

WEC ENERGY GROUP, INC.  
Form 10-Q  
November 06, 2015

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 September 30, 2015

| Commission File Number | Registrant; State of Incorporation Address; and Telephone Number  | IRS Employer Identification No. |
|------------------------|---|---------------------------------|
| 001-09057              | WEC ENERGY GROUP, INC.<br>(A Wisconsin Corporation)<br>231 West Michigan Street<br>P.O. Box 1331<br>Milwaukee, WI 53201<br>(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,  
315,684,451 shares outstanding at  
September 30, 2015

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 For the Quarter Ended September 30, 2015  
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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  |
| WECC               | Wisconsin Energy Capital Corporation                                     |
| Wisconsin Electric | Wisconsin Electric Power Company   |
| Wisconsin Gas      | Wisconsin Gas LLC  |
| WPS                | Wisconsin Public Service Corporation                                     |

Federal and State Regulatory Agencies

|      |  |
|------|--|
| EPA  | United States Environmental Protection Agency    |
| FCC  | Federal Communications Commission                |
| 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           |
| ASU   | Accounting Standards Update                            |
| FASB  | Financial Accounting Standards Board                   |
| GAAP  | United States Generally Accepted Accounting Principles |
| LIFO  | Last-In, First-Out                                     |
| OPEB  | Other Postretirement Employee Benefits                 |

Environmental Terms

|                 |  |
|-----------------|--|
| BTA             | Best Technology Available                        |
| EM              | Entrainment Mortality                            |
| GHG             | Greenhouse Gas                                   |
| IM              | Impingement Mortality                            |
| MATS            | Mercury and Air Toxics Standards                 |
| NAAQS           | National Ambient Air Quality Standards           |
| SO <sub>2</sub> | Sulfur Dioxide                                   |
| WPDES           | Wisconsin Pollutant Discharge Elimination System |



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Measurements

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

Other Terms and Abbreviations

|                        |   |
|------------------------|---|
| Amended Agreement      | Amended and Restated Settlement Agreement with the Attorney General of the State of Michigan, the Staff of the MPSC, and Tilden Mining Company and Empire Iron Mining Partnership                 |
| AMRP                   | Accelerated Natural Gas Main Replacement Program  |
| CNG                    | Compressed Natural Gas  |
| Compensation Committee | Compensation Committee of the Board of Directors  |
| Exchange Act           | Securities Exchange Act of 1934, as amended   |
| Fitch                  | Fitch Ratings, Inc.   |
| FTRs                   | Financial Transmission Rights   |
| Junior Notes           | WEC Energy Group's 2007 6.25% Series A Junior Subordinated Notes due 2067, Integrys's 2006 6.11% Junior Subordinated Notes due 2066, and Integrys's 2013 6.00% Junior Subordinated Notes due 2073 |
| Merger Agreement       | Agreement and Plan of Merger, dated as of June 22, 2014, between Integrys and Wisconsin Energy Corporation  |
| MISO                   | Midcontinent Independent System Operator, Inc.  |
| 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 Securities Exchange Act of 1934, as amended (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, projections related to the pension and other postretirement benefit 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 Form 10-Q and our and Integrys Energy Group, Inc.'s (Integrys) Annual Reports on Form 10-K for the year ended December 31, 2014, and the following:

Factors affecting utility operations such as catastrophic weather-related damage, environmental incidents, unplanned facility outages and repairs and maintenance, changes in the cost or availability of materials needed to operate environmental controls at our electric generating facilities, 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 those 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, including the extension of bonus depreciation, 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, 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;



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• 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;

• The risk of financial loss, including increases in bad debt expense, associated with the inability of our customers 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 American Transmission Company LLC (ATC) and its corresponding contribution to our earnings, as well as the ability of ATC and the 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 United States Securities and Exchange Commission (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<br>STATEMENTS (Unaudited) | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30       |           | September 30      |           |
| (in millions, except per share amounts)                 | 2015               | 2014      | 2015              | 2014      |
| Operating revenues                                      | \$1,698.7          | \$1,033.3 | \$4,077.8         | \$3,772.0 |
| Operating expenses                                      |                    |           |                   |           |
| Cost of sales   | 590.6              | 407.4     | 1,557.5           | 1,735.9   |
| Other operation and maintenance                         | 535.9              | 249.4     | 1,153.6           | 780.8     |
| Depreciation and amortization                           | 176.5              | 99.8      | 382.6             | 295.2     |
| Property and revenue taxes                              | 50.0               | 30.6      | 113.8             | 91.5      |
| Total operating expenses                                | 1,353.0            | 787.2     | 3,207.5           | 2,903.4   |
| Operating income  | 345.7              | 246.1     | 870.3             | 868.6     |
| Equity in earnings of transmission affiliate            | 40.0               | 18.0      | 70.4              | 52.8      |
| Other income, net                                       | 11.1               | 2.9       | 40.2              | 12.1      |
| Interest expense  | 103.8              | 60.4      | 225.6             | 181.7     |
| Other expense   | (52.7              | ) (39.5   | ) (115.0          | ) (116.8  |
| Income before income taxes                              | 293.0              | 206.6     | 755.3             | 751.8     |
| Income tax expense                                      | 110.5              | 80.3      | 296.1             | 284.9     |
| Net income  | \$182.5            | \$126.3   | \$459.2           | \$466.9   |
| Earnings per share                                      |                    |           |                   |           |
| Basic   | \$0.58             | \$0.56    | \$1.79            | \$2.07    |
| Diluted   | \$0.58             | \$0.56    | \$1.78            | \$2.05    |
| Weighted average common shares outstanding              |                    |           |                   |           |
| Basic   | 315.7              | 225.5     | 256.2             | 225.6     |
| Diluted   | 317.1              | 227.4     | 257.8             | 227.6     |
| Dividends per share of common stock                     | \$—                | \$0.39    | \$1.29            | \$1.17    |

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)

| (in millions)                                       | Three Months Ended |         | Nine Months Ended |         |
|---|--------------------|---------|-------------------|---------|
|   | September 30       |         | September 30      |         |
|   | 2015               | 2014    | 2015              | 2014    |
| Net income  | \$182.5            | \$126.3 | \$459.2           | \$466.9 |
| Other comprehensive (loss) income, net of tax       |                    |         |                   |         |
| Derivatives accounted for as cash flow hedges       |                    |         |                   |         |
| Gains on settlement, net of tax of \$7.6 million    | —                  | —       | 11.4              | —       |
| Reclassification of gains to net income, net of tax | (0.4               | ) —     | (0.5              | ) —     |
| Other comprehensive (loss) income, net of tax       | (0.4               | ) —     | 10.9              | —       |
| Comprehensive income                                | \$182.1            | \$126.3 | \$470.1           | \$466.9 |

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)

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Property, plant and equipment   |                       |                      |
| In service  | \$25,741.5            | \$15,509.0           |
| Accumulated depreciation  | (7,930.6              | ) (4,485.1           |
|   | 17,810.9              | 11,023.9             |
| Construction work in progress   | 936.4                 | 191.8                |
| Leased facilities, net  | 37.9                  | 42.0                 |
| Net property, plant and equipment   | 18,785.2              | 11,257.7             |
| Investments   |                       |                      |
| Equity investment in transmission affiliate   | 999.4                 | 424.1                |
| Other   | 97.0                  | 32.8                 |
| Total investments   | 1,096.4               | 456.9                |
| Current assets  |                       |                      |
| Cash and cash equivalents   | 22.2                  | 61.9                 |
| Accounts receivable and unbilled revenues, net of reserves of \$128.7 and \$74.5, respectively                              | 844.7                 | 643.4                |
| Materials, supplies, and inventories  | 719.8                 | 400.6                |
| Assets held for sale  | 140.2                 | —                    |
| Deferred income taxes   | 250.8                 | 242.7                |
| Other   | 204.2                 | 186.8                |
| Total current assets  | 2,181.9               | 1,535.4              |
| Deferred charges and other assets   |                       |                      |
| Regulatory assets   | 2,805.5               | 1,271.2              |
| Goodwill  | 3,389.1               | 441.9                |
| Other long-term assets  | 511.5                 | 200.3                |
| Total deferred charges and other assets   | 6,706.1               | 1,913.4              |
| Total assets  | \$28,769.6            | \$15,163.4           |
| Capitalization and liabilities  |                       |                      |
| Capitalization  |                       |                      |
| Common stock - \$.01 par value; 325,000,000 shares authorized; 315,684,451 and 225,517,339 shares outstanding, respectively | \$3.2                 | \$2.3                |
| Additional paid in capital  | 4,350.6               | 300.1                |
| Retained earnings   | 4,264.9               | 4,117.0              |
| Accumulated other comprehensive income  | 11.2                  | 0.3                  |
| Preferred stock of subsidiaries   | 81.5                  | 30.4                 |
| Long-term debt  | 8,727.0               | 4,186.4              |
| Total capitalization  | 17,438.4              | 8,636.5              |
| Current liabilities   |                       |                      |
| Current portion of long-term debt   | 606.0                 | 424.1                |
| Short-term debt   | 661.5                 | 617.6                |
| Accounts payable  | 777.6                 | 363.3                |
| Accrued payroll and benefits  | 154.9                 | 95.1                 |
| Other   | 466.8                 | 168.6                |
| Total current liabilities   | 2,666.8               | 1,668.7              |
| Deferred credits and other liabilities  |                       |                      |

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|  |            |            |
|--|------------|------------|
| Regulatory liabilities                               | 1,312.3    | 830.6      |
| Deferred income taxes                                | 4,690.4    | 2,906.7    |
| Deferred revenue, net                                | 588.1      | 614.1      |
| Pension and other postretirement benefit obligations | 427.7      | 203.8      |
| Environmental remediation                            | 611.5      | 32.6       |
| Other long-term liabilities                          | 1,034.4    | 270.4      |
| Total deferred credits and other liabilities         | 8,664.4    | 4,858.2    |
| Commitments and contingencies (Note 16)              |            |            |
| Total capitalization and liabilities                 | \$28,769.6 | \$15,163.4 |

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

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## WEC ENERGY GROUP, INC.

| (in millions)   | CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) Nine Months Ended |                      |
|---|---|----------------------|
|   | 2015  | September 30<br>2014 |
| Operating Activities  |   |                      |
| Net income  | \$459.2   | \$466.9              |
| Reconciliation to cash provided by operating activities       |   |                      |
| Depreciation and amortization                                 | 390.9   | 312.9                |
| Deferred income taxes and investment tax credits, net         | 220.1   | 258.5                |
| Contributions to pension and other postretirement plans       | (109.3  | ) (12.0              |
| Change in –   |   |                      |
| Accounts receivable and unbilled revenues                     | 269.5   | 221.1                |
| Inventories   | (101.4  | ) (49.9              |
| Other current assets  | 75.6  | 37.2                 |
| Accounts payable  | (55.9   | ) (27.7              |
| Accrued taxes, net  | 57.9  | (10.3                |
| Other current liabilities                                     | 40.0  | (36.8                |
| Other, net  | (173.4  | ) (125.3             |
| Net cash provided by operating activities                     | 1,073.2   | 1,034.6              |
| Investing Activities  |   |                      |
| Capital expenditures  | (765.1  | ) (513.0             |
| Cost of removal, net of salvage                               | (26.7   | ) (18.2              |
| Business acquisition, net of cash acquired of \$156.3 million | (1,329.9  | ) —                  |
| Investment in transmission affiliate                          | (5.6  | ) (10.5              |
| Proceeds from asset sales                                     | 26.7  | —                    |
| Other, net  | 4.7   | 12.8                 |
| Net cash used in investing activities                         | (2,095.9  | ) (528.9             |
| Financing Activities  |   |                      |
| Exercise of stock options                                     | 26.4  | 31.7                 |
| Purchase of common stock                                      | (66.1   | ) (84.2              |
| Dividends paid on common stock                                | (310.9  | ) (264.0             |
| Issuance of long-term debt                                    | 1,650.0   | 250.0                |
| Retirement of long-term debt                                  | (27.1   | ) (322.0             |
| Change in short-term debt                                     | (270.5  | ) (61.6              |
| Other, net  | (18.8   | ) 7.1                |
| Net cash provided by (used in) financing activities           | 983.0   | (443.0               |
| Net change in cash and cash equivalents                       | (39.7   | ) 62.7               |
| Cash and cash equivalents at beginning of period              | 61.9  | 26.0                 |
| Cash and cash equivalents at end of period                    | \$22.2  | \$88.7               |

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

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WEC ENERGY GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2015

## NOTE 1—GENERAL INFORMATION

On June 29, 2015, Wisconsin Energy Corporation acquired Integrys, and the combined company was renamed WEC Energy Group, Inc. The Company serves approximately 1.6 million electric customers and 2.8 million natural gas customers, and it owns approximately 60% of ATC. See Note 2, Acquisition, for more information on this acquisition.

As used in these notes, the term "financial statements" refers to the condensed consolidated financial statements. This includes the condensed consolidated income statements, condensed consolidated statements of comprehensive income, condensed consolidated balance sheets, and condensed consolidated statements of cash flows, unless otherwise noted. In this report, when we refer to "the Company," "us," "we," "our," or "ours," we are referring to WEC Energy Group and all of its subsidiaries.

We have prepared the unaudited interim financial statements presented in this Form 10-Q pursuant to the rules and regulations of the SEC and United States Generally Accepted Accounting Principles (GAAP). Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements and footnotes in our Annual Report on Form 10-K for the year ended December 31, 2014. Financial results for an interim period may not give a true indication of results for the year. In particular, the results of operations for the three and nine months ended September 30, 2015, are not necessarily indicative of expected results for 2015 due to the acquisition of Integrys, seasonal variations, and other factors.

In management's opinion, we have included all adjustments, normal and recurring in nature, necessary for a fair presentation of our financial results.

## NOTE 2—ACQUISITION

On June 29, 2015, Wisconsin Energy acquired 100% of the outstanding common shares of Integrys, a provider of regulated natural gas and electricity, as well as nonregulated renewable energy and compressed natural gas (CNG) products and services. Integrys also holds a 34% interest in ATC, a for-profit transmission company regulated by the Federal Energy Regulatory Commission (FERC). The acquisition of Integrys provides increased scale, the potential for long-term cost savings through a combination of lower capital and operating costs, and the potential for operating efficiencies.

## Purchase Price

Pursuant to the Agreement and Plan of Merger, dated as of June 22, 2014, between Integrys and Wisconsin Energy Corporation (Merger Agreement), Integrys's shareholders received 1.128 shares of Wisconsin Energy common stock and \$18.58 in cash per share of Integrys common stock. The total consideration transferred was based on the closing price of Wisconsin Energy common stock on June 29, 2015, and was calculated as follows:

| (in millions, except per share amounts)              | Consideration Paid |            | Total |
|--|--------------------|------------|-------|
|  | Stock              | Cash       |       |
| Integrys common shares outstanding at June 29, 2015  | 79,963,091         | 79,963,091 |       |
| Exchange ratio                                       | 1.128              |            |       |
| Wisconsin Energy shares issued for Integrys shares * | 90,187,884         |            |       |
|  | \$45.16            |            |       |

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Closing price of Wisconsin Energy common shares on June 29,  
2015

|   |           |           |           |
|---|-----------|-----------|-----------|
| Fair value of common stock issued                                     | \$4,072.9 |           | \$4,072.9 |
| Cash paid per share of Integrys shares outstanding                    |           | \$18.58   |           |
| Fair value of cash paid for Integrys shares *                         |           | \$1,486.2 | \$1,486.2 |
| Consideration attributable to settlement of equity awards, net of tax |           | \$24.0    | \$24.0    |
| Total purchase price  | \$4,072.9 | \$1,510.2 | \$5,583.1 |

\*Fractional shares of 10,483 totaling \$0.5 million were paid in cash.



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All Integrys unvested stock-based compensation awards became fully vested upon the close of the transaction and were either paid to award recipients in cash, or the value of the awards was deferred into a deferred compensation plan. In addition, all vested but unexercised Integrys stock options were paid in cash. In accordance with accounting guidance for business combinations, the expense caused by the acceleration of the vesting was an expense related to the acquisition.

## Allocation of Purchase Price

The Integrys assets acquired and liabilities assumed were measured at estimated fair value as defined in the accounting guidance. Substantially all of Integrys's operations are subject to the rate-setting authority of federal and state regulatory commissions. These operations are accounted for in accordance with GAAP accounting guidance for regulated operations. In addition, the underlying assets and liabilities of ATC are regulated by FERC. The fair values of Integrys's assets and liabilities subject to these rate-setting provisions approximate their carrying values, and the assets and liabilities acquired and pro forma financial information do not reflect any adjustments related to these amounts.

The excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed was recognized as goodwill. The goodwill reflects the value paid for the increased scale and efficiencies as a result of the combination. The goodwill recognized is not deductible for income tax purposes, and as such, no deferred taxes have been recorded related to goodwill. The allocation of goodwill to our reportable segments has not yet been completed.

In the third quarter of 2015, adjustments were made to the estimated fair values of the assets acquired and liabilities assumed as additional information was obtained. The preliminary purchase price allocation is as follows:

(in millions)

|   |           |   |
|---|-----------|---|
| Current assets  | \$1,178.2 |   |
| Net property, plant and equipment                                   | 7,097.9   |   |
| Goodwill  | 2,947.2   |   |
| Deferred charges and other assets, excluding goodwill               | 2,393.7   |   |
| Current liabilities, including current maturities of long-term debt | (1,261.3  | ) |
| Deferred credits and other liabilities                              | (3,774.0  | ) |
| Long-term debt  | (2,947.5  | ) |
| Preferred stock of subsidiary                                       | (51.1     | ) |
| Total purchase price  | \$5,583.1 |   |

## Conditions of Approval

The acquisition was subject to the approvals of various government agencies, including the FERC, Federal Communications Commission (FCC), Public Service Commission of Wisconsin (PSCW), Illinois Commerce Commission (ICC), Michigan Public Service Commission (MPSC), and Minnesota Public Utilities Commission (MPUC). Approvals were obtained from all agencies subject to several conditions.

The PSCW order includes the following conditions:

Wisconsin Electric Power Company (Wisconsin Electric) and Wisconsin Gas LLC (Wisconsin Gas) will be subject to an earnings sharing mechanism for three years beginning January 1, 2016. Under the earnings sharing mechanism, if either company earns above its authorized return, 50% of the first 50 basis points of additional utility earnings will be shared with customers. For Wisconsin Electric, the additional utility earnings will be used to reduce the company's transmission escrow. For Wisconsin Gas, additional utility earnings will be used to reduce the costs of the Western Gas Lateral. All utility earnings above the first 50 basis points will be used to reduce the transmission escrow for

Wisconsin Electric or reduce the costs of the Western Gas Lateral for Wisconsin Gas.

Any future electric generation projects affecting Wisconsin ratepayers submitted by us or our subsidiaries will first consider the extent to which existing intercompany resources can meet energy and capacity needs. In September 2015, Wisconsin Public Service Corporation (WPS) and Wisconsin Electric filed a joint integrated resource plan with the PSCW for their combined loads, which indicated that no new generation is currently needed.

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The ICC order included a base rate freeze for The Peoples Gas Light and Coke Company (PGL) and North Shore Gas Company (NSG) effective for two years after the close of the acquisition. This base rate freeze does not impact our ability to adjust rates through various riders or the gas supply cost recovery mechanism.

We do not believe that the conditions set forth in the various regulatory orders approving the acquisition will have a material impact on our operations or financial results.

## Pro Forma Information

The following unaudited pro forma financial information reflects the consolidated results and amortization of purchase price adjustments as if the acquisition had taken place on January 1, 2014. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations that would have been achieved or our future consolidated results.

The pro forma financial information does not reflect any potential cost savings from operating efficiencies resulting from the acquisition and does not include certain acquisition-related costs.

| (in millions, except per share amounts)   | Three Months Ended September 30 |           | Nine Months Ended September 30 |           |
|---|---------------------------------|-----------|--------------------------------|-----------|
|   | 2015                            | 2014      | 2015                           | 2014      |
| Unaudited Pro Forma Financial Information |                                 |           |                                |           |
| Operating Revenues                        | \$1,698.7                       | \$1,689.8 | \$5,878.8                      | \$6,898.0 |
| Net Income                                | \$185.5                         | \$210.7   | \$664.9                        | \$712.1   |
| Earnings per share (Basic)                | \$0.59                          | \$0.67    | \$2.11                         | \$2.26    |
| Earnings per share (Diluted)              | \$0.58                          | \$0.66    | \$2.10                         | \$2.24    |

## Impact of Acquisition

As a result of the acquisition, our ownership of ATC increased to approximately 60%. We have made commitments with respect to our voting rights of the combined ownership of ATC, which are included as enforceable conditions in the orders approving the acquisition by the FERC and the PSCW. We also expect that ATC's governance documents will include these voting commitments. Under GAAP, these commitments do not allow for the consolidation of ATC in our financial statements and the 60% ownership is accounted for as an equity method investment subsequent to the close of the acquisition. See Note 13, Investment in ATC, for more information.

In connection with the acquisition, WEC Energy Group and its subsidiaries recorded pre-tax acquisition costs of \$6.5 million and \$80.2 million during the three and nine months ended September 30, 2015, and \$3.6 million and \$8.6 million for the same periods in 2014, respectively. These costs consisted of employee-related expenses, professional fees, and other miscellaneous costs. They are recorded in the other operation and maintenance line item on the condensed consolidated income statements.

Our revenues for the three and nine months ended September 30, 2015, include revenues attributable to Integrys of \$633.4 million. Included in our net income for the three and nine months ended September 30, 2015, is net income attributable to Integrys of \$46.2 million and \$19.6 million, respectively.

## NOTE 3—DISPOSITIONS

Corporate and Other Segment—Potential Sale of Integrys Transportation Fuels, LLC (ITF)

In the third quarter of 2015, we began to actively market ITF for sale with the use of outside consultants. ITF is a provider of CNG fueling services and a single-source provider of CNG fueling facility design, construction, operation and maintenance. The potential sale of ITF meets the criteria to qualify as held for sale but does not meet the requirements to qualify as a discontinued operation. The potential sale of ITF does not represent a shift in our corporate strategy and will not have a major effect on our operations and financial results. Therefore, ITF's results of operations remain in continuing operations.

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The following table shows the carrying values of the major classes of assets and liabilities included as held for sale on the balance sheet:

| (in millions)   | September 30,<br>2015 |
|---|-----------------------|
| Property, plant and equipment, net of accumulated depreciation of \$6.4 | \$46.2                |
| Accounts receivable and unbilled revenues                               | 42.9                  |
| Materials, supplies and inventories                                     | 16.6                  |
| Other current assets  | 5.1                   |
| Other long-term assets  | 29.4                  |