WEC ENERGY GROUP, INC.
Form 10-Q
November 02, 2018

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, 2018

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,
315,526,051 shares outstanding at
September 30, 2018

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GLOSSARY OF TERMS AND ABBREVIATIONS

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

Subsidiaries and Affiliates	
ATC	American Transmission Company LLC
ATC Holdco	ATC Holdco LLC
Bishop Hill III	Bishop Hill Energy III LLC
Bluewater	Bluewater Natural Gas Holding, LLC
Bostco	Bostco LLC
Integrys	Integrys Holding, Inc.
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
WE	Wisconsin Electric Power Company
We Power	W.E. Power, LLC
WG	Wisconsin Gas LLC
WPS	Wisconsin Public Service Corporation

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

Accounting Terms	
AFUDC	Allowance for Funds Used During Construction
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
CPP	Clean Power Plan
GHG	Greenhouse Gas
NOV	Notice of Violation
WPDES	Wisconsin Pollutant Discharge Elimination System

Measurements

Dth	Dekatherm
MW	Megawatt
MWh	Megawatt-hour

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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
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
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	Natural Gas System Modernization Program
Supreme Court	United States Supreme Court
Tax Legislation	Tax Cuts and Jobs Act of 2017
VITA	Variable Income Tax Adjustment Rider

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding earnings, completion of capital projects, sales and customer growth, rate actions and related filings with regulatory authorities, environmental and other regulations and associated compliance costs, legal proceedings, dividend payout ratios, effective tax rates, 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 2017 Annual Report on Form 10-K, 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, 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;

- The uncertainty surrounding the recently enacted Tax Legislation, including implementing regulations and IRS interpretations, the amount to be returned to our ratepayers, and its impact on our or our subsidiaries' credit ratings;

- 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 regulations or permit conditions by regulatory agencies, and the recovery of associated remediation and compliance costs;

- Factors affecting the implementation of our generation reshaping plan, including related regulatory decisions, the cost of materials, supplies, and labor, and the feasibility of competing projects;
- Increased pressure on us by investors and other stakeholder groups to take more aggressive action to reduce future GHG emissions in order to limit future global temperature increases;
- 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, that could prevent us from paying our common stock dividends, taxes, and other expenses, and meeting our debt obligations;

- 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 attacks and cyber security intrusions, as well as the threat of such incidents, including the failure to maintain the security of personally identifiable information, the associated costs to protect our utility assets, technology systems, 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 ability to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act, while both integrating and continuing to consolidate our enterprise systems;

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
(in millions, except per share amounts)	2018	2017	2018	2017
Operating revenues	$1,643.7	$1,657.5	$5,602.7	$5,593.5
Operating expenses				
Cost of sales	524.1	542.7	2,043.9	2,025.6
Other operation and maintenance	553.1	473.1	1,602.7	1,457.4
Depreciation and amortization	212.8	201.2	628.1	593.5
Property and revenue taxes	51.0	48.3	149.4	147.9
Total operating expenses	1,341.0	1,265.3	4,424.1	4,224.4
Operating income	302.7	392.2	1,178.6	1,369.1
Equity in earnings of transmission affiliates	33.7	39.2	95.2	122.9
Other income, net	26.1	17.8	65.0	49.2
Interest expense	112.0	103.8	327.2	310.4
Other expense	(52.2)	(46.8)	(167.0)	(138.3)
Income before income taxes	250.5	345.4	1,011.6	1,230.8
Income tax expense	17.0	129.7	156.4	458.8
Net income	233.5	215.7	855.2	772.0
Preferred stock dividends of subsidiary	0.3	0.3	0.9	0.9
Net income attributed to common shareholders	$233.2	$215.4	$854.3	$771.1
Earnings per share				
Basic	$0.74	$0.68	$2.71	$2.44
Diluted	$0.74	$0.68	$2.70	$2.43
Weighted average common shares outstanding				
Basic	315.5	315.6	315.5	315.6
Diluted	316.9	317.5	316.9	317.5
Dividends per share of common stock	$0.5525	$0.5200	$1.6575	$1.5600

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

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WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
(in millions)	2018	2017	2018	2017
Net income	$233.5	$215.7	$855.2	$772.0
Other comprehensive (loss) income, net of tax				
Derivatives accounted for as cash flow hedges				
Net derivative gains, net of tax	0.3	—	0.3	—
Reclassification of net gains to net income, net of tax	(0.4)	(0.4)	(1.0)	(1.0)
Cash flow hedges, net	(0.1)	(0.4)	(0.7)	(1.0)
Defined benefit plans				
Amortization of pension and OPEB costs included in net periodic benefit cost, net of tax	—	0.3	0.2	0.5
Other comprehensive loss, net of tax	(0.1)	(0.1)	(0.5)	(0.5)
Comprehensive income	233.4	215.6	854.7	771.5
Preferred stock dividends of subsidiary	0.3	0.3	0.9	0.9
Comprehensive income attributed to common shareholders	$233.1	$215.3	$853.8	$770.6

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

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WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)	September 30,	December 31,
(in millions, except share and per share amounts)	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 14.5	$ 38.9
Accounts receivable and unbilled revenues, net of reserves of $153.7 and $143.2, respectively	1,017.3	1,350.7
Materials, supplies, and inventories	608.5	539.0
Prepayments	137.6	210.0
Other	61.8	74.9
Current assets	1,839.7	2,213.5
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of $8,589.3 and $8,618.5, respectively	21,663.7	21,347.0
Regulatory assets	3,643.5	2,803.2
Equity investment in transmission affiliates	1,613.7	1,553.4
Goodwill	3,052.8	3,053.5
Other	749.0	619.9
Long-term assets	30,722.7	29,377.0
Total assets	$ 32,562.4	$ 31,590.5
Liabilities and Equity		
Current liabilities		
Short-term debt	$ 1,788.3	$ 1,444.6
Current portion of long-term debt	369.4	842.1
Accounts payable	690.4	859.9
Accrued payroll and benefits	143.1	169.1
Accrued taxes	217.4	178.5
Other	393.9	375.1
Current liabilities	3,602.5	3,869.3
Long-term liabilities		
Long-term debt	9,119.0	8,746.6
Deferred income taxes	3,172.1	2,999.8
Deferred revenue, net	525.9	543.3
Regulatory liabilities	3,960.3	3,718.6
Environmental remediation liabilities	617.4	617.4
Pension and OPEB obligations	489.1	397.4
Other	1,233.4	1,206.3
Long-term liabilities	19,117.2	18,229.4
Commitments and contingencies (Note 20)		
Common shareholders' equity		
Common stock – $0.01 par value; 325,000,000 shares authorized; 315,526,051 and 315,574,624 shares outstanding, respectively	3.2	3.2

Additional paid in capital	4,261.6	4,278.5
Retained earnings	5,508.1	5,176.8
Accumulated other comprehensive income	2.4	2.9
Common shareholders' equity	9,775.3	9,461.4
Preferred stock of subsidiary	30.4	30.4
Noncontrolling interest in subsidiary	37.0	—
Total liabilities and equity	$ 32,562.4	$ 31,590.5

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

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WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)	Nine Months Ended September 30	
(in millions)	2018	2017
Operating Activities		
Net income	$855.2	$772.0
Reconciliation to cash provided by operating activities		
Depreciation and amortization	628.1	593.5
Deferred income taxes and investment tax credits, net	34.4	444.4
Contributions and payments related to pension and OPEB plans	(13.8)	(115.4)
Equity income in transmission affiliates, net of distributions	(4.5)	(18.5)
Change in –		
Accounts receivable and unbilled revenues	312.1	310.5
Materials, supplies, and inventories	(69.0)	(84.1)
Other current assets	112.7	56.8
Accounts payable	(71.2)	(111.2)
Other current liabilities	42.5	23.4
Other, net	181.7	(125.7)
Net cash provided by operating activities	2,008.2	1,745.7
Investing Activities		
Capital expenditures	(1,490.5)	(1,309.2)
Acquisition of Bishop Hill III, net of restricted cash acquired of $4.5	(143.5)	—
Acquisition of Forward Wind Energy Center	(77.1)	—
Acquisition of Bluewater	—	(226.0)
Capital contributions to transmission affiliates	(43.7)	(63.3)
Proceeds from the sale of assets and businesses	10.9	22.7
Proceeds from the sale of investments held in rabbi trust	16.6	8.6
Other, net	7.3	1.4
Net cash used in investing activities	(1,720.0)	(1,565.8)
Financing Activities		
Exercise of stock options	13.9	25.6
Purchase of common stock	(42.0)	(60.6)
Dividends paid on common stock	(523.0)	(492.4)
Issuance of long-term debt	600.0	210.0
Retirement of long-term debt	(694.4)	(26.9)
Change in short-term debt	343.7	133.3
Other, net	(4.8)	(3.1)
Net cash used in financing activities	(306.6)	(214.1)
Net change in cash, cash equivalents, and restricted cash	(18.4)	(34.2)
Cash, cash equivalents, and restricted cash at beginning of period	58.6	72.7
Cash, cash equivalents, and restricted cash at end of period	$40.2	$38.5

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

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WEC ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

(in millions)	WEC Energy Group Common Shareholders' Equity							
	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Common Shareholders' Equity	Preferred Stock of Subsidiary	Non-controlling Interest in Subsidiary	Total Equity
Balance at December 31, 2017	$3.2	$4,278.5	$5,176.8	$ 2.9	$ 9,461.4	$ 30.4	$ —	$9,491.8
Net income attributed to common shareholders	—	—	854.3	—	854.3	—	—	854.3
Other comprehensive loss	—	—	—	(0.5)	(0.5)	—	—	(0.5)
Common stock dividends	—	—	(523.0)	—	(523.0)	—	—	(523.0)
Exercise of stock options	—	13.9	—	—	13.9	—	—	13.9
Purchase of common stock	—	(42.0)	—	—	(42.0)	—	—	(42.0)
Acquisition of a noncontrolling interest in subsidiary	—	—	—	—	—	—	37.0	37.0
Stock-based compensation and other	—	11.2	—	—	11.2	—	—	11.2
Balance at September 30, 2018	$3.2	$4,261.6	$5,508.1	$ 2.4	$ 9,775.3	$ 30.4	$ 37.0	$9,842.7

(in millions)	WEC Energy Group Common Shareholders' Equity							
	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Common Shareholders' Equity	Preferred Stock of Subsidiary	Non-controlling Interest in Subsidiary	Total Equity
Balance at December 31, 2016	$3.2	$4,309.8	$4,613.9	$ 2.9	$ 8,929.8	$ 30.4	$ —	$8,960.2
Net income attributed to common shareholders	—	—	771.1	—	771.1	—	—	771.1
Other comprehensive loss	—	—	—	(0.5)	(0.5)	—	—	(0.5)
Common stock dividends	—	—	(492.4)	—	(492.4)	—	—	(492.4)
Exercise of stock options	—	25.6	—	—	25.6	—	—	25.6
Purchase of common stock	—	(60.6)	—	—	(60.6)	—	—	(60.6)
Cumulative effect adjustment from ASU 2016-09	—	—	15.7	—	15.7	—	—	15.7
Stock-based compensation and other	—	6.6	—	—	6.6	—	—	6.6
Balance at September 30, 2017	$3.2	$4,281.4	$4,908.3	$ 2.4	$ 9,195.3	$ 30.4	$ —	$9,225.7

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

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WEC ENERGY GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2018

NOTE 1—GENERAL INFORMATION

WEC Energy Group serves approximately 1.6 million electric customers and 2.9 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, statements of cash flows, and statements of equity, 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 consolidate on our balance sheets our majority-owned subsidiaries and reflect a noncontrolling interest for the portion of an entity that we do not own as a component of consolidated equity separate from the equity attributable to our shareholders. We acquired an 80% membership interest in Bishop Hill Energy III Holdings LLC on August 31, 2018, which owns 100% of Bishop Hill III. The noncontrolling interest that we reported as equity on our balance sheets as of September 30, 2018, relates to a minority interest held by a third party. See Note 2, Acquisitions, for more information.

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, 2017. 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, 2018, are not necessarily indicative of expected results for 2018 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—ACQUISITIONS

Acquisition of a Wind Energy Generation Facility in Illinois

On August 31, 2018, we completed the acquisition of an 80% membership interest in a commercially operational 132 MW wind generating facility located in Henry County, Illinois, known as Bishop Hill III, for $143.5 million, which is net of restricted cash acquired of $4.5 million. Bishop Hill III has a 22-year offtake agreement with an unaffiliated company for the sale of all energy produced by the facility. Under the Tax Legislation, our investment in Bishop Hill III qualifies for production tax credits and 100% bonus depreciation. Bishop Hill III is included in the non-utility energy infrastructure segment.

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 allocation is subject to change during the remainder of the measurement period, which ends one year from the acquisition date, as we obtain additional information.

(in millions)	
Current assets	$1.4
Net property, plant, and equipment	189.0

Other long-term assets *	4.5
Current liabilities	(1.6)
Long-term liabilities	(8.3)
Noncontrolling interest	(37.0)
Total purchase price	$ 148.0

* Represents restricted cash.

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On October 19, 2018, we signed an agreement for the acquisition of an additional 10% membership interest in Bishop Hill III. We believe our additional investment qualifies for production tax credits and 100% bonus depreciation. The transaction is subject to FERC approval and is expected to close by the end of the year.

Acquisition of a Wind Energy Generation Facility in Nebraska

On April 30, 2018, we signed an agreement for the acquisition of an 80% membership interest in a 202.5 MW wind generating facility currently under construction known as Upstream Wind Energy Center ("Upstream") for $276.0 million. Upstream is located in Antelope County, Nebraska and will supply energy to the Southwest Power Pool. Upstream's revenue will be substantially fixed over a 10-year period through an agreement with an unaffiliated party. Under the Tax Legislation, our investment in Upstream will qualify for production tax credits and 100% bonus depreciation. The transaction is subject to FERC approval and is expected to close in the first quarter of 2019, after Upstream achieves commercial operation. Upstream will be included in the non-utility energy infrastructure segment.

Acquisition of a Wind Energy Generation Facility in Wisconsin

On April 2, 2018, WPS, along with two unaffiliated utilities, completed the purchase of Forward Wind Energy Center, which consists of 86 wind turbines located in Wisconsin with a total capacity of 129 MW. The aggregate purchase price was $172.9 million of which WPS's proportionate share was 44.6%, or $77.1 million. Since 2008 and up until the acquisition, WPS purchased 44.6% of the facility's energy output under a power purchase agreement.

The table below shows the allocation of the purchase price to the assets acquired at the date of the acquisition, which are included in rate base.

(in millions)	
Current assets	$0.2
Net property, plant, and equipment	76.9
Total purchase price	$77.1

Under a joint ownership agreement with the two other utilities, WPS is entitled to its share of generating capability and output of the facility equal to its ownership interest. WPS is also paying its ownership share of additional capital expenditures and operating expenses. Forward Wind Energy Center is included in the Wisconsin segment.

Acquisition of Natural Gas Storage Facilities in Michigan

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

The table below shows the 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 infrastructure segment.

(in millions)	
Current assets	$2.0
Net property, plant, and equipment	218.3
Goodwill	6.6
Current liabilities	(0.9)
Total purchase price	$226.0

NOTE 3—DISPOSITION

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

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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.

NOTE 4—OPERATING REVENUES

Adoption of ASU 2014-09, Revenues from Contracts with Customers

On January 1, 2018, we adopted ASU 2014-09, Revenues from Contracts with Customers, and the related amendments. In accordance with the guidance, we recognize revenues when control of the promised goods or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to receive in exchange for those goods or services. These revenues include unbilled revenues, which are estimated using the amount of energy delivered to our customers but not billed until after the end of the period.

We adopted this standard using the modified retrospective method. Results for reporting periods beginning after January 1, 2018, are presented under the new standard. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Adoption of the standard did not result in an adjustment to our opening retained earnings balance as of January 1, 2018, and we do not expect the adoption of the standard to have a material impact on our net income in future periods.

We adopted the following practical expedients and optional exemptions for the implementation of this standard:

- We elected to exclude from the transaction price any amounts collected from customers for all sales taxes and other similar taxes.
- When applicable, we elected to apply the standard to a portfolio of contracts with similar characteristics, primarily our tariff-based contracts, as we reasonably expect that the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts.
- We elected to recognize revenue in the amount we have the right to invoice for performance obligations satisfied over time when the consideration received from a customer corresponds directly with the value provided to the customer during the same period.
- We elected to not disclose the remaining performance obligations of a contract that has an original expected duration of one year or less.
- We elected to apply this standard only to contracts that are not completed as of the date of initial application.

Disaggregation of Operating Revenues

The following tables present our operating revenues disaggregated by revenue source. We disaggregate revenues into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. For our segments, revenues are further disaggregated by electric and natural gas operations and then by customer class. Each customer class within our electric and natural gas operations have different expectations of service, energy and demand requirements, and are impacted by regulatory activities within their jurisdictions.

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Comparable amounts have not been presented for the three and nine months ended September 30, 2017, due to our adoption of this standard under the modified retrospective method.

(in millions)	Wisconsin	Illinois	Other States	Total Utility Operations	Electric Transmission	Non-Utility Energy Infrastructure	Corporate and Other	Reconciling Eliminations	WEC Energy Group Consolidated
Three Months Ended September 30, 2018									
Electric	$1,218.3	$—	$—	$1,218.3	$ —	$ —	$ —	$—	$ 1,218.3
Natural gas	167.4	193.2	45.9	406.5	—	10.0	—	(12.7)	403.8
Total utility revenues	1,385.7	193.2	45.9	1,624.8	—	10.0	—	(12.7)	1,622.1
Other non-utility revenues	—	0.1	4.0	4.1	—	7.9	2.3	(0.7)	13.6
Total revenues from contracts with customers	1,385.7	193.3	49.9	1,628.9	—	17.9	2.3	(13.4)	1,635.7
Other operating revenues	3.0	4.6	0.3	7.9	—	97.3	0.1	(97.3)	8.0
Total operating revenues	$1,388.7	$197.9	$50.2	$1,636.8	$ —	$ 115.2	$ 2.4	$(110.7)	$ 1,643.7

(in millions)	Wisconsin	Illinois	Other States	Total Utility Operations	Electric Transmission	Non-Utility Energy Infrastructure	Corporate and Other	Reconciling Eliminations	WEC Energy Group Consolidated
Nine Months Ended September 30, 2018									
Electric	$3,370.2	$—	$—	$3,370.2	$ —	$ —	$ —	$—	$ 3,370.2
Natural gas	921.8	974.6	287.5	2,183.9	—	34.9	—	(27.9)	2,190.9
Total utility revenues	4,292.0	974.6	287.5	5,554.1	—	34.9	—	(27.9)	5,561.1
Other non-utility revenues	—	0.2	11.8	12.0	—	24.3	6.4	(4.5)	38.2
Total revenues from contracts with customers	4,292.0	974.8	299.3	5,566.1	—	59.2	6.4	(32.4)	5,599.3
Other operating revenues	11.3	(1.6)	(6.8)	2.9	—	291.1	0.5	(291.1)	3.4
Total operating revenues	$4,303.3	$973.2	$292.5	$5,569.0	$ —	$ 350.3	$ 6.9	$(323.5)	$ 5,602.7

Revenues from Contracts with Customers

Electric Utility Operating Revenues

The following table disaggregates electric utility operating revenues into customer class:

(in millions)	Electric Utility Operating Revenues	
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Residential	$465.3	$ 1,243.3
Small commercial and industrial	388.2	1,072.2
Large commercial and industrial	249.7	695.2
Other	7.5	22.4
Total retail revenues	1,110.7	3,033.1

Wholesale	62.0	175.3
Resale	40.7	139.6
Steam	2.7	16.9
Other utility revenues	2.2	5.3
Total electric utility operating revenues	$1,218.3	$ 3,370.2

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Electricity sales to residential and commercial and industrial customers are generally accomplished through requirements contracts, which provide for the delivery of as much electricity as the customer needs. These contracts represent discrete deliveries of electricity and consist of one distinct performance obligation satisfied over time, as the electricity is delivered and consumed by the customer simultaneously. For our Wisconsin residential and commercial and industrial customers and the majority of our Michigan residential and commercial and industrial customers, our performance obligation is bundled to consist of both the sale and the delivery of the electric commodity. In our Michigan service territory, a limited number of residential and commercial and industrial customers can purchase the commodity from a third party. In this case, the delivery of the electricity represents our sole performance obligation. The rates, charges, terms, and conditions of service for sales to these customers are included in tariffs that have been approved by state regulators. These rates often have a fixed component customer charge and a usage-based variable component charge. We recognize revenue for the fixed component customer charge monthly using a time-based output method. We recognize revenue for the usage-based variable component charge using an output method based on the quantity of electricity delivered each month.

Wholesale customers who resell power can choose to either bundle capacity and electricity services together under one contract with a supplier or purchase capacity and electricity separately from multiple suppliers. Furthermore, wholesale customers can choose to have our utilities provide generation to match the customer's load, similar to requirements contracts, or they can purchase specified quantities of electricity and capacity. The rates, charges, terms and conditions of service for sales to wholesale customers are included in tariffs that have been approved by the FERC. Contracts with wholesale customers that include capacity bundled with the delivery of electricity contain two performance obligations, as capacity and electricity are often transacted separately in the marketplace at the wholesale level. When recognizing revenue associated with these contracts, the transaction price is allocated to each performance obligation based on its relative standalone selling price. Revenue is recognized as control of each individual component is transferred to the customer. Electricity is the primary product sold by our electric utilities and represents a single performance obligation satisfied over time through discrete deliveries to a customer. Revenue from electricity sales is generally recognized as units are produced and delivered to the customer within the production month. Capacity represents the reservation of an electric generating facility and conveys the ability to call on a plant to produce electricity when needed by the customer. The nature of our performance obligation as it relates to capacity is to stand ready to deliver power. This represents a single performance obligation transferred over time, which generally represents a monthly obligation. Accordingly, capacity revenue is recognized on a monthly basis.

We are an active participant in the MISO Energy Markets, where we bid our generation into the Day Ahead and Real Time markets and procure electricity for our retail and wholesale customers at prices determined by the MISO Energy Markets. Purchase and sale transactions are recorded using settlement information provided by MISO. These purchase and sale transactions are accounted for on a net hourly position. Net purchases in a single hour are recorded as purchased power in cost of sales and net sales in a single hour are recorded as resale revenues. For resale revenues, our performance obligation is created only when electricity is sold into the MISO Energy Markets.

For all of our customers, consistent with the timing of when we recognize revenue, customer billings generally occur on a monthly basis, with payments typically due in full within 30 days. For the majority of our wholesale customers, the price billed for energy and capacity is a formula-based rate. Formula-based rates initially set a customer's current year rates based on the previous year’s expenses. This is a predetermined formula derived from the utility's costs and a reasonable rate of return. Because these rates are eventually trued up to reflect actual current year costs, they represent a form of variable consideration in certain circumstances. The variable consideration is estimated and recognized over time as wholesale customers receive and consume the capacity and electricity services.

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Natural Gas Utility Operating Revenues

The following tables disaggregate natural gas utility operating revenues into customer class:

(in millions)	Wisconsin	Illinois	Other States	Total Natural Gas Utility Operating Revenues
Three Months Ended September 30, 2018				
Residential	$ 71.9	$ 112.7	$ 20.1	$ 204.7
Commercial and industrial	35.0	29.4	12.6	77.0
Total retail revenues	106.9	142.1	32.7	281.7
Transport	13.9	43.3	4.9	62.1
Other utility revenues *	46.6	7.8	8.3	62.7
Total natural gas utility operating revenues	$ 167.4	$ 193.2	$ 45.9	$ 406.5

(in millions)	Wisconsin	Illinois	Other States	Total Natural Gas Utility Operating Revenues
Nine Months Ended September 30, 2018				
Residential	$ 556.7	$ 609.0	$ 181.2	$ 1,346.9
Commercial and industrial	286.4	186.1	96.0	568.5
Total retail revenues	843.1	795.1	277.2	1,915.4
Transport	51.3	175.6	21.6	248.5
Other utility revenues *	27.4	3.9	(11.3)	20.0
Total natural gas utility operating revenues	$ 921.8	$ 974.6	$ 287.5	$ 2,183.9

* Includes amounts collected from (refunded to) customers for purchased gas adjustment costs.

We recognize natural gas utility operating revenues under requirements contracts with residential, commercial and industrial, and transportation customers served under the tariffs of our regulated utilities. Tariffs provide our customers with the standard terms and conditions, including rates, related to the services offered. Requirements contracts provide for the delivery of as much natural gas as the customer needs. These requirements contracts represent discrete deliveries of natural gas and constitute a single performance obligation satisfied over time. Our performance obligation is both created and satisfied with the transfer of control of natural gas upon delivery to the customer. For most of our customers, natural gas is delivered and consumed by the customer simultaneously. A performance obligation can be bundled to consist of both the sale and the delivery of the natural gas commodity. In certain of our service territories, customers can purchase the commodity from a third party. In this case, the performance obligation only includes the delivery of the natural gas to the customer.

The transaction price of the performance obligations is valued using rates in the tariffs of our regulated utilities, which have been approved by state regulators. These rates often have a fixed component customer charge and a usage-based variable component charge. We recognize revenue for the fixed component customer charge monthly using a time-based output method. We recognize revenue for the usage-based variable component charge using an output method based on natural gas delivered each month.

Consistent with the timing of when we recognize revenue, customer billings generally occur on a monthly basis, with payments typically due in full within 30 days.

Other Natural Gas Operating Revenues

We have other natural gas operating revenues from Bluewater, which is in our non-utility energy infrastructure segment. Bluewater has entered into long-term service agreements for natural gas storage services with WE, WG, and WPS, and provides service to several unaffiliated customers. We recognize revenues using a time-based output method through a monthly fixed service fee.

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Other Non-Utility Operating Revenues

Other non-utility operating revenues consist primarily of the following:

(in millions)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
We Power revenues	$ 6.4	$ 19.0
Appliance service revenues	4.0	11.8
Distributed renewable solar project revenues	2.3	6.4
Wind generation revenues	0.8	0.8
Other	0.1	0.2
Total other non-utility operating revenues	$ 13.6	$ 38.2

As part of the construction of the We Power electric generating units, we capitalized interest during construction, which is included in property, plant, and equipment. As allowed by the PSCW, we collected these carrying costs from WE's utility customers during construction. The equity portion of these carrying costs was recorded as deferred revenue, and we continually amortize the deferred carrying costs to revenues over the life of the related lease term that We Power has with WE. During the three and nine months ended September 30, 2018, we recorded $6.4 million and $19.0 million, respectively, of revenue related to these deferred carrying costs, which were included in the contract liability balance at the beginning of the period. This contract liability is presented as deferred revenue, net on our balance sheets.

Non-utility operating revenues are also derived from servicing appliances for customers at MERC. These contracts customarily have a duration of one year or less and consist of a single performance obligation satisfied over time. We use a time-based output method to recognize revenues monthly for the service fee.

Revenues from distributed renewable solar projects consist primarily of sales of renewable energy and solar renewable energy certificates (SRECs) generated by PDL. The sale of SRECs is a distinct performance obligation as they are often sold separately from the renewable energy generated. Although the performance obligation for the sale of renewable energy is recognized over time and the performance obligation for SRECs is recognized at a point-in-time, the timing of revenue recognition is the same, as the generation of renewable energy and sales of SREC's occur concurrently.

On August 31, 2018, we completed the acquisition of an 80% membership interest in a commercially operational 132 MW wind generating facility located in Henry County, Illinois, known as Bishop Hill III. Bishop Hill III has a 22-year offtake agreement with an unaffiliated company for the sale of all energy produced by the facility. See Note 2, Acquisitions, for more information on this acquisition. We recognize revenue as energy is produced and delivered to the customer within the production month.

Other Operating Revenues

Other operating revenues consist primarily of the following:

(in millions)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Alternative revenues *	$ (1.9)	$ (32.2)

Late payment charges	9.4	31.9
Leases	0.5	3.7
Total other operating revenues	$ 8.0	$ 3.4

* Negative amounts can result from alternative revenues being reversed to revenues from contracts with customers as the customer is billed for these alternative revenues. Negative amounts can also result from revenues to be refunded to customers subject to decoupling mechanisms and wholesale true-ups, as discussed below.

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Alternative Revenues

Alternative revenues are created from programs authorized by regulators that allow our utilities to record additional revenues by adjusting rates in the future, usually as a surcharge applied to future billings, in response to past activities or completed events. Alternative revenue programs allow compensation for the effects of weather abnormalities, other external factors, or demand side management initiatives. Alternative revenue programs can also provide incentive awards if the utility achieves certain objectives and in other limited circumstances. We record alternative revenues when the regulator-specified conditions for recognition have been met. We reverse these alternative revenues as the customer is billed, at which time this revenue is presented as revenues from contracts with customers.

Below is a summary of the alternative revenue programs at our utilities:

- The rates of PGL, NSG, and MERC include decoupling mechanisms. These mechanisms differ by state and allow the utilities to recover or refund the differences between actual and authorized margins for certain customer classes.
- MERC’s rates include a conservation improvement program rider, which includes a financial incentive for meeting energy savings goals.
- WE and WPS provide wholesale electric service to customers under market-based rates and FERC formula rates. The customer is charged a base rate each year based upon a formula using prior year actual costs and customer demand. A true-up is calculated based on the difference between the amount billed to customers for the demand component of their rates and what the actual cost of service was for the year. The true-up can result in an amount that we will recover from or refund to the customer. We consider the true-up portion of the wholesale electric revenues to be alternative revenues.

NOTE 5—REGULATORY ASSETS AND LIABILITIES

The following regulatory assets were reflected on our balance sheets at September 30, 2018 and December 31, 2017. For more information on our regulatory assets, see Note 4, Regulatory Assets and Liabilities, in our 2017 Annual Report on Form 10-K.

(in millions)	September 30, 2018	December 31, 2017
Regulatory assets [(1)]		
Unrecognized pension and OPEB costs	$ 1,071.0	$ 1,142.0
Plant retirements [(2)]	778.4	15.1
Environmental remediation costs	680.0	676.6
System support resource	315.0	298.9
Income tax [(3)]	272.0	15.7
Asset retirement obligations	224.1	192.2
Electric transmission costs [(4)]	124.0	221.0
We Power generation	48.7	71.3
Uncollectible expense	39.3	35.1
Energy efficiency programs	15.7	24.6
Other, net	105.6	147.9
Total regulatory assets	$ 3,673.8	$ 2,840.4
Balance Sheet Presentation		
Current assets	$ 30.3	$ 37.2
Regulatory assets	3,643.5	2,803.2
Total regulatory assets	$ 3,673.8	$ 2,840.4

(1) Based on prior and current rate treatment, we believe it is probable that our utilities will continue to recover from customers the regulatory assets in this table.

(2) For information on the retirement of our older and less efficient fossil fuel generating units, see Note 6, Property, Plant, and Equipment.

(3) For information on the flow through of tax repairs and the regulatory treatment of the Tax Legislation in our various jurisdictions, see Note 22, Regulatory Environment.

(4) In May 2018, the PSCW issued an order requiring WE to use a portion of its tax benefits related to the Tax Legislation that was signed into law in December 2017 to reduce its transmission regulatory assets. See Note 22, Regulatory Environment, for more information.

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The following regulatory liabilities were reflected on our balance sheets at September 30, 2018 and December 31, 2017. For more information on our regulatory liabilities, see Note 4, Regulatory Assets and Liabilities, in our 2017 Annual Report on Form 10-K.

(in millions)	September 30, 2018	December 31, 2017
Regulatory liabilities		
Income tax *	$ 2,279.1	$ 2,134.1
Removal costs	1,313.4	1,294.9
Mines deferral	115.4	95.1
Unrecognized pension and OPEB costs	106.5	114.2
Energy efficiency programs	30.0	21.1
Energy costs refundable through rate adjustments	25.2	42.0
Uncollectible expense	23.9	24.7
Decoupling	22.8	1.8
Earnings sharing mechanisms	20.6	2.5
Other, net	49.0	30.0
Total regulatory liabilities	$ 3,985.9	$ 3,760.4
Balance Sheet Presentation		
Current liabilities	$ 25.6	$ 41.8
Regulatory liabilities	3,960.3	3,718.6
Total regulatory liabilities	$ 3,985.9	$ 3,760.4

* For information on the regulatory treatment of the Tax Legislation in our various jurisdictions, see Note 22, Regulatory Environment.

NOTE 6—PROPERTY, PLANT, AND EQUIPMENT

Wisconsin Segment Plant to be Retired

We have evaluated future plans for our older and less efficient fossil fuel generating units and have either retired or announced the retirement of the plants identified below. In addition, a severance liability was recorded in other current liabilities on our balance sheets within the Wisconsin segment related to these plant retirements.

(in millions)	
Severance liability at December 31, 2017	$29.4
Severance payments	(9.5)
Other	(3.0)
Total severance liability at September 30, 2018	$16.9

Pleasant Prairie Power Plant

The Pleasant Prairie power plant was retired effective April 10, 2018. The carrying value of this plant was $653.3 million at September 30, 2018. This amount included the net book value of $755.8 million, which was classified as a regulatory asset on our balance sheet. In addition, a $102.5 million cost of removal reserve related to the Pleasant Prairie power plant was classified as a regulatory liability at September 30, 2018. WE continues to amortize this regulatory asset on a straight-line basis using the composite depreciation rates approved by the PSCW before this plant was retired. Amortization is included in depreciation and amortization in the income statement. The physical dismantlement of the plant will not occur immediately. It may take several years to finalize long-term plans for the site. See Note 20, Commitments and Contingencies, for more information.

Presque Isle Power Plant

In October 2017, the MPSC approved UMERC's application to construct and operate approximately 180 MW of natural gas-fired generation in the Upper Peninsula of Michigan. The new units are expected to begin commercial operation during the second quarter of 2019. Upon receiving the MPSC's approval, retirement of the PIPP generating units became probable. In connection with MISO's April 2018 approval of the retirement of the plant, the PIPP units will be retired on or before May 31, 2019. The carrying value of the PIPP units was $186.9 million at September 30, 2018. This amount included the net book value of $197.4 million, which was classified as plant to be retired within property, plant, and equipment on our balance sheet. In addition, a $10.5 million cost of

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removal reserve related to the PIPP units was classified as a regulatory liability at September 30, 2018. These units are included in rate base, and WE continues to depreciate them on a straight-line basis using the composite depreciation rates approved by the PSCW. See Note 20, Commitments and Contingencies, for more information.

Pulliam Power Plant

In connection with a MISO ruling, WPS retired Pulliam Units 7 and 8 effective October 21, 2018. The carrying value of the Pulliam units was $40.8 million at September 30, 2018. This amount included the net book value of $61.1 million, which was classified as plant to be retired within property, plant, and equipment on our balance sheet. In addition, a $20.3 million cost of removal reserve related to the Pulliam units was classified as a regulatory liability at September 30, 2018. The net book value was reclassified as a regulatory asset on our balance sheet in the fourth quarter as a result of the retirement of the generating units. WPS continues to amortize this regulatory asset on a straight-line basis using the composite depreciation rates approved by the PSCW before these generating units were retired. See Note 20, Commitments and Contingencies, for more information.

Edgewater Unit 4

The Edgewater 4 generating unit was retired effective September 28, 2018. The carrying value of the generating unit was $8.3 million at September 30, 2018. This amount included the net book value of WPS's ownership share of this generating unit of $10.2 million, which was reclassified as a regulatory asset on our balance sheet in the third quarter as a result of the retirement of the generating unit. In addition, a $1.9 million cost of removal reserve related to the Edgewater 4 generating unit was classified as a regulatory liability at September 30, 2018. WPS continues to amortize this regulatory asset on a straight-line basis using the composite depreciation rates approved by the PSCW before this generating unit was retired. Amortization is included in depreciation and amortization in the income statement. See Note 20, Commitments and Contingencies, for more information.

NOTE 7—COMMON EQUITY

Stock-Based Compensation

During the first quarter of 2018, 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]	710,710
Restricted shares [2]	156,340
Performance units	217,560

(1) Stock options awarded had a weighted-average exercise price of $65.60 and a weighted-average grant date fair value of $7.71 per option.

(2) Restricted shares awarded had a weighted-average grant date fair value of $64.20 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 UMERC and MGU, are prohibited from loaning funds to us, either directly or indirectly. See Note 9, Common Equity, in our 2017 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 18, 2018, our Board of Directors declared a quarterly cash dividend of $0.5525 per share, payable on December 1, 2018, to shareholders of record on November 14, 2018.

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NOTE 8—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, 2018	December 31, 2017
Commercial paper		
Amount outstanding	$ 1,788.3	$ 1,444.6
Weighted-average interest rate on amounts outstanding	2.35 %	1.77 %

Our average amount of commercial paper borrowings based on daily outstanding balances during the nine months ended September 30, 2018, was $1,322.4 million with a weighted-average interest rate during the period of 2.20%.

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	September 30, 2018
WEC Energy Group	October 2022	$ 1,200.0
WE	October 2022	500.0
WPS	October 2022	350.0
WG	October 2022	400.0
PGL	October 2022	350.0
Total short-term credit capacity		$ 2,800.0
Less:		
Letters of credit issued inside credit facilities		$ 3.0
Commercial paper outstanding		1,788.3
Available capacity under existing agreements		$ 1,008.7

NOTE 9—LONG-TERM DEBT

WEC Energy Group, Inc.

In July 2018, we executed two interest rate swaps with a combined notional value of $250.0 million to hedge the variable interest rate risk associated with our 2007 Junior Notes. The swaps will provide a fixed interest rate of 4.9765% on $250.0 million of the $500.0 million outstanding of 2007 Junior Notes through November 15, 2021.
In June 2018, we issued $600.0 million of 3.375% Senior Notes due June 15, 2021. We used the net proceeds to repay short-term debt, including short-term debt used to redeem at par all $114.9 million outstanding principal amount of Integrys's 2006 Junior Notes, to repay all $300.0 million of our 1.65% Senior Notes that matured in June 2018, and for working capital and general corporate purposes.

Wisconsin Electric Power Company

In October 2018, WE issued $300.0 million of 4.30% Debentures due October 15, 2048, and used the net proceeds to repay short-term debt and for working capital and other corporate purposes.

In July 2018, WE redeemed all $80.0 million of its series of tax-exempt pollution control refunding bonds. From August 2009 until they were called, the bonds were not reported in our long-term debt because they were previously repurchased by WE.

In June 2018, WE's $250.0 million of 1.70% Debentures matured, and the outstanding principal was paid with proceeds received from issuing commercial paper.

Integrys Holding, Inc.

In May 2018, Integrys redeemed at par all $114.9 million outstanding of its 2006 Junior Notes.

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The Peoples Gas Light and Coke Company

In October 2018, PGL secured commitments for $150.0 million of Series FFF Bonds due November 1, 2028. PGL expects to issue the Series FFF Bonds in November 2018. The net proceeds will be used for general corporate purposes, including funding capital expenditures and the refinancing of short-term debt.

North Shore Gas Company

In October 2018, NSG secured commitments for $50.0 million of Series R Bonds due November 1, 2028. NSG expects to issue the Series R Bonds in November 2018. The net proceeds will be used for general corporate purposes, including funding capital expenditures and the refinancing of short-term debt.

NOTE 10—MATERIALS, SUPPLIES, AND INVENTORIES

Our inventory consisted of:

(in millions)	September 30, 2018	December 31, 2017
Natural gas in storage	$ 274.4	$ 209.0
Materials and supplies	227.5	211.2
Fossil fuel	106.6	118.8
Total	$ 608.5	$ 539.0

PGL and NSG price natural gas storage injections at the calendar year average of the costs of natural gas supply purchased. Withdrawals from storage are priced on 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, 2018, all LIFO layers were replenished, and the LIFO liquidation balance was zero.

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 11—INCOME TAXES

The provision for income taxes differs from the amount of income tax determined by applying the applicable United States statutory federal income tax rate to income before income taxes as a result of the following:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Amount (in millions)	Effective Tax Rate	Amount (in millions)	Effective Tax Rate
Statutory federal income tax	$52.6	21.0 %	$212.3	21.0 %
State income taxes net of federal tax benefit	16.0	6.4 %	63.6	6.3 %
Tax repairs	(35.8)	(14.3)%	(83.9)	(8.3)%
Federal tax reform	(3.2)	(1.3)%	(17.2)	(1.7)%
Other	(12.6)	(5.0)%	(18.4)	(1.8)%
Total income tax expense	$17.0	6.8 %	$156.4	15.5 %

The effective tax rates of 6.8% and 15.5% for the three and nine months ended September 30, 2018, respectively, differ from the United States statutory federal income tax rate of 21%, primarily due to the flow through of tax repairs in connection with the Wisconsin rate settlement and the impact of the Tax Legislation, partially offset by state income taxes. The Tax Legislation, signed into law in December 2017, required our regulated utilities to remeasure their deferred income taxes and we began to amortize the resulting excess deferred income taxes beginning in 2018 in accordance with normalization requirements (see federal tax reform line above). See Note 22, Regulatory Environment, for more information about the impact of the Tax Legislation and the Wisconsin rate settlement.

On December 22, 2017, the SEC staff issued guidance in Staff Accounting Bulletin 118 (SAB 118), Income Tax Accounting Implications of the Tax Legislation, which provides for a measurement period of up to one year from the enactment date to complete accounting under GAAP for the tax effects of the legislation. Due to the complex and comprehensive nature of the enacted tax law changes, and their application under GAAP, certain amounts related to bonus depreciation and future tax benefit utilization recorded in the

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financial statements as a result of the Tax Legislation are to be considered "provisional" as discussed in SAB 118 and subject to revision. We are awaiting additional guidance from industry and income tax authorities in order to finalize our accounting.

NOTE 12—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 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:

	September 30, 2018			
(in millions)	Level 1	Level 2	Level 3	Total
Derivative assets				
Natural gas contracts	$9.6	$ 0.3	$—	$9.9
FTRs	—	—	11.5	11.5
Coal contracts	—	0.8	—	0.8

Interest rate swaps	—	0.8	—	0.8
Total derivative assets	$9.6	$ 1.9	$11.5	$23.0
Investments held in rabbi trust	$115.3	$ —	$—	$115.3
Derivative liabilities				
Natural gas contracts	$3.6	$ 1.3	$—	$4.9

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(in millions)	December 31, 2017 Level 1	Level 2	Level 3	Total
Derivative assets				
Natural gas contracts	$1.8	$3.9	$—	$5.7
Petroleum products contracts	1.2	—	—	1.2
FTRs	—	—	4.4	4.4
Coal contracts	—	1.1	—	1.1
Total derivative assets	$3.0	$5.0	$4.4	$12.4
Investments held in rabbi trust	$120.7	$—	$—	$120.7
Derivative liabilities				
Natural gas contracts	$7.0	$3.8	$—	$10.8
Coal contracts	—	0.8	—	0.8
Total derivative liabilities	$7.0	$4.6	$—	$11.6

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 and interest rates. They also include FTRs, which are used to manage electric transmission congestion costs in the MISO Energy Markets.

We hold investments in the Integrys rabbi trust. These investments are restricted as they can only be withdrawn from the trust to fund participants' benefits under the Integrys deferred compensation plan and certain Integrys non-qualified pension plans. These investments are included in other long-term assets on our balance sheets. For the three months ended September 30, 2018 and 2017, the net unrealized gains included in earnings related to the investments held at the end of the period were $7.1 million and $4.4 million, respectively. For the nine months ended September 30, 2018 and 2017, the net unrealized gains included in earnings related to the investments held at the end of the period were $7.5 million and $12.2 million, respectively.

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

(in millions)	Three Months Ended September 30 2018	2017	Nine Months Ended September 30 2018	2017
Balance at the beginning of the period	$16.7	$11.8	$4.4	$5.1
Purchases	—	—	18.4	13.8
Settlements	(5.2)	(4.5)	(11.3)	(11.6)
Balance at the end of the period	$11.5	$7.3	$11.5	$7.3

Fair Value of Financial Instruments

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

(in millions)	September 30, 2018 Carrying Amount	Fair Value	December 31, 2017 Carrying Amount	Fair Value
Preferred stock of subsidiary	$30.4	$28.3	$30.4	$30.5
Long-term debt, including current portion *	9,464.2	9,762.1	9,561.7	10,341.9

* The carrying amount of long-term debt excludes capital lease obligations of $24.2 million and $27.0 million at September 30, 2018 and December 31, 2017, respectively.

The fair values of our long-term debt and preferred stock are categorized within Level 2 of the fair value hierarchy.

NOTE 13—DERIVATIVE INSTRUMENTS

We use derivatives as part of our risk management program to manage the risks associated with the price volatility of interest rates, 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.

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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.

None of our derivatives are designated as hedging instruments, with the exception of our interest rate swaps, which have been designated as cash flow hedges. The following table shows our derivative assets and derivative liabilities:

	September 30, 2018		December 31, 2017	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Other current				
Natural gas contracts	$ 9.7	$ 4.5	$ 5.6	$ 9.4
Petroleum products contracts	—	—	1.2	—
FTRs	11.5	—	4.4	—
Coal contracts	0.4	—	0.6	0.6
Total other current *	$ 21.6	$ 4.5	$ 11.8	$ 10.0
Other long-term				
Natural gas contracts	$ 0.2	$ 0.4	$ 0.1	$ 1.4
Coal contracts	0.4	—	0.5	0.2
Interest rate swaps	0.8	—	—	—
Total other long-term *	$ 1.4	$ 0.4	$ 0.6	$ 1.6
Total	$ 23.0	$ 4.9	$ 12.4	$ 11.6

* 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 derivatives not designated as hedging 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 September 30, 2018		Three Months Ended September 30, 2017	
(in millions)	Volumes	Gains	Volumes	Gains (Losses)
Natural gas contracts	36.7 Dth	$ 0.4	24.9 Dth	$ (2.1)
Petroleum products contracts	1.3 gallons	0.5	4.4 gallons	(0.5)
FTRs	7.9 MWh	7.1	9.4 MWh	4.2
Total		$ 8.0		$ 1.6

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
(in millions)	Volumes	Gains (Losses)	Volumes	Gains (Losses)
Natural gas contracts	124.7 Dth	$ (7.1)	84.2 Dth	$ (1.1)

Petroleum products contracts	5.1 gallons	1.3	14.2 gallons	(1.4)
FTRs	22.9 MWh	14.7	28.0 MWh	9.4
Total		$ 8.9		$ 6.9

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 September 30, 2018 and December 31, 2017, we had posted cash collateral of $6.8 million and $16.2 million, respectively, in our margin accounts. These amounts were recorded on our balance sheets in other current assets. At September 30, 2018, we had also received cash collateral of $0.1 million in our margin accounts. This amount was recorded on our balance sheet in other current liabilities. We had not received any cash collateral at December 31, 2017.

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

(in millions)	September 30, 2018 Derivative Assets	September 30, 2018 Derivative Liabilities	December 31, 2017 Derivative Assets	December 31, 2017 Derivative Liabilities
Gross amount recognized on the balance sheet	$23.0	$ 4.9	$12.4	$11.6
Gross amount not offset on the balance sheet	(3.7)[(1)]	(3.6)	(4.9)	(9.0)[(2)]
Net amount	$19.3	$ 1.3	$7.5	$2.6

(1) Includes cash collateral received of $0.1 million.

(2) Includes cash collateral posted of $4.1 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. We did not have any derivative instruments with specific credit risk-related contingent features that were in a net liability position at September 30, 2018. The aggregate fair value of all derivative instruments with these features that were in a net liability position at December 31, 2017 was $3.7 million. At December 31, 2017, 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 December 31, 2017, we would have been required to post collateral of $2.7 million.

Cash Flow Hedges

In July 2018, we executed two interest rate swap agreements with a combined notional value of $250.0 million to hedge the variable interest rate risk associated with our 2007 Junior Notes. The swap agreements will provide a fixed interest rate of 4.9765% on $250.0 million of the $500.0 million of outstanding 2007 Junior Notes through November 15, 2021. As these agreements qualified for cash flow hedge accounting treatment, the related gains and losses are being deferred in accumulated other comprehensive income (OCI) and are being amortized to interest expense as interest is accrued on the 2007 Junior Notes.

During 2015, we settled several forward interest rate swap agreements entered into to mitigate interest rate risk associated with the issuance of $1.2 billion of long-term debt related to the acquisition of Integrys. As these agreements qualified for cash flow hedge accounting treatment, the proceeds of $19.0 million received upon settlement were deferred in accumulated OCI and are being amortized as a decrease to interest expense over the periods in which the interest costs are recognized in earnings.

The table below shows the amounts related to these cash flow hedges recorded in OCI and in earnings:

(in millions)	Three Months Ended September 30 2018	Three Months Ended September 30 2017	Nine Months Ended September 30 2018	Nine Months Ended September 30 2017
Amount of net derivative gain recognized in OCI	$ 0.4	$ —	$ 0.4	$ —
Amount of net derivative gain reclassified from accumulated OCI to interest expense	0.2	0.6	1.3	1.7

We estimate that during the next twelve months, $1.6 million will be reclassified from accumulated OCI as a reduction to interest expense.

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NOTE 14—GUARANTEES

The following table shows our outstanding guarantees:

(in millions)	Total Amounts Committed at September 30, 2018	Expiration Less Than 1 Year	1 to 3 Years	Over 3 Years
Guarantees				
Guarantees supporting commodity transactions of subsidiaries [1]	$ 5.6	$5.6	$ —	$—
Standby letters of credit [2]	104.2	25.5	0.2	78.5 [5]
Surety bonds [3]	9.2	9.1	0.1	—
Other guarantees [4]	12.8	0.5	0.9	11.4
Total guarantees	$ 131.8	$40.7	$ 1.2	$89.9

(1) Primarily 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 $12.8 million related to other indemnifications, for which a liability of $11.4 million related to workers compensation coverage was recorded on our balance sheets.

(5) Consists of standby letters of credit that automatically renew each year unless proper termination notice is given.

NOTE 15—EMPLOYEE BENEFITS

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

	Pension Costs			
	Three Months Ended September 30		Nine Months Ended September 30	
(in millions)	2018	2017	2018	2017
Service cost	$11.9	$11.1	$35.7	$33.2
Interest cost	28.5	30.3	85.5	91.7
Expected return on plan assets	(49.2)	(48.8)	(147.6)	(146.9)
Loss on plan settlement	0.4	2.9	1.1	8.2
Amortization of prior service cost	0.7	0.7	2.0	2.2
Amortization of net actuarial loss	23.6	21.5	70.6	64.5
Net periodic benefit cost	$15.9	$17.7	$47.3	$52.9

	OPEB Costs	
	Three Months Ended	Nine Months Ended September 30

	September 30			
(in millions)	2018	2017	2018	2017
Service cost	$5.9	$6.0	$17.7	$17.9
Interest cost	7.5	8.4	22.4	25.3
Expected return on plan assets	(14.9)	(13.6)	(44.6)	(40.9)