

WPS RESOURCES CORP
Form 10-Q
August 03, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from _____ to _____

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date:

WPS RESOURCES CORPORATION Common stock, \$1 par value,
28,665,638 shares outstanding at
June 30, 2001

WISCONSIN PUBLIC SERVICE CORPORATION Common stock, \$4 par value,
23,896,962 shares outstanding at
June 30, 2001

WPS RESOURCES CORPORATION
AND
WISCONSIN PUBLIC SERVICE CORPORATION

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2001

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FORWARD-LOOKING STATEMENTS

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

- 1) estimated future capital expenditures
- 2) the costs of decommissioning nuclear generation plants
- 3) the recovery of deferred costs
- 4) statements in the Management Discussion and Analysis of Financial Condition and Results of Operations regarding trends or estimates.

We cannot predict the course of future events or anticipate the interaction of multiple factors beyond our control and their effect on revenues, project timing and costs. Some risk factors that could cause results different from any forward-looking statement include:

- ◆ the speed and degree to which competition enters the electric and natural gas industries
- ◆ state and Federal legislation, regulation, interpretation, or enforcement
- ◆ economic climate
- ◆ industrial, commercial, and residential growth
- ◆ environmental regulation
- ◆ weather
- ◆ timing and extent of changes in commodity prices
- ◆ interest rates
- ◆ capital markets

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- ◆ opportunities for expansion in nonregulated energy markets
- ◆ energy supply and demand
- ◆ availability of generating facilities

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

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

WPS RESOURCES CORPORATION

| CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME, AND RETAINED EARNINGS <u>(Thousands, except share amounts)</u> | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------------|------------------|----------------|
| | June 30 | | June 30 | |
| | <u>2001</u> | <u>2000</u> | <u>2001</u> | <u>2000</u> |
| Operating revenues | | | | |
| Electric utility | \$155,899 | \$150,523 | \$ 320,451 | \$303,954 |
| Gas utility | 51,581 | 44,002 | 214,088 | 120,189 |
| Nonregulated gas | 300,775 | 144,014 | 911,999 | 285,394 |
| Nonregulated electric and other | <u>68,912</u> | <u>36,134</u> | <u>128,064</u> | <u>63,985</u> |
| Total operating revenues | 577,167 | 374,673 | 1,574,602 | 773,522 |
| Operating expenses | | | | |
| Utility electric production fuels | 27,106 | 30,020 | 60,807 | 58,240 |
| Utility purchased power | 21,861 | 20,270 | 44,206 | 35,943 |
| Utility gas purchased for resale | 32,714 | 25,876 | 161,326 | 73,282 |
| Nonregulated gas cost of sales | 297,667 | 145,407 | 908,908 | 284,402 |
| Nonregulated electric and other cost of sales | 56,047 | 24,077 | 107,863 | 41,368 |
| Other operating expenses | 73,999 | 58,613 | 143,592 | 113,974 |
| Maintenance | 19,296 | 21,148 | 34,489 | 37,880 |
| Depreciation and decommissioning | 20,330 | 27,752 | 39,527 | 54,922 |
| Taxes other than income | <u>8,989</u> | <u>8,506</u> | <u>17,945</u> | <u>17,774</u> |
| Total operating expenses | <u>558,009</u> | <u>361,669</u> | <u>1,518,663</u> | <u>717,785</u> |
| Operating income | 19,158 | 13,004 | 55,939 | 55,737 |
| Other income | | | | |
| Allowance for equity funds used during construction | 480 | 399 | 886 | 767 |
| Other, net | <u>2,522</u> | <u>13,140</u> | <u>5,958</u> | <u>19,336</u> |
| Total other income | <u>3,002</u> | <u>13,539</u> | <u>6,844</u> | <u>20,103</u> |
| Income before interest expense | 22,160 | 26,543 | 62,783 | 75,840 |
| Interest on long-term debt | 11,249 | 10,700 | 22,203 | 19,542 |

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| | | | | |
|--|----------------|---------------|----------------|----------------|
| Other interest | 2,712 | 2,133 | 6,585 | 5,570 |
| Allowance for borrowed funds used during construction | <u>(518)</u> | <u>(826)</u> | <u>(992)</u> | <u>(1,930)</u> |
| Total interest expense | 13,443 | 12,007 | 27,796 | 23,182 |
| Distributions - preferred securities of subsidiary trust | 876 | 875 | 1,752 | 1,750 |
| Income before income taxes | 7,841 | 13,661 | 33,235 | 50,908 |
| Income taxes | (4,601) | 1,529 | (3,538) | 8,766 |
| Preferred stock dividends of subsidiaries | <u>777</u> | <u>777</u> | <u>1,555</u> | <u>1,555</u> |
| Net income | 11,665 | 11,355 | 35,218 | 40,587 |
| Other comprehensive income | | | | |
| Cash flow hedge (1) | <u>(2,340)</u> | <u>-</u> | <u>(2,340)</u> | <u>-</u> |
| Comprehensive income | 9,325 | 11,355 | 32,878 | 40,587 |
| Retained earnings at beginning of period | 364,674 | 357,412 | 354,756 | 341,701 |
| Cash dividends on common stock | <u>14,613</u> | <u>13,215</u> | <u>28,248</u> | <u>26,736</u> |
| Retained earnings at end of period | \$359,386 | \$355,552 | \$ 359,386 | \$355,552 |
| Average shares of common stock | 28,573 | 26,398 | 27,520 | 26,516 |
| Basic and diluted earnings per average share of common stock (2) | \$0.41 | \$0.43 | \$1.28 | \$1.53 |
| Dividend per share of common stock | \$0.515 | \$0.505 | \$1.030 | \$1.010 |

The accompanying notes are an integral part of these statements.

(1) Refer to Note 6, "Price Risk Management Activities."

(2) Refer to Note 4, "Earnings Per Share."

WPS RESOURCES CORPORATION

| CONSOLIDATED BALANCE SHEETS | June 30 | December 31 |
|------------------------------|---------------|---------------|
| <u>(Thousands)</u> | <u>2001</u> | <u>2000</u> |
| <u>ASSETS</u> | | |
| Utility plant | | |
| Electric | \$1,774,280 | \$1,893,358 |
| Gas | 376,203 | 302,942 |
| Property under capital lease | <u>74,130</u> | <u>74,130</u> |

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| | | |
|---|------------------|------------------|
| Net | 2,224,613 | 2,270,430 |
| Less - Accumulated depreciation and decommissioning | <u>1,338,061</u> | <u>1,365,367</u> |
| Total | 886,552 | 905,063 |
| Nuclear decommissioning trusts | 205,696 | 207,224 |
| Construction in progress | 82,690 | 69,997 |
| Nuclear fuel, less accumulated amortization of \$170,555 at June 30, 2001 and \$167,730 at December 31, 2000 | <u>13,969</u> | <u>16,040</u> |
| Net utility plant | 1,188,907 | 1,198,324 |
| | | |
| Current assets | | |
| Cash and equivalents | 16,584 | 12,789 |
| Customer and other receivables, net of reserves of \$5,124 at June 30, 2001 and \$4,205 at December 31, 2000 | 213,280 | 317,808 |
| Accrued revenues | 36,670 | 83,905 |
| Fossil fuel, at average cost | 25,495 | 18,122 |
| Gas in storage | 48,890 | 65,975 |
| Materials and supplies, at average cost | 32,265 | 31,373 |
| Assets from risk management activities | 382,482 | 642,481 |
| Prepayments and other | <u>35,218</u> | <u>28,718</u> |
| Total current assets | 790,884 | 1,201,171 |
| | | |
| Regulatory assets | 82,430 | 74,579 |
| Nonutility and nonregulated plant, net of accumulated depreciation of \$16,688 at June 30, 2001 and \$13,341 at December 31, 2000 | 167,827 | 152,474 |
| Pension assets | 78,986 | 62,992 |
| Investments and other assets | <u>203,247</u> | <u>126,602</u> |
| Total | \$2,512,281 | \$2,816,142 |

CAPITALIZATION AND LIABILITIES

Capitalization

| | | |
|--|----------------|----------------|
| Common stock equity | \$ 611,558 | \$ 542,777 |
| Preferred stock of subsidiary with no mandatory redemption | 51,160 | 51,168 |
| Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPS Resources | | |
| 7.00% subordinated debentures | 50,000 | 50,000 |
| Long-term capital lease obligation | 72,645 | 72,955 |
| Long-term debt | <u>610,829</u> | <u>587,017</u> |
| Total capitalization | 1,396,192 | 1,303,917 |

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| | | |
|--|----------------|----------------|
| Current liabilities | | |
| Current portion of long-term debt and capital lease obligation | 8,441 | 8,311 |
| Notes payable | 10,000 | 10,000 |
| Commercial paper | 139,726 | 119,557 |
| Accounts payable | 202,603 | 334,311 |
| Accrued taxes | 13,940 | 11,217 |
| Accrued interest | 10,872 | 9,882 |
| Liabilities from risk management activities | 349,649 | 659,468 |
| Other | <u>27,209</u> | <u>29,866</u> |
| Total current liabilities | 762,440 | 1,182,612 |
| Long-term liabilities and deferred credits | | |
| Accumulated deferred income taxes | 93,807 | 100,463 |
| Accumulated deferred investment tax credits | 21,848 | 23,963 |
| Regulatory liabilities | 62,419 | 50,641 |
| Environmental remediation liabilities | 45,804 | 38,867 |
| Postretirement liabilities | 55,870 | 47,267 |
| Other long-term liabilities | <u>73,901</u> | <u>68,412</u> |
| Total long-term liabilities and deferred credits | <u>353,649</u> | <u>329,613</u> |
| Total | \$2,512,281 | \$2,816,142 |

The accompanying notes are an integral part of these statements.

WPS RESOURCES CORPORATION

| CONSOLIDATED STATEMENTS OF CAPITALIZATION (Thousands, except share amounts) | June 30 <u>2001</u> | December 31 <u>2000</u> |
|---|------------------------|----------------------------|
| Common stock equity | | |
| Common stock, \$1 par value, 100,000,000 shares authorized; 28,909,264 shares outstanding at June 30, 2001 and 26,851,034 shares outstanding at December 31, 2000 | \$ 28,909 | \$ 26,851 |
| Premium on capital stock | 235,162 | 172,451 |
| Retained earnings | 359,386 | 354,756 |
| Treasury stock, 319,046 shares at average cost of \$24.70 at June 30, 2001 and 336,385 shares at average cost of \$24.23 at December 31, 2001 | (7,880) | (8,149) |
| Shares in deferred compensation trust; 131,600 shares at an average cost of \$30.54 per share at June 30, 2001 and 105,179 shares at an average cost of \$29.78 per share at December 31, 2000 | <u>(4,019)</u> | <u>(3,132)</u> |

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Total common stock equity 611,558 542,777

Preferred stock - Wisconsin Public Service Corporation
 Cumulative, \$100 par value, 1,000,000 shares authorized;
 with no mandatory redemption

| <u>Shares Outstanding</u> | | | | <u>June 30</u> | | <u>December 31</u> | | <u>Series</u> | <u>2001</u> | <u>2000</u> | <u>5.00%</u> | | |
|--|----------------------|---------------|-----------------|--|--------|--|---------|--|---------------|-----------------------|--------------|-------|-------|
| 131,680 | 131,720 | 13,164 | 13,172 | 5.04% | 29,980 | 29,980 | 2,998 | 2,998 | 5.08% | 49,980 | 49,980 | 4,998 | 4,998 |
| 6.76% | 150,000 | 150,000 | 15,000 | 15,000 | 6.88% | 150,000 | 150,000 | <u>15,000</u> | <u>15,000</u> | Total preferred stock | | | |
| with no mandatory redemption 51,160 51,168 Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely | | | | | | | | | | | | | |
| WPS Resources Corporation 7.00% subordinated debentures 50,000 50,000 Capital lease obligation - Wisconsin Public Service Corporation 73,275 73,585 Less current portion (630) (630) Net capital lease obligation 72,645 72,955 Long-term debt First mortgage bonds - Wisconsin Public Service Corporation | | | | | | | | | | | | | |
| <u>Series</u> | <u>Year Due</u> | | | 7.30% | 2002 | 50,000 | 50,000 | 6.80% | 2003 | 50,000 | 50,000 | | |
| 6-1/8% | 2005 | 9,075 | 9,075 | 6.90% | 2013 | 22,000 | 22,000 | 8.80% | 2021 | 53,100 | 53,100 | | |
| 7-1/8% | 2023 | 50,000 | 50,000 | 6.08% | 2028 | 50,000 | 50,000 | First mortgage bonds - Upper Peninsula Power Company | | | | | |
| | | <u>Series</u> | <u>Year Due</u> | | | 7.94% | 2003 | 15,000 | 15,000 | 10.0% | 2008 | | |
| 3,000 | 3,000 | 9.32% | 2021 | 18,000 | 18,000 | Unsecured senior notes - WPS Resources Corporation | | | | | | | |
| <u>Series</u> | <u>Year Due</u> | | | 7.00% | 2009 | 150,000 | 150,000 | Term loans - nonrecourse, secured by nonregulated assets 99,312 102,742 Tax exempt bonds 27,000 - Notes payable to bank, secured by nonregulated plant 19,751 19,342 Senior secured note 3,446 3,542 Other long-term debt <u>119</u> | | | | | |
| <u>119</u> | Total | 619,803 | 595,920 | Unamortized discount and premium on bonds and debt securities, net <u>(1,163)</u> | | | | | | | | | |
| <u>(1,222)</u> | Total long-term debt | 618,640 | 594,698 | Less current portion <u>(7,811)</u> <u>(7,681)</u> Net long-term debt <u>610,829</u> | | | | | | | | | |
| <u>587,017</u> | Total capitalization | \$1,396,192 | \$1,303,917 | The accompanying notes are an integral part of these statements. | | | | | | | | | |

WPS RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended

(Thousands)

June 30

2001

2000

Cash flows from operating activities

Net income \$ 35,218 \$ 40,587

Adjustments to reconcile net income to net cash from operating activities

Depreciation and decommissioning 39,527 54,922

Gain on nuclear decommissioning trust (1,739) (11,567)

Amortization of nuclear fuel and other 9,313 7,194

Deferred income taxes (5,191) 1,343

Investment tax credit restored (855) (894)