WEC ENERGY GROUP, INC.
Form 10-Q
November 04, 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 September 30, 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 [X]   No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 [X]   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 [X]	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 [X]

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,
315,617,299 shares outstanding at
September 30, 2016

Table of Contents

WEC ENERGY GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended September 30, 2016
TABLE OF CONTENTS

Table of Contents

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
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
UMERC	Upper Michigan Energy Resources Corporation
WBS	WEC Business Services LLC
WE	Wisconsin Electric Power Company
We Power	W.E. Power, LLC
WG	Wisconsin Gas LLC
Wisvest	Wisvest 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
LIFO	Last-In, First-Out
OPEB	Other Postretirement Employee Benefits

Environmental Terms

CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CSAPR	Cross-State Air Pollution Rule
GHG	Greenhouse Gas
MATS	Mercury and Air Toxics Standards
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation

NOx	Nitrogen Oxide
SO_2	Sulfur Dioxide

Table of Contents

Measurements	
Btu	British Thermal Units
Dth	Dekatherm (One Dth equals one million Btu)
MW	Megawatt (One MW equals one million Watts)
MWh	Megawatt-hour
Other Terms and Abbreviations	
6.11% Junior Notes	Integrys's 2006 6.11% Junior Subordinated Notes Due 2066
ALJ	Administrative Law Judge
CNG	Compressed Natural Gas
D.C. Circuit Court of Appeals	United States Court of Appeals for the District of Columbia Circuit
Exchange Act	Securities Exchange Act of 1934, as amended
FTRs	Financial Transmission Rights
MCPP	Milwaukee County Power Plant
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
SMP	Gas System Modernization Program
SMRP	System Modernization and Reliability Project
SSR	System Support Resource
Supreme Court	United States Supreme Court
VAPP	Valley Power Plant

Table of Contents

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 adjustments to the ROE at any of our utilities and/or ATC, and other regulatory decisions impacting our regulated operations;

- 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 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;

Table of Contents

- 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.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
(in millions, except per share amounts)	2016	2015	2016	2015
Operating revenues	$1,712.5	$1,698.7	$5,509.3	$4,077.8
Operating expenses				
Cost of sales	554.7	590.6	1,901.9	1,557.5
Other operation and maintenance	517.5	535.9	1,571.0	1,153.6
Depreciation and amortization	191.6	176.5	569.5	382.6
Property and revenue taxes	49.7	50.0	146.5	113.8
Total operating expenses	1,313.5	1,353.0	4,188.9	3,207.5
Operating income	399.0	345.7	1,320.4	870.3
Equity in earnings of transmission affiliate	38.3	40.0	107.7	70.4
Other income, net	7.5	11.1	72.6	40.2
Interest expense	99.1	103.2	300.1	224.4
Other expense	(53.3)	(52.1)	(119.8)	(113.8)
Income before income taxes	345.7	293.6	1,200.6	756.5
Income tax expense	128.4	110.5	455.1	296.1
Net income	217.3	183.1	745.5	460.4
Preferred stock dividends of subsidiary	0.3	0.6	0.9	1.2
Net income attributed to common shareholders	$217.0	$182.5	$744.6	$459.2
Earnings per share				
Basic	$0.69	$0.58	$2.36	$1.79
Diluted	$0.68	$0.58	$2.35	$1.78
Weighted average common shares outstanding				
Basic	315.6	315.7	315.6	256.2
Diluted	316.9	317.1	317.0	257.8
Dividends per share of common stock	$0.4950	$—	$1.4850	$1.2854

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

Table of Contents

WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
(in millions)	2016	2015	2016	2015
Net income	$217.3	$183.1	$745.5	$460.4
Other comprehensive (loss) income, net of tax				
Derivatives accounted for as cash flow hedges				
Gains on settlement, net of tax of $7.6	—	—	—	11.4
Reclassification of gains to net income, net of tax	(0.3)	(0.4)	(0.9)	(0.5)
Cash flow hedges, net	(0.3)	(0.4)	(0.9)	10.9
Defined benefit plans				
Amortization of pension and OPEB credits included in net periodic benefit cost, net of tax	(0.4)	—	—	—
Other comprehensive (loss) income, net of tax	(0.7)	(0.4)	(0.9)	10.9
Comprehensive income	216.6	182.7	744.6	471.3
Preferred stock dividends of subsidiary	0.3	0.6	0.9	1.2
Comprehensive income attributed to common shareholders	$216.3	$182.1	$743.7	$470.1

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

Table of Contents

WEC ENERGY GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in millions, except share and per share amounts)	September 30, 2016	December 31, 2015
Assets		
Property, plant, and equipment		
In service	$ 26,965.3	$ 26,249.5
Accumulated depreciation	(8,141.5)	(7,919.1)
	18,823.8	18,330.4
Construction work in progress	756.2	822.9
Leased facilities, net	32.2	36.4
Net property, plant, and equipment	19,612.2	19,189.7
Investments		
Equity investment in transmission affiliate	1,453.1	1,380.9
Other	91.4	85.8
Total investments	1,544.5	1,466.7
Current assets		
Cash and cash equivalents	25.0	49.8
Accounts receivable and unbilled revenues, net of reserves of $109.3 and $113.3, respectively	871.5	1,028.6
Materials, supplies, and inventories	654.3	687.0
Assets held for sale	—	96.8
Prepayments	217.4	285.8
Other	49.5	58.8
Total current assets	1,817.7	2,206.8
Deferred charges and other assets		
Regulatory assets	3,004.6	3,064.6
Goodwill	3,046.2	3,023.5
Other	418.3	403.9
Total deferred charges and other assets	6,469.1	6,492.0
Total assets	$ 29,443.5	$ 29,355.2
Capitalization and liabilities		
Capitalization		
Common stock – $.01 par value; 325,000,000 shares authorized; 315,617,299 and 315,683,496 shares outstanding, respectively	$ 3.2	$ 3.2
Additional paid in capital	4,308.8	4,347.2
Retained earnings	4,575.8	4,299.8
Accumulated other comprehensive income	3.7	4.6
Preferred stock of subsidiary	30.4	30.4
Long-term debt	9,088.1	9,124.1
Total capitalization	18,010.0	17,809.3
Current liabilities		
Current portion of long-term debt	89.4	157.7
Short-term debt	789.4	1,095.0
Accounts payable	663.5	815.4
Accrued payroll and benefits	127.8	169.7
Accrued interest	115.2	67.4
Other	240.2	403.8
Total current liabilities	2,025.5	2,709.0

Deferred credits and other liabilities		
Regulatory liabilities	1,451.1	1,392.2
Deferred income taxes	5,067.0	4,622.3
Deferred revenue, net	569.5	579.4
Pension and OPEB obligations	545.1	543.1
Environmental remediation	608.3	628.2
Other	1,167.0	1,071.7
Total deferred credits and other liabilities	9,408.0	8,836.9
Commitments and contingencies (Note 16)		
Total capitalization and liabilities	$ 29,443.5	$ 29,355.2

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

Table of Contents

WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)	Nine Months Ended September 30	
(in millions)	2016	2015
Operating Activities		
Net income	$745.5	$460.4
Reconciliation to cash provided by operating activities		
Depreciation and amortization	581.5	390.9
Deferred income taxes and investment tax credits, net	439.5	220.1
Contributions and payments related to pension and OPEB plans	(23.5)	(109.3)
Equity income in transmission affiliate, net of distributions	(35.8)	(17.8)
Change in –		
Accounts receivable and unbilled revenues	185.2	269.5
Materials, supplies, and inventories	33.8	(101.4)
Other current assets	88.5	75.6
Accounts payable	(94.7)	(55.9)
Other current liabilities	(92.9)	97.9
Other, net	(105.2)	(155.6)
Net cash provided by operating activities	1,721.9	1,074.4
Investing Activities		
Capital expenditures	(1,000.1)	(791.8)
Business acquisition, net of cash acquired of $156.3	—	(1,329.9)
Capital contributions to transmission affiliate	(27.1)	(5.6)
Proceeds from the sale of assets and businesses	161.2	26.7
Withdrawal of restricted cash from Rabbi trust for qualifying payments	23.8	0.7
Other, net	0.6	4.0
Net cash used in investing activities	(841.6)	(2,095.9)
Financing Activities		
Exercise of stock options	40.4	26.4
Purchase of common stock	(105.6)	(66.1)
Dividends paid on common stock	(468.6)	(310.9)
Issuance of long-term debt	200.0	1,650.0
Retirement of long-term debt	(253.5)	(27.1)
Change in short-term debt	(305.6)	(270.5)
Other, net	(12.2)	(20.0)
Net cash (used in) provided by financing activities	(905.1)	981.8
Net change in cash and cash equivalents	(24.8)	(39.7)
Cash and cash equivalents at beginning of period	49.8	61.9
Cash and cash equivalents at end of period	$25.0	$22.2

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

WEC ENERGY GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2016

NOTE 1—GENERAL INFORMATION

On June 29, 2015, Wisconsin Energy Corporation acquired Integrys and changed its name to WEC Energy Group, Inc. WEC Energy Group 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.

As used in these notes, the term "financial statements" refers to the condensed consolidated financial statements. This includes the income statements, statements of comprehensive income, balance sheets, and 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 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, 2015. 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, 2016, are not necessarily indicative of expected results for 2016 due to 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.

Reclassifications

On the income statements for the three and nine months ended September 30, 2015, we reclassified an insignificant amount from interest expense to preferred stock dividends of subsidiary. This reclassification was made to be consistent with the current period presentation.

On the statement of cash flows for the nine months ended September 30, 2015, we reclassified an insignificant amount of preferred stock dividends of subsidiary from other financing activities to net income. This reclassification was made to be consistent with the current period presentation.

NOTE 2—ACQUISITION

On June 29, 2015, Wisconsin Energy Corporation acquired 100% of the outstanding common shares of Integrys and changed its name to WEC Energy Group, Inc.

Allocation of Purchase Price

The Integrys assets acquired and liabilities assumed were measured at estimated fair value in accordance with the accounting guidance under the Business Combinations Topic in the FASB ASC. Substantially all of Integrys's operations are subject to the rate-setting authority of federal and state regulatory commissions. These operations are accounted for following the accounting guidance under the Regulated Operations Topic of the FASB ASC. The underlying assets and liabilities of ATC are also regulated by the FERC. Integrys's assets and liabilities that are subject to rate-setting provisions provide revenues derived from costs, including a return on investment of assets less liabilities included in rate base. As such, the fair values of these assets and liabilities equal their carrying values. Accordingly, neither the assets and liabilities acquired, nor the pro forma financial information, 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. See Note 12, Goodwill, for the allocation of goodwill to our reportable segments.

Table of Contents

During the first six months of 2016, adjustments were made to the estimated fair values of the assets acquired and liabilities assumed, primarily in connection with the sale of ITF and reserves recorded for likely settlements of certain legal and regulatory matters. The table below shows the final allocation of the purchase price to the assets acquired and liabilities assumed at the date of the acquisition:

(in millions)	
Current assets	$1,060.1
Net property, plant, and equipment	7,107.4
Investments *	1,072.0
Goodwill	2,604.3
Deferred charges and other assets, excluding goodwill	1,758.5
Current liabilities, including current maturities of long-term debt	(1,320.7)
Deferred credits and other liabilities	(3,703.8)
Long-term debt	(2,943.6)
Preferred stock of subsidiary	(51.1)
Total purchase price	$5,583.1

*Includes equity method goodwill related to Integrys's investment in ATC.

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)	Nine Months Ended September 30, 2015
Unaudited Pro Forma Financial Information	
Operating revenues	$ 5,878.8
Net income	$ 664.9
Earnings per share (Basic)	$ 2.11
Earnings per share (Diluted)	$ 2.10

Impact of Acquisition

In connection with the acquisition, WEC Energy Group and its subsidiaries recorded pre-tax acquisition costs of $3.5 million during the three and nine months ended September 30, 2016. Pre-tax acquisition costs of $6.1 million and $79.8 million were recorded during the three and nine months ended September 30, 2015, respectively. These costs consisted of employee-related expenses, professional fees, and other miscellaneous costs. They were recorded in other operation and maintenance on our income statements.

Our revenues for the three and nine months ended September 30, 2015 included 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 $48.7 million and$22.1 million, respectively.

Table of Contents

NOTE 3—DISPOSITIONS

Wisconsin Segment

Sale of Milwaukee County Power Plant

In April 2016, we sold the MCPP steam generation and distribution assets, located in Wauwatosa, Wisconsin. MCPP primarily provides steam to the Milwaukee Regional Medical Center hospitals and other campus buildings. During the second quarter of 2016, we recorded a pre-tax gain on the sale of $10.9 million ($6.5 million after tax), which was included in other operation and maintenance on our income statements. The assets included in the sale were not material and, therefore, were not presented as held for sale. The results of operations of this plant remained in continuing operations through the sale date as the sale did not represent a shift in our corporate strategy and did not have a major effect on our operations and financial results.

Corporate and Other Segment

Sale of Certain Assets of Wisvest

In April 2016, as part of the MCPP sale transaction, we sold the chilled water generation and distribution assets of Wisvest, which are used to provide chilled water services to the Milwaukee Regional Medical Center hospitals and other campus buildings. During the second quarter of 2016, we recorded a pre-tax gain on the sale of $19.6 million ($11.8 million after tax), which was included in other income, net on our income statements. The assets included in the sale were not material and, therefore, were not presented as held for sale. The results of operations associated with these assets remained in continuing operations through the sale date as the sale did not represent a shift in our corporate strategy and did not have a major effect on our operations and financial results.

Sale of Integrys Transportation Fuels

Through a series of transactions in the fourth quarter of 2015 and the first quarter of 2016, we sold ITF, a provider of CNG fueling services and a single-source provider of CNG fueling facility design, construction, operation, and maintenance. There was no gain or loss recorded on the sales, as ITF's assets and liabilities were adjusted to fair value through purchase accounting. The sale of ITF met the criteria to qualify as held for sale at December 31, 2015, but did not meet the requirements to qualify as a discontinued operation. The results of operations of ITF remained in continuing operations through the sale date as the sale of ITF did not represent a shift in our corporate strategy and did not have a major effect on our operations and financial results. The pre-tax profit or loss of this component was not material through the sale date in 2016.

The following table shows the carrying values of the major classes of assets and liabilities included as held for sale on our balance sheet at December 31:

(in millions)	2015
Property, plant, and equipment	$37.2
Accounts receivable and unbilled revenues	34.9
Materials, supplies, and inventories	18.4
Other current assets	2.6
Other long-term assets	3.7
Total assets	$96.8
Accounts payable	$12.9
Accrued payroll and benefits	2.4

Other current liabilities	4.5
Pension and OPEB obligations	1.2
Other long-term liabilities	0.6
Total liabilities *	$21.6

* Included in other current liabilities on our balance sheet.

Table of Contents

NOTE 4—COMMON EQUITY

Stock-Based Compensation Plans

During the nine months ended September 30, 2016, the Compensation Committee of our Board of Directors awarded the following stock-based compensation awards to our directors, officers, and certain other key employees:

Award Type	Number of Awards
Stock options [(1)]	794,764
Restricted shares [(2)]	146,941
Performance units	297,397

(1) Stock options awarded had a weighted-average exercise price of $52.15 and a weighted-average grant date fair value of $5.14 per option.

(2) Restricted shares awarded had a weighted-average grant date fair value of $53.69 per share.

Restrictions

Our ability as a holding company to pay common stock dividends primarily depends on the availability of funds received from our utility subsidiaries and our non-utility subsidiary, We Power. Various financing arrangements and regulatory requirements impose certain restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans, or advances. All of our utility subsidiaries, with the exception of MGU, are prohibited from loaning funds to us, either directly or indirectly. See Note 11, Common Equity, in our 2015 Annual Report on Form 10-K for additional information on these and other restrictions.

We do not believe that these restrictions will materially affect our operations or limit any dividend payments in the foreseeable future.

Common Stock Dividends

On October 20, 2016, our Board of Directors declared a quarterly cash dividend of $0.4950 per share, payable on December 1, 2016, to stockholders of record on November 14, 2016.

NOTE 5—SHORT-TERM DEBT AND LINES OF CREDIT

The following table shows our short-term borrowings and their corresponding weighted-average interest rates:

(in millions, except percentages)	September 30, 2016	December 31, 2015
Commercial paper		
Amount outstanding	$ 789.4	$ 1,095.0
Weighted-average interest rate on amounts outstanding	0.69 %	0.68 %

Our average amount of commercial paper borrowings based on daily outstanding balances during the nine months ended September 30, 2016, was $901.8 million with a weighted-average interest rate during the period of 0.62%.

Table of Contents

The information in the table below relates to our revolving credit facilities used to support our commercial paper borrowing programs, including remaining available capacity under these facilities:

(in millions)	Maturity	September 30, 2016
WEC Energy Group	December 2020	$ 1,050.0
WE	December 2020	500.0
WPS	December 2020	250.0
WG	December 2020	350.0
PGL	December 2020	350.0
Total short-term credit capacity		$ 2,500.0
Less:		
Letters of credit issued inside credit facilities		$ 26.0
Commercial paper outstanding		789.4
Available capacity under existing agreements		$ 1,684.6

NOTE 6—LONG-TERM DEBT

On November 1, 2016, PGL issued $50.0 million of 3.65% Series CCC Bonds due December 15, 2046. The net proceeds were used to repay at maturity PGL's $50.0 million 2.21% First and Refunding Mortgage Bonds, Series XX.

In October 2016, PGL secured commitments for $150.0 million of 3.65% Series DDD Bonds Due December 15, 2046. Subject to the satisfaction of customary closing conditions, PGL expects to issue these bonds on December 15, 2016, and to use the net proceeds to repay short-term debt and for other corporate purposes.

In September 2016, WG issued $200.0 million of 3.71% Debentures due September 30, 2046. The net proceeds were used to repay short-term debt.

In June 2016, PGL issued commercial paper to redeem at par, its $50.0 million of 4.30% Series RR First and Refunding Mortgage Bonds that were due in 2035.

In June 2016, Integrys's $50.0 million of 8.00% unsecured senior notes matured and were repaid with the proceeds from commercial paper issued by WEC Energy Group.

In February 2016, Integrys repurchased and retired $154.9 million aggregate principal amount of its 6.11% Junior Notes for a purchase price of $128.6 million, plus accrued and unpaid interest, through a modified “dutch auction” tender offer. The gain associated with this repurchase was included in other income, net on our income statement. Effective December 1, 2016, the remaining $114.9 million aggregate principal amount of the 6.11% Junior Notes will bear interest at the three-month London Interbank Offered Rate plus 2.12% and will reset quarterly. In connection with this transaction, Integrys issued approximately $66.4 million of additional common stock to WEC Energy Group in satisfaction of its obligations under a replacement capital covenant relating to the 6.11% Junior Notes.

NOTE 7—MATERIALS, SUPPLIES, AND INVENTORIES

Our inventory consisted of:

(in millions)	September 30, 2016	December 31, 2015
Natural gas in storage	$ 298.5	$ 284.1

Materials and supplies	209.3	219.2
Fossil fuel	146.5	183.7
Total	$ 654.3	$ 687.0

PGL and NSG price natural gas storage injections at the calendar year average of the cost of natural gas supply purchased. Withdrawals from storage are priced using the LIFO cost method. For interim periods, the difference between current projected replacement cost and the LIFO cost for quantities of natural gas temporarily withdrawn from storage is recorded as a temporary LIFO liquidation debit or credit. At September 30, 2016, all LIFO layers were replenished, and the LIFO liquidation balance was zero.

Table of Contents

Substantially all other natural gas in storage, materials and supplies, and fossil fuel inventories are recorded using the weighted-average cost method of accounting.

NOTE 8—FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

Fair value accounting rules provide a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs within models or other valuation methods.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methods that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. We use a mid-market pricing convention (the mid-point price between bid and ask prices) as a practical measure for valuing certain derivative assets and liabilities. We primarily use a market approach for recurring fair value measurements and attempt to use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

When possible, we base the valuations of our derivative assets and liabilities on quoted prices for identical assets and liabilities in active markets. These valuations are classified in Level 1. The valuations of certain contracts not classified as Level 1 may be based on quoted market prices received from counterparties and/or observable inputs for similar instruments. Transactions valued using these inputs are classified in Level 2. Certain derivatives are categorized in Level 3 due to the significance of unobservable or internally-developed inputs.

We recognize transfers at their value as of the end of the reporting period.

The following tables summarize our financial assets and liabilities that were accounted for at fair value on a recurring basis, categorized by level within the fair value hierarchy:

	September 30, 2016			
(in millions)	Level 1	Level 2	Level 3	Total
Derivative assets				
Natural gas contracts	$5.5	$8.6	$ —	$14.1
FTRs	—	—	9.2	9.2
Petroleum products contracts	0.3	—	—	0.3

Coal contracts	—	1.8	—	1.8
Total derivative assets	$5.8	$10.4	$ 9.2	$25.4
Investments held in rabbi trust	$47.7	$—	$ —	$47.7
Derivative liabilities				
Natural gas contracts	$1.3	$1.2	$ —	$2.5
Petroleum products contracts	1.0	—	—	1.0
Coal contracts	—	2.3	—	2.3
Total derivative liabilities	$2.3	$3.5	$ —	$5.8

Table of Contents

(in millions)	December 31, 2015 Level 1	Level 2	Level 3	Total
Derivative assets				
Natural gas contracts	$1.6	$1.5	$—	$3.1
FTRs	—	—	3.6	3.6
Petroleum products contracts	1.2	—	—	1.2
Coal contracts	—	2.0	—	2.0
Total derivative assets	$2.8	$3.5	$3.6	$9.9
Investments held in rabbi trust	$39.8	$—	$—	$39.8
Derivative liabilities				
Natural gas contracts	$16.5	$25.3	$—	$41.8
Petroleum products contracts	4.9	—	—	4.9
Coal contracts	—	12.3	—	12.3
Total derivative liabilities	$21.4	$37.6	$—	$59.0

The derivative assets and liabilities listed in the tables above include options, swaps, futures, physical commodity contracts, and other instruments used to manage market risks related to changes in commodity prices. They also include FTRs, which are used to manage electric transmission congestion costs in the MISO Energy Markets.

The following table summarizes the changes to derivatives classified as Level 3 in the fair value hierarchy:

	Three Months Ended September 30		Nine Months Ended September 30	
(in millions)	2016	2015	2016	2015
Balance at the beginning of the period	$13.4	$2.3	$3.6	$7.0
Realized and unrealized gains (losses)	—	0.2	(0.2)	0.2
Purchases	—	—	15.2	3.9
Sales	—	—	(0.2)	—
Settlements	(4.2)	(2.1)	(9.2)	(9.4)
Acquisition of Integrys	—	—	—	(1.3)
Balance at the end of the period	$9.2	$0.4	$9.2	$0.4

Unrealized gains and losses on Level 3 derivatives are deferred as regulatory assets or liabilities. Therefore, these fair value measurements have no impact on earnings. Realized gains and losses on these instruments flow through cost of sales on the income statements.

Fair Value of Financial Instruments

The following table shows the financial instruments included on our balance sheets that are not recorded at fair value:

	September 30, 2016		December 31, 2015	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock	$30.4	$29.9	$30.4	$27.3
Long-term debt, including current portion *	$9,139.9	$10,248.4	$9,221.9	$9,681.0

* The carrying amount of long-term debt excludes capital lease obligations of $37.6 million and $59.9 million at September 30, 2016, and
December 31, 2015, respectively.

Due to the short-term nature of cash and cash equivalents, net accounts receivable and unbilled revenues, accounts payable, and short-term borrowings, the carrying amount of each such item approximates fair value. The fair value of our preferred stock is estimated based on the quoted market value for the same issue, or by using a perpetual dividend discount model. The fair value of our long-term debt is estimated based upon the quoted market value for the same issue, similar issues, or upon the quoted market prices of United States Treasury issues having a similar term to maturity, adjusted for the issuing company's bond rating and the present value of future cash flows. The fair values of our long-term debt and preferred stock are categorized within Level 2 of the fair value hierarchy.

Table of Contents

NOTE 9—DERIVATIVE INSTRUMENTS

We use derivatives as part of our risk management program to manage the risks associated with the price volatility of purchased power, generation, and natural gas costs for the benefit of our customers and shareholders. Our approach is non-speculative and designed to mitigate risk. Regulated hedging programs are approved by our state regulators.

We record derivative instruments on our balance sheets as an asset or liability measured at fair value unless they qualify for the normal purchases and sales exception, and are so designated. We continually assess our contracts designated as normal and will discontinue the treatment of these contracts as normal if the required criteria are no longer met. Changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met or we receive regulatory treatment for the derivative. For most energy-related physical and financial contracts in our regulated operations that qualify as derivatives, our regulators allow the effects of fair value accounting to be offset to regulatory assets and liabilities.

The following table shows our derivative assets and derivative liabilities:

	September 30, 2016		December 31, 2015	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Other current				
Natural gas contracts	$ 13.2	$ 2.3	$ 2.6	$ 38.5
Petroleum products contracts	0.3	1.0	0.9	3.8
FTRs	9.2	—	3.6	—
Coal contracts	1.3	1.4	1.7	6.7
Total other current *	$ 24.0	$ 4.7	$ 8.8	$ 49.0
Other long-term				
Natural gas contracts	$ 0.9	$ 0.2	$ 0.5	$ 3.3
Petroleum products contracts	—	—	0.3	