WEC ENERGY GROUP, INC.
Form 10-Q
August 04, 2017

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 June 30, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	
	Smaller reporting company [ ]
	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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,
315,576,571 shares outstanding at
June 30, 2017

Table of Contents

WEC ENERGY GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended June 30, 2017
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
Bluewater	Bluewater Natural Gas Holding, LLC
Bostco	Bostco LLC
Integrys	Integrys Holding, Inc.
ITF	Integrys Transportation Fuels, LLC
MERC	Minnesota Energy Resources Corporation
MGU	Michigan Gas Utilities Corporation
NSG	North Shore Gas Company
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
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
CO_2	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
GHG	Greenhouse Gas
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide

SO_2	Sulfur Dioxide

Table of Contents

Measurements	
Dth	Dekatherm
MW	Megawatt
MWh	Megawatt-hour
Other Terms and Abbreviations	
2006 Junior Notes	Integrys's 2006 Junior Subordinated Notes Due 2066
2007 Junior Notes	WEC Energy Group, Inc.'s 2007 Junior Subordinated Notes Due 2067
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
ERGS	Elm Road Generating Station
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
OCPP	Oak Creek Power Plant
OC 5	Oak Creek Power Plant Unit 5
OC 6	Oak Creek Power Plant Unit 6
OC 7	Oak Creek Power Plant Unit 7
OC 8	Oak Creek Power Plant Unit 8
PIPP	Presque Isle Power Plant
QIP	Qualifying Infrastructure Plant
ROE	Return on Equity
SMP	Gas System Modernization Program
SMRP	System Modernization and Reliability Project
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, environmental matters, 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, 2016, 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 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;
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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 security 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 timing, costs, and anticipated benefits associated with the remaining integration efforts relating to the Integrys acquisition;

- 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		Six Months Ended	
	June 30		June 30	
(in millions, except per share amounts)	2017	2016	2017	2016
Operating revenues	$1,631.5	$1,602.0	$3,936.0	$3,796.8
Operating expenses				
Cost of sales	541.8	508.3	1,482.9	1,347.2
Other operation and maintenance	479.8	522.0	981.7	1,053.5
Depreciation and amortization	197.7	190.0	392.3	377.9
Property and revenue taxes	50.0	49.6	99.6	96.8
Total operating expenses	1,269.3	1,269.9	2,956.5	2,875.4
Operating income	362.2	332.1	979.5	921.4
Equity in earnings of transmission affiliate	41.8	30.9	83.7	69.4
Other income, net	13.1	32.4	28.8	65.1
Interest expense	101.9	100.1	206.6	201.0
Other expense	(47.0)	(36.8)	(94.1)	(66.5)
Income before income taxes	315.2	295.3	885.4	854.9
Income tax expense	115.8	113.6	329.1	326.7
Net income	199.4	181.7	556.3	528.2
Preferred stock dividends of subsidiary	0.3	0.3	0.6	0.6
Net income attributed to common shareholders	$199.1	$181.4	$555.7	$527.6
Earnings per share				
Basic	$0.63	$0.57	$1.76	$1.67
Diluted	$0.63	$0.57	$1.75	$1.66
Weighted average common shares outstanding				
Basic	315.6	315.6	315.6	315.6
Diluted	317.4	317.0	317.4	317.0
Dividends per share of common stock	$0.5200	$0.4950	$1.0400	$0.9900

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 June 30		Six Months Ended June 30	
(in millions)	2017	2016	2017	2016
Net income	$199.4	$181.7	$556.3	$528.2
Other comprehensive (loss) income, net of tax				
Derivatives accounted for as cash flow hedges				
Reclassification of gains to net income, net of tax	(0.3)	(0.3)	(0.6)	(0.6)
Defined benefit plans				
Amortization of pension and OPEB costs included in net periodic benefit cost, net of tax	0.1	0.4	0.2	0.4
Other comprehensive (loss) income, net of tax	(0.2)	0.1	(0.4)	(0.2)
Comprehensive income	199.2	181.8	555.9	528.0
Preferred stock dividends of subsidiary	0.3	0.3	0.6	0.6
Comprehensive income attributed to common shareholders	$198.9	$181.5	$555.3	$527.4

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)	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$36.5	$ 37.5
Accounts receivable and unbilled revenues, net of reserves of $111.6 and $108.0, respectively	1,004.3	1,241.7
Materials, supplies, and inventories	510.0	587.6
Prepayments	181.6	204.4
Other	47.3	97.5
Current assets	1,779.7	2,168.7
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of $8,433.2 and $8,214.6, respectively	20,524.3	19,915.5
Regulatory assets	3,108.4	3,087.9
Equity investment in transmission affiliate	1,544.0	1,443.9
Goodwill	3,053.5	3,046.2
Other	549.7	461.0
Long-term assets	28,779.9	27,954.5
Total assets	$30,559.6	$ 30,123.2
Liabilities and Equity		
Current liabilities		
Short-term debt	$774.8	$ 860.2
Current portion of long-term debt	708.4	157.2
Accounts payable	724.1	861.5
Accrued payroll and benefits	140.0	163.8
Other	440.0	388.9
Current liabilities	2,787.3	2,431.6
Long-term liabilities		
Long-term debt	8,799.7	9,158.2
Deferred income taxes	5,416.1	5,146.6
Deferred revenue, net	554.6	566.2
Regulatory liabilities	1,574.0	1,563.8
Environmental remediation liabilities	622.6	633.6
Pension and OPEB obligations	451.0	498.6
Other	1,171.1	1,164.4
Long-term liabilities	18,589.1	18,731.4
Commitments and contingencies (Note 16)		
Common shareholders' equity		
Common stock – $0.01 par value; 325,000,000 shares authorized; 315,576,571 and 315,614,941 shares outstanding, respectively	3.2	3.2

Additional paid in capital	4,290.1	4,309.8
Retained earnings	4,857.0	4,613.9
Accumulated other comprehensive income	2.5	2.9
Common shareholders' equity	9,152.8	8,929.8
Preferred stock of subsidiary	30.4	30.4
Total liabilities and equity	$30,559.6	$ 30,123.2

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)	Six Months Ended June 30	
(in millions)	2017	2016
Operating Activities		
Net income	$556.3	$528.2
Reconciliation to cash provided by operating activities		
Depreciation and amortization	392.3	386.0
Deferred income taxes and investment tax credits, net	274.6	307.1
Contributions and payments related to pension and OPEB plans	(111.5)	(19.5)
Equity income in transmission affiliate, net of distributions	(14.5)	(22.7)
Change in –		
Accounts receivable and unbilled revenues	247.3	130.1
Materials, supplies, and inventories	77.9	193.5
Other current assets	15.6	66.7
Accounts payable	(114.0)	(112.4)
Other current liabilities	18.3	(139.0)
Other, net	(74.3)	(93.9)
Net cash provided by operating activities	1,268.0	1,224.1
Investing Activities		
Capital expenditures	(790.0)	(618.7)
Acquisition of Bluewater	(226.0)	—
Capital contributions to transmission affiliate	(50.5)	(12.1)
Proceeds from the sale of assets and businesses	20.7	161.0
Withdrawal of restricted cash from Rabbi trust for qualifying payments	17.2	22.5
Other, net	4.7	(1.8)
Net cash used in investing activities	(1,023.9)	(449.1)
Financing Activities		
Exercise of stock options	15.6	35.0
Purchase of common stock	(39.7)	(94.2)
Dividends paid on common stock	(328.3)	(312.4)
Issuance of long-term debt	210.0	—
Retirement of long-term debt	(14.6)	(241.8)
Change in short-term debt	(85.4)	(167.2)
Other, net	(2.7)	(12.1)
Net cash used in financing activities	(245.1)	(792.7)
Net change in cash and cash equivalents	(1.0)	(17.7)
Cash and cash equivalents at beginning of period	37.5	49.8
Cash and cash equivalents at end of period	$36.5	$32.1

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

Table of Contents

WEC ENERGY GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2017

NOTE 1—GENERAL INFORMATION

WEC Energy Group serves approximately 1.6 million electric customers and 2.8 million natural gas customers, and owns approximately 60% of ATC.

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, 2016. 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 six months ended June 30, 2017, are not necessarily indicative of expected results for 2017 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.

NOTE 2—ACQUISITION

Acquisition of Natural Gas Storage Facilities in Michigan

On June 30, 2017, we completed the acquisition of Bluewater for $226.0 million. Bluewater owns natural gas storage facilities in Michigan that will provide approximately one-third of the current storage needs for our Wisconsin natural gas utilities. In addition, we accrued $4.9 million of acquisition related costs.

The table below shows the preliminary allocation of the purchase price to the assets acquired and liabilities assumed at the date of the acquisition. The excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed was recognized as goodwill. Bluewater is included in the non-utility energy segment. See Note 14, Segment Information, for more information.

(in millions)	
Current assets	$2.0
Net property, plant, and equipment	217.6
Goodwill	7.3
Current liabilities	(0.9)
Total purchase price	$226.0

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 provided 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.

Table of Contents

Corporate and Other Segment

Sale of Bostco Real Estate Holdings

In March 2017, we sold the remaining real estate holdings of Bostco located in downtown Milwaukee, Wisconsin, which included retail, office, and residential space. During the first quarter of 2017, we recorded an insignificant gain on the sale, 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 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 were 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 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.

NOTE 4—COMMON EQUITY

Stock-Based Compensation

During the first quarter of 2017, 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]	552,215
Restricted shares [2]	82,622
Performance units	237,650

(1) Stock options awarded had a weighted-average exercise price of $58.31 and a weighted-average grant date fair value of $7.45 per option.

(2) Restricted shares awarded had a weighted-average grant date fair value of $58.10 per share.

Table of Contents

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which modifies certain aspects of the accounting for stock-based compensation awards. This ASU became effective for us on January 1, 2017. Under the new guidance, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement on a prospective basis. Prior to January 1, 2017, these amounts were recorded in additional paid in capital on the balance sheet, and the tax benefits could only be recognized to the extent they reduced taxes payable. In the first quarter of 2017, we recorded a $15.7 million cumulative-effect adjustment to retained earnings for excess tax benefits that had not been recognized in prior years as they did not reduce taxes payable. The following table shows the changes to our retained earnings for the six months ended June 30, 2017:

(in millions)	Retained Earnings
Balance at December 31, 2016	$4,613.9
Net income attributed to common shareholders	555.7
Common stock dividends	(328.3)
Cumulative effect of adoption of ASU 2016-09	15.7
Balance at June 30, 2017	$4,857.0

ASU 2016-09 also requires excess tax benefits to be classified as an operating activity on the statement of cash flows. As we have elected to apply this provision on a prospective basis, the prior year amounts will continue to be reflected as a financing activity. As allowed under this ASU, we have also elected to account for forfeitures as they occur, rather than estimating expected forfeitures and recording them over the vesting period.

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 2016 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 July 20, 2017, our Board of Directors declared a quarterly cash dividend of $0.52 per share, payable on September 1, 2017, to stockholders of record on August 14, 2017.

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)	June 30, 2017	December 31, 2016
Commercial paper		
Amount outstanding	$774.8	$860.2
Weighted-average interest rate on amounts outstanding	1.42 %	0.96 %

Our average amount of commercial paper borrowings based on daily outstanding balances during the six months ended June 30, 2017, was $655.5 million with a weighted-average interest rate during the period of 1.09%.

Table of Contents

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

(in millions)	Maturity	June 30, 2017
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		$41.3
Commercial paper outstanding		774.8
Available capacity under existing agreements		$1,683.9

NOTE 6—LONG-TERM DEBT

Effective May 2017, the $500.0 million of 2007 Junior Notes bear interest at the three-month LIBOR plus 211.25 basis points, and reset quarterly.

In June 2017, MERC issued $120.0 million of senior notes. The senior notes were issued in three tranches: $40.0 million of 3.11% Senior Notes due July 15, 2027; $40.0 million of 3.41% Senior Notes due July 15, 2032; and $40.0 million of 4.01% Senior Notes due July 15, 2047. Net proceeds were used to repay MERC's $78.0 million aggregate long-term debt obligation to its parent, Integrys. Remaining proceeds were used for general corporate purposes, including repayment of short-term debt borrowed from Integrys.

In June 2017, MGU issued $90.0 million of senior notes. The senior notes were issued in three tranches: $30.0 million of 3.11% Senior Notes due July 15, 2027; $30.0 million of 3.41% Senior Notes due July 15, 2032; and $30.0 million of 4.01% Senior Notes due July 15, 2047. Net proceeds were used to repay MGU's $71.0 million aggregate long-term debt obligation to its parent, Integrys. Remaining proceeds were used for general corporate purposes, including repayment of short-term debt borrowed from Integrys.

NOTE 7—MATERIALS, SUPPLIES, AND INVENTORIES

Our inventory consisted of:

(in millions)	June 30, 2017	December 31, 2016
Natural gas in storage	$137.8	$ 223.1
Materials and supplies	216.3	206.5
Fossil fuel	155.9	158.0
Total	$510.0	$ 587.6

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. The temporary LIFO liquidation amounts were not significant at June 30, 2017.

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:

Table of Contents

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 financial 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 between levels of the fair value hierarchy 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:

	June 30, 2017			
(in millions)	Level 1	Level 2	Level 3	Total
Derivative assets				
Natural gas contracts	$1.2	$3.5	$—	$4.7
Petroleum products contracts	0.3	—	—	0.3
FTRs	—	—	11.8	11.8
Coal contracts	—	0.7	—	0.7
Total derivative assets	$1.5	$4.2	$11.8	$17.5
Investments held in rabbi trust	$108.6	$—	$—	$108.6
Derivative liabilities				
Natural gas contracts	$2.0	$2.5	$—	$4.5
Petroleum products contracts	0.1	—	—	0.1
Coal contracts	—	3.4	—	3.4
Total derivative liabilities	$2.1	$5.9	$—	$8.0

Table of Contents

(in millions)	December 31, 2016 Level 1	Level 2	Level 3	Total
Derivative assets				
Natural gas contracts	$10.1	$24.2	$—	$34.3
Petroleum products contracts	0.2	—	—	0.2
FTRs	—	—	5.1	5.1
Coal contracts	—	2.0	—	2.0
Total derivative assets	$10.3	$26.2	$5.1	$41.6
Investments held in rabbi trust	$103.9	$—	$—	$103.9
Derivative liabilities				
Natural gas contracts	$0.2	$0.2	$—	$0.4
Petroleum products contracts	0.1	—	—	0.1
Coal contracts	—	1.9	—	1.9
Total derivative liabilities	$0.3	$2.1	$—	$2.4

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 June 30		Six Months Ended June 30	
(in millions)	2017	2016	2017	2016
Balance at the beginning of the period	$1.7	$1.1	$5.1	$3.6
Realized and unrealized losses	—	—	—	(0.2)
Purchases	13.8	15.2	13.8	15.2
Sales	—	(0.1)	—	(0.2)
Settlements	(3.7)	(2.8)	(7.1)	(5.0)
Balance at the end of the period	$11.8	$13.4	$11.8	$13.4

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:

	June 30, 2017		December 31, 2016	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock	$30.4	$ 30.5	$30.4	$ 28.8
Long-term debt, including current portion *	9,479.8	10,128.3	9,285.8	9,818.2

* The carrying amount of long-term debt excludes capital lease obligations of $28.3 million and $29.6 million at June 30, 2017 and

December 31, 2016, respectively.

Due to the short-term nature of cash and cash equivalents, net accounts receivable and unbilled revenues, accounts payable, and short-term debt, 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 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:

	June 30, 2017		December 31, 2016	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Other current				
Natural gas contracts	$4.3	$ 4.1	$ 31.4	$ 0.4
Petroleum products contracts	0.3	0.1	0.2	0.1
FTRs	11.8	—	5.1	—
Coal contracts	0.7	2.3	1.5	1.4
Total other current *	$17.1	$ 6.5	$ 38.2	$ 1.9
Other long-term				
Natural gas contracts	$0.4	$ 0.4	$ 2.9	$ —
Coal contracts	—	1.1	0.5	0.5
Total other long-term *	$0.4	$ 1.5	$ 3.4	$ 0.5
Total	$17.5	$ 8.0	$ 41.6	$ 2.4

* On our balance sheets, we classify derivative assets and liabilities as other current or other long-term based on the maturities of the underlying contracts.

Realized gains (losses) on derivative instruments are primarily recorded in cost of sales on the income statements. Our estimated notional sales volumes and realized gains (losses) were as follows:

	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
(in millions)	Volumes	Gains (Losses)	Volumes	Gains (Losses)
Natural gas contracts	25.2 Dth	$ 1.3	32.7 Dth	$ (20.0)
Petroleum products contracts	4.9 gallons	(0.4)	3.6 gallons	(1.0)
FTRs	9.4 MWh	2.2	7.4 MWh	1.6
Total		$ 3.1		$ (19.4)

(in millions)	Six Months Ended June 30, 2017 Volumes	Gains (Losses)	Six Months Ended June 30, 2016 Volumes	Gains (Losses)
Natural gas contracts	59.3 Dth	$ 1.0	82.8 Dth	$ (53.5)
Petroleum products contracts	9.8 gallons	(0.9)	6.6 gallons	(2.1)
FTRs	18.6 MWh	5.2	15.0 MWh	4.6
Total		$ 5.3		$ (51.0)

On our balance sheets, the amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral are not offset against the fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. At June 30, 2017 and December 31, 2016, we had posted cash collateral of $25.6 million and $16.4 million, respectively, in our margin accounts. These amounts were recorded on our balance sheets in other current assets. At December 31, 2016, we had also received cash collateral of $4.4 million in our margin accounts. This amount was recorded on our balance sheet in other current liabilities.

Table of Contents

The following table shows derivative assets and derivative liabilities if derivative instruments by counterparty were presented net on our balance sheets:

(in millions)	June 30, 2017 Derivative Assets	June 30, 2017 Derivative Liabilities	December 31, 2016 Derivative Assets	December 31, 2016 Derivative Liabilities
Gross amount recognized on the balance sheet	$17.5	$ 8.0	$41.6	$ 2.4
Gross amount not offset on the balance sheet	(3.0)	(3.8) [1]	(4.9) [2]	(0.5)
Net amount	$14.5	$ 4.2	$36.7	$ 1.9

(1) Includes cash collateral posted of $0.8 million.

(2) Includes cash collateral received of $4.4 million.

Certain of our derivative and nonderivative commodity instruments contain provisions that could require "adequate assurance" in the event of a material change in our creditworthiness, or the posting of additional collateral for instruments in net liability positions, if triggered by a decrease in credit ratings. The aggregate fair value of all derivative instruments with specific credit risk-related contingent features that were in a net liability position was $2.4 million and $0.2 million at June 30, 2017 and December 31, 2016, respectively. At June 30, 2017 and December 31, 2016, we had not posted any collateral related to the credit risk-related contingent features of these commodity instruments. If all of the credit risk-related contingent features contained in derivative instruments in a net liability position had been triggered at June 30, 2017, we would have been required to post collateral of $0.7 million. At December 31, 2016, we would not have been required to post any collateral.

NOTE 10—GUARANTEES

The following table shows our outstanding guarantees:

(in millions)	Total Amounts Committed at June 30, 2017	Expiration Less Than 1 Year	Expiration 1 to 3 Years	Expiration Over 3 Years
Guarantees				
Guarantees supporting commodity transactions of subsidiaries [1]	$ 8.1	$8.1	$ —	$ —
Standby letters of credit [2]	44.2	38.7	5.5	—
Surety bonds [3]	9.5	7.8	1.7	—
Other guarantees [4]	10.1	0.5	—	9.6
Total guarantees	$ 71.9	$55.1	$ 7.2	$ 9.6

(1) Consists of $8.1 million to support the business operations of Bluewater.

(2) At our request or the request of our subsidiaries, financial institutions have issued standby letters of credit for the benefit of third parties that have extended credit to our subsidiaries. These amounts are not reflected on our balance sheets.

(3)

Primarily for workers compensation self-insurance programs and obtaining various licenses, permits, and rights-of-way. These amounts are not reflected on our balance sheets.

(4) Consists of $10.1 million related to other indemnifications, for which a liability of $9.6 million related to workers compensation coverage was recorded on our balance sheets.

Table of Contents

NOTE 11—EMPLOYEE BENEFITS

The following tables show the components of net periodic pension and OPEB costs for our benefit plans.

	Pension Costs			
	Three Months Ended June 30		Six Months Ended June 30	
(in millions)	2017	2016	2017	2016
Service cost	$10.4	$10.7	$22.1	$22.0
Interest cost	30.2	33.0	61.4	66.2
Expected return on plan assets	(48.5)	(49.0)	(98.1)	(98.0)
Loss on plan settlement	5.3	14.1	5.3	14.1
Amortization of prior service cost	0.8	0.8	1.5	1.7
Amortization of net actuarial loss	21.1	20.2	43.0	40.7
Net periodic benefit cost	$19.3	$29.8	$35.2	$46.7

	OPEB Costs			
	Three Months Ended June 30		Six Months Ended June 30	
(in millions)	2017	2016	2017	2016
Service cost	$5.6	$6.4	$11.9	$13.1
Interest cost	8.4	9.3	16.9	18.5
Expected return on plan assets	(13.6)	(13.3)	(27.3)	(26.4)
Amortization of prior service credit	(2.8)	(2.4)	(5.6)	(4.7)
Amortization of net actuarial loss	0.1	1.9	1.6	4.2
Net periodic benefit (credit) cost	$(2.3)	$1.9	$(2.5)	$4.7

During the six months ended June 30, 2017, we made payments of $107.2 million to our pension plans and $4.3 million to our OPEB plans. We expect to make payments of $6.4 million related to our pension plans and $5.3 million related to our OPEB plans during the remainder of 2017, dependent upon various factors affecting us, including our liquidity position and possible tax law changes.

NOTE 12—GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired. The following table shows changes to our goodwill balances by segment during the six months ended June 30, 2017:

(in millions)	Wisconsin	Illinois	Other States	Non-Utility Energy	Total
Goodwill balance as of January 1, 2017	$2,104.3	$758.7	$183.2	$ —	$3,046.2
Acquisition of Bluewater [1]	—	—	—	7.3	7.3
Goodwill balance as of June 30, 2017 [2]	$2,104.3	$758.7	$183.2	$ 7.3	$3,053.5

[1] See Note 2, Acquisition, for more information on the acquisition of Bluewater.

[2] We had no accumulated impairment losses related to our goodwill as of June 30, 2017.

Table of Contents

NOTE 13—INVESTMENT IN AMERICAN TRANSMISSION COMPANY

We own approximately 60% of ATC, a for-profit, electric transmission company regulated by the FERC and certain state regulatory commissions. The following table shows changes to our investment in ATC:

	Three Months Ended June 30		Six Months Ended June 30	
(in millions)	2017	2016	2017	2016
Balance at beginning of period	$1,513.3	$1,422.5	$1,443.9	$1,380.9
Add: Earnings from equity method investment	41.8	30.9	83.7	69.4
Add: Capital contributions	22.9	3.1	50.5	12.1
Add: Acquisition of Integrys's investment in ATC	—	(1.0) [1]	—	(1.0) [1]
Add: Adjustment to equity method goodwill	—	1.1	—	10.4
Less: Distributions	34.0	31.6	34.0 [2]	46.7
Less: Other	—	—	0.1	0.1
Balance at end of period	$1,544.0	$1,425.0	$1,544.0	$1,425.0

(1) Amount reflects an adjustment to the allocation of the purchase price for Integrys made in the second quarter of 2016.

(2) Distributions of $35.2 million, received in the first quarter of 2017, were approved and recorded in December 2016.

We pay ATC for transmission and other related services it provides. In addition, we provide a variety of operational, maintenance, and project management work for ATC, which are reimbursed by ATC. We are required to pay the cost of needed transmission infrastructure upgrades for new generation projects while the projects are under construction. ATC reimburses us for these costs when the new generation is placed in service.

The following table summarizes our significant related party transactions with ATC:

	Three Months Ended June 30		Six Months Ended June 30	
(in millions)	2017	2016	2017	2016
Charges to ATC for services and construction	$3.7	$4.3	$7.9	$8.4
Charges from ATC for network transmission services	87.3	91.1	174.6	182.1
Refund from ATC per FERC ROE order	—	—	(28.3)	—

Our balance sheets included the following receivables and payables related to ATC:

(in millions)	June 30, 2017	December 31, 2016
Accounts receivable		
Services provided to ATC	$ 1.2	$ 2.2
Accounts payable		
Services received from ATC	29.1	28.7

Summarized financial data for ATC is included in the following tables:

	Three Months Ended June 30		Six Months Ended June 30	
(in millions)	2017	2016	2017	2016

Income statement data				
Revenues	$176.6	$154.3	$351.3	$318.5
Operating expenses	82.7	81.7	165.1	160.8
Other expense	25.7	23.7	52.1	47.7
Net income	$68.2	$48.9	$134.1	$110.0

Table of Contents

(in millions)	June 30, 2017	December 31, 2016
Balance sheet data		
Current assets	$86.2	$ 75.8
Noncurrent assets	4,489.3	4,312.9
Total assets	$4,575.5	$ 4,388.7
Current liabilities	$640.3	$ 495.1
Long-term debt	1,740.6	1,865.3
Other noncurrent liabilities	291.4	271.5
Shareholders' equity	1,903.2	1,756.8
Total liabilities and shareholders' equity	$4,575.5	$ 4,388.7

NOTE 14—SEGMENT INFORMATION

At June 30, 2017, we reported six segments, which are described below.

- The Wisconsin segment includes the electric and natural gas utility operations of WE, WG, and WPS, including WE's and WPS's electric and natural gas operations in the state of Michigan that were transferred to UMERC effective January 1, 2017.

- The Illinois segment includes the natural gas utility and non-utility operations of PGL and NSG.

- The other states segment includes the natural gas utility and non-utility operations of MERC and MGU.

- The electric transmission segment includes our approximate 60% ownership interest in ATC, a for-profit, electric transmission company regulated by the FERC and certain state regulatory commissions.

- Following the acquisition of Bluewater, our We Power segment was renamed the non-utility energy segment. This segment includes We Power, which owns and leases generating facilities to WE, and Bluewater, which owns underground natural gas storage facilities in Michigan. See Note 2, Acquisition, for more information on the Bluewater transaction.

- The corporate and other segment includes the operations of the WEC Energy Group holding company, the Integrys holding company, the Peoples Energy, LLC holding company, Wispark LLC, Bostco, Wisvest, Wisconsin Energy Capital Corporation, WBS, WPS Power Development LLC, and ITF. In the first quarter of 2017, we sold substantially all of the remaining assets of Bostco and in the second quarter of 2016, we sold certain assets of Wisvest. The sale of ITF was completed in the first quarter of 2016. See Note 3, Dispositions, for more information on these sales.

All of our operations are located within the United States. The following tables show summarized financial information related to our reportable segments for the three and six months ended June 30, 2017 and 2016:

	Utility Operations								
(in millions)	Wisconsin	Illinois	Other States	Total Utility Operations	Electric Transmission	Non-Utility Energy	Corporate and Other	Reconciling Eliminations	WEC Energy Group Consolidated
Three Months Ended June 30, 2017									
External revenues	$1,303.2	$253.2	$65.7	$ 1,622.1	$ —	$ 6.2	$ 3.2	$ —	$ 1,631.5

Intersegment revenues	—	—	—	—	—	112.6	—	(112.6)	—
Other operation and maintenance	458.7	104.9	23.3	586.9	—	2.7	2.8	(112.6)	479.8
Depreciation and amortization	130.3	37.5	6.1	173.9	—	17.4	6.4	—	197.7
Operating income (loss)	223.6	41.4	4.7	269.7	—	98.7	(6.2)	—	362.2
Equity in earnings of transmission affiliate	—	—	—	—	41.8	—	—	—	41.8
Interest expense	48.2	10.9	1.9	61.0	—	15.2	26.8	(1.1)	101.9

Table of Contents

(in millions)	Utility Operations: Wisconsin	Illinois	Other States	Total Utility Operations	Electric Transmission	Non-Utility Energy	Corporate and Other	Reconciling Eliminations	WEC Energy Group Consolidated
Three Months Ended June 30, 2016									
External revenues	$1,304.5	$222.8	$64.0	$1,591.3	$ —	$ 6.3	$ 4.4	$ —	$ 1,602.0
Intersegment revenues	0.2	—	—	0.2	—	107.6	—	(107.8)	—
Other operation and maintenance	487.8	116.2	29.4	633.4	—	2.7	(6.3)	(107.8)	522.0
Depreciation and amortization	122.7	33.1	5.2	161.0	—	17.0	12.0	—	190.0
Operating income (loss)	214.7	22.6	2.3	239.6	—	94.1	(1.6)	—	332.1
Equity in earnings of transmission affiliate	—	—	—	—	30.9	—	—	—	30.9
Interest expense	44.4	9.8	2.1	56.3	—	15.6	30.2	(2.0)	100.1

(in millions)	Utility Operations: Wisconsin	Illinois	Other States	Total Utility Operations	Electric Transmission	Non-Utility Energy	Corporate and Other	Reconciling Eliminations	WEC Energy Group Consolidated
Six Months Ended June 30, 2017									