

WEC ENERGY GROUP, INC.
Form 10-Q
August 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2015

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (June 30, 2015):

Edgar Filing: WEC ENERGY GROUP, INC. - Form 10-Q

Common Stock, \$.01 Par Value,

315,684,458 shares outstanding.

June 2015

1

WEC Energy Group, Inc.

Form 10-Q

WEC ENERGY GROUP, INC.

FORM 10-Q REPORT FOR THE QUARTER ENDED JUNE 30, 2015

TABLE OF CONTENTS		
Item		Page
	Introduction	<u>7</u>
	Part I -- Financial Information	
1.	Financial Statements	
	Consolidated Condensed Income Statements	<u>8</u>
	Consolidated Condensed Statements of Comprehensive Income	<u>9</u>
	Consolidated Condensed Balance Sheets	<u>10</u>
	Consolidated Condensed Statements of Cash Flows	<u>11</u>
	Notes to Consolidated Condensed Financial Statements	<u>12</u>
2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>32</u>
3.	Quantitative and Qualitative Disclosures About Market Risk	<u>53</u>
4.	Controls and Procedures	<u>53</u>
	Part II -- Other Information	
1.	Legal Proceedings	<u>54</u>
1A.	Risk Factors	<u>54</u>
5.	Other Information	<u>56</u>

Form 10-Q

DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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
ERGSS	Elm Road Generating Station Supercritical, LLC
Integrys	Integrys Energy Group, 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
WECC	Wisconsin Energy Capital Corporation
We Power	W.E. Power, LLC
Wisconsin Electric	Wisconsin Electric Power Company
Wisconsin Gas	Wisconsin Gas LLC
WPS	Wisconsin Public Service Corporation
PDL	WPS Power Development, LLC

Federal and State Regulatory Agencies

EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
FCC	Federal Communications 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	Securities and Exchange Commission
WDNR	Wisconsin Department of Natural Resources

Environmental Terms

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

Other Terms and Abbreviations

Amended Agreement	Amended and Restated Settlement Agreement with the Attorney General of the State of Michigan, the Staff of the MPSC, and Tilden Mining Company and Empire Iron Mining Partnership
AMRP	Accelerated Natural Gas Main Replacement Program
ARRs	Auction Revenue Rights

Compensation Committee

Compensation Committee of the Board of Directors

June 2015

3

WEC Energy Group, Inc.

Form 10-Q

DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
Fitch	Fitch Ratings
FTRs	Financial Transmission Rights
HSR Act	Hart-Scott-Rodino Antitrust Improvements Act of 1976
Junior Notes	WEC Energy Group's 2007 6.25% Series A Junior Subordinated Notes due 2067, Integrys' 2006 6.11% Junior Subordinated Notes due 2066, and Integrys' 2013 6.00% Junior Subordinated Notes due 2073
LMP	Locational Marginal Price
Merger Agreement	Agreement and Plan of Merger, dated as of June 22, 2014, between Integrys and Wisconsin Energy Corporation
MISO	Midcontinent Independent System Operator, Inc.
MISO Energy Markets	MISO Energy and Operating Reserves Markets
Moody's	Moody's Investors Service
OTC	Over-the-Counter
PIPP	Presque Isle Power Plant
PTF	Power the Future
S&P	Standard and Poor's Ratings Services
SSR	System Support Resource
Treasury Grant	Section 1603 Renewable Energy Treasury Grant
VAPP	Valley Power Plant
Measurements	
Btu	British Thermal Unit(s)
Dth	Dekatherm(s) (One Dth equals one million Btu)
GWh	Gigawatt-hour(s) (One GWh equals one thousand MWh)
MW	Megawatt(s) (One MW equals one million Watts)
MWh	Megawatt-hour(s)
Watt	A measure of power production or usage
Accounting Terms	
AFUDC	Allowance for Funds Used During Construction
FASB	Financial Accounting Standards Board
GAAP	United States Generally Accepted Accounting Principles
OPEB	Other Post-Retirement Employee Benefits

Form 10-Q

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). These statements are based upon management's current expectations and are subject to risks and uncertainties that could cause our actual results to differ materially from those contemplated in the statements. Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding earnings, completion of construction projects, retail sales and customer growth, rate actions and related filings with the appropriate regulatory authorities, current and proposed environmental regulations and other regulatory matters and related estimated expenditures, on-going legal proceedings, dividend payout ratios, effective tax rate, projections related to the pension and other post-retirement benefit plans, fuel costs, sources of electric energy supply, coal and gas deliveries, remediation costs, capital expenditures, liquidity and capital resources and other matters. In some cases, forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology such as "anticipates," "believes," "could," "estimates," "expects," "forecasts," "goals," "guidance," "intends," "may," "objectives," "plans," "possible," "potential," "projects," "seeks," "should," "targets," "will" or similar terms or variations of these terms.

Actual results may differ materially from those set forth in forward-looking statements. In addition to the assumptions and other factors referred to specifically in connection with these statements, factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements or otherwise affect our future results of operations and financial condition include, among others, the following:

Factors affecting utility operations such as catastrophic weather-related damage; availability of electric generating facilities; unscheduled generation outages, or unplanned maintenance or repairs; unanticipated events causing scheduled generation outages to last longer than expected; unanticipated changes in fossil fuel, purchased power, coal supply, gas supply or water supply costs or availability due to higher demand, shortages, transportation problems or other developments; unanticipated changes in the cost or availability of materials needed to operate environmental controls at our electric generating facilities or replace and/or repair our electric and gas distribution systems; nonperformance by electric energy or natural gas suppliers under existing power purchase or gas supply contracts; environmental incidents; electric transmission or gas pipeline system constraints; unanticipated organizational structure or key personnel changes; or collective bargaining agreements with union employees or work stoppages.

- Factors affecting the demand for electricity and natural gas, including weather and other natural phenomena; general economic conditions and, in particular, the economic climate in our service territories; customer growth and declines; customer business conditions, including demand for their products and services; energy conservation efforts; and customers moving to self-generation.

• Timing, resolution and impact of rate cases and negotiations.

• The impact across our service territories of the continued adoption of distributed generation by our electric customers.

• Increased competition in our electric and gas markets, including retail choice and alternative electric suppliers, and continued industry consolidation.

• The ability to control costs and avoid construction delays during the development and construction of new electric and natural gas distribution systems, as well as upgrades to these systems and our electric generation fleet.

•

Edgar Filing: WEC ENERGY GROUP, INC. - Form 10-Q

The impact of recent and future federal, state and local legislative and regulatory changes, including any changes in rate-setting policies or procedures; regulatory initiatives regarding deregulation and restructuring of the electric and/or gas utility industry; transmission or distribution system operation and/or administration initiatives; any required changes in facilities or operations to reduce the risks or impacts of potential terrorist activities or cyber security threats; the regulatory approval process for new generation and transmission facilities and new pipeline construction; adoption of new, or changes in existing, environmental, federal and state energy, tax and other laws and regulations to which we are, or may become, subject; changes in allocation of energy assistance, including state public benefits funds; changes in the application or enforcement

June 2015

5

WEC Energy Group, Inc.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION -- (CONT'D) Form 10-Q

of existing laws and regulations; and changes in the interpretation or enforcement of permit conditions by the permitting agencies.

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.

Current and future litigation, regulatory investigations, proceedings or inquiries.

Events in the global credit markets that may affect the availability and cost of capital.

Other factors affecting our ability to access the capital markets, including general capital market conditions; our capitalization structure; market perceptions of the utility industry, us or any of our subsidiaries; and our credit ratings.

The direct or indirect effect on our business resulting from terrorist incidents and the threat of terrorist incidents, including cyber intrusion.

Inflation rates.

The investment performance of our pension and other post-retirement benefit trusts.

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

The effect of accounting pronouncements issued periodically by standard setting bodies.

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

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 ability to obtain and retain short- and long-term contracts with wholesale customers.

The terms and conditions of the governmental and regulatory approvals of the acquisition of Integrys that could reduce anticipated benefits, and the ability to successfully integrate the operations of Wisconsin Energy Corporation and Integrys Energy Group.

The risk associated with the value of goodwill and other intangible assets and their possible impairment.

Incidents affecting the U.S. electric grid or operation of generating facilities.

Changes to the legislative or regulatory restrictions or caps on non-utility acquisitions, investments or projects, including the State of Wisconsin's public utility holding company law.

Foreign governmental, economic, political and currency risks.

- Other business or investment considerations that may be disclosed from time to time in our Securities and Exchange Commission (SEC) filings or in other publicly disseminated written documents, including the risk

factors set forth in our and Integrys' Annual Reports on Form 10-K for the year ended December 31, 2014.

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.

June 2015

6

WEC Energy Group, Inc.

Form 10-Q

INTRODUCTION

On June 22, 2014, Wisconsin Energy Corporation entered into an agreement to acquire Integrys (Merger Agreement). The acquisition was completed on June 29, 2015, and the combined company was renamed WEC Energy Group, Inc. (WEC Energy Group). The combined company now serves approximately 1.6 million electric customers, 2.8 million gas customers, and owns approximately 60% of ATC. For additional information on this acquisition, see Note 2 -- Acquisition in the Notes to Consolidated Condensed Financial Statements and Corporate Developments in Item 2 in this report.

We have prepared the unaudited interim financial statements presented in this Form 10-Q pursuant to the rules and regulations of the SEC. We have condensed or omitted some information and note disclosures normally included in financial statements prepared in accordance with United States Generally Accepted Accounting Principles (GAAP) pursuant to these rules and regulations. This Form 10-Q, including the financial statements contained herein, should be read in conjunction with our 2014 Annual Report on Form 10-K, including the financial statements and notes therein.

June 2015

7

WEC Energy Group, Inc.

Form 10-Q

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WEC ENERGY GROUP, INC.
CONSOLIDATED CONDENSED INCOME STATEMENTS
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(Millions of Dollars, Except Per Share Amounts)			
Operating Revenues	\$991.2	\$1,043.7	\$2,379.1	\$2,738.7
Operating Expenses				
Fuel and purchased power	273.7	292.5	571.4	611.1
Cost of gas sold	79.3	125.9	395.5	717.4
Other operation and maintenance	337.0	256.0	617.7	531.4
Depreciation and amortization	105.7	101.4	210.8	202.0
Property and revenue taxes	31.9	30.3	63.8	60.9
Total Operating Expenses	827.6	806.1	1,859.2	2,122.8
Treasury Grant	2.2	3.1	4.7	6.6
Operating Income	165.8	240.7	524.6	622.5
Equity in Earnings of Transmission Affiliate	14.3	17.5	30.4	34.8
Other Income, net	26.1	8.1	29.1	9.2
Interest Expense, net	62.1	59.0	121.8	121.3
Income Before Income Taxes	144.1	207.3	462.3	545.2
Income Tax Expense	63.2	74.3	185.6	204.6
Net Income	\$80.9	\$133.0	\$276.7	\$340.6
Earnings Per Share				
Basic	\$0.36	\$0.59	\$1.22	\$1.51
Diluted	\$0.35	\$0.58	\$1.21	\$1.50
Weighted Average Common Shares Outstanding (Millions)				
Basic	227.5	225.5	226.5	225.6
Diluted	229.1	227.6	228.2	227.7

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

Form 10-Q

WEC ENERGY GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(Millions of Dollars, Except Per Share Amounts)			
Net Income	\$80.9	\$133.0	\$276.7	\$340.6
Other comprehensive income				
Derivatives accounted for as hedges				
Realized gains, net of tax of \$7.6 million	11.4	—	11.4	—
Reclassification of net losses (gains) to net income	(0.1) —	(0.1) —
Total other comprehensive income	11.3	—	11.3	—
Comprehensive income	\$92.2	\$133.0	\$288.0	\$340.6