WISCONSIN ENERGY CORP
Form DEF 14A
March 16, 2006

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ **Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to (S) 240.14a-11(c) or (S) 240.14a-12

Wisconsin Energy Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

March 16, 2006

To the Stockholders of Wisconsin Energy Corporation:

You are cordially invited to attend the 2006 Annual Meeting of Stockholders. **An admission ticket will be required to enter the meeting**. Your admission ticket, which also includes a map to the meeting, is attached to your proxy statement. Instructions on how to obtain an admission ticket if you received your proxy materials electronically are provided on page 2 of the proxy statement. Regardless of whether you plan to attend, please take a moment to vote your proxy. The Meeting will be held as follows:

WHEN:	Thursday, May 4, 2006 10:00 a.m., Central time
WHERE:	Pettit National Ice Center 500 South 84th Street Milwaukee, Wisconsin 53214
ITEMS OF BUSINESS:	Election of nine directors for terms expiring in 2007. Ratification of Deloitte & Touche LLP as independent auditors for 2006. Consideration of any other matters that may properly come before the Meeting.
RECORD DATE:	February 24, 2006
VOTING BY PROXY:	*Your vote is important*. You may vote: using the Internet; by telephone; or by returning the proxy card in the envelope provided.

By Order of the Board of Directors,

Anne K. Klisurich
Vice President and Corporate Secretary

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PROXY STATEMENT

This proxy statement is being furnished to stockholders beginning on or about March 16, 2006, in connection with the solicitation of proxies by the Wisconsin Energy Corporation (WEC or the Company) Board of Directors (the Board) to be used at the Annual Meeting of Stockholders on Thursday, May 4, 2006 (the Meeting) at 10:00 a.m., Central time, at the Pettit National Ice Center located at 500 South 84th Street, Milwaukee, Wisconsin 53214, and at all adjournments or postponements of the Meeting, for the purposes listed in the preceding Notice of Annual Meeting of Stockholders.

GENERAL INFORMATION FREQUENTLY ASKED QUESTIONS

What am I voting on?

Proposal 1: Election of nine directors for terms expiring in 2007.

Proposal 2: Ratification of Deloitte & Touche LLP as independent auditors for 2006.

The Company is not aware of any other matters that will be voted on. If a matter does properly come before the Meeting, the persons named as the proxies in the accompanying form of proxy will vote the proxy at their discretion.

What are the Board s voting recommendations?

The Board of Directors recommends a vote:

- **FOR** each of the nine nominated directors, and
- **FOR** ratification of Deloitte & Touche LLP as independent auditors for 2006.

What is the vote required for each proposal?

Proposal 1: The nine individuals receiving the largest number of votes will be elected as directors.

Proposal 2: Ratification of the independent auditors requires the affirmative vote of a majority of the votes cast in person or by proxy at the Meeting.

Who can vote?

Common stockholders as of the close of business on the record date, February 24, 2006, can vote. Each outstanding share of WEC common stock is entitled to one vote upon each matter presented. A list of stockholders entitled to vote will be available for inspection by stockholders at WEC s principal business office, 231 West Michigan Street, Milwaukee, Wisconsin 53203, prior to the Meeting. The list also will be available at the Meeting.

How do I vote?

There are several ways to vote:

- By Internet. To save costs, the Company encourages you to vote this way.
- By toll-free touch-tone telephone.
- By completing and mailing the enclosed proxy card.
- By written ballot at the Meeting.

Instructions to vote through the Internet or by telephone are listed on your proxy card or the information forwarded to you by your bank or broker. The Internet and telephone voting facilities will close at 10:00 a.m., Central time, on Thursday, May 4, 2006.

If you are a participant in WEC s Stock Plus Investment Plan (Stock Plus) or own shares through investments in the WEC Common Stock Fund or WEC Common Stock ESOP Fund in WEC s 401(k) plan, your proxy will serve as voting instructions for your shares held in those plans. The administrator for Stock Plus and the trustee for the 401(k) plan will vote your shares as you direct. If a proxy is not returned for shares held in Stock Plus, the administrator will not vote those shares. If a proxy is not returned for shares held in the 401(k) plan, the trustee will vote those shares in the same proportion that all shares in the WEC Common Stock Fund or WEC Common Stock ESOP Fund, as the case may be, for which voting instructions have been received, are voted.

If you are a beneficial owner and your broker holds your shares in its name, the broker is permitted to vote your shares in the election of directors and ratification of the independent auditors even if the broker does not receive voting instructions from you. If your shares are held in the name of a broker, bank or other holder of record, you are invited to attend the Meeting, but may not vote at the Meeting unless you have first obtained a proxy executed in your favor from the holder of record.

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What does it mean if I get more than one proxy?	It means your shares are held in more than one account. Please vote all proxies to ensure all of your shares are counted.
What constitutes a quorum?	As of the record date, there were 116,980,775 shares of WEC common stock outstanding. In order to conduct the Meeting, a majority of the outstanding shares entitled to vote must be represented in person or by proxy. This is known as a quorum. Abstentions and shares which are the subject of broker non-votes will count toward establishing a quorum.
Can I change my vote?	You may change your vote or revoke your proxy at any time prior to the closing of the polls, by: entering a new vote by Internet or phone; returning a later-dated proxy card; voting in person at the Meeting; or notifying WEC s Corporate Secretary by written revocation letter. The Corporate Secretary is Anne K. Klisurich. Any revocation should be filed with her at WEC s principal business office, 231 West Michigan Street, P. O. Box 1331, Milwaukee, Wisconsin 53201. Attendance at the Meeting will not, in itself, constitute revocation of a proxy. All shares entitled to vote and represented by properly completed proxies timely received and not revoked will be voted as you direct. If no direction is given in a properly completed proxy, the proxy will be voted as the Board recommends.
Who conducts the proxy solicitation?	The WEC Board is soliciting these proxies. WEC will bear the cost of the solicitation of proxies. WEC contemplates that proxies will be solicited principally through the use of the mail, but employees of WEC or its subsidiaries may solicit proxies by telephone, personally or by other communications, without compensation apart from their normal salaries. It is not anticipated that any other persons will be engaged to solicit proxies or that compensation will be paid for that purpose. However, WEC may seek the services of an outside proxy solicitor in the event that such services become necessary.
Who will count the votes?	The Bank of New York, which also will serve as Inspector of Election, will tabulate the voted proxies.
How can I attend the Meeting?	The Meeting is open to all stockholders of WEC. **You must bring an admission ticket or other evidence of your ownership to enter the Meeting.** If you received proxy materials by mail, your admission ticket is attached to your proxy statement. The admission ticket admits the stockholder and one guest. If your shares are jointly owned or you participate in our householding program and you need an additional ticket, or you have questions regarding this process, contact Stockholder Services, 231 West Michigan Street, P.O. Box 1331, Milwaukee, Wisconsin 53201 or call (800) 881-5882.
How do I obtain an admission ticket if I received my proxy materials electronically?	If your shares are registered in your name, you can print an admission ticket by following the instructions provided in the e-mail which transmitted your proxy materials. If you hold your shares through a bank, brokerage firm, or other nominee, call (800) 881-5882 or write to Stockholder Services at the above address to request an admission ticket. We will send you an admission ticket upon verification of your ownership. You may also bring a copy of your account statement or other evidence of your ownership as of the record date to the Meeting. This document will serve as your admission ticket.
What steps has WEC taken to reduce the cost of proxy solicitation?	WEC has implemented several practices that reduce the printing and postage costs and are friendly to the environment. The Company has: encouraged Internet and telephone voting of your proxies; encouraged stockholders to view the proxy statement and annual report on the Internet instead of receiving them via mail; and implemented householding whereby stockholders sharing a single address receive a single annual report and proxy statement, unless the Company received instructions to the contrary.

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	If you received multiple copies of the annual report and proxy statement, you may wish to contact the Company s transfer agent, The Bank of New York, at (800) 558-9663 to request householding, or you may provide written instructions to The Bank of New York, Church Street Station, P.O. Box 11258, New York, New York, 10286-1258. If you wish to receive separate copies of the annual report and proxy statement now or in the future, or to discontinue householding entirely, you may contact the Company s transfer agent using the contact information provided above. Upon request, the Company will promptly send a separate copy of either document. Whether or not a stockholder is householding, each stockholder will continue to receive a proxy card. If your shares are held through a bank, broker or other holder of record, you may request householding by contacting the holder of record.
Who do I contact if I have questions about the Meeting or my account?	If you need more information about the Meeting, write to Stockholder Services, 231 West Michigan Street, P.O. Box 1331, Milwaukee, Wisconsin 53201, or call us at (800) 881-5882. For information about shares registered in your name or your Stock Plus account, call our transfer agent, The Bank of New York, at (800) 558-9663, or access your account via the Internet at www.stockbny.com.

PROPOSALS TO BE VOTED UPON

PROPOSAL 1: ELECTION OF DIRECTORS TERMS EXPIRING IN 2007

WEC s Bylaws require each director to be elected annually to hold office for a one-year term. Directors will be elected by a plurality of the votes cast by the shares entitled to vote, as long as a quorum is present. Plurality means that the individuals who receive the largest number of votes are elected as directors up to the maximum number of directors to be chosen. Therefore, shares not voted, whether by withheld authority or otherwise, have no effect in the election of directors.

The Board s nominees for election are:

John F. Ahearne

John F. Bergstrom

Barbara L. Bowles

Robert A. Cornog

Curt S. Culver

Thomas J. Fischer

Gale E. Klappa

Ulice Payne, Jr.

Frederick P. Stratton, Jr.

Although John F. Ahearne s age exceeds the Company s age guideline for non-employee directors, the guideline permits the Board to request a director to remain on the Board. The Corporate Governance Committee determined that Director Ahearne s expertise in the nuclear field is unique among Board members, and the Board is nominating him on that basis.

Pursuant to authority granted to the Board under the Bylaws, Thomas J. Fischer was elected as a director by the Board effective July 21, 2005. George E. Wardeberg is not standing for re-election at the Meeting, and the Board has determined to reduce the number of directors constituting the whole Board from ten to nine. Proxies may not be voted for more than nine persons in the election of directors.

Each nominee has consented to being nominated and to serve if elected. In the unlikely event that any nominee becomes unable to serve for any reason, the proxies will be voted for a substitute nominee selected by the WEC Board upon the recommendation of the Corporate Governance Committee of the Board. Biographical information regarding each nominee is shown on the next pages.

The Board of Directors recommends that you vote FOR all of the director nominees.

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INFORMATION ABOUT NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

Wisconsin Electric Power Company (WE) and Wisconsin Gas LLC (WG) do business as We Energies and are wholly-owned subsidiaries of Wisconsin Energy Corporation. Effective July 28, 2004, Wisconsin Gas Company converted to a Wisconsin limited liability company and changed its name to Wisconsin Gas LLC. References to service as a director of Wisconsin Gas LLC below include the time each director sat as a director of Wisconsin Gas Company. Ages are as of March 16, 2006.

John F. Ahearne. Age 71.

Sigma Xi Center for Sigma Xi, The Scientific Research Society Director of the Ethics Program since 1999. Director of the Sigma Xi Center from 1997 to 1999 and Executive Director from 1989 to 1997. The Sigma Xi Center is an organization that publishes *American Scientist*, provides grants to graduate students and conducts national meetings on major scientific issues.

Resources for the Future Adjunct Professor since 1993. Resources for the Future is an economic research, non-profit institute.

Duke University Lecturer since 1995. Adjunct Professor from 1996 to 2002.

United States Nuclear Regulatory Commission Commissioner from 1978 to 1983, serving as Chairman from 1979 to 1981.

Director of Wisconsin Energy Corporation and Wisconsin Electric Power Company since 1994. Director of Wisconsin Gas LLC since 2000.

John F. Bergstrom. Age 59.

Bergstrom Corporation Chairman and Chief Executive Officer since 1997. President from 1974 through 1996. Bergstrom Corporation owns and operates numerous automobile sales and leasing companies.

Director of Banta Corporation, Kimberly-Clark Corporation and Midwest Air Group, Inc. Director Bergstrom is also a director of Sensient Technologies Corporation, but his term will expire in April 2006, and he will not stand for re-election.

Director of Wisconsin Energy Corporation since 1987. Director of Wisconsin Electric Power Company since 1985. Director of Wisconsin Gas LLC since 2000.

Barbara L. Bowles. Age 58.

Profit Investment Management   Vice Chair since January 2006. Profit Investment Management is an investment advisory firm.

The Kenwood Group, Inc.   Chairman since 2000. Chief Executive Officer from 1989 to December 2005. President from 1989 to 2000. The Kenwood Group is an investment advisory firm and is a subsidiary of Profit Investment Management.

Director of Black & Decker Corporation and Dollar General Corporation.

Director of Wisconsin Energy Corporation and Wisconsin Electric Power Company since 1998. Director of Wisconsin Gas LLC since 2000.

Robert A. Cornog. Age 65.

Snap-on Incorporated   Retired Chairman of the Board, President and Chief Executive Officer. Served from 1991 and retired as President and Chief Executive Officer in 2001. Retired as Chairman in 2002. Snap-on Incorporated is a developer, manufacturer and distributor of professional hand and power tools, diagnostic and shop equipment, and tool storage products.

Director of Johnson Controls, Inc. and Oshkosh Truck Corporation.

Director of Wisconsin Energy Corporation since 1993. Director of Wisconsin Electric Power Company since 1994. Director of Wisconsin Gas LLC since 2000.

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Curt S. Culver. Age 53.

MGIC Investment Corporation Chairman since 2005, Chief Executive Officer since 2000 and President from 1999 to January 2006. MGIC Investment Corporation is the parent of Mortgage Guaranty Insurance Corporation.

Mortgage Guaranty Insurance Corporation Chairman since 2005, Chief Executive Officer since 1999 and President from 1996 to January 2006. Mortgage Guaranty Insurance Corporation is a private mortgage insurance company.

Director of MGIC Investment Corporation.

Director of Wisconsin Energy Corporation, Wisconsin Electric Power Company and Wisconsin Gas LLC since 2004.

Thomas J. Fischer. Age 58.

Fischer Financial Consulting LLC Principal since 2002. Fischer Financial Consulting LLC provides consulting on corporate financial, accounting and governance matters.

Retired Partner of Arthur Andersen LLP from 1980 to 2002 (Managing Partner Milwaukee office from 1993 to 2002). Arthur Andersen LLP was an independent public accounting firm.

Director of Actuant Corporation, Badger Meter, Inc. and Regal-Beloit Corporation.

Director of Wisconsin Energy Corporation, Wisconsin Electric Power Company and Wisconsin Gas LLC since July 2005.

Gale E. Klappa. Age 55.

Wisconsin Energy Corporation Chairman of the Board and Chief Executive Officer since May 2004. President since April 2003.

Wisconsin Electric Power Company Chairman of the Board since May 2004. President and Chief Executive Officer since August 2003.

Wisconsin Gas LLC Chairman of the Board since May 2004. President and Chief Executive Officer since August 2003.

The Southern Company Executive Vice President, Chief Financial Officer and Treasurer from March 2001 to April 2003. Chief Strategic Officer from October 1999 to March 2001. The Southern Company is a public utility holding company serving the southeastern United States.

Director of Wisconsin Energy Corporation, Wisconsin Electric Power Company and Wisconsin Gas LLC since 2003.

Ulice Payne, Jr. Age 50.

Addison-Clifton, LLC Managing Member since 2004. Addison-Clifton, LLC provides advisory services on global trade compliance.

Milwaukee Brewers Baseball Club, Inc. President and Chief Executive Officer from 2002 to 2003.

Foley & Lardner Managing Partner of the law firm s Milwaukee office from May 2002 to September 2002. A partner from 1998 to 2002.

Director of Badger Meter, Inc. and Midwest Air Group, Inc. Trustee of The Northwestern Mutual Life Insurance Company.

Director of Wisconsin Energy Corporation, Wisconsin Electric Power Company and Wisconsin Gas LLC since 2003.

Frederick P. Stratton, Jr. Age 66.

Briggs & Stratton Corporation Chairman Emeritus since 2003. Chairman of the Board from 2001 to 2003. Chairman and Chief Executive Officer until 2001. Briggs & Stratton Corporation is a manufacturer of small gasoline engines.

Director of Baird Funds, Inc, Midwest Air Group, Inc. and Weyco Group, Inc.

Director of Wisconsin Energy Corporation since 1987. Director of Wisconsin Electric Power Company since 1986. Director of Wisconsin Gas LLC since 2000.

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PROPOSAL 2: RATIFICATION OF DELOITTE & TOUCHE LLP AS INDEPENDENT AUDITORS FOR 2006

The Audit and Oversight Committee of the Board of Directors has sole authority to select, evaluate and, where appropriate, terminate and replace the independent auditors. The Audit and Oversight Committee has appointed Deloitte & Touche LLP as the Company s independent auditors for the fiscal year ending December 31, 2006. The Committee believes that stockholder ratification of this matter is important considering the critical role the independent auditors play in maintaining the integrity of the Company s financial statements. If stockholders do not ratify the selection of Deloitte & Touche LLP, the Audit and Oversight Committee will reconsider the selection.

Deloitte & Touche LLP also served as the independent auditors for the Company for the fiscal years ended December 31, 2005, 2004, 2003 and 2002.

Representatives of Deloitte & Touche LLP are expected to be present at the Meeting. They will have an opportunity to make a statement if they so desire and are expected to respond to appropriate questions that may be directed to them.

The appointment of Deloitte & Touche LLP as independent auditors for 2006 will be ratified if the number of votes cast in favor of the proposal exceeds the number of votes cast against the proposal. Accordingly, presuming a quorum is present, abstentions and broker non-votes will have no effect on the outcome of this proposal.

The Board of Directors recommends that you vote FOR

the ratification of Deloitte & Touche LLP as independent auditors for 2006.

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INDEPENDENT AUDITORS FEES AND SERVICES

Pre-Approval Policy. The Audit and Oversight Committee has a formal policy delineating its responsibilities for reviewing and approving, in advance, all audit, audit-related, tax and other services of the independent auditors. The Committee is committed to ensuring the independence of the auditors, both in appearance as well as in fact.

Under the pre-approval policy, before engagement of the independent auditors for the next year s audit, the independent auditors will submit a detailed description of services anticipated to be rendered for the Committee to approve. Annual pre-approval will be deemed effective for a period of twelve months from the date of pre-approval, unless the Committee specifically provides for a different period. A fee level will be established for all permissible non-audit services. Any proposed non-audit services exceeding this level will require additional approval by the Committee.

The Audit and Oversight Committee delegated pre-approval authority to the Committee s chair. The Committee Chair shall report any pre-approval decisions at the next scheduled Committee meeting. Under the pre-approval policy, the Committee shall not delegate to management its responsibilities to pre-approve services performed by the independent auditors.

Under the pre-approval policy, prohibited non-audit services are services prohibited by the Securities and Exchange Commission to be performed by the Company s independent auditors. These services include bookkeeping or other services related to the accounting records of the Company, financial information systems design and implementation, appraisal or valuation services, fairness opinions or contribution-in-kind reports, actuarial services, internal audit outsourcing services, management functions, human resources, broker-dealer, investment advisor or investment banking services, legal services and expert services unrelated to the audit. In addition, the Committee has determined that tax services performed by the independent auditors should not involve tax strategy consulting.

Fee Table. The following table shows the fees for professional audit services provided by Deloitte & Touche LLP for the audit of the annual financial statements of the Company and its subsidiaries for fiscal years 2005 and 2004 and fees for other services rendered during those periods. No fees were paid to Deloitte & Touche LLP pursuant to the de minimus exception to the pre-approval policy permitted under the Securities and Exchange Act of 1934, as amended.

	2005	**2004**
Audit Fees (1)	$ 1,426,755	$ 1,540,156
Audit-Related Fees (2)	37,410	199,000
Tax Fees (3)	16,978	216,684
All Other Fees (4)	2,750	
Total	$ 1,483,893	$ 1,955,840

(1) *Audit Fees* consist of fees for professional services rendered in connection with the audits of (i) annual financial statements of the Company and its subsidiaries, (ii) management s assessment of the effectiveness of internal control over financial reporting and (iii) the effectiveness of internal control over financial reporting. This category also includes reviews of financial statements included in Form 10-Q filings of the Company and its subsidiaries and services normally provided in connection with statutory and regulatory filings or engagements.

(2) *Audit-Related Fees* consist of fees for professional services that are reasonably related to the performance of the audit or review of the Company s financial statements and are not reported under Audit Fees. These services primarily include consultations regarding implementation of accounting standards and due diligence related to mergers and acquisitions. In 2004, audit-related fees also include fees for professional services rendered for benefit plan audits. Beginning in 2005, Deloitte & Touche LLP no longer audits the Company s benefit plans.

(3) *Tax Fees* consist of fees for professional services rendered with respect to federal, state and international tax compliance, tax advice and tax planning. This includes preparation of tax returns, claims for refunds, payment planning and tax law interpretation. Deloitte & Touche LLP did not provide any tax strategy consulting in 2005 or 2004.

(4) *All Other Fees* consist of costs for certain employees to attend an accounting/tax seminar hosted by Deloitte & Touche LLP in 2005. Deloitte & Touche did not provide any services in 2004 that should be reported in this category.

CORPORATE GOVERNANCE FREQUENTLY ASKED QUESTIONS

Does WEC have Corporate Governance Guidelines?	Yes, since 1996 the Board has maintained Corporate Governance Guidelines that provide a framework under which it conducts business. The Corporate Governance Committee reviews the Guidelines annually to ensure that the Board is providing effective governance over the affairs of the Company. To view the Guidelines, please refer to the Governance section of the Company s website at www.wisconsinenergy.com.
How are directors determined to be independent?	No director qualifies as independent unless the Board affirmatively determines that the director has no material relationship with the Company. The Corporate Governance Guidelines provide that the Board should consist of at least a two-thirds majority of independent directors.
What are the Board s standards of independence?	The guidelines the Board uses in determining director independence are located in Appendix A of the Corporate Governance Guidelines. These standards of independence, which are summarized below, include those established by the New York Stock Exchange as well as a series of standards that are more comprehensive than New York Stock Exchange requirements.

To be considered by the Board as independent, the director:

has not been an employee of the Company for the last five years;

has not received, in the past three years, more than $100,000 per year in direct compensation from the Company, other than director fees or deferred compensation for prior service;

has not been affiliated with or employed by a present or former internal or external auditor of the Company in the past three years;

has not been an executive officer, in the past three years, of another company where any of the Company s present executives at the same time serves or served on that other company s compensation committee;

in the past three years, has not been an employee of a company that makes payments to, or receives payments from, the Company for property or services in an amount which in any single fiscal year is the greater of $1 million or 2% of such other company s consolidated gross revenues;

has not received, in the past three years, remuneration, other than *de minimus* remuneration, as a result of services as, or being affiliated with an entity that serves as, an advisor, consultant, or legal counsel to the Company or to a member of the Company s senior management, or a significant supplier of the Company;

has no personal service contract(s) with the Company or any member of the Company s senior management;

is not an employee or officer with a not-for profit entity that receives 5% or more of its total annual charitable awards from the Company;

has not had any business relationship with the Company, in the past three years, for which the Company has been required to make disclosure under certain rules of the Securities and Exchange Commission;

is not employed by a public company at which an executive officer of the Company serves as a director; and

does not have any beneficial ownership interest of 5% or more in an entity that has received remuneration, other than *de minim*us remuneration, from the Company, its subsidiaries or affiliates.

The Board also considers whether a director s immediate family members meet the above criteria, as well as whether a director has any relationships with WEC s affiliates for certain of the above criteria, when determining the director s independence. Any relationship between a director and the Company not meeting the above criteria is considered an immaterial relationship with the Company for purposes of determining independence.

Who are the independent directors?	The Board has affirmatively determined that Directors Ahearne, Bergstrom, Bowles, Cornog, Culver, Fischer, Payne and Stratton have no material relationships with WEC and are independent under the Board s standards of independence. This represents more than a two-thirds majority of the Board. Directors Klappa and Wardeberg are not independent due to their present or previous employment with WEC.

What are the committees of the Board?	The Board of Directors has the following committees: Audit and Oversight, Compensation, Corporate Governance, Finance and Executive.
	All committees, except the Executive Committee, operate under a charter approved by the Board. A copy of each committee charter is posted in the Governance section of the Company s website at www.wisconsinenergy.com. The Audit and Oversight Committee charter is attached as Appendix A. The members and the responsibilities of each committee are listed later in this proxy statement.
Are the Audit and Oversight, Corporate Governance and Compensation Committees comprised solely of independent directors?	Yes, these committees are comprised solely of independent directors, as determined under New York Stock Exchange rules and the Board s Corporate Governance Guidelines.
	In addition, the Board has determined that each member of the Audit and Oversight Committee is independent under the rules of the New York Stock Exchange applicable to audit committee members. The Audit and Oversight Committee is a separately designated committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended.
Do the non-management directors meet separately from management?	Yes, at every regularly scheduled Board meeting an executive session of non-management (non-employee) directors is held without any management present. Annually, an executive session of independent directors is held without any management or non-independent directors present. The chair of the Corporate Governance Committee, currently Director Bowles, presides at these sessions.
How can I contact the members of the Board?	Correspondence may be sent to the directors, including the non-employee directors, in care of the Corporate Secretary, Anne K. Klisurich, at the Company s principal business office, 231 West Michigan Street, P.O. Box 1331, Milwaukee, Wisconsin 53201.
	All communication received as set forth above will be opened by the Corporate Secretary for the sole purpose of confirming the contents represent a message to the Company s directors. All communication, other than advertising, promotion of a product or service, or patently offensive material, will be forwarded promptly to the addressee.
Does the Company have a written code of ethics?	Yes, all WEC directors, executive officers and employees, including the principal executive, financial and accounting officers, have a responsibility to comply with WEC s Code of Business Conduct, to seek advice in doubtful situations and to report suspected violations.
	WEC s Code of Business Conduct addresses, among other things: conflicts of interest; corporate opportunities; confidentiality; fair dealing; protection and proper use of Company assets; and compliance with laws, rules and regulations (including insider trading laws). The Company has not provided any waiver to the Code for any director, executive officer or other employee.
	The Code of Business Conduct is posted in the Governance section of the Company s website at www.wisconsinenergy.com. It is also available in print to any stockholder upon request.
	The Company maintains a toll-free confidential helpline for employees to report suspected violations of the Code or other concerns regarding accounting, internal accounting controls or auditing matters.
Does the Board evaluate CEO performance?	Yes, the Compensation Committee, on behalf of the Board, annually evaluates the performance of the CEO and reports the results to the Board. As part of this practice, the Compensation Committee requests that all non-employee directors provide their opinions to the Compensation Committee chair on the CEO s performance.
	The CEO is evaluated in a number of areas including leadership, vision, financial stewardship, strategy development, management development, effective communication with constituencies, demonstrated integrity and effective representation of the Company in community and industry affairs. The chair of the Compensation Committee shares the responses with the CEO. The process is also used by the Committee to determine appropriate compensation for the CEO. This procedure allows the Board to evaluate the CEO and to communicate the Board s expectations.

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Does the Board evaluate its own performance?	Yes, the Board annually evaluates its own collective performance. Each director is asked to rate the performance of the Board on such things as: the establishment of appropriate corporate governance practices; providing appropriate oversight for key affairs of the Company (including its strategic plans, long-range goals, financial and operating performance and customer satisfaction initiatives); communicating the Board s expectations and concerns to the CEO; identifying threats and opportunities critical to the Company; and operating in a manner that ensures open communication, candid and constructive dialogue as well as critical questioning. The Corporate Governance Committee uses the results of this process as part of its annual review of the Corporate Governance Guidelines and to foster continuous improvement of the Board s activities.
Is Board committee performance evaluated?	Yes, each committee, except the Executive Committee, conducts an annual performance evaluation of its own activities and reports the results to the Board. The evaluation compares the performance of each committee with the requirements of its charter. The results of the annual evaluations are used by each committee to identify both its strengths and areas where its governance practices can be improved. The committee may adjust its charter, with Board approval, based on the results of this evaluation.
Are all the members of the audit committee financially literate and does the committee have an audit committee financial expert ?	Yes, the Board has determined that all of the members of the Audit and Oversight Committee are financially literate as required by New York Stock Exchange rules. The Board has also determined that Directors Frederick P. Stratton, Jr. (Chair), John F. Bergstrom, Barbara L. Bowles, Robert A. Cornog, Curt S. Culver, Thomas J. Fischer and Ulice Payne, Jr. qualify as audit committee financial experts within the meaning of Securities and Exchange Commission rules. Director Fischer serves on the audit committee of three other public companies. The Board determined that his service on these other audit committees will not impair Director Fischer s ability to effectively serve on the Audit and Oversight Committee. No other member of the Audit and Oversight Committee serves as an audit committee member of more than three public companies. For this purpose, the Company considers service on the audit committees of Wisconsin Energy Corporation, Wisconsin Electric Power Company and Wisconsin Gas LLC to be service on the audit committee of one public company because of the commonality of the issues considered by those committees.
Does the Board have a nominating committee?	Yes, the Corporate Governance Committee is responsible for, among other things, identifying and evaluating director nominees. The chair of the Committee coordinates this effort. The Board has determined that all members of the Corporate Governance Committee are independent under New York Stock Exchange rules applicable to nominating committee members.
What is the process used to identify director nominees and how do I recommend a nominee to the Corporate Governance Committee?	Candidates for director nomination may be proposed by stockholders, the Corporate Governance Committee and other members of the Board. The Committee may pay a third party to identify qualified candidates; however, such a firm was not engaged with respect to the nominees listed in this proxy statement. The Committee identified and recommended all director nominees presented for election at the Meeting. No stockholder nominations or recommendations were received.
	Stockholders wishing to propose director candidates for consideration and recommendation by the Corporate Governance Committee for election at the 2007 Annual Meeting of Stockholders must submit the candidates names and qualifications to the Corporate Governance Committee no later than November 1, 2006, via the Corporate Secretary, Anne K. Klisurich, at the Company s principal business office, 231 West Michigan Street, P.O. Box 1331, Milwaukee, Wisconsin 53201.
What are the criteria and process used to evaluate director nominees?	The Corporate Governance Committee has not established minimum qualifications for director nominees; however, the criteria for evaluating all candidates, which are reviewed annually, include characteristics such as: proven integrity, mature and independent judgment, vision and imagination, ability to objectively appraise problems, ability to evaluate strategic options and risks, sound business experience and acumen, relevant technological, political, economic or social/cultural expertise, social consciousness, achievement of prominence in career, familiarity with national and international issues affecting the Company s businesses and contribution to the Board s desired diversity and balance.

In evaluating director candidates, the Corporate Governance Committee reviews potential conflicts of interest, including interlocking directorships and substantial business, civic and/or social relationships with other members of the Board that could impair the prospective Board member s ability to act independently from the other Board members and management. The Bylaws state that directors shall be stockholders of WEC.

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Once a person has been identified by the Corporate Governance Committee as a potential candidate, the Committee may collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Committee determines that the candidate warrants further consideration, the chair or another member of the Committee contacts the person. Generally, if the person expresses a willingness to be considered and to serve on the Board, the Committee requests information from the candidate, reviews the person s accomplishments and qualifications and conducts one or more interviews with the candidate. In certain instances, Committee members may contact one or more references provided by the candidate or may contact other members of the business community or other persons that may have greater firsthand knowledge of the candidate s accomplishments.

The Committee evaluates all candidates, including those proposed by stockholders, using the criteria and process described above. The process is designed to provide the Board with a diversity of experience to allow it to effectively meet the many challenges WEC faces in today s changing business environment.

What is the deadline for stockholders to submit proposals for the 2007 Annual Meeting of Stockholders?	Stockholders who intend to have a proposal considered for inclusion in the Company s proxy materials for presentation at the 2007 Annual Meeting of Stockholders must submit the proposal to the Company no later than November 16, 2006. Stockholders who intend to present a proposal at the 2007 Annual Meeting of Stockholders without inclusion of such proposal in the Company s proxy materials, or who propose to nominate a person for election as a director at the 2007 Annual Meeting, are required to provide notice of such proposal or nomination, containing the information required by the Company s Bylaws, to the Company at least 70 days and not more than 100 days prior to the scheduled date of the 2007 Annual Meeting of Stockholders. Correspondence in this regard should be directed to the Corporate Secretary, Anne K. Klisurich, at the Company s principal business office, 231 West Michigan Street, P.O. Box 1331, Milwaukee, Wisconsin 53201.
What is WEC s policy regarding director attendance at annual meetings?	All directors are expected to attend the Company s annual meetings of stockholders. All current directors attended the 2005 Annual Meeting.
Where can I find more information about WEC corporate governance?	The Company s website, www.wisconsinenergy.com, contains information on the Company s governance activities. The site includes the Code of Business Conduct, Corporate Governance Guidelines, Board committee charters and other useful information. As policies are continually evolving, the Company encourages you to visit the website periodically. Copies of these documents may also be requested from the Corporate Secretary.

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COMMITTEES OF THE BOARD OF DIRECTORS

Members	Principal Responsibilities; Meetings
Audit and Oversight Frederick P. Stratton, Jr., Chair John F. Bergstrom Barbara L. Bowles Robert A. Cornog Curt S. Culver Thomas J. Fischer Ulice Payne, Jr.	Oversee the integrity of the financial statements. Oversee management compliance with legal and regulatory requirements. Review, approve and evaluate the independent auditors services. Oversee the performance of the internal audit function and independent auditors. Prepare the report required by the SEC for inclusion in the proxy statement. Establish procedures for the submission of complaints and concerns regarding WEC s accounting or auditing matters. The Committee conducted seven meetings in 2005.
Compensation John F. Bergstrom, Chair John F. Ahearne Ulice Payne, Jr.	Identify through succession planning potential executive officers. Provide a competitive, performance-based executive and director compensation program. Set goals for the CEO, annually evaluate the CEO s performance against such goals and determine compensation adjustments based on whether these goals have been achieved. Prepare the annual report on executive compensation required by the SEC for inclusion in the proxy statement. The Committee conducted five meetings in 2005 and executed one signed, written unanimous consent.
Corporate Governance Barbara L. Bowles, Chair Robert A. Cornog Curt S. Culver	Establish and review the Corporate Governance Guidelines to ensure the Board is effectively performing its fiduciary responsibilities to stockholders. Identify and recommend candidates to be named as nominees of the Board for election as directors. Lead the Board in its annual review of the Board s performance.

	The Committee conducted two meetings in 2005 and executed one signed, written unanimous consent.
Finance Curt S. Culver, Chair John F. Bergstrom Barbara L. Bowles Robert A. Cornog Ulice Payne, Jr. Frederick P. Stratton, Jr.	Review and monitor the Company s current and long-range financial policies and strategies, including its capital structure and dividend policy. Authorize the issuance of corporate debt within limits set by the Board. Discuss policies with respect to risk assessment and risk management. Review, approve and monitor the Company s capital and operating budgets. The Committee conducted five meetings in 2005.

The Board also has an Executive Committee which may exercise all powers vested in the Board except action regarding dividends or other distributions to stockholders, filling Board vacancies and other powers which by law may not be delegated to a committee or actions reserved for a committee comprised of independent directors. The members of the Executive Committee are Gale E. Klappa (Chair), John F. Bergstrom, Barbara L. Bowles, Robert A. Cornog and Frederick P. Stratton, Jr. The Executive Committee did not meet in 2005. The Board dissolved the Nuclear Oversight Committee in 2005, but named Director Ahearne as lead nuclear director.

In addition to the number of committee meetings listed in the preceding table, the Board met six times in 2005 and executed two signed, written unanimous consents. The average meeting attendance during the year was 95%. No director attended fewer than 87% of the total number of meetings of the Board and Board committees on which he or she served.

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AUDIT AND OVERSIGHT COMMITTEE REPORT

The Audit and Oversight Committee, which is comprised solely of independent directors, oversees the integrity of the financial reporting process on behalf of the Board of Directors of Wisconsin Energy Corporation. In addition, the Committee oversees compliance with legal and regulatory requirements. The Committee operates under a written charter approved by the Board of Directors, which can be found in the Governance section of the Company s website at www.wisconsinenergy.com, and is attached hereto as Appendix A.

The Committee is also responsible for the appointment, compensation, retention and oversight of the Company s independent auditors, as well as the oversight of the Company s internal audit function. The Committee selected Deloitte & Touche LLP to remain as the Company s independent auditors for 2006, subject to stockholder ratification.

Management is responsible for the Company s financial reporting process, the preparation of consolidated financial statements in accordance with generally accepted accounting principles and the system of internal controls and procedures designed to provide reasonable assurance regarding compliance with accounting standards and applicable laws and regulations. The Company s independent auditors are responsible for performing an independent audit of the Company s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and issuing a report thereon.

The Committee held seven meetings during 2005. Meetings are designed to facilitate and encourage open communication among the members of the Committee, management, the internal auditors and the Company s independent auditors, Deloitte & Touche LLP. During these meetings, we reviewed and discussed with management, among other items, the Company s quarterly and annual financial statements and the system of internal controls designed to provide reasonable assurance regarding compliance with accounting standards and applicable laws. We reviewed the financial statements and the system of internal controls with the Company s independent auditors, both with and without management present, and we discussed with Deloitte & Touche LLP matters required by Statement on Auditing Standards No. 61, as amended, relating to communications with audit committees, including the quality of the Company s accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

In addition, we received the written disclosures and the letter relative to auditors independence from Deloitte & Touche LLP, as required by Independence Standards Board Standard No. 1. The Committee discussed this information with Deloitte & Touche LLP and also considered the compatibility of non-audit services provided by Deloitte & Touche LLP with maintaining its independence.

Based on these reviews and discussions, the Audit and Oversight Committee recommended to the Board of Directors that the audited financial statements be included in Wisconsin Energy Corporation s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed with the Securities and Exchange Commission.

Respectfully submitted to Wisconsin Energy Corporation stockholders by the Audit and Oversight Committee of the Board of Directors.

Frederick P. Stratton, Jr., Committee Chair

John F. Bergstrom

Barbara L. Bowles

Robert A. Cornog

Curt S. Culver

Thomas J. Fischer

Ulice Payne, Jr.

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COMPENSATION OF THE BOARD OF DIRECTORS

During 2005, each non-employee director received an annual retainer fee of $36,000. Non-employee chairs of Board committees received a quarterly retainer of $1,250. Non-employee directors received a fee of $1,500 for each Board or committee meeting attended. In addition, each non-employee director received a per diem fee of $1,250 for travel on Company business for each day on which a Board or committee meeting was not also held, and the Company reimbursed non-employee directors for all out-of-pocket travel expenses. Non-employee directors were paid $300 for each signed, written unanimous consent in lieu of a meeting. The lead nuclear director received a quarterly retainer of $1,250, an attendance fee of $1,500 for each business meeting/site visit and a per diem fee of $1,250 for travel on Company business for each day on which a business meeting/site visit was not also held. Each non-employee director also received on January 3, 2005, the 2005 annual stock compensation award in the form of restricted stock equal to a value of $65,000, with vesting to occur three years from the grant date. Insurance is also provided by the Company for director liability coverage, fiduciary and employee benefit liability coverage and travel accident coverage for director travel on Company business. Employee directors do not receive any directors fees.

For 2006, the fees paid to non-employee directors will be the same as in 2005. In addition, each non-employee director received on January 3, 2006, the 2006 annual stock compensation award in the form of restricted stock equal to a value of $65,000, with vesting to occur three years from the grant date.

Non-employee directors may defer all or a portion of director fees pursuant to the Directors Deferred Compensation Plan. Deferred amounts can be credited to any of ten measurement funds, including a WEC phantom stock account. The value of these accounts will appreciate or depreciate based on market performance, as well as through the accumulation of reinvested dividends. Deferral amounts are credited to accounts in the name of each participating director on the books of WEC, are unsecured and are payable only in cash following termination of the director s service to WEC and its subsidiaries. The deferred amounts will be paid out of the general corporate assets or the assets of the trust described under Retirement Plans in this proxy statement.

Although WEC directors also serve on the Wisconsin Electric Power Company and Wisconsin Gas LLC boards and their committees, a single annual retainer is paid and only a single fee is paid for meetings held on the same day. Fees are allocated among WEC, Wisconsin Electric Power Company and Wisconsin Gas LLC based on services rendered. In addition, the Board has adopted stock ownership guidelines for directors to further align the Board s interests with stockholders. Under these guidelines, directors are generally expected, over time (generally within five years of commencement of Board service), to acquire and hold WEC common stock with a fair market value equal to five times the director s annual retainer.

The Company has established a Directors Charitable Awards Program to help further its philosophy of charitable giving. Under the program, the Company intends to contribute up to $100,000 per year for 10 years to one or more charitable organizations chosen by each director, upon the director s death. Directors are provided with one charitable award benefit for serving on the boards of WEC and its subsidiaries. There is a vesting period of three years of service on the Board required for participation in this program. Charitable donations under the program will be paid out of general corporate assets. Directors derive no financial benefit from the program, and all income tax deductions accrue solely to the Company. The tax deductibility of these charitable donations mitigates the net cost to the Company.

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COMPENSATION COMMITTEE REPORT

ON EXECUTIVE COMPENSATION

Compensation Philosophy and Objectives. The Compensation Committee is responsible for making decisions regarding compensation for the executive officers of Wisconsin Energy Corporation and its principal subsidiaries. The Board of Directors has determined that all Committee members are independent. We seek to provide a competitive, performance-based executive compensation program that enables WEC to attract and retain key individuals and to motivate them to achieve WEC s short- and long-term goals.

We believe that a substantial portion of executive compensation should be at risk. As a result, WEC s compensation plans have been structured so that the level of total compensation (consisting of compensation paid in the current year and long-term compensation under the Company s 1993 Omnibus Stock Incentive Plan and Performance Unit Plan) is strongly dependent upon achievement of goals that are aligned with the interests of WEC s stockholders and customers. During 2005, 73% to 80% of such total compensation paid to the named executive officers was tied to WEC performance as measured by goals established by the Committee each year.

The primary elements of WEC s executive compensation program are base salary, annual incentive compensation and long-term incentive compensation. Generally, for WEC executives, all elements of compensation are targeted at the 50th percentile of general industry practices that is, we target compensation at the median levels paid for similar positions at companies with comparable revenue.

In order to determine appropriate compensation levels, including the allocation between long-term and current year compensation and between cash and non-cash compensation, we rely upon a variety of sources for guidance, including compensation data compiled by Towers Perrin, an independent compensation consultant. We also consider the executive s responsibilities and experience. We believe that the labor market for WEC executives is that of general industry in the United States. As a result, we rely upon an analysis of compensation data for companies in general industry with comparable revenues. Recognizing that a significant portion of WEC s business is in the energy services industry, we also consider compensation data that analyzes the energy services industry.

Specific values of 2005 compensation for the Chief Executive Officer and the four other most highly compensated executive officers are shown in the Summary Compensation Table. Our basis for determining each element of compensation is described below. With respect to executive compensation paid to the named executive officers other than Mr. Klappa, the Committee considered the recommendations of Mr. Klappa.

Base Salary. For 2005, we targeted base salaries for WEC officers to be within 10% of the reported median of general industry. For Wisconsin Electric Power Company and Wisconsin Gas LLC officers, we targeted base salaries to be within 10% of the reported median of the energy services industry. We then made adjustments to these targeted amounts taking into consideration factors such as the relative levels of individual experience, performance, responsibility and contribution to the results of Company operations. Base salaries for 2005 for each of the named executive officers are shown in the Summary Compensation Table under the heading of Salary. For 2006, the base salaries for Messrs. Klappa, Kuester, Leverett and Salustro, and Ms. Rappé, are $1,005,000, $582,000, $538,200, $424,872, and $360,528, respectively.

Annual Incentive Compensation. The annual incentive plan provides for annual cash awards to executives based upon achievement of pre-established stockholder, customer and employee focused objectives. All payments under the plan are at risk. Payments are made only if performance goals are achieved, and awards may be less or greater than targeted amounts based on actual performance. Based upon a review of competitive practices for comparable positions at companies with comparable revenues and the executive s responsibilities and experience, awards for 2005 were targeted at 35% to 100% of base salary; however, actual awards may range from 0% to 210% of base salary based upon performance. The plan also provides the Committee with the discretion to recognize individual performance.

At the Committee s direction, the annual incentive plan for 2005 was designed with a principal focus on financial results. In general, the annual incentive was dependent upon financial achievement determined by performance against targets for earnings from ongoing operations and cash flow. For 2005, the target for earnings from ongoing operations excluded the effects of asset sales not in the normal course of business, impairment charges and certain one-time tax benefits associated with state loss carry forwards. The Company s financial performance exceeded the targets for 2005. Performance incentive awards could be increased or decreased by up to 10% based upon the Company s performance in the operational areas of customer satisfaction (5%), supplier and workforce diversity (2.5%) and safety (2.5%). The Company s performance in these operational areas, in the aggregate, increased awards by 0.625%. Based upon these results, awards paid to executives for 2005 exceeded the target levels. Awards to the named executive officers are shown in the Summary Compensation Table under the heading of Bonus.

The annual incentive plan for 2006 will again depend upon financial achievement determined by Company performance against earnings from ongoing operations and cash flow targets. As was the case in 2005, the Company s performance in the operational areas

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of customer satisfaction, supplier and workforce diversity and safety will either increase or decrease final awards by up to 10%. In addition, the Committee retains discretion to consider individual performance when awarding incentive compensation.

Long-Term Incentive Compensation. The Committee administers the Company s 1993 Omnibus Stock Incentive Plan, as amended, which is a stockholder approved, long-term incentive plan designed to link the interests of executives and other key employees to long-term stockholder value. It allows for various types of awards tied to the performance of the Company s common stock, including stock options, stock appreciation rights, restricted stock and performance shares. Historically, the Committee has primarily used stock options to deliver competitive long-term incentive opportunities.

Beginning in 2004, in order to model best practices, the Committee modified the long-term incentive program to include a performance share component to complement stock option awards. With the use of performance shares, the amount of the benefit ultimately vested is dependent upon the Company s total stockholder return over a three-year period, as compared to the total stockholder return of the Custom Peer Group identified in the Performance Graph section of this proxy statement. Total stockholder return is the calculation of total return (stock price appreciation plus reinvestment of dividends) based upon an initial investment of $100 and subsequent $100 investments at the end of each quarter during the three-year performance period. The Committee believes this measure better aligns executive financial interests with those of stockholders and long-term interests of customers. For 2005, the Committee adopted WEC s Performance Unit Plan. The performance units granted under this plan are similar to performance shares except that upon vesting, the performance units will be settled in cash while the performance shares granted in 2004 will be settled in WEC common stock. Executives receive a cash dividend when WEC declares a dividend on its common stock in an amount equal to the number of performance units and performance shares granted to the executive at the target 100% rate, as more fully described in Long-Term Incentive Plans Awards in Last Fiscal Year in this proxy statement, multiplied by the amount of the dividend paid on a share of common stock. The dividends paid to the named executive officers in 2005 are included in the Summary Compensation Table under the heading Other Annual Compensation. For 2006, the Committee awarded performance units under the Performance Unit Plan.

In December 2004, the Committee approved the acceleration of vesting of all unvested options awarded to executive officers and other key employees in 2002, 2003 and 2004 in anticipation of the impact of the Financial Accounting Standards Board s recent adoption of its statement, Share-Based Payment (SFAS 123(R)), which requires the expensing of unvested options over the remaining vesting period of the options beginning January 1, 2006. In connection with the acceleration of vesting, the Committee approved new terms and conditions governing the future award of options to purchase shares of WEC common stock. The terms and conditions are substantially similar to those of options that had been awarded since 2000, except that each new option will be a non-qualified stock option and will not vest at all until three years from the date of grant at which time the new options will become 100% exercisable. In addition, the new options will become immediately exercisable upon (i) a termination of employment with WEC or its subsidiaries by reason of retirement, disability or death or (ii) a change in control of WEC. These new terms govern the options granted on January 18, 2005.

The Committee believes that an important adjunct to the long-term incentive program is significant stock ownership by officers who participate in the program. Accordingly, we have implemented stock ownership guidelines for officers of the Company. The guidelines provide that each executive officer should, over time (generally within five years of appointment as an executive officer), acquire and hold Company common stock having a minimum fair market value ranging from 150% to 300% of base salary.

Chief Executive Officer Compensation. The assessment of the Chief Executive Officer s performance and determination of the CEO s compensation are among our principal responsibilities.

In reviewing the performance of WEC s Chief Executive Officer, we requested that all non-employee directors evaluate the CEO s performance. The Committee chair reviewed the evaluations, met with Mr. Klappa to discuss them, and the Committee factored the results into our compensation determinations.

Mr. Klappa s salary was $961,752 for 2005. Mr. Klappa s base salary for 2005 as Chairman, President and Chief Executive Officer was targeted at the median for CEOs at companies with comparable revenues as reflected in the survey of general industry compensation practices. Mr. Klappa s annual incentive compensation award was targeted at 100% of base pay. The award for 2005 was $1,929,511, or 200.625% of base salary, and was based upon achievement of the financial and operational objectives described above under Annual Incentive Compensation.

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In view of the discretionary component of the annual incentive plan, the Committee also noted other significant accomplishments of Mr. Klappa in 2005. However, given the overall achievements by the Company with regard to its financial and operational goals, no adjustment to Mr. Klappa s annual incentive award was made. Significant accomplishments for Mr. Klappa included, among other things:

- Progress in Wisconsin Energy Corporation s *Power the Future* strategic plan:
  - Commenced construction of two 615-megawatt coal-fired generating units that are part of our Oak Creek expansion in June 2005 following receipt of a positive decision by the Supreme Court of Wisconsin and all remaining permits.
  - Added 545 megawatts of natural gas-fired generation in July 2005 when the first unit at Port Washington Generating Station began commercial operation; project was completed on time and within PSCW-approved cost parameters.
  - Completed the sale of approximately a 17% ownership interest in the two coal units being constructed as part of the Oak Creek expansion to two unaffiliated entities, who will share ratably in the construction costs.
- High utility operating effectiveness:
  - Ranked second in the Midwest and tied for fifth out of 53 electric utilities nationwide in the J.D. Power and Associates 2005 Electric Utility Business Customer Satisfaction Study.
  - Realized a record 472 consecutive days of operation between planned refueling outages at one of our two generating units at Point Beach Nuclear Plant.
  - Received approval of a twenty year license extension from the United States Nuclear Regulatory Commission in December 2005 permitting the operation of Point Beach Unit 1 until 2030 and Point Beach Unit 2 until 2033.
  - Named by *Forbes* as one of the top 10 utilities in the country in the magazine s annual evaluation and listing of the Best Managed Companies in America.
- Continued leadership and excellence in corporate governance as evidenced by the rating of a 10 , the highest possible score, from GovernanceMetrics International (only one of four U.S. companies to earn a fourth consecutive 10).

To specifically link a portion of his compensation to the enhancement of long-term stockholder value, Mr. Klappa was awarded long-term incentive compensation in 2005 in the form of stock options, as set forth in the Long-Term Compensation Awards column of the Summary Compensation Table, and performance units, as set forth in Long-Term Incentive Plans Awards in Last Fiscal Year.

Compliance with Tax Regulations Regarding Executive Compensation. Section 162(m) of the Internal Revenue Code limits the deductibility of certain executives compensation that exceeds $1 million per year, unless certain requirements are met. It is our policy to take reasonable steps to obtain the corporate tax deduction by qualifying for the exemptions from the limitations on such deductibility under Section 162(m) to the extent practicable. Nevertheless, maintaining tax deductibility is but one consideration among many in the design of the executive compensation program. With respect to incentive compensation, long-term incentive compensation payable under the 1993 Omnibus Stock Incentive Plan, as amended, has been designed to comply with the requirements of Section 162(m), while annual incentive compensation awards and performance unit awards under WEC s Performance Unit Plan have not been qualified under Section 162(m). The Committee may, from time to time, conclude that compensation arrangements are in the best interest of the Company and its stockholders despite the fact that such arrangements might not, in whole or in part, qualify for tax deductibility.

Respectfully submitted to Wisconsin Energy Corporation s stockholders by the Compensation Committee of the Board of Directors.

John F. Bergstrom, Committee Chair

John F. Ahearne

Ulice Payne, Jr.

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PERFORMANCE GRAPH

The performance graph below shows a comparison of the cumulative total return, assuming reinvestment of dividends, over the last five years had $100 been invested at the close of business on December 31, 2000, in each of:

- WEC common stock;
- a Custom Peer Group Index; and
- the Standard & Poor s 500 Index (S&P 500).

WEC uses the Custom Peer Group Index for peer comparison purposes because the Company believes the Index provides an accurate representation of WEC s peers. The Custom Peer Group Index is a market-capitalization-weighted index consisting of 30 companies, including WEC. These companies are similar to WEC in terms of business model and long-term strategies.

As noted elsewhere in this proxy statement, a comparison of WEC s total stockholder return to the total stockholder return of the Custom Peer Group is used to determine a portion of the long-term executive compensation awards.

The companies in the Custom Peer Group Index are Allegheny Energy, Inc.; Alliant Energy Corporation; Ameren Corporation; American Electric Power Company, Inc.; Avista Corporation; Cinergy Corp.; Consolidated Edison, Inc.; DTE Energy Company; Energy East Corporation; Entergy Corporation; Exelon Corporation; FirstEnergy Corp.; FPL Group, Inc.; NiSource Inc.; Northeast Utilities; Nstar; OGE Energy Corp.; Pinnacle West Capital Corporation; Pepco Holdings, Inc.; Progress Energy Inc.; Public Service Enterprise Group Incorporated; Puget Energy, Inc.; SCANA Corporation; Sempra Energy; Sierra Pacific Resources; The Southern Company; Westar Energy, Inc.; Wisconsin Energy Corporation; WPS Resources Corporation; and Xcel Energy Inc.

Five-Year Cumulative Return Chart

Value of Investment at Year-End

	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005
Wisconsin Energy Corporation	$ 100	$ 104	$ 120	$ 164	$ 170	$ 201
Custom Peer Group Index	$ 100	$ 96	$ 92	$ 110	$ 130	$ 147
S&P 500	$ 100	$ 88	$ 69	$ 89	$ 99	$ 104

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EXECUTIVE OFFICERS COMPENSATION

This table summarizes, for the last three fiscal years, compensation awarded to, earned by or paid to WEC s Chief Executive Officer and each of WEC s other four most highly compensated executive officers (the named executive officers).

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards		
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation ($)**	**Restricted Stock Awards[1] ($)**	**Securities Underlying Options (#)**	**All Other Compensation[2] ($)**
Gale E. Klappa							
Chairman of the Board, President	2005	961,752	1,929,511	54,838		280,000	80,344
and Chief Executive Officer	2004	856,668	1,791,202	212,573[3]		200,000	47,450
of WEC, WE and WG [4]	2003	458,179	1,075,000	131,740[3]	1,006,320	250,000	12,952
Frederick D. Kuester							
Executive Vice President of	2005	557,004	893,985	31,565		100,000	40,578
WEC and WG; Executive	2004	520,004	795,606	103,017[3]		150,000	24,600
Vice President and Chief	2003	110,508	400,000	1,976	749,547	200,000	2,500
Operating Officer of WE [4]							
Allen L. Leverett							
Executive Vice President and	2005	515,004	826,575	29,064		100,000	43,711
Chief Financial Officer of	2004	484,996	942,044	93,895[3]		150,000	30,750
WEC, WE and WG [4]	2003	230,004	690,000	66,025[3]	846,748	200,000	6,900
Larry Salustro							
Executive Vice President and	2005	406,572	652,553	27,916		100,000	29,869
General Counsel of WEC,	2004	385,000	589,050	17,612		150,000	24,241
WE and WG [4]	2003	360,000	375,000	2,550	306,600	125,000	14,370
Kristine A. Rappé							
Senior Vice President and Chief	2005	345,000	415,294	25,455		65,000	18,918
Administrative Officer of	2004	273,332	285,599	16,354		20,925	20,503
WEC, WE and WG [4]							

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(1) There were no restricted stock awards made to the named executive officers during fiscal 2005 and 2004. In 2003, restricted stock awards were granted to Messrs. Klappa, Kuester, Leverett and Salustro in the amounts of 39,510 shares, 24,140 shares, 28,850 shares and 12,000 shares, respectively, which are subject to forfeiture until vested. The dollar values shown for these shares are based upon the closing market prices of WEC common stock of $25.47, $31.05, $29.35 and $25.55 per share, respectively, on the grant dates. Mr. Klappa s restricted stock award, granted pursuant to his employment agreement, will vest at the rate of 10% per year of service with WEC. Mr. Kuester s restricted stock award, granted pursuant to his employment agreement, will vest at the rate of 10% per year of service with WEC. Under Mr. Leverett s restricted stock award, granted pursuant to his employment agreement, two-thirds of his restricted stock vested on July 1, 2005, the second anniversary of his employment starting date, and the remainder will vest at the rate of 20% for each year of service thereafter. The shares awarded to Mr. Salustro will vest upon his retirement at or after attainment of age 60. Mr. Salustro has announced that he intends to retire no later than early 2007, at which time he will have reached the age of 60. However, in each case, earlier vesting may occur due to termination of employment by death, disability, a change in control of the Company or action by the Compensation Committee. In addition, early vesting may occur for Messrs. Klappa, Kuester and Leverett if they terminate employment for good reason or the Company terminates their employment other than because of death or disability and without cause. Dividends are paid on shares of restricted stock at the same rate as on unrestricted shares and are used to acquire additional restricted shares. As of December 31, 2005, the named executive officers held the following number of shares of restricted stock with the following values (based on a closing price of $39.06 on December 30, 2005, the last trading day of 2005): Mr. Klappa 33,882 shares ($1,323,431); Mr. Kuester 20,355 shares ($795,066); Mr. Leverett 10,228 shares ($399,506); Mr. Salustro 29,725 shares ($1,161,059); and

Ms. Rappé 8,640 shares ($337,478).

During 2005, the Company awarded performance units to Messrs. Klappa, Kuester, Leverett and Salustro, and Ms. Rappé. These performance units are not reflected in the table or footnote discussion above. These performance unit awards are reflected in the table under the heading Long-Term Incentive Plans Awards in Last Fiscal Year.

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(2) All Other Compensation for 2005 for each of Messrs. Klappa, Kuester, Leverett and Salustro, and Ms. Rappé, consists of:

employer matching of contributions into the 401(k) plan in the amount of $6,300 for each named executive officer; and

make whole payments under the Executive Deferred Compensation Plan with respect to matching in the 401(k) plan on deferred salary or salary received but not otherwise eligible for matching in the amounts of $74,044, $34,278, $37,411, $23,569 and $12,618, respectively.

(3) Other Annual Compensation for 2004 for Mr. Klappa includes payments for club dues in the amount of $92,847, which includes a one-time new member fee of $80,256. Other Annual Compensation for 2004 for Mr. Kuester and Mr. Leverett includes payments of relocation expenses in the amounts of $52,648 and $46,545, respectively. Other Annual Compensation for 2003 for Mr. Klappa and Mr. Leverett includes payments of relocation expenses in the amounts of $95,174 and $52,164, respectively.

(4) Mr. Klappa commenced employment with WEC in April 2003 as President. He was appointed to the additional positions of Chairman of the Board and Chief Executive Officer effective May 2004. Mr. Kuester commenced employment with WEC in October 2003 as Chief Operating Officer of Wisconsin Electric Power Company and was appointed to the additional position of Executive Vice President effective May 2004. Mr. Leverett commenced employment with WEC in July 2003 as Chief Financial Officer. He was appointed to the additional position of Executive Vice President effective May 2004. Mr. Salustro served as Senior Vice President and General Counsel from July 2000 until May 2004 when he was appointed Executive Vice President and General Counsel. Ms. Rappé became an executive officer of WEC in May 2004.

Option Grants in Last Fiscal Year

This table shows additional data regarding the options granted in 2005 to the named executive officers.

	Individual Grants[1]				Grant Date Value
Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year (%)	Exercise or Base Price ($/Share)	Expiration Date	Grant Date Present Value[2] ($)
Gale E. Klappa	280,000	21.07	34.20	01/18/2015	$ 2,329,600
Frederick D. Kuester	100,000	7.52	34.20	01/18/2015	$ 832,000
Allen L. Leverett	100,000	7.52	34.20	01/18/2015	$ 832,000
Larry Salustro	100,000	7.52	34.20	01/18/2015	$ 832,000
Kristine A. Rappé	65,000	4.89	34.20	01/18/2015	$ 540,800

(1) Consists of non-qualified stock options to purchase shares of WEC common stock granted on January 18, 2005, pursuant to the 1993 Omnibus Stock Incentive Plan, as amended. These options have exercise prices equal to the fair market value of the WEC shares on the date of grant. These options were granted for a term of ten years, subject to earlier termination in certain events related to termination of employment. The options fully vest and become exercisable three years from the date of grant. Notwithstanding the preceding sentence, the options become immediately exercisable upon certain events related to termination of employment or a change in control of the Company. The exercise price may be paid by delivery or attestation of already-owned shares. Tax withholding obligations related to exercise may be satisfied by withholding shares otherwise deliverable upon exercise, subject to certain conditions. Subject to the limitations of the 1993 Omnibus Stock Incentive Plan, as amended, the Compensation Committee has the power with the participant s consent to amend these options.

(2) An option-pricing model (developed by Black-Scholes) was used to determine the options hypothetical present value as of the date of the grant. The assumptions used in the Black-Scholes equation are: market price of stock: $34.20; exercise price of option: $34.20; stock volatility: 19.0%; annualized risk-free interest rate: 4.42%; exercise at the end of the 10-year option term; and dividend yield: 2.456%. WEC s use of this model should not be construed as an endorsement of its accuracy. The ultimate value of the options, if any, will depend upon the future value of WEC common stock, which cannot be forecast with reasonable accuracy, and on the optionee s investment decisions.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table reflects options exercised in 2005 and the number and value of exercisable and unexercisable in-the-money options held by the named executive officers at fiscal year-end.

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Name	Shares Acquired on Exercise (#)	Value Realized ($)(1)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) Exercisable(2)	Unexercisable(2)	Value of Unexercised In the Money Options at Fiscal Year-End ($)(3) Exercisable(2)	Unexercisable(2)
Gale E. Klappa			450,000	280,000	4,562,500	1,360,800
Frederick D. Kuester			350,000	100,000	2,441,750	486,000
Allen L. Leverett			350,000	100,000	2,829,750	486,000
Larry Salustro			535,000	100,000	6,806,087	486,000
Kristine A. Rappé	39,341	606,746	70,430	65,000	721,750	315,900

(1) Value realized is determined by subtracting the exercise price from the fair market value on the date of exercise. Fair market value is the average of the high and low prices of WEC common stock reported in the New York Stock Exchange Composite Transaction report on the exercise date.

(2) By action of the Compensation Committee on December 28, 2004, all options that were granted in 2002, 2003 and 2004, and not otherwise exercisable, became exercisable as of December 31, 2004, including those granted to Messrs. Klappa, Kuester, Leverett and Salustro, and Ms. Rappé. All of the unexercisable options represent options granted to the named executive officers on January 18, 2005.

(3) Value is determined by subtracting the exercise price from the year-end closing price multiplied by the number of shares underlying the option.

Long-Term Incentive Plans   Awards in Last Fiscal Year

The following table provides information on long-term incentive plan awards in 2005 to the named executive officers.

Name	Number of shares, units or other rights (#)	Performance or other period until maturation or payment	Estimated future pay-outs under non-stock price based plans Threshold (#)	Target (#)	Maximum (#)
Gale E. Klappa	20,500	3 years from date of grant	5,125	20,500	35,875
Frederick D. Kuester	9,000	3 years from date of grant	2,250	9,000	15,750
Allen L. Leverett	9,000	3 years from date of grant	2,250	9,000	15,750
Larry Salustro	9,000	3 years from date of grant	2,250	9,000	15,750
Kristine A. Rappé	6,000	3 years from date of grant	1,500	6,000	10,500

The table set forth above reflects the award of performance units to the named executive officers in 2005 under the Wisconsin Energy Corporation Performance Unit Plan. Upon vesting, the performance units will be settled in cash in an amount determined by multiplying the number of performance units which have become vested by the fair market value (the average of the high and low sales price on the relevant date) of the Company s common stock on the date of vesting. The number of performance units ultimately vested is dependent upon WEC s total stockholder return over a three-year period as compared to the total stockholder return of the Custom Peer Group identified in the Performance Graph section of this proxy statement. Several mergers have been announced by companies within the Custom Peer Group. Should these anticipated mergers occur during 2006, the Custom Peer Group will be slightly altered to reflect the merged entities for purposes of vesting of 2005 and 2004 performance awards. Total stockholder return is the calculation of total return (stock price appreciation plus reinvested dividends) based upon an initial investment of $100 and subsequent $100 investments at the end of each quarter during the three-year performance period. The regular vesting schedule for the performance units is as follows:

Percentile Rank	Vesting Percent
< 25th Percentile	0%

25th Percentile	25%
Target (50th Percentile)	100%
75th Percentile	125%
90th Percentile	175%

If the Company s rank is between the benchmarks identified above, the vesting percentage will be determined by interpolating the appropriate vesting percentage. Except as discussed herein, unvested performance units are immediately forfeited upon a named executive officer s cessation of employment with WEC prior to completion of the three-year performance period.

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The performance units will vest immediately at the target 100% rate upon (i) the termination of the named executive officer s employment by reason of disability or death or (ii) a change in control of WEC while the named executive officer is employed by the Company. In addition, a prorated number of performance units (based upon the target 100% rate) will vest upon the termination of employment of the named executive officer by reason of retirement prior to the end of the three-year performance period. Named executive officers will receive a cash dividend when WEC declares a dividend on its common stock in an amount equal to the number of performance units granted to the named executive officer at the target 100% rate multiplied by the amount of the dividend paid on a share of common stock. The performance units have no voting rights attached to them.

EMPLOYMENT AND SEVERANCE ARRANGEMENTS

WEC has adopted severance policies that provide for severance benefits to designated executives and other key employees. The policies provide for severance benefits in the event of employment termination either in anticipation of or within a two-year period following a change in control by reason of discharge without cause or resignation with good reason, and allow for a deferral opportunity for participants who may become entitled to benefits.

Under the current severance policies, participants have been designated into one of four benefit levels. Of the individuals named in the Summary Compensation Table, Mr. Salustro is a Tier 2 participant. Messrs. Klappa, Kuester and Leverett, and Ms. Rappé, do not participate in the severance policy, but each has a separate change in control and severance agreement as described below. Ms. Rappé entered into an employment agreement with the Company on July 28, 2005, which supersedes her participation in the severance policies.

Tier 2 benefits provide generally for lump sum severance payments equal to three times the sum of the current base salary and the highest bonus in the last three years (or the then current target bonus, if higher), a pension lump sum for the equivalent of three years worth of additional service and three years continuation of health and life insurance coverage. An overall limit is placed on benefits to avoid federal excise taxes under the parachute payment provisions of the tax law. Mr. Salustro will not be entitled to these severance benefits upon his retirement.

The Company has entered into written agreements with each of Messrs. Klappa, Kuester and Leverett, and Ms. Rappé, providing for certain employment and severance benefits as described below.

Mr. Klappa commenced employment with the Company on April 14, 2003. Under the agreement with Mr. Klappa, severance benefits are provided if his employment is terminated (i) by the Company, other than for cause, death or disability, in anticipation of or following a change in control, (ii) by Mr. Klappa for good reason following such a change in control, (iii) by Mr. Klappa within six months after completing one year of service following a change in control, or (iv) in the absence of a change in control, by the Company for any reason other than cause, death or disability or by Mr. Klappa for good reason. The agreement provides for a lump sum severance payment equal to three times the sum of Mr. Klappa s highest annual base salary in effect in the last three years and highest bonus amount. The highest bonus amount would be calculated as the largest of (i) the current target bonus for the fiscal year in which employment termination occurs, or (ii) the highest bonus paid in any of the last three fiscal years of the Company prior to termination or the change in control. The agreement also provides for three years continuation of health and certain other welfare benefit coverage, eligibility for retiree health coverage thereafter, a payment equal to the value of three additional years of participation in the applicable qualified and non-qualified retirement plans, full vesting in all outstanding stock options, restricted stock and other equity awards, certain financial planning services and other benefits and a gross-up payment should any payments or benefits under the agreements trigger federal excise taxes under the parachute payment provisions of the tax law. Mr. Klappa is eligible to receive a supplemental retirement benefit from the Company which is further described under the Retirement Plans section of this proxy statement. Mr. Klappa will receive an additional benefit based upon the difference between the retirement benefits that he would have received from his prior employer and the retirement benefits received from the Company. Pursuant to the terms of his employment agreement, Mr. Klappa s target bonus opportunity was fixed at 90% of his base salary. However, upon being appointed to the additional positions of Chairman of the Board and Chief Executive Officer, Mr. Klappa s target bonus opportunity increased to 100% of his base salary. The target bonus opportunity may not be adjusted below 90%, except by action of the Board or a committee thereof lowering the target for all executive officers. Upon his employment with the Company, Mr. Klappa was granted a non-qualified stock option for 250,000 shares of the Company s common stock. He was granted a restricted stock award for 39,510 shares which vests at the rate of 10% for each year of service until 100% vesting occurs on the tenth anniversary of his employment starting date. The agreement provides that the restricted stock will become 100% vested due to a termination of employment by death or disability. The agreement contains a one-year non-compete provision applicable on termination of employment.

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WEC entered into an employment agreement with Mr. Kuester, which became effective on October 13, 2003. Mr. Kuester s employment agreement is substantially similar to Mr. Klappa s, except that if Mr. Kuester s employment is terminated by the Company for any reason other than cause, death or disability or by Mr. Kuester for good reason in the absence of a change in control, (i) the special lump sum severance benefit is two times the sum of his highest annual base salary in effect for the three years preceding his termination and his highest bonus amount, (ii) health and certain other welfare benefits are provided for a two-year period and (iii) the special retirement plan lump sum is calculated as if his employment continued for a two-year period following termination of employment. Mr. Kuester is eligible to receive a supplemental retirement benefit from the Company which is further described under the Retirement Plans section of this proxy statement. Mr. Kuester s target bonus opportunity is fixed at 80% of base salary. The target bonus opportunity may not be adjusted below 80%, except by action of the Board or a committee thereof lowering the target for all executive officers. Upon his employment with WEC, Mr. Kuester was granted a non-qualified stock option for 200,000 shares of WEC s common stock. Mr. Kuester was also granted a restricted stock award for 24,140 shares, which vest at the rate of 10% for each year of service until 100% vesting occurs on the tenth anniversary of his employment starting date, provided that the restricted stock will become 100% vested due to a termination of employment by death or disability. The agreement contains a one-year non-compete provision applicable on termination of employment.

Mr. Leverett commenced employment with the Company on July 1, 2003. Mr. Leverett s employment agreement is substantially similar to Mr. Klappa s, except that if Mr. Leverett s employment is terminated by the Company for any reason other than cause, death or disability or by Mr. Leverett for good reason in the absence of a change in control, (i) the special lump sum severance benefit is two times the sum of his highest annual base salary in effect for the three years preceding his termination and his highest bonus amount, (ii) health and certain other welfare benefits are provided for a two-year period and (iii) the special retirement plan lump sum is calculated as if his employment continued for a two-year period following termination of employment. Mr. Leverett is eligible to receive a supplemental retirement benefit from the Company which is further described under the Retirement Plans section of this proxy statement. Mr. Leverett s target bonus opportunity is fixed at 80% of base salary. The target bonus opportunity may not be adjusted below 80%, except by action of the Board or a committee thereof lowering the target for all executive officers. Upon his employment with the Company, Mr. Leverett was granted a non-qualified stock option for 200,000 shares of the Company s common stock. Mr. Leverett was also granted a restricted stock award for 28,850 shares on his employment starting date. Two-thirds of the shares vested on July 1, 2005, the second anniversary of his employment starting date, and the remaining one-third vest at the rate of 20% for each year of service thereafter until 100% vesting occurs on the seventh anniversary of the employment starting date, provided that the restricted stock will become 100% vested due to a termination of employment by death or disability. The agreement contains a one-year non-compete provision applicable on termination of employment.

Ms. Rappé was appointed to her position as Senior Vice President and Chief Administrative Officer effective May 12, 2004, and entered into an employment agreement with the Company on July 28, 2005. Ms. Rappé s employment agreement is substantially similar to Mr. Klappa s, except that if Ms. Rappé s employment is terminated by the Company for any reason other than cause, death or disability or by Ms. Rappé for good reason in the absence of a change in control, (i) the special lump sum severance benefit is two times the sum of her highest annual base salary in effect for the three years preceding her termination and her target bonus amount, (ii) health and certain other welfare benefits are provided for a two-year period and (iii) the special retirement plan lump sum is calculated as if her employment continued for a two-year period following termination of employment. In addition, for a termination in connection with a change in control, the lump sum severance benefit is three times the base salary and target bonus amount. Ms. Rappé is eligible to receive a supplemental retirement benefit from the Company which is further described under the Retirement Plans section of this proxy statement. Pursuant to the terms of the agreement, Ms. Rappé s target bonus opportunity will not be less than 60% of base salary. The target bonus opportunity may not be adjusted below 60%, except by action of the Board or a committee thereof lowering the targets for all executive officers. The agreement contains a one-year non-compete provision applicable on termination of employment.

Long-Term Incentive Compensation Plans Special Vesting Provisions. Under the terms of the Company s long-term incentive compensation plans, including the 1993 Omnibus Stock Incentive Plan, as amended, and the Performance Unit Plan, awards are generally subject to special vesting provisions upon the occurrence of a defined change in control transaction, or the termination of employment by reason of retirement (as defined in the respective plan), disability (as defined in the respective plan) or death, unless the provision is superseded in an executive s employment agreement. Under the plans, any outstanding stock options and restricted stock awards will generally become fully vested in all cases. Performance shares and performance units will generally become fully vested upon a change in control or the termination of employment by reason of death or disability, but generally vest on a prorated basis (based upon the target 100% rate) upon the termination of employment by reason of retirement.

Benefits and Perquisites. The Company provides its executive officers with employee benefits and perquisites. Except as specifically noted elsewhere in this proxy statement, the employee benefits programs in which executive officers participate (which provide benefits such as medical benefits coverage, life insurance protection, retirement benefits and annual contributions to a qualified savings plan) are generally the same programs offered to substantially all of the Company s salaried employees. The perquisites available to executive officers are generally made available to all officers at or above the level of vice president. These perquisites include the availability of financial planning and payment of the cost of an annual physical exam. The Company also pays the periodic dues and fees for certain club memberships for the named executive officers and other designated officers.

Death Benefit Only Plan. The Company maintains a Death Benefit Only Plan (DBO). Pursuant to the terms of the DBO, upon an officer s death a benefit is paid to his or her designated beneficiary in an amount equal to the after-tax value of three times the officer s base salary if the officer is employed by the Company at the time of death or the after-tax value of one times final base salary if death occurs post-retirement. All of the named executive officers participate in the DBO.

RETIREMENT PLANS

WEC maintains a defined benefit pension plan of the cash balance type (the WEC Plan) for most employees, including the named executive officers. The WEC Plan bases a participant s defined benefit pension on the value of a hypothetical account balance. For individuals participating in the WEC Plan as of December 31, 1995, a starting account balance was created equal to the present value of the benefit accrued as of December 31, 1994, under the plan benefit formula prior to the change to a cash balance approach. That formula provided a retirement income based on years of credited service and final average compensation for the 36 highest consecutive months, with an adjustment to reflect the Social Security integrated benefit. In addition, individuals participating in the WEC Plan as of December 31, 1995, received a special one-time transition credit amount equal to a specified percentage varying with age multiplied by credited service and 1994 base pay.

The present value of the accrued benefit as of December 31, 1994, plus the transition credit, was also credited with interest at a stated rate. For 1996 and thereafter, a participant receives annual credits to the account equal to 5% of base pay (including certain incentive payments, pre-tax deferrals and other items), plus an interest credit on all prior accruals equal to 4% plus 75% of the annual time-weighted trust investment return for the year in excess of 4%. Additionally, the WEC Plan provides that up to an additional 2% of base pay may be earned based upon achievement of earnings targets.

The life annuity payable under the WEC Plan is determined by converting the hypothetical account balance credits into annuity form.

Individuals who were participants in the WEC Plan on December 31, 1995, were grandfathered so that they will not receive any lower retirement benefit than would have been provided under the prior formula, had it continued. This amount will continue to increase until January 1, 2011, at which time it will be frozen. Upon retirement, participants will receive the greater of this amount or the cash balance.

For the individuals listed in the Summary Compensation Table, estimated benefits under the grandfathered formula are higher than under the cash balance plan formula. Pursuant to the agreements discussed below, their benefits would currently be determined by the prior plan benefit formula. The following table sets forth estimated annual benefits payable in life annuity form on normal retirement for persons in various compensation and years of service classifications during 2005, based on the continuation of the grandfathered prior plan formula for WEC (including supplemental amounts providing additional benefits, which include elimination of any caps on compensation that can be recognized under the WEC Plan, described below in the Other Retirement Benefits section):

Pension Plan Table WEC Plan (Prior Plan Formula)

	Years of Service					
Remuneration	**15**	**20**	**25**	**30**	**35**	**40**
$ 300,000	$ 74,165	$ 98,887	$ 123,609	$ 148,331	$ 162,379	$ 176,428
500,000	125,915	167,887	209,859	251,831	275,629	299,428
700,000	177,665	236,887	296,109	355,331	388,879	422,428
900,000	229,415	305,887	382,359	458,831	502,129	545,428
1,100,000	281,165	374,887	468,609	562,331	615,379	668,428
1,300,000	332,915	443,887	554,859	665,831	728,629	791,428
1,500,000	384,665	512,887	641,109	769,331	841,879	914,428
1,700,000	436,415	581,887	727,359	872,831	955,129	1,037,428
1,900,000	488,165	650,887	813,609	976,331	1,068,379	1,160,428
2,100,000	539,915	719,887	899,859	1,079,831	1,181,629	1,283,428
2,300,000	591,665	788,887	986,109	1,183,331	1,294,879	1,406,428

The compensation considered for purposes of the retirement plans and the various supplemental plans for Messrs. Klappa, Kuester, Leverett and Salustro, and Ms. Rappé, is $1,767,859, $985,712, $1,062,528, $790,632, and $445,713, respectively. These amounts represent the average compensation paid during the consecutive 36-month period for which such compensation is highest. Messrs. Klappa, Kuester, Leverett and Salustro, and Ms. Rappé, currently have or are considered to have 28, 33, 17, 34 and 23

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credited years of service, respectively, under the various supplemental plans described below. Messrs. Klappa, Kuester, Leverett and Salustro, and Ms. Rappé, are not entitled to these supplemental benefits until they attain the age of 60.

Other Retirement Benefits. Designated officers of WEC and Wisconsin Electric Power Company, including the named executive officers, participate in the Supplemental Executive Retirement Plan (SERP). The SERP provides monthly supplemental pension benefits to participants, which will be paid out of unsecured corporate assets, or the grantor trust described below, in an amount equal to the difference between the actual pension benefit payable under the WEC Plan and what such pension benefit would be if calculated without regard to any limitation imposed by the Internal Revenue Code on pension benefits or covered compensation. In addition, under the SERP, Mr. Salustro and Ms. Rappé also will receive a supplemental lifetime annuity, estimated to be between 8% and 10% of final average compensation depending on which pension payment option is selected. Except for a change in control of WEC, as defined in the SERP, no payments are made until after the participant s retirement at or after age 60 or death.

WEC has entered into an agreement with Mr. Salustro who cannot accumulate by normal retirement age the maximum number of years of credited service under the pension plan formula in effect immediately before the change to the cash balance formula. According to Mr. Salustro s agreement, Mr. Salustro at retirement will receive supplemental retirement payments which will make his total retirement benefits at age 60 or older substantially the same as those payable to employees who are age 60 or older, who are in the same compensation bracket and who became plan participants at the age of 25, offset by the value of any qualified or non-qualified defined benefit pension plans of prior employers. Mr. Salustro has announced that he intends to retire no later than early 2007, at which time he will have reached the age of 60.

WEC has entered into agreements with Messrs. Klappa, Kuester and Leverett to provide them with supplemental retirement benefits upon retirement at or after age 60. The supplemental retirement payments are intended to make the total retirement benefits payable to the executive comparable to that which would have been received under the WEC Plan as in effect on December 31, 1995, had the defined benefit formula then in effect continued until the executive s retirement, calculated without regard to Internal Revenue Code limits, and as if the executive had started participation in the WEC Plan at age 27 for Mr. Klappa, at the age of 22 for Mr. Kuester, and on January 1, 1989 for Mr. Leverett. The retirement benefits payable to Messrs. Klappa, Kuester and Leverett will be offset by the value of any qualified or non-qualified defined benefit pension plans of prior employers.

Pursuant to the terms of her employment agreement, Ms. Rappé s SERP benefit is not subject to early retirement reduction factors if she retires at or after age 60.

The WEC Amended Non-Qualified Trust, a grantor trust, has been established to fund certain non-qualified benefits, including the SERP, the Executive Deferred Compensation Plan, the Directors Deferred Compensation Plan and the agreements with the named executive officers. The plans and agreements provide for optional lump sum payments and, in the instance of a change in control and, absent a deferral election, mandatory lump sum payments without regard to whether the executive s employment has terminated.

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WEC COMMON STOCK OWNERSHIP

Directors, Nominees and Executive Officers. The following table lists the beneficial ownership of WEC common stock of each director, nominee, named executive officer and all of the directors and executive officers as a group as of February 15, 2006. In general, beneficial ownership includes those shares as to which the indicated persons have voting power or investment power and stock options that are exercisable currently or within 60 days of February 15, 2006. Included are shares owned by each individual s spouse, minor children or any other relative sharing the same residence, as well as shares held in a fiduciary capacity or held in WEC s Stock Plus Investment Plan and 401(k) plan. None of these persons beneficially owns more than 1% of the outstanding common stock.

	Shares Beneficially Owned[1]		
Name	**Shares Owned[2] [3] [4]**	**Option Shares Exercisable Within 60 Days**	**Total**
John F. Ahearne	11,141	16,333	27,474
John F. Bergstrom	8,660	24,333	32,993
Barbara L. Bowles	8,869	24,333	33,202
Robert A. Cornog	13,395	24,333	37,728
Curt S. Culver	4,665		4,665
Thomas J. Fischer	5,205		5,205
Gale E. Klappa	39,507	450,000	489,507
Frederick D. Kuester	22,505	350,000	372,505
Allen L. Leverett	11,142	350,000	361,142
Ulice Payne, Jr.	6,760	8,333	15,093
Kristine A. Rappé	15,127	70,430	85,557
Larry Salustro	38,861	535,000	573,861
Frederick P. Stratton, Jr.	14,260	21,333	35,593
George E. Wardeberg	30,094	278,333(5)	308,427
All directors and executive officers as a group (17 persons)	250,427	2,364,643(5)	2,615,070(6)

(1) Information on beneficially owned shares is based on data furnished by the specified persons and is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as required for purposes of this proxy statement. It is not necessarily to be construed as an admission of beneficial ownership for other purposes.

(2) Certain directors, named executive officers and other executive officers also hold share units in the WEC phantom common stock account under WEC s deferred compensation plans as indicated: Mr. Bergstrom (7,314), Mr. Cornog (12,960), Mr. Culver (2,698), Mr. Kuester (2,550), Ms. Rappé (6,753), Mr. Salustro (3,124), Mr. Stratton (9,139), Mr. Wardeberg (1,234) and all directors and executive officers as a group (46,787). Share units are intended to reflect the performance of WEC common stock and are payable in cash. While these units do not represent a right to acquire WEC common stock, have no voting rights and are not included in the number of shares reflected in the Shares Owned column in the table above, the Company listed them in this footnote because they represent an additional economic interest of the directors, named executive officers and other executive officers tied to the performance of WEC common stock.

(3) Each individual has sole voting and investment power as to all shares listed for such individual, except the following individuals have shared voting and/or investment power (included in table above) as indicated: Mr. Bergstrom (3,000), Mr. Cornog (5,007), Mr. Stratton (4,600), Mr. Wardeberg (23,899) and all directors and executive officers as a group (36,506).

(4) Certain directors and executive officers hold shares of restricted stock (included in table above) over which the holders have sole voting but no investment power: Dr. Ahearne (5,660), Mr. Bergstrom (5,660), Ms. Bowles (5,660), Mr. Cornog (5,660), Mr. Culver (4,665), Mr. Fischer (2,468), Mr. Klappa (33,882), Mr. Kuester (20,355), Mr. Leverett (10,228), Mr. Payne (5,660), Ms. Rappé (8,640), Mr. Salustro (29,725), Mr. Stratton (5,660), Mr. Wardeberg (5,660) and all directors and executive officers as a group (161,361).

(5) Option shares listed include options granted by WICOR, Inc. which were converted to WEC stock options on the effective date of the acquisition of WICOR, Inc.

(6) Represents 2.2% of total WEC common stock outstanding on February 15, 2006.

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Owners of More than 5%. The following table shows stockholders who reported beneficial ownership of more than 5% of WEC common stock, based on the information they have reported. This information is based upon the Forms 13G filed in February 2006 and reflects stock holdings as of December 31, 2005.

	Voting Authority		Dispositive Authority		Total Shares Beneficially Owned	Percent of WEC Common Stock
Name and Address	**Sole**	**Shared**	**Sole**	**Shared**		
AXA Financial, Inc. [(1)] 1290 Avenue of the Americas New York, NY 10104	5,404,144	1,582,613	10,209,217	0	10,209,217	8.7%
FMR Corp. [(2)] 82 Devonshire Street Boston, MA 02109	42,680	0	6,898,680	0	6,898,680	5.897%
Pzena Investment Management, LLC 120 West 45th Street, 20th Floor New York, NY 10036	4,075,660	0	7,167,635	0	7,167,635	6.13%

(1) AXA Financial is a parent holding company and part of a group as that term is used in Section 13(d)(3) of the Securities and Exchange Act of 1934. Other members of the group are AXA Assurances I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle, AXA Courtage Assurance Mutuelle and AXA.

(2) FMR Corp. is a parent holding company. Edward C. Johnson 3d, as Chairman of FMR Corp. and as a member of a controlling group of FMR Corp., may be deemed to beneficially own the shares of common stock of WEC beneficially owned by FMR Corp.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s executive officers, directors and persons owning more than ten percent of WEC s common stock to file reports of ownership and changes in ownership of equity and derivative securities of WEC with the Securities and Exchange Commission and the New York Stock Exchange. Specific due dates for those reports have been established, and the Company is required to disclose in this proxy statement any failure to file by those dates during the 2005 fiscal year. To the Company s knowledge, based on information provided by the reporting persons, all applicable reporting requirements for fiscal year 2005 were complied with in a timely manner.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Pursuant to an agreement with WEC, Fidelity Management Trust Company (Fidelity), a wholly owned subsidiary of FMR Corp., holds and invests the assets of the Wisconsin Energy Corporation Employee Retirement Savings Plan (the Plan). Fidelity has managed the Plan s assets since 1992. FMR Corp. became a beneficial holder of more than five percent of WEC common stock, exclusive of shares held in the Plan, in 2003. Pursuant to the terms of its agreement with Fidelity, the Company may be required to make payments to Fidelity and/or its affiliates directly; however, it is not currently required to do so. Fidelity and its affiliates are currently compensated through the customary management fees collected by Fidelity s affiliated mutual funds in which some of the Plan s assets are invested.

AVAILABILITY OF FORM 10-K

A copy (without exhibits) of WEC s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as filed with the Securities and Exchange Commission, is available without charge to any stockholder of record or beneficial owner of WEC common stock by writing to the Corporate Secretary, Anne K. Klisurich, at the Company s principal business office, 231 West Michigan Street, P. O. Box 1331, Milwaukee, Wisconsin 53201. The WEC consolidated financial statements and certain other information found in the Form 10-K are provided in Appendix B to this proxy statement.

The Form 10-K, along with this proxy statement and all of WEC s other filings with the Securities and Exchange Commission, is also available in the Investor Relations section of the Company s website at www.wisconsinenergy.com.

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APPENDIX A

WISCONSIN ENERGY CORPORATION

AUDIT AND OVERSIGHT COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

Approved: February 10, 2003

PURPOSE

The principal purpose of the Audit and Oversight Committee (Committee) is to (A) assist the Board of Directors in carrying out its oversight responsibility of (i) the integrity of the Company s financial statements, (ii) the Company s compliance with legal and regulatory requirements, (iii) the independent auditor s qualifications and independence, and (iv) the performance of the Company s internal audit function and independent auditors, and (B) prepare the report that Securities and Exchange Commission rules require to be included in the Company s proxy statement. With respect to item (i), preparation of the financial statements is the role of Company management, not the Committee. The Committee shall report all significant findings to the Board.

COMPOSITION

The Committee shall consist of three or more independent directors who are periodically appointed by the Board. Members shall serve at the pleasure of the Board and for such term or terms as the Board may determine. Each member shall, in the judgment of the Board, meet the independence standards of the New York Stock Exchange, the Sarbanes-Oxley Act of 2002 and the Securities and Exchange Commission. Each member shall be financially literate as the Board of Directors interprets such qualification in its judgment. The Board shall determine whether any director serving on the Committee is an audit committee financial expert, as such term is defined in the rules and regulations promulgated by the Securities and Exchange Commission. No director may serve as a member of the Committee if such director serves on the audit committees of more than three public companies unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Committee and discloses this determination in Wisconsin Energy Corporation s proxy statement. No member of the Committee may receive any compensation from the Company other than (i) directors fees which may be received in cash, stock options or other in-kind consideration, (ii) other deferred compensation for prior service that is not contingent on future service, and (iii) any other benefits that other directors receive for their service to the Company as a director. One of the directors shall be appointed Chair for a term to be determined by the Board and shall preside over the meetings of the Committee. In the event the Committee Chair is unable to serve as Chair for a specific meeting, he/she shall designate one of the Committee members to preside.

DUTIES AND RESPONSIBILITIES

The Committee shall have unrestricted access to the independent auditor, Company personnel and documentation pertinent to the scope of its duties and responsibilities. The duties and responsibilities of the Committee shall be to:

Independent Auditor

Evaluate the services of the independent auditor, or other independent auditors under consideration, and approve a firm to be engaged for the coming year. The Committee shall have the sole and ultimate authority and responsibility to evaluate and, where appropriate, terminate and replace the independent auditor. The independent auditor is ultimately accountable to the Committee.

Review and approve proposed audit and non-audit services for the year, and any additional audit or non-audit services subsequently proposed, and assure that such services will not affect the independence of the auditor. Approve in advance any non-audit engagements of the independent auditor permitted by Section 201 of the Sarbanes-Oxley Act of 2002 and assure that approval is disclosed in the Company s periodic reports as required by law. Authority to pre-approve services can be delegated to one or more members of the Audit and Oversight Committee, but any pre-approval decision by the delegate must be reported to the full Audit and Oversight Committee at its next regularly scheduled meeting.

Prior to the start of the annual audit, approve the audit plan and the terms and estimated fees for the engagement following the independent auditor s presentation of the audit plan and objectives of the audit.

Review with management and the independent auditor, at least annually, recent accounting, tax, and financial reporting developments and auditing standards.

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Ensure that the independent auditor submits, at least on an annual basis, to the Committee a formal written statement delineating all relationships between the auditor and the Company consistent with Independence Standards Board Standard No. 1. Engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the outside auditor. Take appropriate action, when necessary, to ensure the independence of the independent auditor.

Discuss with the independent auditor the matters to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit.

Set clear hiring policies for employees or former employees of the independent auditors.

Oversee the resolution of any disagreements between the Company s independent auditors and management regarding financial reporting.

Review on a regular basis with the Company s independent auditors any problems or difficulties encountered by the independent auditors in the course of any audit work, including management s response with respect thereto, any restrictions on the scope of the independent auditors activities or on access to requested information, and any significant disagreements with management. In connection therewith, the Committee should review with the independent auditors:

(i) any accounting adjustments that were noted or proposed by the independent auditors but were not recorded by management (due to immateriality or other reasons);

(ii) any significant management or internal control comments; and

(iii) the responsibilities, budget and staffing of the Company s internal auditors.

Ensure that the audit partners scheduled to perform the current year s audit of the Company s financial statements satisfy the rules governing audit partner rotation.

Ensure that the Chief Executive Officer, Controller, Chief Financial Officer, Chief Accounting Officer or other person serving in an equivalent position of the Company, was not, within one year prior to the initiation of the audit, an employee of the independent auditors who participated in any capacity in the Company s audit.

Annual and Interim Financials

After the annual audit, review the financial statements and other related financial information to be included in the Company s Annual Report on Form 10-K, including the Company s disclosure under Management s Discussion and Analysis of Financial Condition and Results of Operations, with appropriate Company management and the independent auditor. Review with the independent auditor its report to the Committee regarding the audit and its opinion to be issued on the financial statements. Recommend to the Board any action considered necessary, including that audited financials be included in the Form 10-K.

Prior to the filing of the Company s Quarterly Report on Form 10-Q, review the interim financial statements to be included in the 10-Q with management and the independent auditor.

Review the certifications of the Chief Executive Officer and Chief Financial Officer related to the annual and interim reports as required by the Sarbanes-Oxley Act of 2002 as well as any significant reports of management s Disclosure Committee.

Discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies. The Committee need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.

Review and discuss with management, the independent auditors and the internal auditing department:

(i) critical accounting policies and such other accounting policies of the Company as are deemed appropriate for review by the Committee prior to any interim or year-end filings with the Securities and Exchange Commission or other regulatory body, including any financial reporting issues which could have a material impact on the Company s financial statements;

(ii) major issues regarding accounting principles and financial statement presentations, including (A) any significant changes in the Company s selection or application of accounting principles and (B) any analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the ramifications and effects of alternative generally accepted accounting principles on the Company s financial statements;

(iii) all alternative treatments of financial statement presentation that have been discussed by the independent auditors and management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and

(iv) the effect of regulatory and accounting initiatives, as well as, off balance sheet transactions, on the financial statements of the Company.

Internal Controls

At least annually, obtain and review a report by the independent auditor describing: the auditor s internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the auditor, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditor, and any steps taken to deal with any such issues; and (to assess the auditor s independence) all relationships between the independent auditor and the Company.

Review with the Company s Chief Executive Officer and Chief Financial Officer and other senior members of management, the Company s internal auditors and independent auditors:

(i) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company s ability to record, process, summarize, and report financial data, including any material weaknesses in internal controls identified by the Company s independent auditor;

(ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company s internal controls; and

(iii) any significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

Internal Auditor

Meet at least semi-annually with the internal auditor to review internal audit s independence, coordination with the independent auditor, staffing, audit scope, significant audit results, management s responsiveness to recommendations, evaluation of internal control systems, and other relevant matters.

Code of Business Conduct

Review any reports submitted regarding compliance with Wisconsin Energy Corporation s Code of Business Conduct and approve, as appropriate, any pre-approvals or waivers thereto for directors, executive officers and senior financial officers and ensure that any waivers are disclosed in accordance with applicable laws.

Establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Oversight of Legal/Litigation, Regulatory and Environmental Matters

Meet at least annually with the general counsel, and outside counsel when appropriate, to review legal and regulatory matters, including any matters that may have a material impact on the financial statements of the Company.

Review and provide oversight of:

(i) litigation matters, to ensure appropriate management and supervision is being afforded significant actual and potential litigation and insurance claims; and

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(ii) environmental compliance matters, including review of the Company s regulatory and civil litigation exposure concerning environmental contamination and/or toxic torts and to ensure that appropriate management attention is being given to such matters.

The Committee shall have direct access to and meet as needed with the officer in charge of each function, without management present, as appropriate. The officers shall report all significant matters to the Committee.

Risk Assessment and Risk Management

Discuss the Company s major risk exposures and the steps management has taken to monitor and control such exposures. In this regard, review the process used by the Board s Finance Committee to discuss policies with respect to the Company s risk assessment and risk management.

Annual Performance Evaluation

Produce and provide to the Board an annual performance evaluation of the Committee. The evaluation shall compare the performance of the Committee with the requirements of this Charter. Recommend to the Board any improvements to the Charter.

Other

Prepare the report required by the rules of the Securities and Exchange Commission to be included in Wisconsin Energy Corporation s annual proxy statement.

Recommend to the Board special audits or studies the Committee considers necessary or advisable. Review the reports issued for such special audits or studies and recommend to the Board any action considered necessary.

The Committee shall also be responsible for any other matters as may from time to time be requested by the Board and/or the Chief Executive Officer.

The Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee.

The Committee shall be notified promptly by management, the internal auditor or independent auditor of the discovery of fraudulent, questionable or illegal events which could have a material impact on the financial statements or reputation of the Company.

MEETINGS

The Committee shall meet once every fiscal quarter, or more frequently if circumstances warrant. As deemed necessary by the Committee, meetings shall be attended by Company personnel. Both the internal auditor and the independent auditor shall (i) meet alone with the Committee at each regularly scheduled meeting to discuss any matters that the Committee or any of these persons or firms believe should be discussed privately and (ii) have authority and are expected to contact the Committee on any matters requiring its attention.

The Committee may obtain advice and assistance from outside legal, accounting or other advisors. The Committee may retain these advisors without seeking Board approval.

The Committee may meet separately with management and request any officer, employee or Company s outside counsel to attend a Committee meeting or to meet with any advisors or consultants to the Committee.

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APPENDIX B

WISCONSIN ENERGY CORPORATION

2005 ANNUAL FINANCIAL STATEMENTS

and

REVIEW of OPERATIONS

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SELECTED FINANCIAL AND OPERATING DATA

WISCONSIN ENERGY CORPORATION

CONSOLIDATED SELECTED FINANCIAL AND STATISTICAL DATA

	2005	2004	2003	2002	2001
Financial					
Year Ended December 31					
Net income-Continuing Operations (Millions)	$ 303.6	$ 219.6	$ 201.3	$ 135.9	$ 189.9
Earnings per share of common stock-					
Continuing operations					
Basic	$ 2.59	$ 1.87	$ 1.72	$ 1.18	$ 1.62
Diluted	$ 2.56	$ 1.84	$ 1.70	$ 1.17	$ 1.61
Dividends per share of common stock	$ 0.88	$ 0.83	$ 0.80	$ 0.80	$ 0.80
Operating revenues (Millions)					
Utility energy	$ 3,793.0	$ 3,375.4	$ 3,263.9	$ 2,852.1	$ 2,964.8
Non-utility energy	40.0	19.9	12.3	165.0	337.3
Other including eliminations	(17.5)	10.8	5.9	15.6	22.5
Total operating revenues	$ 3,815.5	$ 3,406.1	$ 3,282.1	$ 3,032.7	$ 3,324.6
At December 31 (Millions)					
Total assets	$ 10,462.0	$ 9,565.4	$ 10,014.5	$ 9,465.9	$ 9,454.2
Long-term debt and mandatorily redeemable trust preferred securities (including current maturities of long-term debt)	$ 3,527.0	$ 3,340.5	$ 3,736.7	$ 3,266.6	$ 3,917.4
Utility Energy Statistics					
Electric					
Megawatt-hours sold (Thousands)	32,470.2	31,648.4	31,183.4	30,862.6	31,062.6
Customers (End of year)	1,115,347	1,104,112	1,090,513	1,078,710	1,066,275
Gas					
Therms delivered (Millions)	2,168.8	2,068.1	2,171.2	2,121.3	1,997.2
Customers (End of year)	1,029,732	1,014,799	998,201	982,066	966,817

CONSOLIDATED SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	(Millions of Dollars, Except Per Share Amounts) (a)			
	March (c)		June (c)	
Three Months Ended	**2005**	**2004**	**2005**	**2004**
Operating revenues	$ 1,094.7	$ 1,059.4	$ 788.5	$ 710.4
Operating income	166.8	181.7	89.9	74.0
Income from Continuing Operations	90.0	82.4	56.8	21.3
Income (loss) from Discontinued Operations	(0.1)	8.4	5.2	17.3
Total Net Income	$ 89.9	$ 90.8	$ 62.0	$ 38.6
Earnings per share of common stock (basic) (b)				
Continuing operations	$ 0.77	$ 0.69	$ 0.48	$ 0.18
Discontinued operations		0.07	0.04	0.15
Total earnings per share (basic)	$ 0.77	$ 0.76	$ 0.52	$ 0.33

Earnings per share of common stock (diluted) (b)				
Continuing operations	$ 0.76	$ 0.69	$ 0.48	$ 0.18
Discontinued operations		0.07	0.04	0.14
Total earnings per share (diluted)	$ 0.76	$ 0.76	$ 0.52	$ 0.32

	September		December	
Three Months Ended	**2005**	**2004**	**2005**	**2004**
Operating revenues	$ 797.3	$ 690.4	$ 1,135.0	$ 945.9
Operating income	128.4	100.5	177.8	173.8
Income from Continuing Operations	65.8	31.4	91.0	84.5
Income (loss) from Discontinued Operations	0.4	53.0	(0.4)	8.1
Total Net Income	$ 66.2	$ 84.4	$ 90.6	$ 92.6
Earnings per share of common stock (basic) (b)				
Continuing operations	$ 0.57	$ 0.27	$ 0.77	$ 0.72
Discontinued operations		0.45		0.07
Total earnings per share (basic)	$ 0.57	$ 0.72	$ 0.77	$ 0.79
Earnings per share of common stock (diluted) (b)				
Continuing operations	$ 0.56	$ 0.26	$ 0.77	$ 0.71
Discontinued operations		0.45		0.07
Total earnings per share (diluted)	$ 0.56	$ 0.71	$ 0.77	$ 0.78

(a) Quarterly results of operations are not directly comparable because of seasonal and other factors. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

(b) Quarterly earnings per share may not total to the amounts reported for the year since the computation is based on the weighted average common shares outstanding during each quarter.

(c) Amounts do not correspond to those reported on the Form 10-Q s for March and June due to the presentation of Minergy Neenah, LLC as a discontinued operation.

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WISCONSIN ENERGY CORPORATION

CONSOLIDATED SELECTED UTILITY OPERATING DATA

Year Ended December 31	**2005**	**2004**	**2003**	**2002**	**2001**
Electric Utility					
Operating Revenues (Millions)					
Residential	$ 827.6	$ 731.3	$ 715.5	$ 703.0	$ 654.5
Small Commercial/Industrial	746.1	668.0	642.0	606.3	592.9
Large Commercial/Industrial	602.4	549.9	519.3	483.1	479.7
Other-Retail/Municipal	112.6	90.7	84.9	77.7	70.6
Resale-Utilities	21.3	24.6	24.0	18.1	56.8
Other Operating Revenues	39.7	34.5	27.9	22.6	12.9
Total Operating Revenues	$ 2,349.7	$ 2,099.0	$ 2,013.6	$ 1,910.8	$ 1,867.4
Megawatt-hour Sales (Thousands)					
Residential	8,562.7	8,053.9	8,099.3	8,310.9	7,773.4
Small Commercial/Industrial	9,192.7	8,840.4	8,740.6	8,719.5	8,595.4
Large Commercial/Industrial	11,687.5	11,686.4	11,401.8	11,129.6	11,177.6
Other-Retail/Municipal	2,713.6	2,405.5	2,225.9	2,051.9	1,828.6
Resale-Utilities	313.7	662.2	715.8	650.7	1,687.6
Total Sales	32,470.2	31,648.4	31,183.4	30,862.6	31,062.6
Number of Customers (Average)					
Residential	997,014	985,811	973,575	963,988	950,271
Small Commercial/Industrial	109,583	107,843	106,469	105,551	103,908
Large Commercial/Industrial	705	709	707	709	710
Other	2,444	2,415	2,392	2,389	2,363
Total Customers	1,109,746	1,096,778	1,083,143	1,072,637	1,057,252
Gas Utility					
Operating Revenues (Millions)					
Residential	$ 898.9	$ 798.6	$ 769.3	$ 591.0	$ 645.9
Commercial/Industrial	465.4	396.5	386.0	279.7	313.4
Interruptible	20.4	17.0	16.9	12.6	17.0
Total Retail Gas Sales	1,384.7	1,212.1	1,172.2	883.3	976.3
Transported Gas	46.3	41.4	36.6	39.4	37.9
Other Operating Revenues	(13.5)	(1.1)	17.3	(4.6)	60.3
Total Operating Revenues	$ 1,417.5	$ 1,252.4	$ 1,226.1	$ 918.1	$ 1,074.5
Therms Delivered (Millions)					
Residential	791.0	809.9	853.7	817.1	756.3
Commercial/Industrial	460.7	464.0	492.5	463.1	427.7
Interruptible	23.4	24.7	27.5	29.4	25.8
Total Retail Gas Sales	1,275.1	1,298.6	1,373.7	1,309.6	1,209.8
Transported Gas	893.7	769.5	797.5	811.7	787.4

Total Therms Delivered	2,168.8	2,068.1	2,171.2	2,121.3	1,997.2
Number of Customers (Average)					
Residential	931,845	916,921	901,322	888,626	875,339
Commercial/Industrial	86,422	85,031	83,915	82,973	79,503
Interruptible	62	68	67	79	82
Transported Gas	1,461	1,459	1,440	1,508	4,468
Total Customers	1,019,790	1,003,479	986,744	973,186	959,392
Degree Days (a)					
Heating (6,697 Normal)	6,628	6,663	7,063	6,551	6,338
Cooling (700 Normal)	949	442	606	897	711

(a) As measured at Mitchell International Airport in Milwaukee, Wisconsin. Normal degree days are based upon a twenty-year moving average.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CORPORATE DEVELOPMENTS

INTRODUCTION

Wisconsin Energy Corporation is a diversified holding company with subsidiaries primarily in a utility energy segment and a non-utility energy segment. Unless qualified by their context, when used in this document the terms Wisconsin Energy, the Company, our, us or we refer to the holding company and all of our subsidiaries.

Our utility energy segment, consisting of Wisconsin Electric Power Company (Wisconsin Electric) and Wisconsin Gas LLC (Wisconsin Gas), both doing business under the trade name of We Energies , and Edison Sault Electric Company (Edison Sault), is engaged primarily in the business of generating electricity and distributing electricity and natural gas in Wisconsin and the Upper Peninsula of Michigan. Our non-utility energy segment primarily consists of W.E. Power, LLC and its subsidiaries (collectively, We Power). We Power is principally engaged in the engineering, construction and development of electric power generating facilities for long-term lease to Wisconsin Electric.

Cautionary Factors Regarding Forward - Looking Statements: Certain statements contained herein are Forward-Looking Statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-Looking Statements include, among other things, statements regarding management s expectations and projections regarding completion of construction projects, regulatory matters, fuel costs, sources of electric energy supply, coal and gas deliveries, remediation costs, environmental and other capital expenditures, liquidity and capital resources and other matters. Also, Forward-Looking Statements may be identified by reference to a future period or periods or by the use of forward looking terminology such as anticipates, believes, estimates, expects, forecasts, intends, may, objectives, plans, possible, po similar terms or variations of these terms. Actual results may differ materially from those set forth in Forward-Looking Statements as a result of certain risks and uncertainties, including but not limited to, those risks and uncertainties described under the heading Cautionary Factors below, other matters described under the heading Factors Affecting Results, Liquidity and Capital Resources below, and other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission (SEC) or otherwise described throughout this document. We disclaim any obligation to update these forward-looking statements.

CORPORATE STRATEGY

Business Opportunities

We seek to increase shareholder value by leveraging on our core competencies. Our key corporate strategy, announced in September 2000, is *Power the Future*. This strategy is designed to address Wisconsin s growing electric supply needs by increasing the electric generating capacity in the state while maintaining a fuel-diverse, reasonably priced electric supply. It is also designed to improve the delivery of energy within our distribution systems to meet increasing customer demands and to support our commitment to improved environmental performance. Our *Power the Future* strategy, which is discussed further below, is expected to have a significant impact on our utility and non-utility energy segments. In July 2005, the first of four new electric generating units under our *Power the Future* strategy was placed into service. Since 2000, we have been selling our non-core assets to direct more attention to the utility business and to finance *Power the Future* while reducing our debt.

Utility Energy Segment: We are realizing operating efficiencies in this segment through the integration of the operations of Wisconsin Electric and Wisconsin Gas. These operating efficiencies should increase customer satisfaction and reduce operating costs. In connection with our *Power the Future* strategy, we are improving our existing energy distribution systems and upgrading existing electric generating assets. In 2005, we increased our generating capacity by 545-megawatts with the completion of the first unit under the *Power the Future* strategy, and we plan to continue increasing our generating capacity through three additional electric generating units that We Power is constructing.

Non-Utility Energy Segment: Our primary focus in this segment is to improve the supply of electric generation in Wisconsin. We Power was formed to design, construct, own and lease new generation assets under the *Power the Future* strategy.

Power the Future Strategy: In February 2001, we filed a petition with the Public Service Commission of Wisconsin (PSCW) that would allow us to begin implementing our 10-year *Power the Future* strategy to improve the supply and reliability of electricity in Wisconsin. *Power the Future* is intended to meet a growing demand for electricity and ensure a diverse fuel mix while keeping electricity prices reasonable. Under *Power the Future,* we plan to add new coal-fired and natural gas-fired generating capacity to the state s power portfolio which would allow Wisconsin Electric to maintain approximately the same fuel mix as exists today. As part of our *Power the Future* strategy, we plan to (1) invest approximately $2.6 billion in 2,120 megawatts of new natural gas-fired and coal-

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fired generating capacity at existing sites; (2) upgrade Wisconsin Electric s existing electric generating facilities and (3) invest in upgrades of our existing energy distribution system.

Subsequent to our February 2001 filing, the state legislature amended several laws, making changes which were critical to the implementation of *Power the Future*. In October 2001, the PSCW issued a declaratory ruling finding, among other things, that it was prudent to proceed with *Power the Future* and for us to incur the associated pre-certification expenses. However, individual expenses are subject to review by the PSCW in order to be recovered.

In November 2001, we created We Power to design, construct, own and lease the new generating capacity. Wisconsin Electric will lease each new generating facility from We Power as well as operate and maintain the new plants under 25- to 30-year lease agreements approved by the PSCW. Based upon the structure of the leases, we expect to recover the initial investments in We Power s new facilities over the initial lease term. At the end of the leases, Wisconsin Electric will have the right to acquire the plants outright at market value or to renew the leases. Wisconsin Electric expects that payments under the plant leases will be recoverable in rates under the provisions of the Wisconsin Leased Generation Law.

Under our *Power the Future* strategy, we expect to meet a significant portion of our future generation needs through We Power s construction of the Port Washington Generating Station (PWGS) and the Oak Creek expansion.

As of December 31, 2005, we:

- Received a Certificate of Public Convenience and Necessity (CPCN) from the PSCW to build two 545-megawatt natural gas-fired intermediate load units in Port Washington, Wisconsin. The first unit was placed into service in July 2005 and is fully operational. Unit 1 was completed within the PSCW approved cost parameters. The second unit is expected to be operational in 2008.

- Began site preparation for the second 545-megawatt generating unit in Port Washington in May 2004.

- Received a CPCN from the PSCW to build two 615-megawatt coal-fired base load units adjacent to the site of our existing Oak Creek Power Plant in Oak Creek, Wisconsin (the Oak Creek expansion), with the first unit expected to be in service in 2009 and the second unit in 2010. The CPCN was granted contingent upon us obtaining the necessary environmental permits. We have received all permits necessary to commence construction. In June 2005, construction commenced at the site.

- Completed the planned sale in November 2005 of approximately a 17% ownership interest in the Oak Creek expansion to two co-owners.

- Received approval from the PSCW for various leases between We Power and Wisconsin Electric.

We expect to finance the majority of our *Power the Future* strategy with internally generated cash and debt financings. Additionally, in the future we expect to have some limited asset sales, but at levels significantly below the prior five year level. We expect to maintain our debt to total capital ratio, excluding environmental trust securities that we may issue, at no more than 61.5% during the period we are constructing our new gas- and coal-fired generation plants. We currently do not plan to issue any new equity as part of our *Power the Future* financing plan.

Our primary risks under *Power the Future* are construction risks associated with the schedule and costs for both our Oak Creek expansion and the PWGS, continuing legal challenges to permits obtained and changes in applicable laws or regulations, adverse interpretation or enforcement of permit conditions, laws and regulations by the permitting agencies, the inability to obtain necessary operating permits in a timely manner, obtaining the investment capital from outside sources necessary to implement the strategy, governmental actions and events in the global economy.

For further information concerning *Power the Future* capital requirements, see Liquidity and Capital Resources below. You can find additional information regarding risks associated with the *Power the Future* strategy, as well as the regulatory process, and specific regulatory approvals in Factors Affecting Results, Liquidity and Capital Resources below.

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Divestiture of Assets

Our *Power the Future* strategy led to a decision to divest non-core businesses. These non-core businesses primarily included non-utility generation assets located outside of Wisconsin and a substantial amount of Wispark s real estate portfolio, as well as our manufacturing business. In addition, in 2001 we contributed our transmission assets to the American Transmission Company LLC (ATC) and received cash proceeds of $119.8 million and an economic interest in ATC. Since 2000, we have received total proceeds of approximately $2.1 billion from the divestiture of assets as follows:

Proceeds from divestitures:	**(Millions of Dollars)**
Manufacturing	$ 857.0
Non-Utility Energy	616.8
Real Estate	442.1
Transmission	119.8
Other	33.5
Total	$ 2,069.2

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RESULTS OF OPERATIONS

CONSOLIDATED EARNINGS

The following table compares our operating income by business segment and our net income for 2005, 2004, and 2003.

Wisconsin Energy Corporation	2005	2004	2003
	(Millions of Dollars)		
Utility Energy	$ 542.4	$ 528.6	$ 544.1
Non-Utility Energy	19.5	4.6	(55.7)
Corporate and Other	1.0	(3.2)	(4.3)
Total Operating Income	562.9	530.0	484.1
Other Income, Net	63.3	15.8	41.7
Interest Expense	173.4	193.4	213.8
Income From Continuing Operations Before Income Taxes	452.8	352.4	312.0
Income Taxes	149.2	132.8	110.7
Income From Continuing Operations	303.6	219.6	201.3
Income From Discontinued Operations, Net of Tax (a)	5.1	86.8	43.0
Net Income	$ 308.7	$ 306.4	$ 244.3
Diluted Earnings Per Share	$ 2.61	$ 2.57	$ 2.06
Diluted Earnings Per Share - Discontinued Operations	$ 0.05	$ 0.73	$ 0.36

(a) Income from Discontinued Operations, Net of Tax includes: (1) the operations of Minergy Neenah which we began reporting as discontinued operations in the third quarter of 2005, (2) the manufacturing segment, which was sold effective July 31, 2004 and (3) the operations of Calumet which were sold effective May 31, 2005. Prior periods reported in this table have been restated to reflect discontinued operations.

The following table identifies significant items that are included in our Diluted Earnings per Share from Continuing Operations.

	2005	2004	2003
Asset Valuation Charge	$	$	$ 0.32
Voluntary Severance Program	$	$ 0.16	$
Debt Redemption Costs	$	$ 0.13	$
Reduction of Tax Valuation Allowance	($ 0.14)	$	$

An analysis of contributions to operating income by segment and a more detailed analysis of results in 2005, 2004 and 2003 follow.

UTILITY ENERGY SEGMENT CONTRIBUTION TO OPERATING INCOME

2005 vs. 2004: Our utility energy segment contributed $542.4 million of operating income during 2005 compared with $528.6 million of operating income during 2004. During 2005, we experienced an increase in revenues due to favorable weather and pricing increases. Also, during 2004, we recorded severance costs under a voluntary severance program. The year to year increase in operating income was partially offset by higher fuel and purchased power costs and increased operation and maintenance expenses during 2005. We had two scheduled outages at our nuclear plant in 2005 in comparison to one scheduled outage in 2004.

2004 vs. 2003: Our utility energy segment contributed $528.6 million of operating income during 2004 compared with $544.1 million of operating income during 2003. During 2004, we experienced an increase in revenues due to base electric sales growth, and we benefited from lower bad debt expenses. However, these items were more than offset by higher pension and medical costs, severance costs recorded during the second half of 2004 and unfavorable weather.

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The following table summarizes our utility energy segment s operating income during 2005, 2004 and 2003.

Utility Energy Segment	**2005**	**2004**	**2003**
		(Millions of Dollars)	
Operating Revenues			
Electric	$ 2,349.7	$ 2,099.0	$ 2,013.6
Gas	1,417.5	1,252.4	1,226.1
Other	25.8	24.0	24.2
Total Operating Revenues	3,793.0	3,375.4	3,263.9
Fuel and Purchased Power	780.8	591.7	569.5
Cost of Gas Sold	1,047.3	890.9	863.3
Gross Margin	1,964.9	1,892.8	1,831.1
Other Operating Expenses			
Other Operation and Maintenance	1,010.4	963.0	891.0
Depreciation, Decommissioning and Amortization	324.1	315.5	316.2
Property and Revenue Taxes	88.0	85.7	79.8
Operating Income	$ 542.4	$ 528.6	$ 544.1

Electric Utility Gross Margin

The following table compares our electric utility gross margin during 2005 with similar information for 2004 and 2003, including a summary of electric operating revenues and electric sales by customer class.

	Electric Revenues and Gross Margin			**Electric Megawatt-Hour Sales**		
Electric Utility Operations	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
		(Millions of Dollars)			**(Thousands, Except Degree Days)**	
Customer Class						
Residential	$ 827.6	$ 731.3	$ 715.5	8,562.7	8,053.9	8,099.3
Small Commercial/Industrial	746.1	668.0	642.0	9,192.7	8,840.4	8,740.6
Large Commercial/Industrial	602.4	549.9	519.3	11,687.5	11,686.4	11,401.8
Other-Retail/Municipal	112.6	90.7	84.9	2,713.6	2,405.5	2,225.9
Resale-Utilities	21.3	24.6	24.0	313.7	662.2	715.8
Other Operating Revenues	39.7	34.5	27.9			
Total Electric Operating Revenues	$ 2,349.7	$ 2,099.0	$ 2,013.6	32,470.2	31,648.4	31,183.4
Fuel and Purchased Power						
Fuel	432.7	334.7	298.5			
Purchased Power	340.3	250.3	264.3			
Total Fuel and Purchased Power	773.0	585.0	562.8			
Total Electric Gross Margin	$ 1,576.7	$ 1,514.0	$ 1,450.8			
Weather Degree Days (a)						
Heating (6,697 Normal)				6,628	6,663	7,063
Cooling (700 Normal)				949	442	606

(a) As measured at Mitchell International Airport in Milwaukee, Wisconsin. Normal degree days are based upon a twenty-year moving average.

Electric Utility Revenues and Sales

2005 vs. 2004: During 2005, our total electric utility operating revenues increased by $250.7 million or 11.9% when compared with 2004 primarily due to favorable weather during the summer of 2005 and pricing increases.

During 2005, we estimate that pricing increases contributed an additional $145.8 million of revenues than in 2004. The most significant impact to rates was a March 2005 interim order received by Wisconsin Electric from the PSCW authorizing an annualized increase in electric rates of approximately $114.9 million due to the increased costs of fuel and purchased power. In November 2005, Wisconsin Electric received the final rate order, which authorized an additional $7.7 million of annual revenues. Additional orders impacting rates in 2005 were the May 2004 and May 2005 orders received by Wisconsin Electric from the PSCW authorizing annualized increases in electric rates of approximately $59.0 million and $59.7 million, respectively, primarily to cover construction costs associated with our *Power the Future* program.

Total electric sales increased by 821.8 thousand megawatt-hours or 2.6% between 2005 and 2004. Residential sales volumes increased 6.3% due to the favorable summer weather in 2005. Total sales volumes to commercial/industrial customers increased 1.7% between comparative periods. Sales volumes to commercial/industrial customers, excluding our largest customers, two iron ore mines, increased 2.3% due to the favorable weather during the summer of 2005. We estimate that weather increased our electric revenues by approximately $68.8 million during 2005 as compared to the prior year. As measured by cooling degree days, 2005 was 114.7% warmer than in 2004.

Sales volumes in the Resale-Utilities class decreased 52.6% primarily due to the reduced availability of base-load capacity for sale at competitive prices as a result of limited fuel supplies and outages. Sales volumes to municipal utilities, the other retail/municipal customer class, increased 12.8% between the periods due to higher off-peak demand from lower margin municipal wholesale power customers.

2004 vs. 2003: During 2004, our total electric utility operating revenues increased by $85.4 million or 4.2% when compared with 2003 due to pricing increases and to growth in our base businesses, partially offset by the effects of unfavorable weather during the summer of 2004.

During 2004, we received $54.5 million of higher operating revenues as a result of pricing increases which were not in effect during 2003. In May 2004, Wisconsin Electric received an order from the PSCW authorizing an annualized increase in electric rates of approximately $59.0 million to cover construction costs associated with our *Power the Future* program and to recover low income uncollectible expenses transferred to Wisconsin s public benefits fund. In addition, two rate increases related to a rise in fuel and purchased power costs were implemented in March and October 2003, which increased revenues by approximately $16.3 million during 2004.

Total electric sales increased by 465.0 thousand megawatt-hours or 1.5% between 2004 and 2003. Residential sales were down 0.6%, and small commercial/industrial sales were up just 1.1% due to the unfavorable weather during 2004. We estimate that the unfavorable weather reduced our electric revenues by approximately $28.6 million as compared to the prior year and by $20.7 million as compared to normal weather. As measured by cooling degree days, 2004 was 27.1% cooler than in 2003 and 38.1% cooler than normal.

However, we estimate that customer growth and higher weather-normalized use per customer during 2004 mitigated much of the impact of unfavorable weather. Sales volumes to large commercial/industrial customers improved by 2.5%. Excluding our largest customers, two iron ore mines, sales volumes to our remaining large commercial/industrial customers improved by 1.5%. Sales to municipal utilities, the other retail/municipal customer class, increased 8.1% between the periods due to higher off-peak demand from low-margin municipal wholesale power customers.

Electric Fuel and Purchased Power Expenses

2005 vs. 2004: Gross fuel and purchased power costs for our electric utilities increased by a total of $260.8 million during 2005 when compared with 2004. During 2005, we deferred $72.8 million of fuel and purchased power costs which resulted in a net increase of fuel and purchased power expense of $188.0 million or 32.1% during 2005 when compared to 2004. The increase in fuel and purchased power expense was driven by a 2.6% increase in megawatt-hour sales and an increase in our average cost of fuel and purchased power from $17.49 per megawatt-hour in 2004 to $22.44 per megawatt-hour in 2005, or 28.3% between the comparative periods.

The increase in our average cost of fuel and purchased power is due primarily to (1) the reduced availability of nuclear generation due to scheduled refueling outages, (2) higher natural gas prices that increased the cost of power supplied by natural gas, (3) the impact of the implementation of the Midwest Independent Transmission System Operator, Inc. s (MISO) bid based energy market (MISO Midwest Market) in April 2005 and (4) limitations on coal supplies due to transportation shortfalls.

During 2005, we had two scheduled refueling outages at our nuclear plant and in 2004 we had one scheduled refueling outage. As a result, we had approximately 1,145,000 fewer megawatt hours of nuclear generation in 2005. Our average fuel cost for nuclear generation is approximately $5 per megawatt hour, while the average energy cost for purchased power was approximately $55 per megawatt hour. We estimate that the reduction in nuclear generation resulted in approximately $57 million of increased fuel and purchased power costs in 2005 as compared to 2004. During the 2005 outages we replaced both reactor vessel heads resulting in longer outages. This work, along with other planned maintenance, lasted longer than originally expected due to delays. During 2006, we have one planned refueling outage at our nuclear plant. For more information regarding the scheduled refueling outages, see Factors Affecting Results, Liquidity and Capital Resources Nuclear Operations.

In 2005, we experienced significant increases in the cost of natural gas used in our own generating assets and in the price of purchased energy which is highly influenced by the price of natural gas. This increase was most significant in the last six months of 2005 due to market related factors including the hurricanes in the Gulf of Mexico. The average combined cost per megawatt hour of purchased energy and natural gas fired units in 2005 was 47.7% higher than in 2004, increasing total cost by approximately $77.2 million.

In April 2005, we began participating in the MISO Midwest Market which fundamentally changed the way we dispatch our generating units and obtain purchased energy. As part of this new market, we are subject to new types of charges which, among other things, recognize the cost of transmission congestion, megawatt-hour losses and other costs associated with operating the generating units in an uneconomic fashion to support the MISO Midwest Market service territory. Because the State of Wisconsin has a constrained transmission system, we believe these costs are higher for us than in other parts of the MISO Midwest Market service territory. The incremental costs associated with the MISO Midwest Market charges identified above were approximately $28 million in 2005. For more information regarding MISO and the MISO Midwest Market, see Factors Affecting Results, Liquidity and Capital Resources Industry Restructuring and Competition Electric Transmission and Energy Markets.

Our 2005 operations were also adversely impacted by limitations on deliveries of coal supply due to the failure of our primary rail delivery supplier to deliver contracted quantities of coal to our units. The largest limitation was related to critical rail track maintenance in the Powder River basin. This, in turn, resulted in reduced coal deliveries of the coal which primarily serves our Oak Creek and Pleasant Prairie generating units from June through December 2005. In response to the reduced deliveries, we limited the generating capability of these units in off-peak periods and purchased more expensive replacement power and, where possible, took measures to purchase and transport higher cost coal in place of contracted supplies. We estimate that this increased our costs by approximately $52 million in 2005. For additional information on the decreased coal deliveries, see Factors Affecting Results, Liquidity and Capital Resources Market Risks and Other Significant Risks Commodity Price Risk below.

Under the State of Wisconsin fuel rules, we are allowed to request recovery in fuel revenues if our projected fuel and purchased power costs exceed bands established by the PSCW. In March 2005, we received a rate order that allowed us to increase our annual revenues by $114.9 million (final order received in November 2005 for an annual increase of $122.6 million) due to increased fuel and purchased power costs. As provided under the Wisconsin rules, we are also allowed to request deferral for the costs associated with adverse events which materially impact fuel and purchased power costs which were not anticipated, or for which costs could not be reasonably estimated at the time of the fuel recovery request for consideration in future rate proceedings. During 2005, we deferred approximately $72.8 million of fuel and purchased power costs due to the extended outage at Point Beach Unit 2, the coal delivery problems and increased costs associated with the MISO Midwest Market. During 2005, we estimate that we under-recovered fuel and purchased power costs by $108.4 million before these deferred items. Adjusted for the allowed deferrals, our net under-recovered fuel and purchased power costs were approximately $35.6 million.

2004 vs. 2003: Total fuel and purchased power expenses for our electric utilities increased by $22.2 million or 3.9% during 2004 when compared with 2003. This increase is primarily due to our 1.5% increase in total megawatt-hour sales and to higher coal and purchased capacity costs. Increased availability of several of our coal-fired generating units during 2004 mitigated the rise in fuel and purchased power costs. Very cool summer weather significantly reduced our need to use higher cost peak generating units and purchased power during 2004, also mitigating the rise in fuel and purchased power costs between the comparative periods.

Gas Utility Revenues, Gross Margin and Therm Deliveries

The following table compares our total gas utility operating revenues and gross margin (total gas utility operating revenues less cost of gas sold) during 2005, 2004 and 2003.

Gas Utility Operations	**2005**	**2004**	**2003**
	(Millions of Dollars)		
Operating Revenues	$ 1,417.5	$ 1,252.4	$ 1,226.1
Cost of Gas Sold	1,047.3	890.9	863.3
Gross Margin	$ 370.2	$ 361.5	$ 362.8

We believe gross margin is a better performance indicator than revenues because changes in the cost of gas sold flow through to revenue under gas cost recovery mechanisms. The following table compares our gas utility gross margin and therm deliveries by customer class during 2005, 2004 and 2003.

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	Gas Gross Margin			Gas Therm Deliveries		
Gas Utility Operations	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
	(Millions of Dollars)			**(Millions, Except Degree Days)**		
Customer Class						
Residential	$ 240.5	$ 238.0	$ 233.0	791.0	809.9	853.7
Commercial/Industrial	72.9	71.9	71.0	460.7	464.0	492.5
Interruptible	1.8	1.8	2.0	23.4	24.7	27.5
Total Gas Sold	315.2	311.7	306.0	1,275.1	1,298.6	1,373.7
Transported Gas	48.5	43.8	41.8	893.7	769.5	797.5
Other Operating	6.5	6.0	15.0			
Total						