

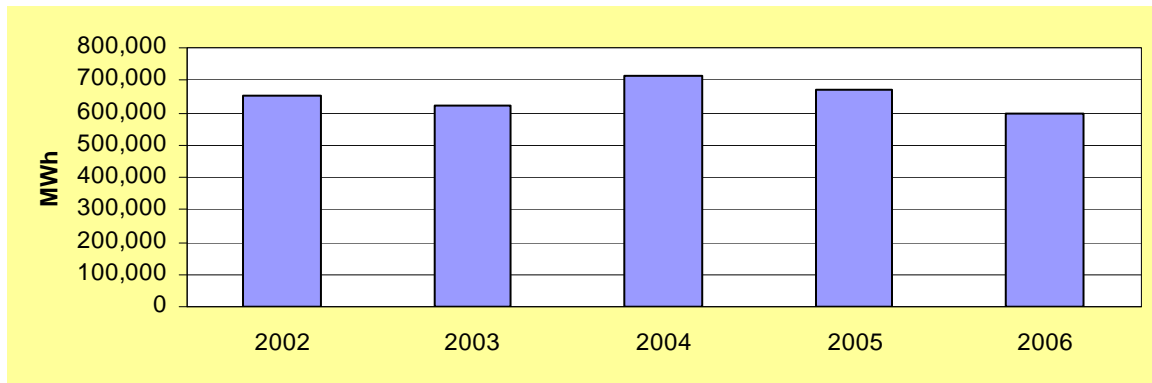


Renewable Energy and Energy Efficiency

Renewable Energy

We Energies produces or purchases more than 140 megawatts (MW) of renewable energy capacity from a variety of sources inside and outside Wisconsin. Some of it is used for the company's Energy for Tomorrow® renewable energy program for residential and commercial customers, while the remainder is used to meet the state's Renewable Portfolio Standard, which We Energies supported in the legislative process (see more below). Edison Sault Electric Company's (ESE) primary source of electric power is two hydroelectric facilities at the eastern end of Lake Superior in Sault St. Marie, Michigan, but it buys additional renewable energy from We Energies for its renewable energy program. Total renewable energy was lower in 2006 than 2005 due to the expiration of a landfill gas energy contract that was not renewed.

We Energies Total Renewable Energy, 2002-2006



Wisconsin Energy Corporation's (WEC) Renewable Energy Generation Sources

Hydroelectric power. We Energies' 13 hydroelectric plants on the Brule, Fox, Menominee, Michigamme, Paint and Pine rivers in central and northeastern Wisconsin and Michigan's Upper Peninsula have a combined capacity of approximately 90 MW.

ESE's hydroelectric plant on the headwaters of St. Mary's River in Sault Ste. Marie, Michigan, has a 27-MW capacity and has provided, on average, 200,000 MWh per year. ESE also has a long-term contract with the U.S. Government to purchase all of the excess power (about 17 MW and 160,000 MWh per year) produced by the U.S. Army Corps of Engineers' hydroelectric plant in the Soo Locks in Sault Ste. Marie.

Solar power. We Energies uses limited amounts of solar photovoltaic cells in its renewable energy mix. We Energies' solar generation is supplied by customer-owned solar generation.

Wind power. We Energies operates two wind turbines in the town of Byron, Wisconsin, that provide a combined 1.32 MW of capacity, or enough for about 360 homes. In 2006, the two wind turbines generated 2,973 MWh. We Energies continues to purchase 25.5 MW of capacity from the 30-MW Badger Wind facility owned and operated by FPL Energy in Montfort, Wisconsin.

In February 2007, We Energies received approval from the Public Service Commission of Wisconsin (PSCW) to build the Blue Sky Green Field wind project and expects to have this 145-MW wind farm operational no later than the second quarter of 2008.



Energy for Tomorrow® Renewable Energy Program

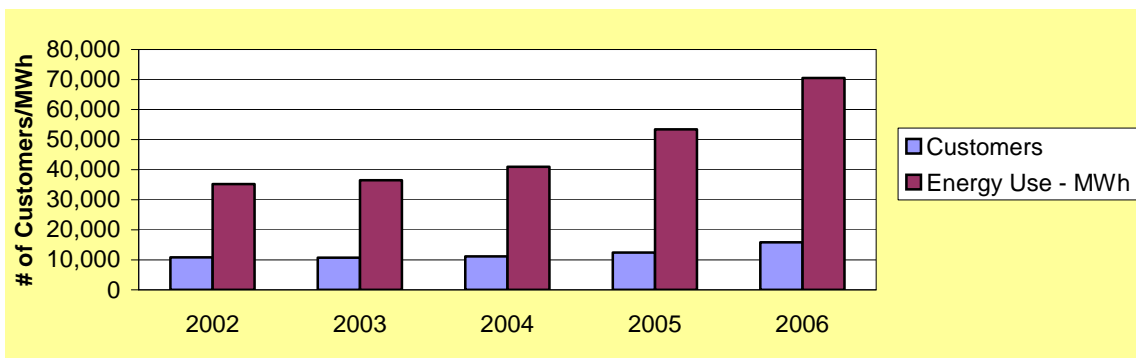
Launched in 1996, Energy for Tomorrow is a voluntary, market-based program created by We Energies for residential and commercial customers to reduce dependence on fossil fuels and create customer awareness of the environmental benefits of using renewable energy to generate electricity. The energy produced by renewable resources is added to the electric power pool that serves a given region. It displaces an equal amount of electricity that would have been generated from traditional fuels, such as coal, natural gas and nuclear. Visit www.we-energies.com/business_new/altenergy/renewable.htm

In 2006, We Energies' Energy for Tomorrow renewable energy program was one of only nine utility renewable energy programs in the U.S. certified by the Center for Resource Solutions. In its annual rankings, the U.S. Department of Energy's National Renewable Energy Laboratory listed Energy for Tomorrow among the best performing green-pricing programs certified by the Center for Resource Solutions. The program gives We Energies' customers the choice of having 25, 50 or 100 percent of their electricity usage matched to increased amounts of renewable energy added to the grid on their behalf. The majority of their participation fees are used to purchase the slightly more expensive renewable energy or to construct new renewable energy generating facilities. A small portion of the fees are used to educate and inform the public about the importance of renewable energy sources and to gain more participants.

At the end of 2006, 15,823 residential and commercial customers were enrolled in Energy for Tomorrow, purchasing 70,531 MWh of electricity. During the year, the number of customers enrolled increased by more than 3,300, keeping Energy for Tomorrow as one of the largest and most successful programs of its kind in the nation, as ranked by the U.S. Department of Energy's National Renewable Energy Laboratory. The renewable energy sold through Energy for Tomorrow in 2006 came from:

- The Top of Iowa Wind facility in Joice, Iowa (49 percent).
- Two landfill gas facilities in southeastern Wisconsin (42 percent).
- Small hydroelectric plants in Wisconsin owned by Cedarburg Hydroelectric Corp., Rock River Power & Light, and North East Wisconsin Hydro (4 percent).
- We Energies' wind turbines in the Town of Byron, Wisconsin (4 percent).
- Customer-owned solar photovoltaic generation (1 percent).

We Energies Energy for Tomorrow® Program Customers and Energy Use, 2002-2006



For more information, see the "Energy Use" section of this report.

Edison Sault Electric Renewable Energy Program

ESE offers customers the option of increasing their percentage of electricity from renewable sources for a slightly higher rate. ESE generates and purchases about 40 percent of its power needs from hydroelectric facilities on the St. Mary's River, connecting Lake Superior and Lake Huron. The remaining 60 percent is purchased from other utilities. This power is mostly generated by coal and nuclear power generation sources. Customers who want more than 40 percent of their energy coming from renewable sources may voluntarily



increase their percentage of power derived from renewable resources to 60, 80 or 100 percent. In 2006, ESE sold 169,668 kilowatt-hours of renewable energy through its renewable energy program.

Wisconsin Renewable Portfolio Standard

Passed in 1998, Wisconsin Act 204 required 50 MW of new renewable energy to be on line in Wisconsin by year-end 2000. We Energies met its 27-MW portion of that requirement by purchasing wind generation from FPL Energy's Badger Wind Facility in Montfort, Wisconsin, and from other renewable energy sources. Note that the energy accounted for here is separate from that used in the Energy for Tomorrow program.

In February 2000, Wisconsin adopted the Renewable Portfolio Standard (RPS) legislation. This legislation required state utilities to sell electricity from renewable energy sources to retail customers, rising from 0.5 percent in 2001 to 2.2 percent by 2011. We Energies was the first utility in the state to propose a new renewable energy project targeted at meeting the requirements.

In March 2006, Wisconsin enacted Wisconsin Act 141, which changed utilities' renewable energy requirements. The act increases the mandate for renewable energy from a statewide baseline of 4 percent to no less than 6 percent by 2010 and 10 percent by 2015 of total retail energy delivered on a statewide basis. The act requires each electricity provider to increase renewable energy sources by 2 percent over its baseline level by 2010 and by 6 percent over its baseline level by 2015. We Energies must obtain approximately 210 MW of additional renewable capacity by 2010 and another approximately 610 MW of additional renewable capacity by 2015 to meet the retail energy delivered requirements. The RPS limits the amount of hydroelectric generated energy that qualifies for satisfying RPS requirements.

We Energies has already started development of additional renewable energy sources to meet Power the Future commitments, which will assist We Energies in complying with Act 141. We Energies expects wind generation to be the largest source used to comply with the act's requirements.

Energy Efficiency

We Energies offers programs and services to help its customers improve energy efficiency in their homes, buildings and factories. Programs offer a full range of customer technologies and services tied to energy use. The company provides information on the economic and environmental benefits of purchasing energy efficient equipment and on designing new homes and buildings.

Focus on Energy. This public-private partnership is a coordinated group of programs administered by the Wisconsin Department of Administration. The program provides citizens and businesses with technical assistance and information on energy management that achieves the most savings while protecting the environment. The program is funded by a surcharge on gas and electric bills and through direct utility contributions. A major share of the money goes toward weatherization and energy efficiency programs.

Energy Center of Wisconsin. We Energies supports the Energy Center of Wisconsin, which sponsors and conducts research on efficient energy use and management. The center develops and demonstrates new energy-efficiency advances and transfers the results to Wisconsin energy service providers and consumers.

Milwaukee Weatherization, Rehabilitation and Asset Preservation Partnership. In collaboration with the Social Development Commission, We Energies partners with Milwaukee's Weatherization, Rehabilitation and Asset Partnership (WRAP). We Energies funds WRAP's conservation components. WRAP develops innovative delivery systems that combine energy efficiency, housing renovation and weatherization, and social service programs to preserve and increase home ownership in low-income households. The goal is to reduce maintenance costs, particularly energy costs, and to help low-income homeowners increase their home and neighborhood value.



Energy Management Initiative. Customers look to We Energies as a role model for smart energy management practices. In 2005, the Energy Management Initiative was implemented to reduce the company's energy consumption by 5 percent (on a per degree day adjusted basis) through an aggressive program encouraging employees' smart energy use by further educating them about smart energy habits and motivating them to adopt these practices. Actual results show a reduction of nearly 10 percent.

Energy Efficiency Planning, Design and Implementation

Under the PSCW-approved We Energies' Energy Efficiency Procurement Plan, We Energies invested \$7.5 million during 2006 in customer programming that has led to a 2006 peak reduction of 20 megawatts and 77,769 megawatt hours of customer energy savings. Multiple success stories are on the company's Web site.

Innovative Energy Efficiency Projects. We Energies supported the Milwaukee Habitat for Humanity Ten Home Building Blitz during June of 2006. All 10 homes are Energy Star rated. The company collaborated with the city of Milwaukee to partner on a window replacement program on 600 residential homes. Funding from the U.S. Department of Housing and Urban Development for Milwaukee's lead abatement program was combined with energy efficiency funding from We Energies to accomplish this dual solution as one task.

Natural Gas Programs

We Energies is spending up to \$6 million on natural gas programs, implemented during 2006 and continuing through 2007, for at-risk customers. In 2006, \$3.2 million in program incentives was provided and 1,548,892 therms were saved through more efficient measures. These programs, which respond to increasing gas prices and promote energy efficiency to help reduce customer use, include:

- **Small Commercial Business Assistance** – Financial incentives support a set of energy efficiency measures to business customers consuming 40,000 therms or less of natural gas annually. These incentives reduce barriers to energy efficiency investment in this hard-to-reach market segment.
- **Residential Assistance** – This program targets residential customers with incomes generally between 150 to 250 percent of federal poverty guidelines, if they are not eligible for Weatherization Assistance. The company subsidizes most or all infiltration reduction measure costs and insulation and heating system upgrades where the existing system is malfunctioning. The program offers a reduced set of weatherization incentives to all residential customers.
- **Multi-Family Assistance** – Financial assistance provides help to defray infiltration reduction and insulation costs in multi-family buildings, targeting those with low income and at-risk tenants.
- **Assistance for Charitable Organizations** – We Energies provides weatherization and heating system improvement incentives for churches and not-for-profit social service organizations. Because program services are similar, the program is administered with the Small Commercial Business Assistance program, although target markets and outreach strategies are different.

Load Management

We Energies offers load management options that provide electricity rate discounts or other incentives to business and residential customers in return for reducing load on short notice during high electric demand periods. For example, residential customers receive a bill credit for allowing the company to turn off their air conditioners for varying periods during peak demand times. The programs have the potential to reduce peak demand by more than 400 MW on a given day. Basic load management programs include:

Mine Contracts. Contracts with two large iron ore mines in Michigan's Upper Peninsula allow We Energies to ask these customers to reduce load at times of high system demand.

Voluntary Load Reduction. We Energies' three voluntary load reduction programs provide industrial and large commercial customers an opportunity to share cost savings when a power purchase can be avoided – or a power sale can be made – during extreme price spikes in the wholesale spot market. The programs are:



- *Power Market Incentives*SM is offered to the largest We Energies industrial customers who can reduce load by 500 kW in exchange for market-based compensation.
- *Dollars for Power*SM is offered to industrial and large commercial customers who enroll 50 kW at pre-established bid prices.
- *PMI-Pool* is offered to customers, marketers or agents who combine sites (We Energies customer accounts) so that a pool can benefit from the same features as the Power Market IncentivesSM program. Each participating account is required to have a minimum of 100 kW and the pool is required to have a minimum of 500 kW.

Residential Program. Energy Partners is a residential central air conditioning, direct load control program. A small remote controlled device installed near the central air conditioning compressor can turn the unit off any day between noon and 11 p.m. from May 15 through Sept. 15. Customers can choose one of the following options. Credits are reflected monthly on their energy bills.

- **\$50 in bill credits.** Central air conditioners may be cycled off for up to six hours a day.
- **\$40 in bill credits.** Air conditioners may be cycled off for up to four hours a day.
- **\$12 in bill credits.** Air conditioners may be cycled off for 45 minutes, operate for 15 minutes and continue this cycle up to 8 hours a day.

Traditional Load Management Programs. These commercial and industrial programs offer the greatest discounts, but they can require customers to reduce load on short notice during high-demand periods. Customers with greater operational flexibility and risk tolerance benefit most. These programs are:

- **Interruptible.** Primary rate industrial customers (those customers who receive power at primary voltages and own and maintain their own switchgear and transformers) with a minimum load reduction of 1,000 kW are eligible for this program, which includes the possibility of both capacity and economic interruptions. In exchange for an annual discount, customers allow We Energies to remotely interrupt electric load if capacity becomes tight. While We Energies provides as much notice as possible, it has the ability to interrupt load without warning during a peak capacity situation. Economic interruptions may occur if system energy prices on the spot market are high. Customers maintain control over their electric load during economic interruptions by either curtailing load or buying through the interruption at market rates.
- **Curtailable.** For annual savings up to 15 percent, businesses agree to shed load – with a minimum one-hour notice – when electric supplies are tight. Customers determine what load to curtail. To participate, primary rate customers must have a minimum of 500 kW, and general secondary rate customers (customers receiving service at secondary voltages and where We Energies owns and maintains the switchgear and transformer) are required to have a minimum of 100 kW to curtail. As with the interruptible rate, penalties apply if commitments are not met during a capacity curtailment. Customers may choose to curtail or buy energy at a predetermined market price during an economic curtailment. During economic curtailments, Michigan curtailable customers are provided hourly prices based on the projected market prices for the hours of curtailment. Wisconsin curtailable customers are able to purchase power at their regular energy rate plus \$0.06 per kWh.
- **Energy Cooperative.** The Energy Cooperative rate is a lower-risk option that provides an incentive for a group of commercial/industrial customers to participate in a load-reduction plan. Customers are paid a base incentive for each month from April through September when the load is available for reduction. In addition, a performance incentive is paid during curtailment periods when the demand peak is held at or below the contract agreement. A non-compliance penalty is applied if the contract terms are not met.