Energy sales in 2006 increased 83,309 MWh or 1.7% from 2005. Energy sales to new members in 2006 was 90,421 MWh. Without the new members' energy sales in 2006, energy sales to members would have decreased slightly in 2006 compared to 2005 primarily as a result of weather.

---

[1] Any reference to members refers to both WPPI Members and Non-Member Purchasers. See Footnote 1.

Sales to others increased by $5.3 million or 19.8% in 2007 from 2006 primarily from increased revenue from energy sales into the Midwest Independent System Operator (MISO) market. Sales to others in 2006 decreased $24.7 million, or 48.3%, from 2005. Revenue associated with the MISO Day 2 Market was $8.7 million lower in 2006 than 2005, in part reflecting lower market energy prices in 2006 compared to 2005. Revenue from WPPI's power sales to WPL under the Combustion Turbine Agreements was $8.4 million lower in 2006 due to MISO dispatching the South Fond du Lac units less frequently as discussed below. The remaining decrease in sales in 2006 is a cumulative effect of fewer power sales to various other companies.

Other income in 2006 was unusually high compared to 2007 and 2005 due to the $15.4 million in one-time refunds WPPI received related to the sale of the Kewaunee Nuclear Power Plant by WPS and WPL and a rate refund from WPL in 2006 discussed above.

Operating Expenses

Operating expenses were $334.7 million in 2007 which is a $62.2 million or 22.8% increase from 2006. Increased purchased power expense in 2007 is the primary reason for the increase in operating expenses. Total operating expenses decreased $24.5 million, or 8.2%, in 2006 from 2005. In 2006, the decrease in operating expenses was driven primarily by lower purchased power expenses.

Purchased power expenses, including transmission expenses, accounted for $57.4 million of the increase in operating expenses in 2007. Purchased power expenses increased in 2007 due to the following factors: the expiration of a 50 MW low cost (below market) contract in April 2007, significant rate increases that became effective in 2007 for WPPI's purchases from Wisconsin Electric Power Company (WEPCO) and WPL, increased expenses from the MISO market including increased energy purchases, higher market energy prices and increased uplift expenses, and increased transmission expenses primarily related to higher network service charges from ATC related to the expansion of the ATC system.

Purchased power expenses, including transmission expenses, decreased $14.3 million, or 5.8%, in 2006 from 2005. Excluding transmission expenses, purchased power expenses decreased $17.1 million, or 7.7%, in 2006 from 2005, primarily due to lower fuel adjustment clause charges from WPPI's power suppliers. Transmission expenses increased $2.8 million, or 11.7%, from $24.0 million in 2005 to $26.8 million in 2006, primarily due to an increase in network service rates from ATC.

Fuel expenses were $1.7 million or 11.6% higher in 2007 compared to 2006 primarily as a result of increased generation at WPPI's gas-fired Island Street Peaking Plant. Fuel expense decreased $10.5 million, from $25.1 million in 2005 to $14.6 million in 2006. The decrease is attributable to a decrease in megawatt production from WPPI generation units in 2006 from 2005 as discussed below.

Boswell 4 produced 709,714 MWh in 2007, 744,197 MWh in 2006 and 798,177 MWh in 2005. The decrease in production at Boswell 4 in 2006 and 2007 is due to scheduled outages for duty cycle maintenance in 2006 and a seven week unplanned outage during the spring of 2007 as a result of a generator rewind. South Fond du Lac Units 1 and 4 (SFDL) produced a combined 29,594 MWh in 2007, 21,551 MWh in 2006 and 79,344 MWh in 2005. Production at SFDL was unusually high in 2005 due to the start of the MISO Day 2 market. The Island Street Peaking Plant produced 40,663 MWh in 2007, 24,661 MWh in 2006, and 37,094 MWh in 2005 due in part to improved reliability of the unit in 2007.

Administrative and general expenses were $1.7 million or 13.1% higher in 2007 compared to 2006. Administrative and general expenses increased $1.1 million in 2006 from 2005. The primary factors driving the increases over the past two years were the costs of additional energy conservation programs, growth in number of employees, and salary and benefits adjustments.

Non-Operating Revenues (Expenses)

The change in investment income since 2005 is primarily related to the change in the earnings on the unspent portion of the Series 2005 A and B bond proceeds held in the construction and debt service funds. Investment income decreased by $1.2 million or 10.3% in 2007 from 2006 as WPPI continued to use funds for construction of the Elm Road project. Investment income increased $7.6 million, from $4.1 million in 2005 to $11.7 million in 2006 primarily as a result of holding the unspent bond proceeds for a full year in 2006.

As a result of WPPI's increased investment in ATC and corresponding increase in ATC's rate base, equity earnings in ATC have continued to increase. Equity earnings in ATC increased $1.8 million or 27.8% in 2007 from 2006 and increased $1.5 million or 29.7% in 2006 from 2005.

WPPI experienced an unrealized loss on the interest rate swaps of $5.6 million in 2007 due to the change in mark-to-market value of the swaps compared to an unrealized gain of $1.7 million in 2006. This change does not impact WPPI's overall change in net assets because WPPI utilizes SFAS 71 for the mark-to-market gain or losses on the swaps to match the rate making principles that WPPI utilizes.

Interest expense decreased by $2.7 million in 2007 compared to 2006 primarily due to the increase in AFUDC associated with the Elm Road project. Interest expense increased $5.3 million in 2006 due to a full year of interest expense on WPPI's Series 2005 A and B bonds.

Future Costs to Be (Returned) Recovered

Future recoverable costs increased by $7.1 million in 2007 compared to 2006 primarily due to the SFAS 71 treatment of the 2007 mark-to-market loss on the interest rate swaps as described above. WPPI also applies SFAS 71 to depreciation and amortization expenses for assets that are funded with bond proceeds to insure ratepayers are not charged for both depreciation of an asset and principal payments on the bonds issued to acquire the asset in the same year.

Future costs to be returned or recovered decreased $1.8 million in 2006 compared to 2005 primarily as a result of the $1.7 million mark-to-market gain on the swaps in 2006.

Cumulative Effect of Change in Accounting Principle

Prior to 2007, WPPI had been accruing a liability for other post employment benefits (OPEB) under FASB 106. In 2007, WPPI implemented GASB 45 and set the beginning OPEB liability to zero. The 2007 cumulative effect of the change in accounting principle was $0.4 million.

As noted above, WPPI adopted the principle of regulatory asset and liability accounting in accordance with SFAS 71 to record unrealized gains and losses from the annual mark-to-market calculations on the interest rate swaps. In 2006, $1.2 million that was expensed in prior years was included in income.

Contact Information

This financial report is designed to provide a general overview of WPPI's finances. Questions or requests for additional information should be addressed to: WPPI, Attn: CFO, 1425 Corporate Center Drive, Sun Prairie, Wisconsin 53590.

WISCONSIN PUBLIC POWER INC.

Statement of Net Assets
December 31, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and investments	$ 27,537,196	$ 22,808,817
Restricted cash and investments	68,733,527	73,544,759
Receivables:		
Power sales	24,193,517	21,519,253
Other	448,317	524,047
Unrestricted interest	606,256	552,134
Restricted interest	2,976,900	4,070,421
Total receivables	28,224,990	26,665,855
Inventories	3,704,243	3,566,733
Prepayments	423,560	1,067,880
Total current assets	128,623,516	127,654,044
Noncurrent assets:		
Restricted cash and investments	129,911,572	174,445,019
Investments	553,868	675,801
Investment in ATC	49,785,744	43,269,461
Receivables from members	221,626	281,910
Total non-current assets	180,472,810	218,672,191
Deferred costs:		
Unamortized bond issuance costs	5,197,508	5,533,415
Future recoverable costs	21,886,269	21,542,177
Fair value of interest rate swap	-	1,677,053
Regulatory asset	3,941,135	-
Other	1,112,114	2,117,488
Total deferred costs	32,137,026	30,870,133
Capital assets:		
Electric plant and equipment	211,235,558	210,133,168
Accumulated depreciation and amortization	(97,037,685)	(91,388,605)
Electric plant and equipment, net	114,197,873	118,744,563
Land	242,008	242,008
Construction work in progress	123,057,401	63,063,956
Total capital assets	237,497,282	182,050,527
Total assets	$ 578,730,634	$ 559,246,895

See accompanying notes to financial statements and independent auditors' report.

WISCONSIN PUBLIC POWER INC.

Statement of Net Assets

December 31, 2007 and 2006

	2007	2006
Liabilities and Net Assets		
Current liabilities		
Liabilities payable from restricted assets:		
Current maturities of long-term debt	$ 9,325,000	$ 6,085,000
Accrued interest	5,515,800	5,533,233
Accounts payable	30,206,375	22,705,806
Other current liabilities	1,854,917	89,153
Total current liabilities	46,902,092	34,413,192
Deferred credits and other liabilities		
Operating reserves and other liabilities	12,708,005	11,484,619
Rate stabilization	36,555,985	36,557,320
Fair value of interest rate swap agreement	3,941,135	-
Regulatory liability	-	1,677,053
Asset retirement obligation	2,090,749	1,991,190
Total deferred credits and other liabilities	55,295,874	51,710,182
Long-term debt:		
Revenue bonds (net of unamortized premium)	381,231,881	389,024,923
Total liabilities	483,429,847	475,148,297
Net assets:		
Invested in capital assets, net of related debt	(48,866,238)	(64,967,255)
Restricted	102,626,145	109,501,473
Unrestricted	41,540,880	39,564,380
Total net assets	95,300,787	84,098,598
Total net assets and liabilities	$ 578,730,634	$ 559,246,895

See accompanying notes to financial statements and independent auditors' report.

WISCONSIN PUBLIC POWER INC.

Statement of Revenue, Expenses, and Changes in Net Assets
Years Ended December 31, 2007 and 2006

	2007	2006
Operating revenues:		
Sales to members	$ 306,467,820	$ 251,657,354
Sales to others	31,764,755	26,507,436
Other income	805,842	16,551,993
Total operating revenues	339,038,417	294,716,783
Operating expenses:		
Purchased power	288,945,415	231,584,408
Fuel expense	16,328,096	14,630,152
Other power production	5,702,998	5,021,453
Administration and general	14,619,427	12,923,724
Depreciation and amortization	6,778,266	6,736,109
Taxes	2,372,200	1,656,897
Total operating expenses	334,746,402	272,552,743
Operating income	4,292,015	22,164,040
Non-operating revenues (expenses):		
Investment income	10,495,501	11,704,102
Equity in earnings of ATC	8,391,283	6,565,662
Unrealized (loss) gain on interest rate swap investments	(5,618,188)	1,677,053
Net increase in fair value of investments	439,849	394,479
Interest expense	(11,656,700)	(14,348,365)
Amortization of debt-related costs	(1,867,865)	(1,878,431)
Other	300,640	(33,750)
Loss disposal of assets	366	991
Total non-operating expenses, net	484,886	4,081,741
Change in net assets before future recoverable costs and cumulative effect of change in accounting principle	4,776,901	26,245,781
Future costs to be (returned) recovered	5,962,281	(1,116,678)
Change in net assets before cumulative effect of change in accounting principle	10,739,182	25,129,103
Cumulative effect of change in accounting principle	463,007	1,226,841
Change in net assets	11,202,189	26,355,944
Beginning year net assets	84,098,598	57,742,654
End of year net assets	$ 95,300,787	$ 84,098,598

See accompanying notes to financial statements and independent auditors' report.

WISCONSIN PUBLIC POWER INC.

Statement of Cash Flows
Years ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Cash receipts from members and others	$ 336,481,151	$ 301,144,944
Cash payments for purchased power	(282,593,947)	(231,569,072)
Cash payments for fuel	(16,637,488)	(14,515,840)
Cash payments for operations and maintenance	(5,151,753)	(3,826,016)
Cash payments for payroll and ad valorem taxes	(2,286,177)	(2,490,377)
Cash payments to employees	(5,867,417)	(5,513,725)
Cash payments for administrative and general	(6,663,489)	(7,783,434)
Net cash provided by operating activities	17,280,880	35,446,480
Cash flows from noncapital financing activities		
Cash payments for other non-operating expenses	300,640	(33,750)
Cash flows from investing activities		
Investments purchased	(81,115,080)	(62,590,405)
Investment in ATC	(4,453,456)	(9,405,938)
Investments sold	138,451,563	95,763,613
Investment income	12,130,442	10,032,286
Cash distributions received from ATC	6,328,456	4,960,039
Net cash provided by (used in) investing activities	71,341,925	38,759,595
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(52,883,406)	(33,223,002)
Proceeds from line of credit	-	(6,500,000)
Principal paid	(6,085,000)	(8,585,000)
Interest paid	(17,853,248)	(15,685,092)
Net cash used in capital and related financing activities	(76,821,654)	(63,993,094)
Increase in cash and cash equivalents	12,101,791	10,179,231
Cash and cash equivalents, beginning of year	76,831,545	66,652,314
Cash and cash equivalents, end of year	$ 88,933,336	$ 76,831,545

See accompanying notes to financial statements and independent auditors' report.

WISCONSIN PUBLIC POWER INC.

Statement of Cash Flows
Years ended December 31, 2007 and 2006

	2007	2006
Reconciliation of operating income to net cash flows from operating activities		
Operating income	$ 4,292,015	$ 22,164,040
Noncash item included in operating income:		
Depreciation and amortization	6,778,266	6,736,109
Cumulative change in accounting principle	463,007	-
Changes in assets and liabilities:		
Receivables	(2,538,250)	5,641,527
Inventories	(137,511)	(179,549)
Prepayments	644,320	(701,318)
Other deferred charges	1,005,374	1,005,374
Accounts payable	5,001,937	(46,762)
Other current liabilities	1,751,585	(829,449)
Operating reserves and other liabilities	21,472	870,865
Rate stabilization	(1,335)	785,643
Net cash provided by operating activities	$ 17,280,880	$ 35,446,480
Reconciliation of cash and cash equivalents to the statement of net assets		
Current assets:		
Cash and investments	$ 27,537,196	$ 22,808,817
Restricted cash and investments	68,733,527	73,544,759
Noncurrent assets:		
Restricted cash and investments	129,911,572	174,445,019
Investments	553,868	675,801
Total cash and investments	226,736,163	271,474,396
Less: long term investments	137,802,827	194,642,851
Total cash and cash equivalents	$ 88,933,336	$ 76,831,545

Non-Cash Activity:
During 2007 and 2006 WPPI recognized $1,678,726 and $1,355,280 of equity earnings in ATC.
During 2007 and 2006 WPPI recognized $97,654 and $90,486 of accretion of long term investments.

See accompanying notes to financial statements and independent auditors' report.

WISCONSIN PUBLIC POWER INC.

Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2007

	WPPI Defined Benefit Plan Trust
ASSETS	
Cash and cash equivalents	$ 271,631
Investments, at fair value:	
Mutual funds	647,919
Total Investments	647,919
Total assets	919,550
LIABILITIES	
Accounts payable	-
Total liabilities	-
NET ASSETS	
Held in trust for pension benefits	$ 919,550

See accompanying notes to financial statements and independent auditors' report.

WISCONSIN PUBLIC POWER INC.

Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2007

	WPPI Defined Benefit Plan Trust
ADDITIONS	
Contributions:	
Employer	$ 881,846
Total contributions	881,846
Investment earnings:	
Interest	46,849
Net decrease in the fair value of investments	(3,070)
Total investment earnings	43,779
Less investment expense	6,075
Total additions	919,550
DEDUCTIONS	
Benefits	-
Total deductions	-
Change in net assets	919,550
Net assets - beginning	-
Net assets - ending	$ 919,550

See accompanying notes to financial statements and independent auditors' report.

(1) Summary of Significant Accounting Policies

(a) Organization and Operations

Wisconsin Public Power Inc. (WPPI) is a municipal electric company and political subdivision of the State of Wisconsin, formed in 1980. The purpose and function of WPPI is to provide an adequate, economical, and reliable wholesale supply of electricity to its members for distribution by the members' electric utilities to their retail customers. WPPI is owned by its member municipalities, which govern its policies. In addition, WPPI provides wholesale electricity to seven municipal utilities and one electric cooperative located in Michigan and Iowa. While not legal members of WPPI, the non-member purchasers ("Non-Member Purchasers") receive service from WPPI under long term power supply contracts ("Long Term Contracts") that are substantially identical to the member's Long Term Contracts. Including Non-Member Purchasers, WPPI served 48 customer-owned electric utilities as of December 31, 2007, with service to a 49^{th} commencing January 1, 2009.

WPPI sells power to its members and non-member purchasers under power sales contracts that remain in effect until December 31, 2037. Under the contracts, WPPI has agreed to sell and deliver to each member, and each member has agreed to take and pay for its electric power requirements, with certain exceptions related to existing member-owned hydroelectric facilities and other specified generation. Also a small percentage of WPPI's operating revenue comes from sales of capacity and energy to other entities including sales in the MISO market.

In addition to its power supply program, WPPI offers various services to members and non-member purchasers that are intended to enable members and non-member purchasers to operate their electric systems more efficiently. The services include rate analyses, rate comparisons, computer network support, large-customer billing, equipment testing, joint purchasing of equipment and supplies, joint arrangements for disposal of hazardous waste, and various energy- and customer-related programs.

WPPI supplies the power requirements of its members and non-member purchasers from a mix of resources, including an undivided 20% ownership in the 535 MW Boswell Unit 4 coal-fired steam unit near Grand Rapids, Minnesota; two 84 MW combustion turbine units near Fond du Lac, Wisconsin; a 54 MW twin pac combustion turbine generator unit in Kaukauna; member generation under contract to WPPI; and power purchases from other entities including the Midwest Independent System Operator (MISO) energy market. Minnesota Power owns the remaining interest in Boswell Unit 4 and is the operating agent responsible for operation and maintenance of the unit. WPPI's undivided ownership interest in Boswell Unit 4 is included in capital assets. WPPI pays 20% of the total cost to operate and maintain Boswell Unit 4. South Fond du Lac Units 1 and 4 are two of the four combustion turbine units located on a site owned by Alliant Energy. Alliant owns the other two units on the site and operates and maintains the units owned by WPPI. WPPI compensates Alliant for these services. WPPI owns the combustion turbine located in Kaukauna and Kaukauna Utilities operates it. WPPI compensates Kaukauna Utilities for operating and maintaining the combustion turbine. The member and non-member purchasers generation under contract to WPPI consists of a number of small generating units, totaling approximately 52 MW of capacity. The remainder of WPPI's power requirements is purchased from other entities.

(b) Basis of Presentation/Chart of Accounts

The financial statements are prepared on the accrual basis of accounting, in conformity with U. S. generally accepted accounting principles, including the application of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effect of Certain Types of Regulation*, as the statement relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process. WPPI uses the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

WPPI complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, WPPI also complies with the pronouncements of the Financial Accounting Standards Board that do not conflict with GASB pronouncements.

(c) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Capital Assets

Additions to and replacements of capital assets are recorded at original cost, including allowance for borrowed funds if acquired with tax-exempt debt. Depreciation is recorded using the straight-line method using service lives of 2 to 35 years. It is WPPI's capitalization policy to capitalize all long-lived assets with an initial cost greater than $2,500.

(e) Deposits and Investments

Investments of WPPI's funds are restricted by Section 66.0825 of the Wisconsin Statutes which states that notwithstanding the provision of any other law, WPPI may invest in any funds in obligations, securities and other investments that the company deems proper. Investments are stated at fair value to comply with accounting standards.

(f) Restricted Cash and Investments.

WPPI's bond resolution requires the segregation of bond proceeds and prescribes the application of WPPI's revenues. Amounts classified as restricted cash and investments on the balance sheets represent cash and investments whose use is restricted by the bond resolution.

It is WPPI's practice to use restricted funds on hand, when applicable, before using unrestricted funds.

(g) Unamortized Bond Issuance Costs

Bond issuance costs are amortized over the repayment period of the related issues using a method that approximates the effective-interest method.

(h) Future Costs to be (Returned) Recovered

Revenues from members include amounts to pay bond principal and interest. For financial reporting purposes, WPPI recognizes depreciation and amortization pertaining to fixed assets and other assets financed by bond principal. As allowed through the application of the provisions of SFAS No. 71, future recoverable costs represent the difference between depreciation and amortization of assets financed with bond proceeds and the related principal recovered in rates in the present period. These costs will be recovered in future periods when the principal amounts exceed the related depreciation and amortization.

In 2006 WPPI adopted the principles of regulatory asset and liability accounting in accordance with SFAS No. 71 to record the unrealized gains or losses from the annual mark to market calculations on interest rate swaps. The gain or loss on the interest rate swaps is recorded under non-operating revenues (expenses) and the deferral of the gain or loss is recorded under future costs to be (returned) recovered. The deferrals are found on the statement of net assets under deferred costs and deferred credits.

(i) Other Deferred Charges

Other deferred charges primarily represent costs associated with the buyout of WPPI's obligations under capacity purchase agreements with two of its members. As allowed through the application of SFAS No. 71, such effects have been deferred and are being amortized for rate-making purposes over the original terms of the capacity purchase agreements, which expired in 2007 and will expire in 2009, respectively.

(j) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are cash and investments having an initial maturity of three months or less when purchased.

(k) Power Sales Accounts Receivable

Power sales accounts receivable, representing power sales to members for the period between the last billing date and the end of the period, are accrued in the period sold. Due to the membership relationship and the high degree of collectibility, no allowance for uncollectible accounts is necessary.

(l) Inventories

Inventories include fuel and repair spare parts. They are charged to plant or operation and maintenance expense at average cost when used. Inventories are valued at the lower of average cost or fair value.

(m) Rates

Rates are reviewed and adopted by WPPI's Board of Directors annually. Under WPPI's bond resolution, WPPI's rates are expected to yield net revenues for an annual period equal to at least 1.10 times the aggregate debt service for that period. Rates are not subject to state or federal regulation.

Beginning in 2004, in December of each year the Board of Directors determines how to distribute the margin above 110%. As allowed through the application of the provisions of SFAS No. 71, the margin may be deposited in the Rate Stabilization Fund and is also reported as deferred credits on the accompanying statement of net assets to be distributed in future years as revenues in the statement of revenues, expenses, and changes in net assets to cover costs that otherwise would be recovered through its rates to members. For the year ended December 31, 2007 no revenue was deferred, however, $1,652,000 was used and replenished. In 2006, $800,643 was added to the Rate Stabilization Fund from member contributions.

(n) Purchased Power

WPPI has purchased power contracts of varying longer-term duration with a number of suppliers to meet the members' power requirements. WPPI currently purchases a total of approximately 650 MW from Wisconsin Electric Power Company ("WEPCO"), Wisconsin Power and Light ("WPL"), Wisconsin Public Service Corporation ("WPS"), and Constellation Energy Commodities Group, Inc. ("Constellation").

WEPCO – Power Sales Agreement. WPPI purchases firm partial requirements service from WEPCO under a Third Revised Power Sales Agreement dated April, 1, 2005 (the "WEPCO Power Sales Agreement"). The initial term of the WEPCO Power Sales Agreement ends April 30, 2025. WPPI pays FERC approved formula based average embedded cost rates under the WEPCO Power Sales Agreement. WPPI has committed to purchase 250 MW through the contract year beginning June 1, 2008, 230 MW for the contract year beginning June 1, 2009 and 180 MW for the contract year beginning June 1, 2010. Subject to the restriction that WPPI's nomination may only be reduced by a maximum of 50 MW from the prior year's nomination, WPPI is not obligated to purchase a minimum amount of power under the Agreement. WPPI is permitted to schedule energy up to the nominated demand at any time, but is not required to take any energy.

WPL – Power Supply Agreement. WPPI purchased 166 MW under the First Revised Power Supply Agreement for the contract year beginning June 1, 2007, and 61 MW in 2007 under all-requirements contracts that were assigned to WPPI. WPPI and WPL entered into a Second Revised Power Supply Agreement ("PSA") on February 4, 2008 that replaced the previous First Revised Power Supply Agreement and the all requirements contracts. The initial term of the Second Revised PSA expires May 31, 2017. Firm partial requirements service purchased under the Second Revised PSA is provided under WPL's partial requirements tariff (PR-1 tariff) filed with FERC. For the contract year commencing on June 1, 2008, WPPI is purchasing a total of 215 MW under the Second Revised PSA. WPPI's nominations are subject to certain minimums and maximums and can change on an annual basis. WPPI nominations can change (up or down) by 25 MW per year. The minimum capacity nomination is 155 MW through May 2014 and then decreases 10 MW per year through May 2017.

Constellation – Kendall County. WPPI purchases, pursuant to the Long-Term Capacity and Energy Purchase Contract with Constellation, approximately 85 MW of capacity and associated energy from the Kendall County Generating Facility Unit 3 ("Kendall County Unit 3"). The Kendall County Generating Facility ("Facility") is a 275 MW gas-fired combined-cycle plant located near Joliet, Illinois, which went into service in 2002. The Facility is owned and operated by LSP-Kendall Energy LLC, a wholly owned subsidiary of LS Power who has been acquired by Dynergy. Constellation has purchased the rights to all of the output of Kendall County Unit 3 through September 16, 2017 at which time the contract terminates.

WPS Long-Term Power Sale and Purchase Agreement. WPPI has a Long-Term Purchase Agreement with WPS that began May 1, 2006. WPPI pays formula based average embedded cost rates under the Agreement. In 2007, WPPI purchased 50 MW from WPS. The purchase will increase to 100 MW on June 1, 2008 and 150 MW on June 1, 2009. The initial term for a 100 MW portion of the contract runs through May 31, 2021 with another 50 MW portion having an initial term running through May 31, 2029. Either party may reduce each of the transactions under the agreement at the end of the initial term or anytime thereafter by giving the other party three years' notice.

(o) Taxes

WPPI is exempt from Federal, Wisconsin, and Minnesota income taxes as a political subdivision of the State of Wisconsin. Tax expense includes Minnesota property taxes, Wisconsin payments-in-lieu-of-ad valorem taxes, payroll-related taxes, and emission fees.

The Minnesota property taxes were over-accrued in prior years. In 2006 WPPI reduced that accrual by $831,386 which reduced tax expense and other current liabilities.

(p) Vacation and Sick Leave

Under terms of employment, employees are granted one day of sick leave per month. Employees are paid annually for any sick leave accrued in excess of 960 hours. Accrued sick leave is not paid to employees when they leave employment.

Employees are allowed to accumulate up to five days of vacation pay. Employees are paid annually for any accrued vacation in excess of five days. In extraordinary circumstances, the Vice President of Customer Services and Administration may allow an employee to accumulate additional vacation in excess of five days. Accrued vacation is not considered material; therefore, no liability is recorded.

(q) Operating Revenues and Expenses

Operating revenues result from exchange transactions associated with the principal activity of WPPI, the sale of electricity. Reported operating revenues are affected by the contributions to or distributions from the Rate Stabilization Fund. Operating expenses are defined as expenses directly related to, or incurred in support of, the provision of electricity and other services to the members. All other expenses are classified as nonoperating expenses.

(r) Fair Value of Financial Instruments

The carrying amount of WPPI's cash and cash equivalents, receivables, and accounts payable approximates fair value because of the short maturities of these instruments. Investments are carried at fair value based on quoted market prices.

(s) Operating Reserves and Other Liabilities

The operating reserves and other liabilities are comprised of the following:

	2007	2006
Self insurance provision	$ 3,405,129	$ 3,265,794
Regulatory credit for long-term maintenance	7,339,746	6,220,217
Arbitrage rebate liability	1,372,507	859,690
Other	590,623	1,138,918
Totals	$ 12,708,005	$ 11,484,619

(t) New Accounting Pronouncements

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This Statement establishes accounting and financial reporting standards for impairment of capital assets. WPPI implemented Statement No. 42 beginning with the year ending December 31, 2006.

In June of 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits other than Pensions.* This Statement establishes accounting and financial reporting standards for post employment benefits other than pensions. WPPI implemented Statement No. 45 beginning with the year ending December 31, 2007.

(u) Cumulative Effect of Change in Accounting Principle

The 2006 cumulative effect of change in accounting principle represents the amounts expensed in prior years to mark to market the interest rate swaps. In 2006 WPPI adopted the principles of regulatory asset and liability accounting in accordance with SFAS No. 71 to record the unrealized gains or losses from the annual mark to market calculations on interest rate swaps.

Prior to 2007 WPPI had been accruing a liability for other post employment benefits (OPEB) under FASB 106. In 2007 WPPI implemented GASB 45 and set the beginning OPEB liability to zero. The 2007 cumulative effect of change in accounting principle was $463,007.

(2) Deposits and Investments

WPPI's bond resolution requires the segregation of bond proceeds and establishment of various funds, and prescribes the application of WPPI's revenues. Also, it defines what type of securities WPPI may invest in. Funds consist principally of cash, money market funds, repurchase agreements, investments in the Local Government Investment Pool, treasury notes, agencies, treasury strips, and corporate bonds. The fund's purposes and balances are summarized below:

Fund	Held by	Purpose
Construction	Trustee	To provide for the acquisition and construction of the power supply system.
Debt Service	Trustee	To accumulate principal and interest associated with each bond series.
Debt Service Reserve	Trustee	To establish a reserve equal to half the largest principal and interest payment that would have to be made in any one year during the remaining life of the bonds.
Revenue	WPPI	To accumulate revenues and to provide for the payment of expenses and for disposition of revenues to various funds.
Renewals & Replacements	WPPI	To provide a reserve to be applied to the payment of the costs of renewals, replacements, and repairs to the power supply system.
Self-Insurance	WPPI	To provide a reserve to be applied to the payment of claims and losses arising from hazards and risks to the extent that the insurance required to be maintained does not cover such claims or losses.
Rate Stabilization	WPPI	To accumulate revenues which will be used to reduce rates in a future period.
Decommissioning	WPPI	To accumulate funds to pay for the eventual costs of decommissioning, retirement, or disposal of major facilities.

	2007	2006
Current		
Cash and investments		
Petty Cash	$ 20	$ 20
Investments	100,000	-
Working Capital	27,437,176	22,808,796
Total current	27,537,196	22,808,816
Restricted cash and investments		
Construction Funds	48,892,996	54,881,090
Debt Service Funds	19,840,531	18,663,669
Total current	68,733,527	73,544,759
Total current	96,270,723	96,353,575
Noncurrent		
Restricted investments		
Debt Service Reserve Funds	16,146,474	17,557,808
Renewal and Replacement Fund	15,414,453	11,985,666
Self-Insurance Fund	3,418,385	3,256,495
Rate Stabilization Fund	36,256,383	36,024,873
Decommissioning	2,591,150	2,368,591
Construction Funds	50,102,857	87,677,636
Debt Service Funds	5,981,870	15,573,950
Total noncurrent	129,911,572	174,445,019
Investments	553,868	675,801
Investment in ATC	49,785,744	43,269,461
Total Noncurrent	180,251,184	218,390,281
Total cash and investments	$ 276,521,907	$ 314,743,856

Investments are stated at fair value, based on quoted market prices. Adjustments necessary to record investments at fair value are recorded in the statements of revenues, expenses, and changes in net assets.

WPPI has an internal investment policy that stipulates its guidelines to help ensure safety of principal, liquidity, and diversification of its investment portfolio. Generally, investments permitted by the policy within the limits of WPPI's bond resolution include U.S. government obligations, state and local government and corporate obligations rated in either of the two highest whole rating categories by a nationally recognized rating agency, guaranteed investment contracts, or a portfolio of such investments in money market funds or mutual funds, and investments in ATC.

WPPI's investments are potentially subject to various risks, including the following:

- **Custodial credit risk** – The risk that in the event of a failure of the counterparty to an investment transaction (typically a brokerage firm or financial institution), the government would not be able to recover the value of the investment or collateral securities.

  Deposits and investments in each bank are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of $100,000 for interest-bearing accounts and $100,000 for non-interest-bearing accounts. Deposits and investments are also insured for $400,000 by the State Deposit Guarantee Fund (SDGF). However, due to the relatively small size of SDGF in relation to the total deposits covered and other legal implications, recovery of material principal losses of the pool may not be significant to WPPI.

  At December 31, 2007 WPPI had $706,832 in bank balances ($274,277 book balances) that were uninsured and uncollateralized deposits. At December 31, 2006 WPPI had $1,375,882 in bank balances ($929,594 in book balances) that were uninsured and uncollateralized deposits. In 2007, WPPI entered into a brokerage agreement with J.P. Morgan Futures to facilitate financial energy transactions through the Intercontinental Exchange. This account is not insured by the FDIC. The balance in the account on December 31, 2007 was $250,088. All investments held as of December 31, 2007 and December 31, 2006 were held in trust on behalf of WPPI in WPPI's name and therefore not subject to custodial credit risk.

- **Credit risk** – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. WPPI makes certain investments in Guaranteed Investment Contracts. These investments are unrated. As of December 31, 2007 and December 31, 2006 WPPI's investments were rated as follows:

	Standard & Poor's	Moody's	2007 Amount	2006 Amount
U.S. government and agency securities	AAA	Aaa	$ 37,235,386	$ 49,798,701
Money market mutual fund	AAAm	Aaa	73,057,588	52,747,874
Corporate Bonds	AAA	Aaa	498,950	1,000,000
Corporate Bonds	AA+	Aa1	525,430	1,025,318
Corporate Bonds	AA	Aa1	499,375	
Corporate Bonds	AA	Aa2		979,850
Corporate Bonds	AA	Aa3	500,000	
Corporate Bonds	AA-	Aa1	506,882	
Corporate Bonds	AA-	Aa3	2,533,854	1,490,255
Corporate Bonds	A+	Aa3		483,750
Corporate Bonds	A	Aa3	492,140	

•**Concentration risk** – Investing 5% or more of WPPI's portfolio in the securities of a single issuer. This disclosure excludes U.S. Government Securities that are explicitly guaranteed by the U.S. government. WPPI has guaranteed investment contracts (repurchase agreements) with three entities for construction and capitalized interest funds. Although the contracts are with each entity, there are underlying securities supporting each contract.

The following investments exceeded the 5% threshold in 2007 and 2006:

	2007	2006
Citigroup Global Markets Inc. Guaranteed Investment Contract	$68,360,874	$97,776,385
JPMorgan Chase Bank N.A. Guaranteed Investment Contract	$33,024,165	$49,851,646
Morgan Stanley & Co. Guaranteed Investment Contract	$8,766,561	$15,124,034

- **Interest rate risk** –The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk).

As of December 31, 2007, WPPI's investments were classified by maturity as follows:

		Maturity in Years		
	Fair Value	Less than 1	1-5	Over 5
U.S. government & agency securities	37,235,386	7,272,456	25,014,033	4,948,897
Money market mutual funds	73,057,588	73,057,588	-	-
Certificate of deposit	330,000	100,000	230,000	-
Guaranteed investment contracts	110,151,601	54,066,873	56,084,728	-
Corporate bonds	5,556,631	2,002,214	3,554,417	-
Mutual Funds	323,868	-	323,868	-
	226,655,074	136,499,131	85,207,046	4,948,897

As of December 31, 2006, WPPI's investments were classified by maturity as follows:

		Maturity in Years		
	Fair Value	Less than 1	1-5	Over 5
U.S. government & agency securities	49,798,701	27,696,481	16,065,522	6,036,698
Money market mutual fund	52,747,874	52,747,874		
Certificates of deposit	300,000	200,000	100,000	
Guaranteed Investment Contracts	162,752,065	59,500,480	103,251,585	
Corporate bonds	4,979,173	1,499,563	3,479,610	
Mutual funds	370,872	20,000	350,872	
	270,948,685	141,664,398	123,247,589	6,036,698

(3) Investment in American Transmission Company

During 2000, WPPI purchased an equity interest in ATC Management Inc. and American Transmission Company LLC (collectively ATC). ATC is a for-profit, transmission-only company. It owns, plans, maintains, monitors, and operates electric transmission assets in portions of Wisconsin, Michigan, and Illinois. ATC began operations on January 1, 2001. At December 31, 2007 and 2006, WPPI's equity interest in ATC was approximately 5.5%. WPPI's investment in ATC qualifies for the equity method of accounting.

Under the terms of the ownership agreement with ATC, WPPI has the right, but not the obligation, to purchase additional member units in ATC as may from time to time arise in order to maintain its initial percentage interest in ATC, as well as participate in voluntary additional capital calls. At December 31 2007, WPPI had outstanding commitments to fund ATC of approximately $455,734. The amount was paid in January 2008.

Condensed financial data of ATC for 2007 and 2006 follows:

	2007 (In millions)	2006 (In millions)
Operating statement data:		
Revenues	$ 408.0	$ 340.7
Operating expenses	(198.1)	(179.4)
Other income	-	2.0
Net interest expense	(55.8)	(41.4)
Earnings before tax	$ 154.1	$ 121.9
Balance sheet data:		
Current assets	$ 48.3	$ 33.5
Noncurrent assets	2,189.0	1,853.7
Total assets	$ 2,237.3	$ 1,887.2
Current liabilities	$ 317.1	$ 305.3
Long-term debt	899.1	648.9
Other noncurrent liabilities	108.5	125.7
Members' equity	912.6	807.3
Total liabilities and members' equity	$ 2,237.3	$ 1,887.2

(4) Capital Assets

Capital asset activity for the years ended December 31, 2007 and 2006 was as follows:

2007	Beginning balance	Additions	Transfers	Retirements	Ending balance
Nondepreciable assets:					
Land	$ 242,008	$ -	$ -	$ -	$ 242,008
Construction work in progress	63,063,956	62,763,317	(2,769,872)	-	123,057,401
Total nondepreciable assets	63,305,964	62,763,317	(2,769,872)	-	123,299,409
Depreciable assets:					
Utility plant	210,133,168	323,019	1,670,513	(891,142)	211,235,558
Total depreciable assets	210,133,168	323,019	1,670,513	(891,142)	211,235,558
Accumulated depreciation and amortization	(91,388,605)	(6,778,266)	-	1,129,186	(97,037,685)
Depreciable assets, net	118,744,563	(6,455,247)	1,670,513	238,044	114,197,873
Capital assets, net	$ 182,050,527	$ 56,308,070	$ (1,099,359)	$ 238,044	$ 237,497,282

2006	Beginning balance	Additions	Transfers	Retirements	Ending balance
Nondepreciable assets:					
Land	$ 242,008	$ -	$ -	$ -	$ 242,008
Construction work in progress	28,694,373	35,940,598	(1,571,015)	-	63,063,956
Total nondepreciable assets	28,936,381	35,940,598	(1,571,015)	-	63,305,964
Depreciable assets:					
Utility plant	208,769,988	203,335	1,571,015	(411,170)	210,133,168
Total depreciable assets	208,769,988	203,335	1,571,015	(411,170)	210,133,168
Accumulated depreciation and amortization	(85,331,589)	(6,736,109)	-	679,093	(91,388,605)
Depreciable assets, net	123,438,399	(6,532,774)	1,571,015	267,923	118,744,563
Capital assets, net	$ 152,374,780	$ 29,407,824	$ -	$ 267,923	$ 182,050,527

Construction work in progress at December 31, 2007 and December 31, 2006 consists primarily of the 8.33% interest in two 615 MW supercritical coal-fired generating units under construction in Oak Creek, Wisconsin. Capitalized interest included in the cost of the project was $10,139,463 and $3,960,348 for the years ended December 31, 2007 and 2006, respectively. The project was financed by the proceeds of the Series 2005A and 2005B bond issues.

(5) Asset Retirement Obligations

WPPI adopted Statement of Financial Accounting Standards No. 143 – *Accounting for Asset Retirement Obligations* (SFAS 143) in 2003. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset. Adoption of this statement in 2003 resulted in an increase in net capital assets of $576,824, an increase in accrued liabilities of $263,987 and a change in net assets of $312,837.

The scope of SFAS 143 includes future asset retirement obligations for the closure of ash ponds and scrubber ponds at the Boswell plant site. WPPI used information from Minnesota Power to estimate the cash flows to determine the obligation.

The following table presents the details of WPPI's asset retirement obligations.

	2007	2006
Balance 1/1	1,991,190	1,896,371
Liabilities Incurred	-	-
Liabilities Settled	-	-
Accretion	99,559	94,819
Cash Flow Revisions	-	-
Balance 12/31	2,090,749	1,991,190

(6) Long-term Debt

The following Power Supply System Revenue Bonds were issued to finance WPPI's acquisition and construction of utility plants:

The

	2007	2006
Revenue bonds:		
2003 Series A 4.00% to 5.25%		
Due July 1, 2006-2033	$ 66,010,000	$ 70,195,000
2003 Series B variable rate bonds		
Due July 1, 2006-2021	64,500,000	64,800,000
2003 Series C variable rate bonds		
Due July 1, 2006-2023	33,275,000	34,875,000
2005 Series A 4.625% to 5.00%		
Due July 1, 2011 -2037	143,020,000	143,020,000
2005 Series B variable rate bonds		
Due July 1, 2012-2037	93,900,000	93,900,000
Total bonds outstanding	400,705,000	406,790,000
Less: Current maturities	(9,325,000)	(6,085,000)
Unamortized discount/premium, net	(10,148,119)	(11,680,077)
	$ 381,231,881	$ 389,024,923

The terms outstanding for WPPI's variable rate issues, including the interest rate swaps discussed in (7) below, are the following:

	Fixed Rate Paid	Var Rate Received	Rate paid to Bondholders
2003 Series B Variable Rate Bonds	3.355%	67% of 1 month LIBOR	35 day auction rate
2003 Series C Variable Rate Bonds	2.805%	67% of 1 month LIBOR	35 day auction rate
2005 Series B Variable Rate Bonds	3.500%	68% of weekly LIBOR	7 day auction rate

The Power Supply System Revenue Bonds are secured by all funds and revenues of WPPI derived from the ownership and operation of its power supply system.

The unamortized discount/premium, which includes the unamortized difference between the reacquisition price and the net carrying amount of refunded debt issues, is amortized over the terms of the related bond issues using a method that approximates the effective-interest method.

WISCONSIN PUBLIC POWER INC.

Notes to Financial Statements

December 31, 2007 and 2006

Long-term liability activities for the years ended December 31, 2007 and 2006 were as follows:

Long-term liabilities as of December 31, 2007	**Beginning balance**	**Additions**	**Reductions**	**Ending balance**
Long-term revenue bonds	$ 406,790,000	$ -	$ (6,085,000)	$ 400,705,000
Less:				
Current maturities	6,085,000	9,325,000	(6,085,000)	9,325,000
Unamortized discount/premium, net	11,680,077	-	(1,531,958)	10,148,119
Long-term revenue bonds, net	$ 389,024,923	$(9,325,000)	$ 1,531,958	$ 381,231,881
Deferred credits and other liabilities:				
Operating reserves and accrued liabilities	$ 11,484,619	$ 2,303,811	$ (1,080,425)	$ 12,708,005
Rate stabilization	36,557,320	1,652,000	(1,653,335)	36,555,985
Asset retirement obligation	1,991,190	99,559	-	2,090,749
Fair value of interest rate swap agreements	-	3,941,135	-	3,941,135
Regulatory liability	1,677,053	-	(1,677,053)	-
Total deferred credits and other liabilities	$ 51,710,182	$ 7,996,505	$ (4,410,813)	$ 55,295,874

Long-term liabilities as of December 31, 2006	**Beginning balance**	**Additions**	**Reductions**	**Ending balance**
Long-term revenue bonds	$ 415,375,000	$ -	$ (8,585,000)	$ 406,790,000
Less:				
Current maturities	8,585,000	6,085,000	(8,585,000)	6,085,000
Unamortized discount/premium, net	13,223,283	-	(1,543,206)	11,680,077
Long-term revenue bonds, net	$ 393,566,717	$(6,085,000)	$ 1,543,206	$ 389,024,923
Deferred credits and other liabilities:				
Operating reserves and accrued liabilities	$ 9,746,133	$ 3,336,977	$ (1,598,491)	$ 11,484,619
Rate stabilization	35,756,677	800,643	-	36,557,320
Asset retirement obligation	1,896,371	94,819	-	1,991,190
Fair value of interest rate swap agreements	1,226,841	-	(1,226,841)	-
Regulatory liability	-	1,677,053	-	1,677,053
Total deferred credits and other liabilities	$ 48,626,022	$ 5,909,492	$ (2,825,332)	$ 51,710,182

Debt service payments on the outstanding bonds and the interest rate swap agreements (see note 7) are as follows:

Year	Principal	Interest	Total
2008	$ 9,325,000	$ 17,251,289	$ 26,576,289
2009	6,755,000	16,648,919	23,403,919
2010	9,220,000	16,450,770	25,670,770
2011	10,375,000	15,893,934	26,268,934
2012	12,395,000	15,305,828	27,700,828
2013-2017	86,295,000	66,902,422	153,197,422
2018-2022	86,405,000	48,654,653	135,059,653
2023-2027	54,220,000	35,247,737	89,467,737
2028-2032	63,760,000	22,513,272	86,273,272
2033-2037	61,955,000	7,288,589	69,243,589
Total	$ 400,705,000	$ 262,157,413	$ 662,862,413

(7) Interest Rate Swap Agreement

During 2005, WPPI entered into an interest rate swap agreement with JP Morgan and during 2003, WPPI entered into two interest rate swap agreements with Bear Stearns. Interest rate swaps involve the contractual exchange of fixed- and floating-rate interest payment obligations based on a notional principal amount. WPPI entered into the interest rate swap agreements to manage interest rate risk caused by fluctuations in interest rates. As of December 31, 2007, the interest rate swaps had a negative fair value of $3,941,135. As of December 31, 2006, the interest rate swaps had a positive value of $1,677,053. Details of the agreements are shown below:

Notional Amount	Purchase Date	Maturity Date
$64,500,000	4/23/03	7/1/21
33,275,000	6/19/03	7/1/23
93,900,000	10/18/05	7/1/37

(8) Available Financing

During 2006, WPPI entered into a revolving line of credit agreement with Chase Bank, which permits borrowings of up to $25,000,000 and expires on April 30, 2009. Interest accrued on the unpaid principal amount outstanding at a rate per annum equal to the applicable British Bankers' Association LIBOR rate for deposits in U.S. dollars plus 90 basis points. At December 31, 2007, there were no outstanding amounts on the line of credit.

(9) Significant Members

On a combined basis, two significant members of WPPI accounted for $72,398,604 and $61,341,693 or approximately 21.4% and 22.0% of total sales revenues for the years ended December 31, 2007 and 2006, respectively.

(10) Employee Benefits

(a) Retirement Plan

WPPI has a Simplified Employee Pension-Individual Retirement Account (SEP-IRA) covering all of its employees funded through contributions by WPPI. The total contributions to the plan for the years ended December 31, 2007 and 2006 were $651,008 and $602,544, respectively.

(b) Retention Plan

In 1999, WPPI established an initial employee retention plan. In 2007 and 2006, additional amounts were added to the plan that will extend payments out until 2011. The plan will make payments to specific employees after completing the defined years of continuing employment. Plan benefit expenses of $165,984 and $153,874 were accrued during 2007 and 2006, respectively.

(c) Defined Benefit Plan

On January 1, 2007 WPPI adopted the Defined Benefit Plan of Wisconsin Public Power Inc. It is a single-employer plan where the employer (WPPI) contributes funds to the plan. In addition, a trust was formed to control and manage the plan's assets. WPPI is the plan administrator and does not charge the plan for services.

Senior executives are covered by the plan. Currently, there are three active plan participants and no retired participants.

Participants are 100% vested in their accrued benefit at all times. The contributions accrue monthly interest at .5%. Participants are generally eligible for payment of the accrued benefit on the January 2 following the participant's normal retirement date subject to the provisions for early retirement, disability benefits and death benefits. Benefits are paid in the form of a straight life annuity or an optional form of benefit payment. WPPI's Executive Committee approves changes to the plan and defines the amount of plan contributions.

The plan and an amendment to the plan defined the dollar contributions for each participant. An initial deposit of $625,320 was made to the trust from the retention plan and from 2006 net earnings. The other deposit to the trust of $256,526 was made from 2007 net earnings. Total funding of the plan as of December 31, 2007 was $881,846 and will fund payment of benefits under the plan.

Financial statements for the WPPI Defined Benefit Trust are found after WPPI's financial statements. Accounting for the defined benefit plan is done on an accrual basis. The trust's fair value of the investments is determined by the published value of the mutual funds on December 31, 2007. The measurement date used to determine the pension benefit obligations was December 31, 2007. The discount rate and expected return on assets was 6.0%. A thirty year amortization period is used with a level dollar amortization method.

The projected unit credit cost method was used for this valuation. The objective under this method is to expense each participant's benefits under the plan as they accrue. The total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future service. The projected benefit obligation is calculated at the initial application date and each subsequent measurement date as the present value of benefits credited with respect to service before that date.

The service cost is the actuarial present value of those benefits which are expected to be credited with respect to service during the current year, beginning on the valuation date.

In years following the initial application, a plan amendment may change the amount of projected benefit obligation. The amount of change is a prior service cost, and is to be amortized (recognized) in equal annual installments of principal over the average future service, at date of plan amendment, of plan participants expected to receive benefits.

In years following initial application, gains or losses may arise from the following sources:

- A change in the projected benefit obligation resulting from a change in actuarial assumptions.
- Actual return on assets differing from expected return on assets.
- Difference in the projected benefit obligation at year-end (from expected value) due to other plan experience different from assumed.

The investment policies employ an approach that uses a mix of equity and debt mutual funds to attain a return of at least 6%. The policy states that no more than 50% of the funds shall be invested in any type of equity investments with no more than 15% of the fund in non-domestic equities. The investments are monitored monthly and reallocated quarterly.

The pension plan asset allocations by asset category are shown below.

Asset Category	Percent at December 31, 2007
Equity Securities	38.9%
Debt Securities	31.6%
Real Estate	0.0%
Other	29.5%
Total	100.0%

Pension plan expenses were $884,077 for 2007. The following table presents the unfunded actuarial accrued liability, the annual required contribution (ARC), and the net pension obligation (NPO).

		December 31, 2007
Actuarial Present Value of Total Projected Benefits	$	907,592
Actuarial Value of Assets		919,550
Unfunded Actuarial Accrued Liability	$	(11,958)
Percent Funded		101.32%

Determination of Annual Required Contribution		
Normal Cost for Benefits	$	881,846
Amortization of Unfunded Actuarial Liability		2,231
Annual Required Contribution (ARC)	$	884,077
Net Pension Obligation		
Annual Required Contribution (ARC)	$	884,077
Contributions Made		(881,846)
Increase in Net Pension Obligation	$	2,231
Net Pension Obligation -Beginning of Year	$	-
Net Pension Obligation -End of Year	$	2,231

(d) Post Employment Medical Insurance

WPPI provides post employment medical insurance benefits. An employee who reaches age 60 and has ten years of service with WPPI qualifies for the benefit. For each full year worked past ten, the employee receives one year of benefit credit. An employee can earn up to a maximum of five years of benefit credits. For each year of benefit credit, WPPI will reimburse the employee for a portion of the cost of medical insurance. Full-time employees qualify for 50% reimbursement and part-time employees will receive a pro rata portion. An amendment to the plan provides health insurance premium payments for life for two employees. At December 31, 2007 there were 83 active participants, no retired participants, and no benefit payments. The plan is unfunded. WPPI is the plan administrator and does not charge the plan for services. WPPI's Executive Committee approves changes to the plan and defines the amount of plan contributions.

Other postemployment benefit (OPEB) expenses were $148,676 for 2007. WPPI's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to plan, and changes in the net OPEB obligation to the plan.

		December 31, 2007
Actuarial Accrued Liability	$	880,108
Present Value of Future Normal Costs		1,330,502
Actuarial Present Value of Total Projected Benefits		2,210,610
Actuarial Accrued Liability		880,108
Actuarial Value of Assets		-
Unfunded Actuarial Accrued Liability (UAAL)	$	880,108
Funded Ratio		0.00%
Covered Payroll	$	6,224,721
UAAL as a percentage of Covered Payroll		14.14%
Determination of Annual Required Contribution		
Normal Cost for Benefits	$	102,478
Amortization of Unfunded Actuarial Liability		46,198
Annual Required Contribution (ARC)	$	148,676
Net OPEB Obligation		
Annual Required Contribution	$	148,676
Contributions Made		-
Increase in Net Pension Obligation	$	148,676
Net OPEB Obligation -Beginning of Year	$	-
Net OPEB Obligation -End of Year	$	148,676

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan is understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation date used to determine the OPEB obligations was December 31, 2007. In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent discount rate and an annual healthcare cost trend rate of 12 percent initially, reduced by decrements to an ultimate rate of 4 percent after 8 years. A thirty year amortization period is used with a level dollar amortization method.

(e) Voluntary Employee Separation Benefits

In 2007 two voluntary separation agreements were signed by employees. The agreements include payouts in 2008 – 2010. The present value of these payouts is included in the financials statements in the following administration and general and tax accounts.

Salaries	$ 338,822
Taxes	8,801
SEP-IRA	13,542
Health Insurance Benefits	22,374
	$ 383,539

(11) Commitments

WPPI has various long-term capacity and energy purchase contracts with various power suppliers. Capacity purchases for 2007 and 2006 totaled approximately 709 and 681 MW, respectively. WPPI does not own any transmission facilities and takes service for all of its transmission requirements under contracts and tariffs approved by FERC.

WPPI participates in the Midwest Independent System Operator (MISO) energy market. MISO may routinely true-up expenses and revenues for up to 105 days. Under special circumstances, MISO has trued-up revenue and expenses for as long as 826 days. WPPI accrues items that are known at the time of closing, but since there is such a large window of true-ups actual results may differ from the estimates.

During 2005, WPPI entered into a series of agreements that establish WPPI's rights to an 8.33% interest in two 615 megawatt supercritical coal-fired generating units (the Project). Except under the limited circumstances as specifically provided within the agreements, WPPI may not terminate its participation or withdraw from the Project. Absent these circumstances or events, WPPI's financial obligation for its participation is approximately $205 million. As of December 31, 2007, WPPI has paid approximately $109.9 million of this commitment, with the remainder expected to be requested through 2010.

As of December 31, 2007, the water intake discharge ("WPDES") permit issued for the Project was the subject of a request for permit modification before the Wisconsin Department of Natural Resources after the Dane County Circuit Court remanded the DNR's original permit decision in part based upon a decision by the Federal Court of Appeals for the Second Circuit finding certain EPA rules upon which the DNR relied to be invalid. The Administrative Law Judge ("ALJ") to whom the Dane County Circuit Court remanded the case, ruled that the DNR must reissue or modify the permit to reflect "best technology available" to comply with the standards applicable to new facilities. The ALJ did not vacate the permit. In the event that the WPDES permit is invalidated or it is determined that the Project water intake and discharge systems are not best technology available, the project may incur additional costs relating to water intake and discharge systems, and WPPI would incur additional financial obligations as part of the project.

On December 26, 2007 PJM released a statement that they have initiated steps to further prevent future defaults related to Financial Transmission Rights after recent payment defaults by two market participants. The estimated default for the November through May invoice was $84.5 million at the time of the statement. Under the PJM Operating agreements, defaults are allocated 10% pro rata per member up to $10,000 and 90% based on each member's gross dollar activity.

WPL has informed WPPI that WPPI has scheduled more energy than allowed under the existing Power Supply Agreement, with overscheduling occurrence going back to 2004. The value of overscheduled energy has not been agreed upon by WPPI and WPL. However, we estimate the total impact to WPPI to be less than $600K. It is likely this issue will be resolved in 2008.

WPPI has purchased power contracts with Wisconsin Electric Power Company (WEPCO), Wisconsin Public Service Corporation (WPS) and Wisconsin Power and Light (WPL) that provide WPPI system average cost power under formula rates. The capacity charges for each calendar year are trued-up in the following year. The exact timing and mechanics of the true-up varies by purchase. WPPI does not attempt to make an estimate of the true-up under these purchases and will recognize the actual amount of the true-up in the following year.

(12) Risk Management

WPPI is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation; and health care of its employees. The generating plants are covered by insurance, including property and boiler and machinery policies, with deductibles. Deductibles equal $200,000 per occurrence on Boswell Unit 4, $1.5 million per occurrence for the South Fond du Lac units, and $500,000 per occurrence on the Kaukauna combustion turbine. Other risks are covered through the purchase of commercial insurance, with minimal deductibles. There has been no significant reduction in insurance coverages in 2007.

WPPI maintains assets in the Self-Insurance Fund described in note 2 to be applied to the payment of claims and losses arising from hazards and risks to the extent that insurance does not cover such claims or losses.

Following is the activity for the self-insurance liability for the years ended December 31, 2007 and 2006.

	2007	2006
Self-insurance liability, beginning of year	$ 3,265,793	$ 2,992,263
Additions, representing interest	139,335	273,530
Additions	-	-
Usage	-	-
Self-insurance liability, end of year	$ 3,405,128	$ 3,265,793