

WEC ENERGY GROUP, INC.
Form 10-Q
May 06, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2016

Commission File Number	Registrant; State of Incorporation Address; and Telephone Number	IRS Employer Identification No.
001-09057	WEC ENERGY GROUP, INC. (A Wisconsin Corporation) 231 West Michigan Street P.O. Box 1331 Milwaukee, WI 53201 (414) 221-2345	39-1391525

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Common Stock, \$.01 Par Value,
315,647,207 shares outstanding at
March 31, 2016

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 For the Quarter Ended March 31, 2016
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GLOSSARY OF TERMS AND ABBREVIATIONS

The abbreviations and terms set forth below are used throughout this report and have the meanings assigned to them below:

Subsidiaries and Affiliates

ATC	American Transmission Company LLC
Integrys	Integrys Holding, Inc. (previously known as Integrys Energy Group, Inc.)
ITF	Integrys Transportation Fuels, LLC (doing business as Trillium CNG)
MERC	Minnesota Energy Resources Corporation
MGU	Michigan Gas Utilities Corporation
NSG	North Shore Gas Company
PDL	WPS Power Development, LLC
PGL	The Peoples Gas Light and Coke Company
WBS	WEC Business Services LLC
We Power	W.E. Power, LLC
WE	Wisconsin Electric Power Company
WG	Wisconsin Gas LLC
WPS	Wisconsin Public Service Corporation

Federal and State Regulatory Agencies

EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
ICC	Illinois Commerce Commission
MDEQ	Michigan Department of Environmental Quality
MPSC	Michigan Public Service Commission
MPUC	Minnesota Public Utilities Commission
PSCW	Public Service Commission of Wisconsin
SEC	United States Securities and Exchange Commission
WDNR	Wisconsin Department of Natural Resources

Accounting Terms

AFUDC	Allowance for Funds Used During Construction
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
FASB	Financial Accounting Standards Board
GAAP	United States Generally Accepted Accounting Principles
OPEB	Other Postretirement Employee Benefits

Environmental Terms

CO ₂	Carbon Dioxide
GHG	Greenhouse Gas
MATS	Mercury and Air Toxics Standards
NAAQS	National Ambient Air Quality Standards
NO _x	Nitrogen Oxide
SO ₂	Sulfur Dioxide

Measurements

Btu	British Thermal Units
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Dth Dekatherm (One Dth equals one million Btu)
MW Megawatt (One MW equals one million Watts)
MWh Megawatt-hour

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Other Terms and Abbreviations

6.11% Junior Notes	Integrys's 2006 6.11% Junior Subordinated Notes Due 2066
ALJ	Administrative Law Judge
AMRP	Accelerated Natural Gas Main Replacement Program
CNG	Compressed Natural Gas
Exchange Act	Securities Exchange Act of 1934, as amended
FTRs	Financial Transmission Rights
MISO	Midcontinent Independent System Operator, Inc.
MISO Energy Markets	MISO Energy and Operating Reserves Markets
N/A	Not Applicable
PIPP	Presque Isle Power Plant
ROE	Return on Equity
SSR	System Support Resource
VAPP	Valley Power Plant

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

In this report, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. These statements are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements may be identified by reference to a future period or periods or by the use of terms such as "anticipates," "believes," "could," "estimates," "expects," "forecasts," "goals," "guidance," "intends," "may," "objectives," "plans," "possible," "potential," "projects," "seeks," "should," "targets," "will," or variations of these terms.

Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding earnings, completion of capital projects, sales and customer growth, rate actions and related filings with regulatory authorities, environmental and other regulations and associated compliance costs, legal proceedings, dividend payout ratios, effective tax rate, pension and OPEB plans, fuel costs, sources of electric energy supply, coal and natural gas deliveries, remediation costs, liquidity and capital resources, and other matters.

Forward-looking statements are subject to a number of risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in the statements. These risks and uncertainties include those described in risk factors as set forth in this report and our Annual Report on Form 10-K for the year ended December 31, 2015, and those identified below:

• Factors affecting utility operations such as catastrophic weather-related damage, environmental incidents, unplanned facility outages and repairs and maintenance, and electric transmission or natural gas pipeline system constraints;

• Factors affecting the demand for electricity and natural gas, including political developments, unusual weather, changes in economic conditions, customer growth and declines, commodity prices, energy conservation efforts, and continued adoption of distributed generation by customers;

• The timing, resolution, and impact of rate cases and negotiations, including recovery of deferred and current costs and the ability to earn a reasonable return on investment, and other regulatory decisions impacting our regulated businesses;

• The ability to obtain and retain customers, including wholesale customers, due to increased competition in our electric and natural gas markets from retail choice and alternative electric suppliers, and continued industry consolidation;

• The timely completion of capital projects within budgets, as well as the recovery of the related costs through rates;

• The impact of federal, state, and local legislative and regulatory changes, including changes in rate-setting policies or procedures, tax law changes, deregulation and restructuring of the electric and/or natural gas utility industries, transmission or distribution system operation, the approval process for new construction, reliability standards, pipeline integrity and safety standards, allocation of energy assistance, and energy efficiency mandates;

• Federal and state legislative and regulatory changes relating to the environment, including climate change and other environmental regulations impacting generation facilities and renewable energy standards, the enforcement of these laws and regulations, changes in the interpretation of permit conditions by regulatory agencies, and the recovery of associated remediation and compliance costs;

• The risks associated with changing commodity prices, particularly natural gas and electricity, and the availability of sources of fossil fuel, natural gas, purchased power, materials needed to operate environmental controls at our electric

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generating facilities, or water supply due to high demand, shortages, transportation problems, nonperformance by electric energy or natural gas suppliers under existing power purchase or natural gas supply contracts, or other developments;

Changes in credit ratings, interest rates, and our ability to access the capital markets, caused by volatility in the global credit markets, our capitalization structure, and market perceptions of the utility industry, us, or any of our subsidiaries;

Costs and effects of litigation, administrative proceedings, investigations, settlements, claims, and inquiries;

Restrictions imposed by various financing arrangements and regulatory requirements on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances;

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• The risk of financial loss, including increases in bad debt expense, associated with the inability of our customers, counterparties, and affiliates to meet their obligations;

• Changes in the creditworthiness of the counterparties with whom we have contractual arrangements, including participants in the energy trading markets and fuel suppliers and transporters;

• The direct or indirect effect on our business resulting from terrorist incidents, the threat of terrorist incidents, and cyber intrusion, including the failure to maintain the security of personally identifiable information, the associated costs to protect our assets and personal information, and the costs to notify affected persons to mitigate their information security concerns;

• The financial performance of ATC and its corresponding contribution to our earnings, as well as the ability of ATC and Duke-American Transmission Company to obtain the required approvals for their transmission projects;

• The investment performance of our employee benefit plan assets, as well as unanticipated changes in related actuarial assumptions, which could impact future funding requirements;

• Factors affecting the employee workforce, including loss of key personnel, internal restructuring, work stoppages, and collective bargaining agreements and negotiations with union employees;

• Advances in technology that result in competitive disadvantages and create the potential for impairment of existing assets;

• The terms and conditions of the governmental and regulatory approvals of the acquisition of Integrys that could reduce anticipated benefits and our ability to successfully integrate the operations of the combined company;

• The risk associated with the values of goodwill and other intangible assets and their possible impairment;

• Potential business strategies to acquire and dispose of assets or businesses, which cannot be assured to be completed timely or within budgets, and legislative or regulatory restrictions or caps on non-utility acquisitions, investments, or projects, including the State of Wisconsin's public utility holding company law;

• The timing and outcome of any audits, disputes, and other proceedings related to taxes;

• The effect of accounting pronouncements issued periodically by standard-setting bodies; and

• Other considerations disclosed elsewhere herein and in other reports we file with the SEC or in other publicly disseminated written documents.

We expressly disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited) (in millions, except per share amounts)	Three Months Ended March 31	
	2016	2015
Operating revenues	\$2,194.8	\$1,387.9
Operating expenses		
Cost of sales	838.9	613.9
Other operation and maintenance	531.5	280.7
Depreciation and amortization	187.9	102.6
Property and revenue taxes	47.2	31.9
Total operating expenses	1,605.5	1,029.1
Operating income	589.3	358.8
Equity in earnings of transmission affiliate	38.5	16.1
Other income, net	32.7	3.0
Interest expense	100.9	59.4
Other expense	(29.7)	(40.3)
Income before income taxes	559.6	318.5
Income tax expense	213.1	122.4
Net income	346.5	196.1
Preferred stock dividends of subsidiary	0.3	0.3
Net income attributed to common shareholders	\$346.2	\$195.8
Earnings per share		
Basic	\$1.10	\$0.87
Diluted	\$1.09	\$0.86
Weighted average common shares outstanding		
Basic	315.7	225.5
Diluted	317.1	227.3
Dividends per share of common stock	\$0.4950	\$0.4225

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)	Three Months Ended March 31	
(in millions)	2016	2015
Net income	\$346.5	\$196.1
Other comprehensive income, net of tax		
Derivatives accounted for as cash flow hedges		
Reclassification of gains to net income, net of tax	(0.3)	—
Cash flow hedges, net	(0.3)	—
Other comprehensive loss, net of tax	(0.3)	—
Comprehensive income	346.2	196.1
Preferred stock dividends of subsidiary	0.3	0.3
Comprehensive income attributed to common shareholders	\$345.9	\$195.8

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in millions, except share and per share amounts)

March 31, December 31,
2016 2015

Assets

Property, plant, and equipment

In service

\$26,523.3 \$ 26,249.5

Accumulated depreciation

(8,005.9) (7,919.1)

18,517.4 18,330.4

Construction work in progress

706.6 822.9

Leased facilities, net

35.0 36.4

Net property, plant, and equipment

19,259.0 19,189.7

Investments

Equity investment in transmission affiliate

1,422.5 1,380.9

Other

87.5 85.8

Total investments

1,510.0 1,466.7

Current assets

Cash and cash equivalents

34.7 49.8

Accounts receivable and unbilled revenues, net of reserves of \$114.3 and \$113.3, respectively

1,088.1 1,028.6

Materials, supplies, and inventories

470.7 687.0

Assets held for sale

— 96.8

Prepayments

243.4 285.8

Other

59.5 58.8

Total current assets

1,896.4 2,206.8

Deferred charges and other assets

Regulatory assets

3,060.8 3,064.6

Goodwill

2,999.1 3,023.5

Other

379.3 403.9

Total deferred charges and other assets

6,439.2 6,492.0

Total assets

\$29,104.6 \$ 29,355.2

Capitalization and liabilities

Capitalization

Common stock – \$.01 par value; 325,000,000 shares authorized; 315,647,207 and 315,683,496 shares outstanding, respectively

\$3.2 \$ 3.2

Additional paid in capital

4,321.1 4,347.2

Retained earnings

4,489.7 4,299.8

Accumulated other comprehensive income

4.3 4.6

Preferred stock of subsidiary

30.4 30.4

Long-term debt

8,955.8 9,124.1

Total capitalization

17,804.5 17,809.3

Current liabilities

Current portion of long-term debt

152.4 157.7

Short-term debt

896.4 1,095.0

Accounts payable

584.4 815.4

Accrued payroll and benefits

102.7 169.7

Accrued interest

118.6 67.4

Other

375.3 403.8

Total current liabilities

2,229.8 2,709.0

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Deferred credits and other liabilities		
Regulatory liabilities	1,411.8	1,392.2
Deferred income taxes	4,856.5	4,622.3
Deferred revenue, net	576.1	579.4
Pension and other postretirement benefit obligations	541.1	543.1
Environmental remediation	617.6	628.2
Other	1,067.2	1,071.7
Total deferred credits and other liabilities	9,070.3	8,836.9

Commitments and contingencies (Note 16)

Total capitalization and liabilities \$29,104.6 \$ 29,355.2

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)	Three Months Ended March 31	
(in millions)	2016	2015
Operating Activities		
Net income	\$346.5	\$196.1
Reconciliation to cash provided by operating activities		
Depreciation and amortization	191.9	107.3
Deferred income taxes and investment tax credits, net	214.6	106.6
Contributions and payments related to pension and OPEB plans	(15.1)	(103.7)
Equity income in transmission affiliate, net of distributions	(23.4)	(5.7)
Change in –		
Accounts receivable and unbilled revenues	(48.6)	(28.0)
Materials, supplies, and inventories	217.2	110.9
Other current assets	(63.7)	44.5
Accounts payable	(123.7)	(71.3)
Accrued taxes, net	89.6	(6.5)
Other current liabilities	(32.9)	28.1
Other, net	(56.5)	(48.3)
Net cash provided by operating activities	695.9	330.0
Investing Activities		
Capital expenditures	(312.0)	(153.2)
Investment in transmission affiliate	(9.0)	(1.3)
Proceeds from sale of businesses	106.5	—
Withdrawal of restricted cash from Rabbi trust for qualifying payments	21.0	—
Other, net	5.1	(1.8)
Net cash used in investing activities	(188.4)	(156.3)
Financing Activities		
Exercise of stock options	21.4	8.4
Purchase of common stock	(59.6)	(23.4)
Dividends paid on common stock	(156.2)	(95.3)
Retirement of long-term debt	(139.4)	(9.3)
Change in short-term debt	(198.6)	(54.6)
Other, net	9.8	3.8
Net cash used in financing activities	(522.6)	(170.4)
Net change in cash and cash equivalents	(15.1)	3.3
Cash and cash equivalents at beginning of period	49.8	61.9
Cash and cash equivalents at end of period	\$34.7	