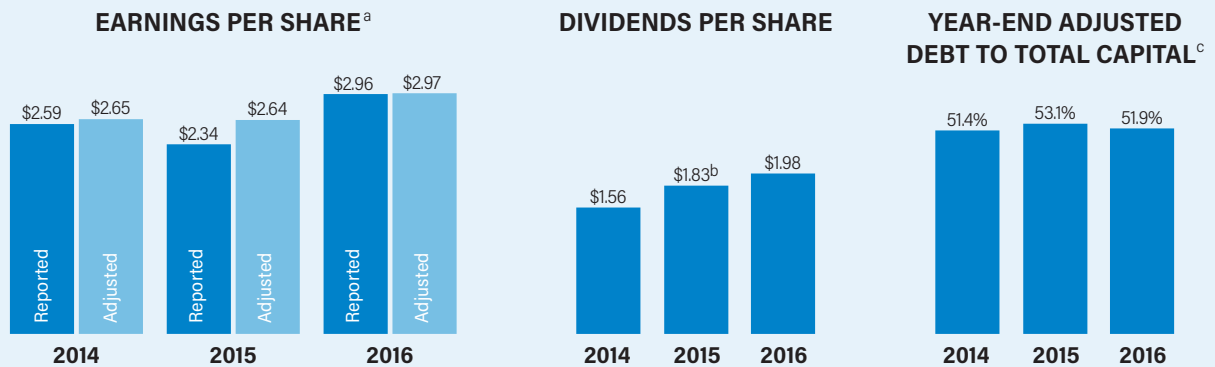




FOCUSED ON THE
FUNDAMENTALS

Financial Highlights



- a. Adjusted earnings per share exclude acquisition costs totaling 6 cents per share, 30 cents per share and 1 cent per share in 2014, 2015 and 2016, respectively. As a result of the June 29, 2015, acquisition of Integrys, the operations of Integrys are included in both reported and adjusted earnings per share for the last two quarters of 2015 and all of 2016.
- b. Annualized based on 4th quarter 2015 dividend of \$0.4575.
- c. Attributes \$250 million of 2007 Series A Junior Subordinated Notes to common equity. A majority of the rating agencies currently attribute at least 50% common equity to these securities. For further details, see Capital Resources under Liquidity and Capital Resources in the 2016 annual financial statements.

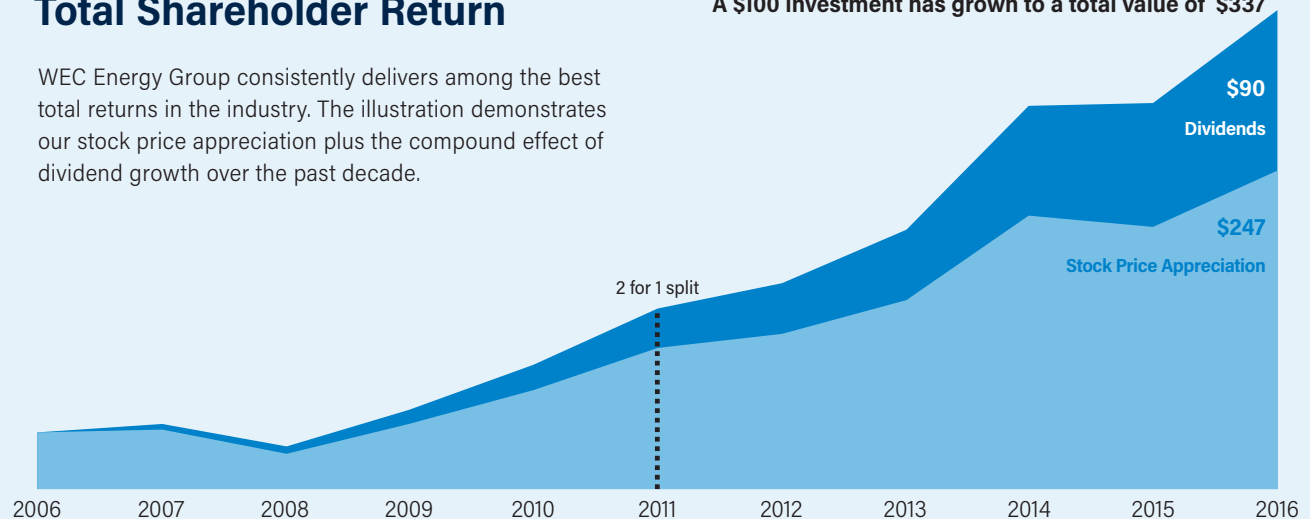
(Dollars in millions, except per share data and percentages)	2016	2015	% Change
Earnings	\$939.0	\$638.5	47%
Earnings per share	\$2.96	\$2.34	26%
Dividends per share	\$1.98	\$1.83 ^a	8%
Dividend yield	3.4%	3.6%	
Diluted average shares outstanding	316.9	272.7	16%
Return on average common equity	10.68%	9.77%	
Book value per share	\$28.29	\$27.41	3%
Total assets	\$30,123	\$29,355	3%
Market price per share at year-end	\$58.65	\$51.31	14%
Market capitalization at year-end	\$18,511	\$16,198	14%

a. Annualized based on 4th quarter 2015 dividend of \$0.4575.

Total Shareholder Return

WEC Energy Group consistently delivers among the best total returns in the industry. The illustration demonstrates our stock price appreciation plus the compound effect of dividend growth over the past decade.

A \$100 investment has grown to a total value of \$337



Dear Fellow Shareholder,

This year's annual report theme — "focused on the fundamentals" — underscores the four core principles of our business: safety, efficiency, reliability and financial discipline. We believe that following these principles will make for an enduring franchise.

These principles guide us as we deliver essential services to our customers: electric power, natural gas and, in downtown Milwaukee, steam. All of these are vital to maintaining healthy businesses and also providing comfort and convenience. In many cases, our systems are critical to saving and maintaining the lives of our customers.

One of things I am most pleased about is our continued progress to achieving zero harm to our employees — what we call "Target Zero." In 2016, WEC Energy Group demonstrated significant improvement in its safety performance. Employee participation in proactive safety reporting and in health and wellness programs grew significantly. In addition, the number of OSHA-recordable incidents and lost-time incidents decreased by almost 17 percent on a year-over-year basis.

Our employees work tirelessly to achieve optimal operational results with a customer focus. We Energies, our

Milwaukee-based utility, was recognized again for its reliability and customer service in 2016. For the sixth year in a row, We Energies received the ReliabilityOne™ Award for Outstanding Reliability Performance in the Midwest. We Energies also was honored with the Outstanding Customer Reliability Experience Award, underscoring the company's effective customer service and communications.

Our utilities continue to improve the critical infrastructure required to provide service to our customers. These investments will renew and modernize our delivery networks, reduce operating costs, and improve reliability and energy efficiency. Some of the most notable initiatives are as follows.

NEW NATURAL GAS STORAGE

In January, we signed an agreement to acquire Bluewater Natural Gas Holding LLC, an underground

Our utilities continue to improve the critical infrastructure required to provide service to our customers.



natural gas storage facility in Michigan that will provide approximately one-third of the storage needs for our natural gas distribution companies in Wisconsin. The total acquisition price is \$230 million.

Bluewater will have three long-term service agreements with our natural gas distribution companies. Under the terms of these agreements, we expect that the risks and returns associated with the investment will be consistent with those that we see in our regulated businesses. In addition, we believe this storage will result in significant savings to our customers over time.

We filed a request with the Public Service Commission of Wisconsin in February for a declaratory ruling to determine if it is reasonable for our Wisconsin natural gas utilities to enter into these transactions. We expect a decision by fall 2017.

IMPROVING RELIABILITY IN NORTHERN WISCONSIN

Wisconsin Public Service is in the process of converting more than 1,000 miles of overhead electric power lines to underground and adding automation equipment on 400 miles of lines to increase reliability for customers. The \$220 million project began in 2014 and was scheduled for completion in 2018; however, the project has brought such benefits to customers that we are proposing to expand it to include an additional 900-plus miles. This approximately \$200 million extension is scheduled to be completed in 2021.

The four core principles of our business are safety, efficiency, reliability and financial discipline.

MODERNIZING CHICAGO'S NATURAL GAS SYSTEM

Peoples Gas is currently in the early stages of a long-term program to replace approximately 2,000 miles of aging pipelines in Chicago. This will ensure the safe and efficient delivery of natural gas to more than 800,000 customers. In the next three years, we're planning on replacing 250 miles with an investment of approximately \$280 million to \$300 million annually. The project is more than 20 percent complete.

NEW RENEWABLE GENERATION

In July 2016, the new powerhouse at the Twin Falls hydroelectric facility achieved commercial operation,

replacing a powerhouse built in 1912. This project has resulted in large improvements in safety and efficiency. Using the same water flow and pressure, with modern turbine technology, the new powerhouse generates 50 percent more clean, reliable and renewable power than the previous one.

A YEAR OF FINANCIAL ACHIEVEMENT

We are delivering on the promised benefits of the Integrys acquisition completed in June 2015. In fact, our efforts to date have resulted in a nearly 6 percent reduction in operations and maintenance expenses compared to our original target of a reduction of 3 to 5 percent. I believe that, as we continue to streamline and consolidate our systems across the enterprise, we will deliver even more benefits.

Since efficiency and financial discipline go hand-in-hand, we were able to achieve our primary financial goal of earning the allowed return on equity at each of our utilities, while also achieving record earnings per share — growing by more than 8 percent in 2016 over our 2015 stand-alone adjusted earnings per share.

At its January 2017 meeting, our board of directors raised the quarterly dividend on the common stock to 52 cents per share — an increase of 2.5 cents, or 5.1 percent over the previous quarterly dividend level. This represents a compound annual growth rate of 6.6 percent from the 2015 fourth-quarter level. Our annual dividend rate stands at \$2.08 per share. The board affirmed our dividend policy that targets a dividend payout ratio of 65 to 70 percent of earnings.

CONTINUING PROGRESS

Looking to the future, I recognize that we need to remain customer-focused and cost-conscious. I also believe that some form of carbon emission regulation is ultimately inevitable. As the regulation of carbon emissions takes shape, our plan is to work with our industry partners, environmental groups and the state of Wisconsin to reduce carbon dioxide emissions by approximately 40 percent below 2005 levels by 2030.

In 2016, about half of the electricity we delivered to our customers was derived from low- or no-carbon sources such as natural gas, nuclear fuel, wind farms and hydroelectric facilities. However, we want to continue to make progress in this area. Relatively flat electricity demand growth, coupled with natural gas and coal economics, have driven us to re-evaluate our generation portfolio. Taken as a group, I want any changes that we

make to reduce costs, preserve fuel diversity and keep us on a path to reducing our carbon emissions.

One example of these changes is our proposal to invest approximately \$275 million in a 180-MW natural-gas-fueled generation facility in the Upper Peninsula of Michigan. We're targeting commercial operation in 2019, at which time we expect to be in a position to retire our coal-fueled Presque Isle Power Plant. This would significantly reduce operations and maintenance expense as well as carbon dioxide emissions.

IN CONCLUSION

Our employees remain the bedrock of our company. We value, support and develop our colleagues who are making a difference every day in a mission that matters. By keeping employees and customers at the heart of our business, and by working every day to help to grow and support the communities we serve, we believe that we can continue to achieve superior results.

Thank you for your investment in WEC Energy Group,

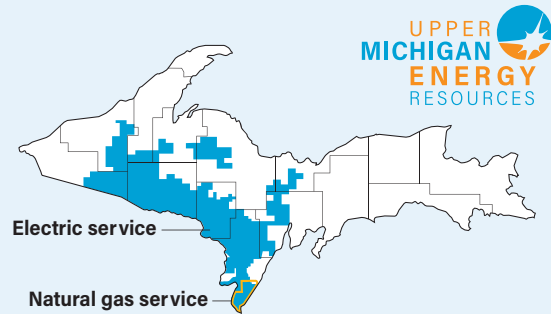


Allen L. Leverett
President and Chief Executive Officer
March 1, 2017



New utility proposes generation solution for Upper Peninsula of Michigan

Upper Michigan Energy Resources Corp. (UMERC), our stand-alone utility in the Upper Peninsula (U.P.) of Michigan, began operation Jan. 1, 2017.



The new utility will help facilitate a future generation solution for the region.

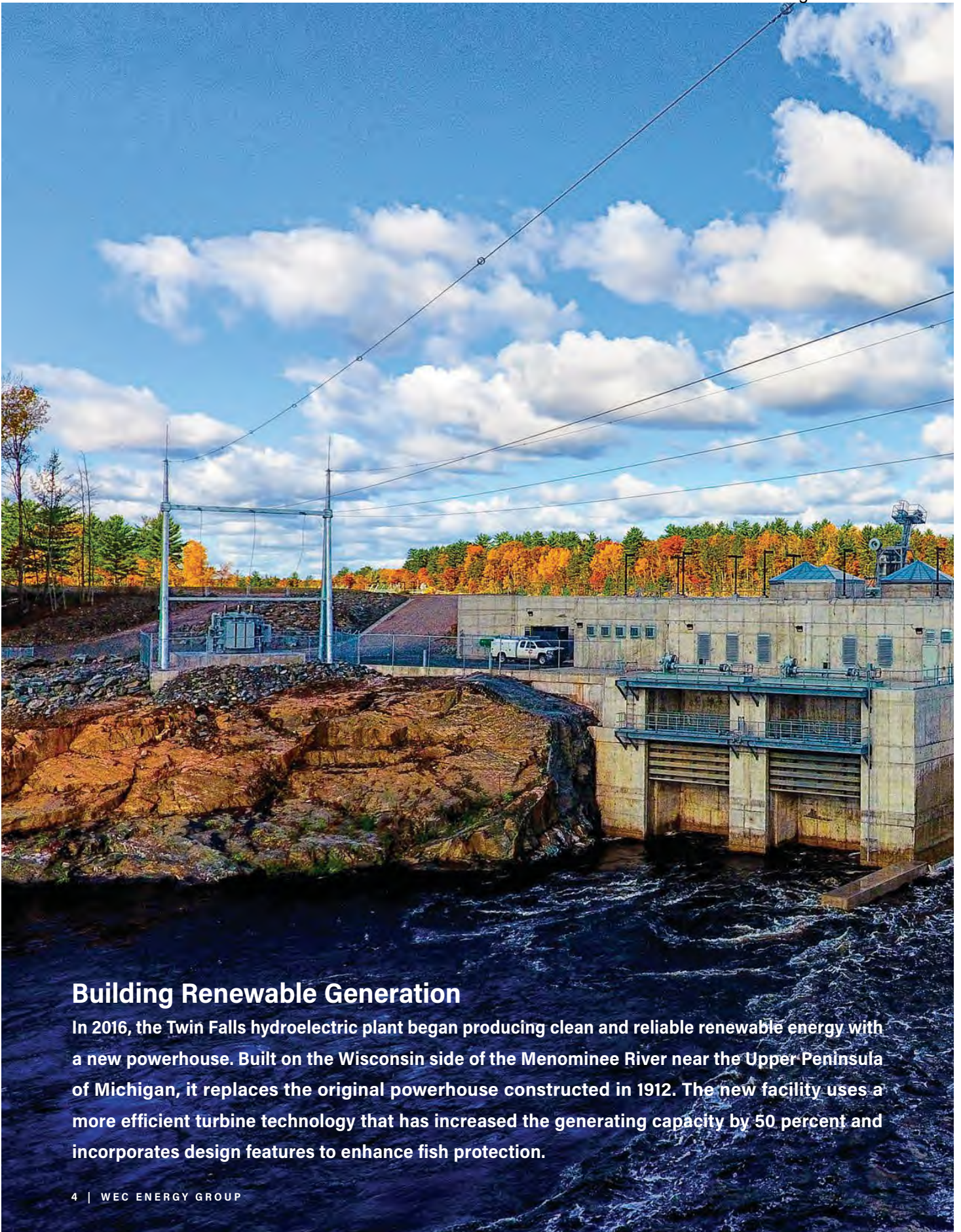
In January, the company filed an application with the Michigan Public Service Commission proposing an estimated \$275 million investment in approximately 180 megawatts of natural gas-fueled generation in two locations — Marquette County and Baraga County. The new generation will assure long-term electric reliability in the U.P. and allow for the retirement of the coal-fueled Presque Isle Power Plant.

The proposed facilities would use electric generators called reciprocating internal combustion engines (RICE). These modular engines run on natural gas and allow for reliable and flexible operations.

This technology also provides the following benefits:

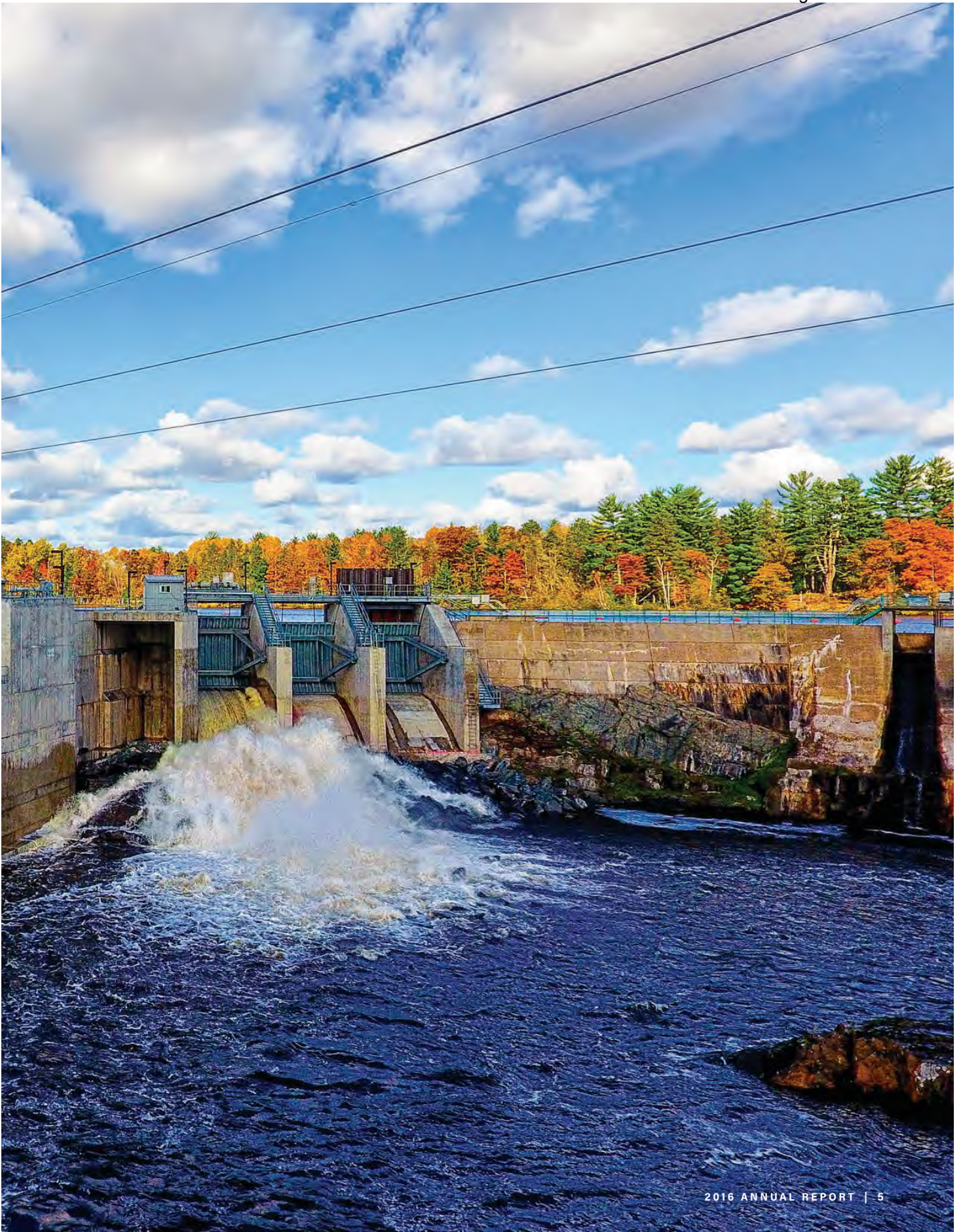
- Efficiency is maintained over a wide range of generation output.
- The environmental impact is very low — including limited water use.
- The engines are delivered and installed in modules, sized for the needed capacity.

If approved, construction is planned to begin in late 2017 or early 2018. Commercial operation is planned for 2019.



Building Renewable Generation

In 2016, the Twin Falls hydroelectric plant began producing clean and reliable renewable energy with a new powerhouse. Built on the Wisconsin side of the Menominee River near the Upper Peninsula of Michigan, it replaces the original powerhouse constructed in 1912. The new facility uses a more efficient turbine technology that has increased the generating capacity by 50 percent and incorporates design features to enhance fish protection.





Upgrading Infrastructure

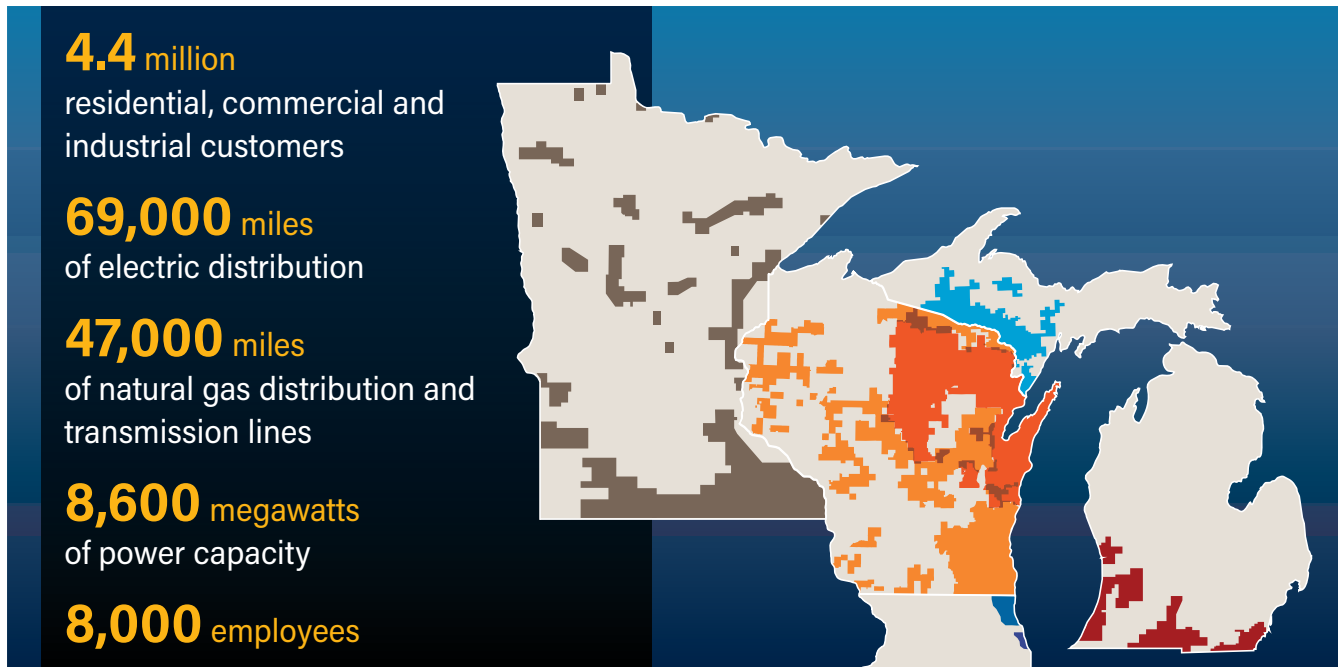
Peoples Gas has completed more than 20 percent of its program to replace approximately 2,000 miles of natural gas pipelines that serve the city of Chicago. This System Modernization Program removes old cast- and ductile-iron pipes and facilities, some of which date back to the 1860s, and installs modern pipes for long-term system safety and reliability.

Improving Reliability

Wisconsin Public Service is in the process of converting more than 1,000 miles of overhead electric power lines to underground to increase reliability for customers. This multi-year project focuses on electric lines that currently have the lowest reliability in the system, primarily in rural areas that are heavily forested. To date, more than 600 miles of electric lines have been converted to underground.



An Energy Industry Leader



WEC Energy Group is one of the nation's largest electric and natural gas delivery companies, with deep operational expertise, scale and financial resources to meet the Midwest region's future energy needs. We provide vital services to nearly 4.4 million customers in Wisconsin, Michigan, Minnesota and Illinois.

In June 2015, WEC Energy Group was formed by Wisconsin Energy Corporation's acquisition of Integrys Energy Group. The acquisition brought together six principal utilities:

- We Energies, delivering electricity, natural gas and steam to more than 2.2 million customers in Wisconsin.
- Wisconsin Public Service, delivering electricity and natural gas to more than 766,000 customers in northeast and central Wisconsin.
- Michigan Gas Utilities, delivering natural gas to more than 174,000 customers in southern and western Michigan.
- Minnesota Energy Resources, delivering natural gas to more than 232,000 customers in communities across Minnesota.
- Peoples Gas, delivering natural gas to more than 843,000 customers in the city of Chicago.
- North Shore Gas, delivering natural gas to more than 159,000 customers in Chicago's northern suburbs.

At the start of 2017, a stand-alone utility was formed to provide electric and natural gas service to more than 41,000 customers previously served by We Energies and Wisconsin Public Service. Upper Michigan Energy Resources Corp. will facilitate a long-term, efficient generation solution in Michigan's Upper Peninsula.

As a Fortune 500 company and the leading energy utility in the Midwest, we are continuing to grow and give back to our communities. The four core principles of our business are safety, efficiency, reliability and financial discipline.





2016 ANNUAL FINANCIAL STATEMENTS AND REVIEW OF OPERATIONS

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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
Bostco	Bostco LLC
DATC	Duke-American Transmission Company
ERGSS	Elm Road Generating Station Supercritical, LLC
Integrys	Integrys Holding, Inc. (previously known as Integrys Energy Group, Inc.)
ITF	Integrys Transportation Fuels, LLC
MERC	Minnesota Energy Resources Corporation
MGU	Michigan Gas Utilities Corporation
NSG	North Shore Gas Company
PDL	WPS Power Development LLC
PELLC	Peoples Energy, LLC
PGL	The Peoples Gas Light and Coke Company
UMERC	Upper Michigan Energy Resources Corporation
WBS	WEC Business Services LLC
WE	Wisconsin Electric Power Company
We Power	W.E. Power, LLC
WECC	Wisconsin Energy Capital Corporation
WG	Wisconsin Gas LLC
Wispark	Wispark LLC
Wisvest	Wisvest LLC
WPS	Wisconsin Public Service Corporation
WRPC	Wisconsin River Power Company

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	Securities and Exchange Commission
WDNR	Wisconsin Department of Natural Resources

Accounting Terms

AFUDC	Allowance for Funds Used During Construction
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CWIP	Construction Work in Progress
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
LIFO	Last-In, First-Out
OPEB	Other Postretirement Employee Benefits

Environmental Terms

Act 141	2005 Wisconsin Act 141
CAA	Clean Air Act
CO ₂	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
GHG	Greenhouse Gas
MATS	Mercury and Air Toxics Standards
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO _x	Nitrogen Oxide
SO ₂	Sulfur Dioxide

Measurements

Dth	Dekatherm (One Dth equals one million Btu)
MDth	One thousand Dekatherms
MW	Megawatt (One MW equals one million Watts)
MWh	Megawatt-hour

Other Terms and Abbreviations

6.11% Junior Notes	Integrys's 2006 6.11% Junior Subordinated Notes Due 2066
ALJ	Administrative Law Judge
ARRs	Auction Revenue Rights
CNG	Compressed Natural Gas
Compensation Committee	Compensation Committee of the Board of Directors
D.C. Circuit Court of Appeals	United States Court of Appeals for the District of Columbia
ERGS	Elm Road Generating Station
ER 1	Elm Road Generating Station Unit 1
ER 2	Elm Road Generating Station Unit 2
Exchange Act	Securities Exchange Act of 1934, as amended
FTRs	Financial Transmission Rights
GCRM	Gas Cost Recovery Mechanism
LMP	Locational Marginal Price
MCPP	Milwaukee County Power Plant
Merger Agreement	Agreement and Plan of Merger, dated as of June 22, 2014, between Integrys Energy Group, Inc. and Wisconsin Energy Corporation
MISO	Midcontinent Independent System Operator, Inc.
MISO Energy Markets	MISO Energy and Operating Reserves Market
NYMEX	New York Mercantile Exchange
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
Omnibus Stock Incentive Plan	WEC Energy Group 1993 Omnibus Stock Incentive Plan, Amended and Restated Effective as of January 1, 2016
PIPP	Presque Isle Power Plant
Point Beach	Point Beach Nuclear Power Plant
PWGS	Port Washington Generating Station
PWGS 1	Port Washington Generating Station Unit 1
PWGS 2	Port Washington Generating Station Unit 2
ROE	Return on Equity
RTO	Regional Transmission Organization
SMP	Gas System Modernization Program
SMRP	System Modernization and Reliability Project
SSR	System Support Resource
Supreme Court	United States Supreme Court
Treasury Grant	Section 1603 Renewable Energy Treasury Grant
VAPP	Valley Power Plant

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding earnings, completion of capital projects, sales and customer growth, rate actions and related filings with regulatory authorities, environmental and other regulations and associated compliance costs, legal proceedings, dividend payout ratios, effective tax rate, pension and OPEB plans, fuel costs, sources of electric energy supply, coal and natural gas deliveries, remediation costs, liquidity and capital resources, and other matters.

Forward-looking statements are subject to a number of risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in the statements. These risks and uncertainties include those identified below:

- Factors affecting utility operations such as catastrophic weather-related damage, environmental incidents, unplanned facility outages and repairs and maintenance, and electric transmission or natural gas pipeline system constraints;
- Factors affecting the demand for electricity and natural gas, including political developments, unusual weather, changes in economic conditions, customer growth and declines, commodity prices, energy conservation efforts, and continued adoption of distributed generation by customers;
- The timing, resolution, and impact of rate cases and negotiations, including recovery of deferred and current costs and the ability to earn a reasonable return on investment, and other regulatory decisions impacting our regulated operations;
- The ability to obtain and retain customers, including wholesale customers, due to increased competition in our electric and natural gas markets from retail choice and alternative electric suppliers, and continued industry consolidation;
- The timely completion of capital projects within budgets, as well as the recovery of the related costs through rates;
- The impact of federal, state, and local legislative and regulatory changes, including changes in rate-setting policies or procedures, tax law changes, deregulation and restructuring of the electric and/or natural gas utility industries, transmission or distribution system operation, the approval process for new construction, reliability standards, pipeline integrity and safety standards, allocation of energy assistance, and energy efficiency mandates;
- Federal and state legislative and regulatory changes relating to the environment, including climate change and other environmental regulations impacting generation facilities and renewable energy standards, the enforcement of these laws and regulations, changes in the interpretation of permit conditions by regulatory agencies, and the recovery of associated remediation and compliance costs;
- 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;

- The risk of financial loss, including increases in bad debt expense, associated with the inability of our customers, counterparties, and affiliates to meet their obligations;
- Changes in the creditworthiness of the counterparties with whom we have contractual arrangements, including participants in the energy trading markets and fuel suppliers and transporters;
- The direct or indirect effect on our business resulting from terrorist incidents, the threat of terrorist incidents, and cyber security intrusion, including the failure to maintain the security of personally identifiable information, the associated costs to protect our assets and personal information, and the costs to notify affected persons to mitigate their information security concerns;
- The financial performance of ATC and its corresponding contribution to our earnings, as well as the ability of ATC and DATC to obtain the required approvals for their transmission projects;
- The investment performance of our employee benefit plan assets, as well as unanticipated changes in related actuarial assumptions, which could impact future funding requirements;
- Factors affecting the employee workforce, including loss of key personnel, internal restructuring, work stoppages, and collective bargaining agreements and negotiations with union employees;
- Advances in technology that result in competitive disadvantages and create the potential for impairment of existing assets;
- The timing, costs, and anticipated benefits associated with the remaining integration efforts relating to the Integrys acquisition;
- The risk associated with the values of goodwill and other intangible assets and their possible impairment;
- Potential business strategies to acquire and dispose of assets or businesses, which cannot be assured to be completed timely or within budgets, and legislative or regulatory restrictions or caps on non-utility acquisitions, investments or projects, including the State of Wisconsin's public utility holding company law;
- The timing and outcome of any audits, disputes, and other proceedings related to taxes;
- The effect of accounting pronouncements issued periodically by standard-setting bodies; and
- Other considerations disclosed elsewhere herein and in other reports we file with the SEC or in other publicly disseminated written documents.

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

BUSINESS OF THE COMPANY

WEC Energy Group, Inc. was incorporated in the state of Wisconsin in 1981 and became a diversified holding company in 1986. On June 29, 2015, Wisconsin Energy Corporation acquired 100% of the outstanding common shares of Integrys Energy Group and changed its name to WEC Energy Group, Inc. We maintain our principal executive offices in Milwaukee, Wisconsin.

In this report, when we refer to "us," "we," "our," or "ours," we are referring to WEC Energy Group, Inc. The term "utility" refers to the regulated activities of our electric and natural gas utility companies, while the term "non-utility" refers to the activities of our electric and natural gas utility companies that are not regulated, as well as We Power. The term "nonregulated" refers to activities at our Corporate and Other Segment.

Our wholly owned subsidiaries are primarily engaged in the business of providing regulated electricity service in Wisconsin and Michigan and regulated natural gas service in Wisconsin, Illinois, Michigan and Minnesota. In addition, we have an approximate 60% equity interest in ATC, an electric transmission company operating mainly in four states. At December 31, 2016, we conducted our operations in the six reportable segments discussed below.

Wisconsin Segment: The Wisconsin segment primarily consists of the electric and natural gas utility and non-utility operations of WE, WG, and WPS, including WE's electric and WPS's electric and natural gas operations in the Upper Peninsula of Michigan that were transferred to UMERC. In December 2016, both the MPSC and the PSCW approved the operation of UMERC as a stand-alone utility in the Upper Peninsula of Michigan. UMERC became operational effective January 1, 2017, and WE and WPS transferred customers and property, plant, and equipment as of that date.

At December 31, 2016, these companies served approximately 1,596,700 electric customers and 1,437,900 natural gas customers. This segment also includes steam service to approximately 400 WE steam customers in metropolitan Milwaukee, Wisconsin.

Illinois Segment: The Illinois segment consists of the natural gas utility and non-utility operations of PGL and NSG. The approximately 1,003,400 natural gas customers served by PGL and NSG at December 31, 2016, were located in Chicago and the northern suburbs of Chicago. PGL also owns and operates a 38.3 Bcf natural gas storage field in central Illinois.

Other States Segment: The other states segment includes the natural gas utility and non-utility operations of MERC and MGU. These companies served approximately 407,000 natural gas customers at December 31, 2016, with MERC serving customers in various cities and communities throughout Minnesota, and MGU serving customers in the southern portion of lower Michigan.

Electric Transmission Segment: The electric transmission segment includes our approximate 60% ownership interest in ATC, a federally regulated electric transmission company. ATC owns, maintains, monitors, and operates electric transmission systems mainly in Wisconsin, Michigan, Illinois, and Minnesota.

In addition, we own approximately 68% of ATC Holdco, LLC, a separate entity formed in December 2016 to invest in transmission related projects outside of ATC's traditional footprint. As of December 31, 2016, operations were not significant. However, in January 2017, a subsidiary of ATC Holdco and Arizona Electric Power Cooperative entered into a joint operating agreement to develop transmission projects in Arizona and the Southwestern United States.

We Power Segment: We Power, through wholly owned subsidiaries, owns and leases to WE, certain generating facilities. PWGS 1 and PWGS 2, both natural gas-fired generating units, are being leased to WE under long-term leases that run for 25 years. ER 1 and ER 2, both coal-fired generating units, are being leased to WE under long-term leases that run for 30 years.

Corporate and Other Segment: The corporate and other segment includes the operations of the WEC Energy Group holding company, the Integrys holding company, and the PELLC holding company, as well as the operations of Wispark, Bostco, Wisvest, WECC, WBS, PDL, and ITF.

Bostco and Wispark develop and invest in real estate, and combined they had \$69.0 million in real estate holdings at December 31, 2016. WBS is a wholly owned centralized service company that provides administrative and general support services to our regulated utilities, as well as certain services to our nonregulated entities. PDL owns distributed renewable solar projects. We completed the sale of ITF, which provided CNG products and services in multiple states, in

February 2016. In April 2016, as part of the sale of WE's Milwaukee County Power Plant, we sold the chilled water generation and distribution assets of Wisvest, which provided chilled water services to the Milwaukee Regional Medical Center.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CORPORATE DEVELOPMENTS

INTRODUCTION

We are a diversified holding company with natural gas and electric utility operations (serving customers in Wisconsin, Illinois, Michigan, and Minnesota), an approximately 60% equity ownership interest in ATC (a federally regulated electric transmission company), and non-utility electric operations through our We Power business. See Note 24, Segment Information, for information on our reportable business segments.

CORPORATE STRATEGY

Our goal is to continue to create long-term value for our shareholders and our customers by focusing on the following:

Reliability

We have made significant reliability-related investments in recent years, and plan to continue making significant capital investments to strengthen and modernize the reliability of our generation and distribution networks. Below are a few examples of reliability projects that are currently underway.

- UMERC, our newly created Michigan electric and natural gas utility, is proposing a long-term generation solution for electric reliability in the Upper Peninsula of Michigan. The plan calls for UMERC to construct and operate approximately 180 MW of natural gas-fired generation that will be located in the Upper Peninsula of Michigan. The new generation would provide the region with affordable, reliable electricity that generates less emissions than PIPP. Subject to regulatory approval, the new generation is expected to achieve commercial operation in 2019 and should allow for the retirement of PIPP no later than 2020. For more information, see Note 22, Regulatory Environment.
- PGL is continuing to work on its SMP, which primarily involves replacing old cast and ductile iron gas pipes and facilities in the city of Chicago's natural gas delivery system with modern polyethylene pipes to reinforce the long-term safety and reliability of the system.
- WPS continues work on its SMRP, which involves modernizing parts of its electric distribution system by burying or upgrading lines. The project focuses on electric lines that currently have the lowest reliability in its system, primarily in rural areas that are heavily forested. WPS is planning to expand the scope of this project with SMRP Phase II. If approved, SMRP Phase II will address areas of WPS's service territory where reliability is sub-standard to a lesser degree than the areas addressed in the initial phase of the SMRP.

Operating Efficiency

We continually look for ways to optimize the operating efficiency of our company. For example, we received approval from the PSCW to make changes at ERGS to enable the facility to burn coal from the Powder River Basin located in the western United States. The coal plant was originally designed to burn coal mined from the eastern United States. This project is creating flexibility and has enabled the plant to operate at lower costs, placing it in a better position to be called upon in the MISO Energy Markets, resulting in lower fuel costs for our customers.

Post merger, we continue to focus on integrating and improving business processes and consolidating our IT infrastructure. We expect the emphasis we are placing on these integration efforts to continue to drive operational efficiency and to put us in position to effectively support plans for future growth.

Financial Discipline

A strong adherence to financial discipline is essential to meeting our earnings projections and maintaining a strong balance sheet, stable cash flows, attractive dividends, and quality credit ratings.

We follow an asset management strategy that focuses on investing in and acquiring assets consistent with our strategic plans, as well as disposing of assets, including property, plant, and equipment and entire business units, that are no longer strategic to operations, are not performing as intended, or have an unacceptable risk profile.

- See Note 2, Acquisitions, for information about our acquisition of Integrys and the pending acquisition of a natural gas storage facility in Michigan.
- See Note 3, Dispositions, for information on the sale of ITF and the MCPP.

Our primary investment opportunities are in three areas: our regulated utility business, our investment in ATC, and our generation plants within our We Power segment. Over the next five years, we expect capital contributions to ATC and ATC Holdco to be approximately \$350 million. Capital investments will be funded utilizing these capital contributions, in addition to cash generated from operations and debt. We currently forecast that our share of ATC's and ATC Holdco's projected capital expenditures over the next five years will be \$1.4 billion inside the traditional ATC footprint and \$300 million outside of the traditional ATC footprint.

Excluding ATC, we expect total capital expenditures for our retail utilities to be approximately \$9.7 billion over the next five years. Ongoing projects are discussed in more detail within Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.

Exceptional Customer Care

Our approach is driven by an intense focus on delivering exceptional customer care every day. We strive to provide the best value for our customers by embracing constructive change, leveraging our capabilities and expertise, and using creative solutions to meet or exceed our customers' expectations.

One example of how we obtain feedback from our customers is through our "We Care" calls, where employees of our utility subsidiaries contact customers after a completed service call. This program began many years ago at We Energies (the trade name of WE and WG), and is now being rolled out to the Integrys utilities. Customer satisfaction is a priority, and making "We Care" calls is one of the main methods we use to gauge our performance in order to improve customer satisfaction.

RESULTS OF OPERATIONS

CONSOLIDATED EARNINGS

The following table compares our consolidated results:

<i>(in millions, except per share data)</i>	Year Ended December 31		
	2016	2015	2014
Wisconsin	\$ 1,027.0	\$ 884.2	\$ 770.2
Illinois	239.6	78.1	—
Other states	49.9	6.0	—
We Power	375.6	373.4	368.0
Corporate and other	(10.0)	(91.2)	(26.1)
Total operating income	1,682.1	1,250.5	1,112.1
Equity in earnings of transmission affiliate	146.5	96.1	66.0
Other income, net	80.8	58.9	13.4
Interest expense	402.7	331.4	240.3
Income before income taxes	1,506.7	1,074.1	951.2
Income tax expense	566.5	433.8	361.7
Preferred stock dividends of subsidiary	1.2	1.8	1.2
Net income attributed to common shareholders	\$ 939.0	\$ 638.5	\$ 588.3
Diluted earnings per share	\$ 2.96	\$ 2.34	\$ 2.59

2016 Compared with 2015

Earnings increased \$300.5 million in 2016, driven by a \$201.7 million increase in earnings due to the inclusion of a full year of Integrys's results for 2016, compared to six months of Integrys's results for 2015. Integrys was acquired on June 29, 2015. See Note 2, Acquisitions, for more information.

The most significant factor driving the remaining \$98.8 million increase in earnings was a \$104.1 million pre-tax (\$80.1 million after tax) decrease in acquisition costs in 2016.

2015 Compared with 2014

Earnings increased \$50.2 million in 2015, driven by a \$30.1 million net increase in earnings due to the inclusion of Integrys's results for the last six months of 2015, partially offset by acquisition costs recorded by us and our subsidiaries. Also contributing to the increase was a \$20.8 million pre-tax gain (\$12.5 million after tax) from the sale of Minergy LLC and its remaining financial assets in June 2015.

Non-GAAP Financial Measure

The discussions below address the operating income contribution of each of our segments and include financial information prepared in accordance with GAAP, as well as electric margins and natural gas margins, which are not measures of financial performance under GAAP. Electric margin (electric revenues less fuel and purchased power costs) and natural gas margin (natural gas revenues less cost of natural gas sold) are non-GAAP financial measures because they exclude other operation and maintenance expense, depreciation and amortization, and property and revenue taxes.

We believe that electric and natural gas margins provide a more meaningful basis for evaluating utility operations than operating revenues since the majority of prudently incurred fuel and purchased power costs, as well as prudently incurred natural gas costs, are passed through to customers in current rates. As a result, management uses electric and natural gas margins internally when assessing the operating performance of our segments as these measures exclude the majority of revenue fluctuations caused by changes in these expenses. Similarly, the presentation of electric and natural gas margins herein is intended to provide supplemental information for investors regarding our operating performance.

Our electric margins and natural gas margins may not be comparable to similar measures presented by other companies. Furthermore, these measures are not intended to replace operating income as determined in accordance with GAAP as an indicator of our segment operating performance. Operating income for each of the last three fiscal years for each of our segments is presented in the "Consolidated Earnings" table above.

Each applicable segment operating income discussion below includes a table that provides the calculation of electric margins and natural gas margins, as applicable, along with a reconciliation to segment operating income.

WISCONSIN SEGMENT CONTRIBUTION TO OPERATING INCOME

For the periods presented in this report, our Wisconsin operations included operations of WE and WG for all periods, and operations of WPS beginning July 1, 2015, due to the acquisition of Integrys and its subsidiaries on June 29, 2015.

<i>(in millions)</i>	Year Ended December 31		
	2016	2015	2014
Electric revenues	\$ 4,628.1	\$ 4,068.5	\$ 3,445.2
Fuel and purchased power	1,473.1	1,369.3	1,228.1
Total electric margins	3,155.0	2,699.2	2,217.1
Natural gas revenues	1,177.6	1,122.6	1,496.1
Cost of natural gas sold	621.2	640.5	1,036.1
Total natural gas margins	556.4	482.1	460.0
Total electric and natural gas margins	3,711.4	3,181.3	2,677.1
Other operation and maintenance	2,025.4	1,741.0	1,462.7
Depreciation and amortization	496.6	408.6	323.2
Property and revenue taxes	162.4	147.5	121.0
Operating income	\$ 1,027.0	\$ 884.2	\$ 770.2

The following table shows a breakdown of other operation and maintenance:

<i>(in millions)</i>	Year Ended December 31		
	2016	2015	2014
Operation and maintenance not included in line items below	\$ 881.9	\$ 744.2	\$ 607.4
We Power ⁽¹⁾	513.2	510.7	462.1
Transmission ⁽²⁾	423.2	341.3	278.6
Regulatory amortizations and other pass through expenses ⁽³⁾	157.4	144.8	114.6
Earnings sharing mechanisms	24.4	—	—
Other	25.3	—	—
Total other operation and maintenance	\$ 2,025.4	\$ 1,741.0	\$ 1,462.7

⁽¹⁾ Represents costs associated with the We Power generation units, including operating and maintenance, as well as the lease payments that are billed from We Power to WE and then recovered in WE's rates. During 2016, 2015, and 2014, \$528.4 million, \$483.4 million, and \$475.7 million, respectively, of both lease and operating and maintenance costs were billed to WE, with the difference in costs billed and expenses incurred deferred or deducted from the regulatory asset.

⁽²⁾ The PSCW has approved escrow accounting for ATC and MISO network transmission expenses for our Wisconsin electric utilities. As a result, WE and WPS defer as a regulatory asset or liability the differences between actual transmission costs and those included in rates until recovery or refund is authorized in a future rate proceeding. During 2016, 2015, and 2014, \$486.0 million, \$388.6 million, and \$302.4 million, respectively, of costs were billed by transmission providers to our electric utilities.

⁽³⁾ Regulatory amortizations and other pass through expenses are substantially offset in margins and therefore do not have a significant impact on operating income.

The following tables provide information on delivered volumes by customer class and weather statistics:

Electric Sales Volumes	Year Ended December 31		
	MWh (in thousands)		
	2016	2015	2014
Customer class			
Residential	10,998.9	9,218.9	7,946.3
Small commercial and industrial *	13,113.1	10,889.2	8,843.1
Large commercial and industrial *	13,418.6	11,545.8	9,795.3
Other	172.2	162.6	148.7
Total retail *	37,702.8	31,816.5	26,733.4
Wholesale	3,704.6	2,588.1	1,852.8
Resale	8,761.6	9,077.1	6,497.9
Total sales in MWh *	50,169.0	43,481.7	35,084.1

* Includes distribution sales for customers who have purchased power from an alternative electric supplier in Michigan.

Natural Gas Sales Volumes	Year Ended December 31		
	Therms (in millions)		
	2016	2015	2014
Customer class			
Residential	1,014.9	859.4	911.5
Commercial and industrial	610.5	527.4	571.7
Total retail	1,625.4	1,386.8	1,483.2
Transport	1,270.6	994.2	838.5
Total sales in therms	2,896.0	2,381.0	2,321.7

Weather	Year Ended December 31		
	Degree Days		
	2016	2015	2014
WE and WG ⁽¹⁾			
Heating (6,679 normal)	6,068	6,468	7,616
Cooling (694 normal)	991	622	464
WPS ⁽²⁾			
Heating (7,498 normal)	6,715	2,215	N/A
Cooling (488 normal)	572	396	N/A

⁽¹⁾ Normal heating and cooling degree days are based on a 20-year moving average of monthly temperatures from Mitchell International Airport in Milwaukee, Wisconsin.

⁽²⁾ Normal heating and cooling degree days are based on a 20-year moving average of monthly temperatures from the Green Bay, Wisconsin weather station. Degree days for 2015 have been included for the period from July 1, 2015, through December 31, 2015.

2016 Compared with 2015

Electric Utility Margins

Electric utility margins at the Wisconsin segment increased \$455.8 million during 2016, compared with 2015. The increase was primarily driven by a \$386.4 million margin contribution from WPS during the first six months of 2016, compared with no margin contribution from WPS for the first six months of 2015.

The significant factors impacting the remaining \$69.4 million increase in electric utility margins at the Wisconsin segment were:

- A \$50.4 million increase related to higher retail sales volumes during 2016, primarily driven by warmer summer weather. As measured by cooling degree days, 2016 was 59.3% warmer than 2015 in the Milwaukee area.

- The expiration of \$12.5 million of bill credits refunded to customers in 2015 related to the Treasury Grant WE received in connection with its biomass facility.
- An \$11.3 million increase in the last six months of 2016 as a result of WPS's PSCW rate order, effective January 1, 2016. See Note 22, Regulatory Environment, for more information.

These increases were partially offset by a \$12.9 million decrease in wholesale margins driven by a reduction in capacity sales year-over-year at WE in addition to a reduction in sales volumes at WPS for the second half of 2016, compared with the same period in 2015. Certain wholesale customers have provisions in their contracts, which allowed them to reduce the amount of energy we provided to them.

Natural Gas Utility Margins

Natural gas utility margins at the Wisconsin segment increased \$74.3 million during 2016, compared with 2015. The increase in natural gas utility margins was driven by a \$63.6 million margin contribution from WPS during the first six months of 2016, compared with no margin contribution from WPS for the first six months of 2015.

The most significant factor impacting the remaining \$10.7 million increase in natural gas utility margins at the Wisconsin segment was an \$18.1 million net increase from both WG's rate order effective January 1, 2016, and a partially offsetting negative impact from WPS's rate order during the last six months of 2016. See Note 22, Regulatory Environment, for more information. This net increase was partially offset by a \$3.2 million decrease related to lower sales volumes during 2016, primarily driven by warmer winter weather. As measured by heating degree days, 2016 was 6.2% warmer than 2015 in the Milwaukee area.

Operating Income

Operating income at the Wisconsin segment increased \$142.8 million during 2016, compared with 2015. The increase was driven by the \$530.1 million increase in margins discussed above, partially offset by \$387.3 million of higher operating expenses (which include other operation and maintenance, depreciation and amortization, and property and revenues taxes). Higher operating expenses were driven by \$321.6 million of operating expenses from WPS during the first six months of 2016, compared with no operating expenses from WPS for the first six months of 2015.

The significant factors impacting the remaining \$65.7 million increase in operating expenses at the Wisconsin segment were:

- A \$27.0 million increase in depreciation and amortization, driven by an overall increase in utility plant in service. In November 2015, WG completed the Western Gas lateral project, and WE completed the conversion of the fuel source for VAPP from coal to natural gas.
- A \$25.3 million increase in expenses in 2016 related to a focus on projects that were beneficial to customers and the communities within our service territories.
- A \$24.4 million expense related to the earnings sharing mechanisms in place at WE and WG, effective January 1, 2016. See the PSCW conditions of approval related to the Integrys acquisition in Note 2, Acquisitions, for more information.

These increases in operating expenses were partially offset by a \$16.4 million positive impact at WE from the sale of the MCPP in April 2016, including a gain on sale and lower operating costs in 2016. See Note 3, Dispositions, for more information.

2015 Compared with 2014

Electric Utility Margins

Electric utility margins at the Wisconsin segment increased \$482.1 million during 2015, compared with 2014. The increase was primarily driven by a \$399.1 million margin contribution from WPS during the last six months of 2015, compared with no margin contribution from WPS during 2014.

The remaining \$83.0 million increase in electric margins at WE was driven by:

- A \$38.4 million increase as a result of the PSCW rate order, effective January 1, 2015. See Note 22, Regulatory Environment, for more information.
- A \$35.0 million increase driven by the escrow accounting treatment of the SSR revenues in the PSCW rate order, effective January 1, 2015. See Note 22, Regulatory Environment, for more information.
- A \$24.2 million increase due to the return of the iron ore mines as customers in February 2015. The two iron ore mines, which we served on an interruptible tariff rate, switched to an alternative electric supplier effective September 1, 2013. Effective February 1, 2015, the owner of the two mines returned them as retail customers. In 2015, we deferred, and expect to continue to defer, the margin from those sales and apply these amounts for the benefit of Wisconsin retail electric customers in a future rate proceeding. Michigan state law allows the mines to switch to an alternative electric supplier after sufficient notice. A large portion of this increase in margins was offset by higher transmission expense included in other operation and maintenance expense at WE.
- A \$10.4 million positive impact from collections of fuel and purchased power costs compared with costs approved in rates in 2015, compared with 2014. Under the Wisconsin fuel rules, the margins of our electric utilities are impacted by under or over-collections of certain fuel and purchased power costs that are less than a 2% price variance from the costs included in rates, and the remaining variance that exceeds the 2% variance is deferred.
- A \$6.2 million increase primarily due to lower fly ash removal costs in 2015.
- A partially offsetting \$22.3 million decrease related to sales volume variances in 2015. This decrease was driven by lower margins from residential customers in 2015, primarily due to lower weather-normalized use per customer and warmer weather during the heating season.
- A partially offsetting \$10.8 million decrease in wholesale margins driven by a reduction in sales volumes in 2015.

Natural Gas Utility Margins

Natural gas utility margins at the Wisconsin segment increased \$22.1 million during 2015, compared with 2014. The increase was related to a \$57.9 million margin contribution from WPS during the last six months of 2015, compared with no margin contribution from WPS during 2014. This increase was partially offset by a decrease in natural gas margins at WE and WG of \$35.8 million in 2015.

The most significant factor impacting the \$35.8 million lower natural gas utility margins at WE and WG was a \$42.7 million decrease in sales volumes in 2015, largely related to warmer weather during the heating season as well as lower weather-normalized use per customer. As measured by heating degree days, 2015 was 15.1% warmer than 2014. This decrease in margins was partially offset by a \$6.4 million net increase in margins as a result of the impact of the WE and WG PSCW rate orders, effective January 1, 2015. See Note 22, Regulatory Environment, for more information.

Operating Income

Operating income at the Wisconsin segment increased \$114.0 million during 2015, compared with 2014. The increase was driven by the \$504.2 million increase in margins discussed above, partially offset by \$390.2 million of higher operating expenses (which include other operation and maintenance, depreciation and amortization, and property and revenues taxes). Higher operating expenses were driven by \$334.2 million of operating expenses from WPS during the last six months of 2015, compared with no operating expenses from WPS during 2014.

The significant factors impacting the remaining \$56.0 million of higher operating expenses at WE and WG were:

- A \$48.6 million increase from higher lease expense related to the We Power leases and associated operating and maintenance expenses as approved in WE's PSCW rate order, effective January 1, 2015.
- A \$24.5 million increase in depreciation and amortization expense, driven by:
 - An overall increase in utility plant in service in 2015. In November 2015, WG completed the Western Gas lateral project, and WE completed the conversion of the fuel source for VAPP from coal to natural gas.

- New depreciation studies approved by the PSCW for both the utilities, effective January 1, 2015.
- A \$7.7 million reduction in income received in 2015 from the Treasury Grant WE received in connection with the completion of its biomass plant in November 2013. The lower grant income corresponds to lower bill credits provided to WE's retail electric customers in Wisconsin.
- A \$16.0 million increase in transmission expense from MISO and ATC related to the iron ore mines returning as customers in February 2015.
- A combined \$6.0 million increase in property and revenues taxes in 2015.

These increases in operating expenses were partially offset by:

- A \$16.1 million decrease in employee benefit costs in 2015 driven by lower performance units share-based compensation, deferred compensation, and medical costs.
- A \$9.3 million decrease in electric and natural gas distribution costs in 2015, related to amortization of design software and maintenance costs.

ILLINOIS SEGMENT CONTRIBUTION TO OPERATING INCOME

<i>(in millions)</i>	Year Ended December 31	
	2016	2015
Natural gas revenues	\$ 1,242.2	\$ 503.4
Cost of natural gas sold	365.2	133.2
Total natural gas margins	877.0	370.2
Other operation and maintenance	485.1	219.6
Depreciation and amortization	134.0	63.3
Property and revenue taxes	18.3	9.2
Operating income	\$ 239.6	\$ 78.1

The following table shows a breakdown of other operation and maintenance:

<i>(in millions)</i>	Year Ended December 31	
	2016	2015
Operation and maintenance not included in the line items below	\$ 385.3	\$ 196.0
Riders *	82.3	20.2
Regulatory amortizations *	2.7	1.3
Other	14.8	2.1
Total other operation and maintenance	\$ 485.1	\$ 219.6

* Riders and regulatory amortizations are substantially offset in margins and therefore do not have a significant impact on operating income.

The following tables provide information on delivered volumes by customer class and weather statistics:

Natural Gas Sales Volumes	Therms <i>(in millions)</i>	
	2016	2015
Customer Class		
Residential	905.6	300.7
Commercial and industrial	187.6	63.2
Total retail	1,093.2	363.9
Transport	855.3	328.4
Total sales in therms	1,948.5	692.3

Weather *	Degree Days	
	2016	2015
Heating (6,154 normal)	5,713	1,813

* Normal heating degree days are based on a 12-year moving average of monthly temperatures from Chicago's O'Hare Airport.

We did not have any operations in Illinois until our acquisition of Integrys on June 29, 2015. Since the majority of PGL and NSG customers use natural gas for heating, operating income is sensitive to weather and is generally higher during the winter months.

Natural Gas Utility Margins

Natural gas utility margins at the Illinois segment increased \$506.8 million during 2016, compared with 2015. The increase was primarily driven by a \$467.8 million margin contribution from the Illinois segment during the first six months of 2016, compared to no margin contribution from this segment for the first six months of 2015.

The significant factors impacting the remaining \$39.0 million increase in natural gas utility margins at the Illinois segment were:

- A \$26.3 million increase in margins related to the riders included in the table above during the last six months of 2016, compared with the last six months of 2015. PGL and NSG recover certain operating expenses directly through separate riders, resulting in no impact on operating income as increases in operating expenses are offset by equal increases in margins.
- A \$10.8 million increase in revenue at PGL due to continued capital investment in projects under its Qualifying Infrastructure Plant rider. PGL currently recovers the costs related to the SMP through a surcharge on customer bills pursuant to an ICC approved Qualifying Infrastructure Plant rider, which is in effect through 2023.

Operating Income

Operating income at the Illinois segment increased \$161.5 million during 2016, compared with 2015. The increase was primarily driven by the \$506.8 million increase in margin discussed above, partially offset by:

- Operating expenses of \$308.2 million during the first six months of 2016, compared with no operating expenses during the first six months of 2015.
- A \$26.3 million increase in other operation and maintenance expenses related to the riders included in the table above during the last six months of 2016, compared with the last six months of 2015.
- A \$9.7 million increase in other operation and maintenance expenses during the last six months of 2016 compared with the last six months of 2015, due to an increase in expenses related to a focus on projects that were beneficial to customers and the communities within our service territory.

OTHER STATES SEGMENT CONTRIBUTION TO OPERATING INCOME

<i>(in millions)</i>	Year Ended December 31	
	2016	2015
Natural gas revenues	\$ 376.5	\$ 149.3
Cost of natural gas sold	182.3	76.9
Total natural gas margins	194.2	72.4
Other operation and maintenance	110.1	50.0
Depreciation and amortization	21.1	10.0
Property and revenue taxes	13.1	6.4
Operating income	\$ 49.9	\$ 6.0

The following table shows a breakdown of other operation and maintenance:

<i>(in millions)</i>	Year Ended December 31	
	2016	2015
Operation and maintenance not included in line items below	\$ 86.4	\$ 43.2
Regulatory amortizations and other pass through expenses *	23.6	6.7
Other	0.1	0.1
Total other operation and maintenance	\$ 110.1	\$ 50.0

* Regulatory amortizations and other pass through expenses are substantially offset in margins and therefore do not have a significant impact on operating income.

The following tables provide information on delivered volumes by customer class and weather statistics:

Natural Gas Sales Volumes	Therms <i>(in millions)</i>	
	2016	2015
Customer Class		
Residential	278.5	84.7
Commercial and industrial	178.2	60.9
Total retail	456.7	145.6
Transport	696.2	279.6
Total sales in therms	1,152.9	425.2

Weather *	Degree Days	
	2016	2015
Heating (7,182 normal)	6,450	2,193

* Normal heating degree days for MERC and MGU are based on a 20-year moving average and 15-year moving average, respectively, of monthly temperatures from various weather stations throughout their respective territories.

We did not have any operations in this segment until our acquisition of Integrys on June 29, 2015. Since the majority of MERC and MGU customers use natural gas for heating, operating income is sensitive to weather and is generally higher during the winter months.

Natural Gas Utility Margins

Natural gas utility margins at the other states segment increased \$121.8 million during 2016, compared with 2015. The increase was primarily driven by a \$110.4 million margin contribution from the other states segment during the first six months of 2016, compared to no margin contribution from this segment for the first six months of 2015.

The significant factors impacting the remaining \$11.4 million increase in natural gas utility margins at the other states segment were:

- A \$3.9 million increase in the last six months of 2016 as a result of various rate orders. The MERC interim rate order was effective January 1, 2016, and accounted for \$2.5 million of the rate increase. The MGU rate order was also effective January 1, 2016, and accounted for \$1.4 million to the rate increase. See Note 22, Regulatory Environment, for more information.
- A \$3.0 million increase related to higher sales volumes during the last six months of 2016, driven by colder weather. As measured by heating degree days, the last six months of 2016 were 8.2% colder than the last six months of 2015 for these respective territories.
- A \$1.6 million increase related to the MERC conservation improvement program financial incentive as a result of exceeding certain energy savings goals.

Operating Income

Operating income at the other states segment increased \$43.9 million during 2016, compared with 2015. The increase was driven by the \$121.8 million increase in margins discussed above, partially offset by \$77.9 million of higher operating expenses. Higher operating expenses were driven primarily by \$76.3 million of operating expenses from the other states segment during the first six months of 2016, compared with no operating expenses during the first six months of 2015.

WE POWER SEGMENT CONTRIBUTION TO OPERATING INCOME

<i>(in millions)</i>	Year Ended December 31		
	2016	2015	2014
Operating income	\$ 375.6	\$ 373.4	\$ 368.0

2016 Compared with 2015

Operating income at the We Power segment increased \$2.2 million, or 0.6%, when compared to 2015. This increase was primarily related to higher revenues in connection with capital additions to the plants it owns and leases to WE.

2015 Compared with 2014

Operating income at the We Power segment increased \$5.4 million, or 1.5%, when compared to 2014. This increase was primarily related to higher revenues in connection with capital additions to the plants it owns and leases to WE.

CORPORATE AND OTHER SEGMENT CONTRIBUTION TO OPERATING INCOME

<i>(in millions)</i>	Year Ended December 31		
	2016	2015	2014
Operating loss	\$ (10.0)	\$ (91.2)	\$ (26.1)

2016 Compared with 2015

The operating loss at the corporate and other segment decreased \$81.2 million when compared to 2015, driven by a reduction in costs as a result of the acquisition of Integrys. See Note 2, Acquisitions, for more information regarding costs associated with the acquisition.

2015 Compared with 2014

The operating loss at the corporate and other segment increased \$65.1 million when compared to 2014, driven by costs associated with the acquisition of Integrys on June 29, 2015.

ELECTRIC TRANSMISSION SEGMENT OPERATIONS

<i>(in millions)</i>	Year Ended December 31		
	2016	2015	2014
Equity in earnings of transmission affiliate	\$ 146.5	\$ 96.1	\$ 66.0

2016 Compared with 2015

Earnings from our ownership interest in ATC increased \$50.4 million when compared to 2015, primarily driven by the increase in our ownership interest from 26.2% to approximately 60% as a result of the acquisition of Integrys on June 29, 2015. In addition, lower equity earnings in 2015 were driven by an ALJ initial decision in December 2015 related to the ATC ROE reviews, which was later affirmed by a FERC order in 2016. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results, Liquidity, and Capital Resources – Other Matters – American Transmission Company Allowed Return on Equity Complaints below for more information on these decisions.

2015 Compared with 2014

Earnings from our ownership interest in ATC increased \$30.1 million when compared to 2014, primarily driven by the increase in our ownership interest from 26.2% to approximately 60% as a result of the acquisition of Integrys. This increase was partially offset by lower earnings recognized by ATC, as ATC further reduced earnings in 2015 related to an anticipated refund to customers resulting from a complaint filed with the FERC requesting a lower ROE for certain transmission owners.

CONSOLIDATED OTHER INCOME, NET

<i>(in millions)</i>	Year Ended December 31		
	2016	2015	2014
AFUDC – Equity	\$ 25.1	\$ 20.1	\$ 5.6
Gain on repurchase of notes	23.6	—	—
Gain on asset sales	19.6	22.9	7.5
Other, net	12.5	15.9	0.3
Other income, net	\$ 80.8	\$ 58.9	\$ 13.4

2016 Compared with 2015

Other income, net increased by \$21.9 million when compared to 2015. This increase was primarily due to the repurchase of a portion of Integrys's 6.11% Junior Notes at a discount in February 2016, as well as higher AFUDC due to the inclusion of AFUDC from the Integrys companies post acquisition. See Note 14, Long-Term Debt and Capital Lease Obligations, for more information on the repurchase. Partially offsetting this increase was a \$19.6 million gain recorded in April 2016 from the sale of the chilled water generation and distribution assets of Wisvest, compared with a \$20.8 million gain from the sale of Minergy LLC and its remaining financial assets in June 2015, as well as excise tax credits recognized by ITF in 2015. ITF was sold in the first quarter of 2016. See Note 3, Dispositions, for more information on our asset sales.

2015 Compared with 2014

Other income, net increased by \$45.5 million when compared to 2014. This increase was primarily due to the \$20.8 million gain from the sale of Minergy LLC and its remaining financial assets in June 2015, as well as higher AFUDC – Equity due to the inclusion of AFUDC from the Integrys companies post acquisition.

CONSOLIDATED INTEREST EXPENSE

<i>(in millions)</i>	Year Ended December 31		
	2016	2015	2014
Interest expense	\$ 402.7	\$ 331.4	\$ 240.3

2016 Compared with 2015

Interest expense increased \$71.3 million, or 21.5%, when compared to 2015. The increase was primarily driven by \$68.5 million of interest expense from Integrys and its subsidiaries during the first six months of 2016, compared to no interest expense from these companies during the same period in 2015. Additionally, we issued \$1.2 billion of long-term debt in June 2015 to finance a portion of the cash consideration for the acquisition of Integrys. This was offset, in part, by the repurchase of a portion of the 6.11% Junior Notes in February 2016. These notes were replaced with lower-interest rate short-term debt.

2015 Compared with 2014

Interest expense increased \$91.1 million, or 37.9%, when compared to 2014, primarily due to higher debt levels. We assumed approximately \$3.0 billion of debt from Integrys and its subsidiaries upon the closing of the acquisition on June 29, 2015. Additionally, we issued \$1.2 billion of long-term debt in June 2015 to finance a portion of the cash consideration for the acquisition of Integrys.

CONSOLIDATED INCOME TAX EXPENSE

	Year Ended December 31		
	2016	2015	2014
Effective tax rate	37.6%	40.4%	38.0%

2016 Compared with 2015

Our effective tax rate was 37.6% in 2016 compared to 40.4% in 2015. This decrease was primarily related to a charge in 2015 to remeasure our state deferred income taxes as a result of the acquisition of Integrys. See Note 15, Income Taxes, for more information. We expect our 2017 annual effective tax rate to be between 37.0% and 38.0%.

2015 Compared with 2014

Our effective tax rate was 40.4% in 2015 compared to 38.0% in 2014. This increase in our effective tax rate was primarily related to a charge in 2015 to remeasure our state deferred income taxes as a result of the acquisition of Integrys.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

The following table summarizes our cash flows for the years ended December 31:

(in millions)	2016	2015	2014	Change in 2016 Over 2015	Change in 2015 Over 2014
Cash provided by (used in):					
Operating activities	\$ 2,103.5	\$ 1,293.6	\$ 1,198.9	\$ 809.9	\$ 94.7
Investing activities	(1,270.1)	(2,517.5)	(756.8)	1,247.4	(1,760.7)
Financing activities	(845.7)	1,211.8	(406.2)	(2,057.5)	1,618.0

Operating Activities

2016 Compared with 2015

Net cash provided by operating activities increased \$809.9 million during 2016. This increase was driven by \$466.6 million of net cash flows from the operating activities of Integrys during the first six months of 2016, since Integrys was acquired on June 29, 2015. See Note 2, Acquisitions, for more information.

The remaining \$343.3 million increase in net cash provided by operating activities was driven by:

- A \$377.9 million increase in cash resulting from lower payments for natural gas and fuel and purchased power, due to lower commodity prices and warmer weather during the 2016 heating season. The average per-unit cost of natural gas sold decreased 18.5% in 2016.
- A \$94.2 million decrease in contributions and payments to our pension and OPEB plans during 2016.
- A \$44.1 million increase in cash due to lower collateral requirements during 2016, driven by an increase in the fair value of our derivative instruments. See Note 20, Derivative Instruments, for more information.
- A \$29.2 million increase in cash received for income taxes, primarily due to a Wisconsin state income tax refund received in the fourth quarter of 2016.

These increases in net cash provided by operating activities were partially offset by a \$210.8 million decrease in cash related to lower overall collections from customers. Collections from customers decreased primarily because of lower commodity prices and warmer weather during the 2016 heating season.

2015 Compared with 2014

Net cash provided by operating activities increased \$94.7 million during 2015, driven by a \$141.6 million increase related to net cash flows from the operating activities of Integrys during the last six months of 2015.

The \$46.9 million decrease in net cash provided by operating activities from the legacy Wisconsin Energy Corporation companies was driven by:

- A \$418.0 million decrease in cash related to lower overall collections from customers during 2015. Collections from customers decreased primarily because of lower commodity prices and warmer weather during the 2015 heating season. The average per-unit cost of natural gas sold decreased 33.1% in 2015.
- A \$141.4 million decrease in cash related to higher payments for operating and maintenance costs during 2015, primarily due to costs related to the acquisition of Integrys.
- A \$96.8 million increase in contributions and payments to our pension and OPEB plans during 2015.

These decreases in net cash provided by operating activities from the legacy Wisconsin Energy Corporation companies were partially offset by a \$592.4 million increase in cash resulting from lower payments for natural gas and fuel and purchased power, due to lower commodity prices and warmer weather during the 2015 heating season.

Investing Activities

2016 Compared with 2015

Net cash used in investing activities decreased \$1,247.4 million during 2016, driven by:

- An investment of \$1,329.9 million in June 2015 related to the acquisition of Integrys, which is net of cash acquired of \$156.3 million. See Note 2, Acquisitions, for more information.
- A \$137.4 million increase in the proceeds received from the sale of certain assets and businesses during 2016. See Note 3, Dispositions, for more information.

These decreases in net cash used in investing activities were partially offset by:

- A \$157.5 million increase in cash paid for capital expenditures, which is discussed in more detail below.
- A \$33.6 million increase in our capital contributions to ATC, driven by both the continued investment in equipment and facilities by ATC to improve reliability and the increase in our ATC ownership interest as a result of the June 2015 Integrys acquisition. See Note 4, Investment in American Transmission Company, for more information.

2015 Compared with 2014

Net cash used in investing activities increased \$1,760.7 million during 2015, driven by:

- An investment of \$1,329.9 million in June 2015 related to the acquisition of Integrys, which is net of cash acquired of \$156.3 million.
- A \$505.0 million increase in cash paid for capital expenditures during 2015, which is discussed in more detail below.

These increases in cash used for investing activities were partially offset by:

- A \$17.3 million increase in cash related to the receipt of the cash surrender value of Integrys corporate-owned life insurance policies in 2015.
- A \$15.0 million increase in proceeds from asset sales, driven by the sale of Minergy LLC and its remaining financial assets in 2015.

Capital Expenditures

Capital expenditures by segment for the years ended December 31 were as follows:

Reportable Segment (in millions)	2016	2015	2014	Change in 2016 over 2015	Change in 2015 over 2014
Wisconsin	\$ 910.9	\$ 950.3	\$ 715.0	\$ (39.4)	\$ 235.3
Illinois	293.2	194.4	—	98.8	194.4
Other states	59.5	34.7	—	24.8	34.7
We Power	62.3	53.4	41.0	8.9	12.4
Corporate and other	97.8	33.4	5.2	64.4	28.2
Total capital expenditures	\$ 1,423.7	\$ 1,266.2	\$ 761.2	\$ 157.5	\$ 505.0

2016 Compared with 2015

The decrease in cash paid for capital expenditures at the Wisconsin segment during 2016 was driven by lower capital expenditures as a result of the November 2015 completion of both WG's Western Gas Lateral project, which improved the reliability of WG's natural gas distribution network in the western part of Wisconsin, and WE's coal to natural gas conversion project at VAPP. Also contributing to the decrease were lower payments at WE for environmental compliance projects and electric distribution upgrades. The inclusion of WPS for all of 2016, as compared with only the last six months of 2015, substantially offset these lower capital expenditures. WPS's capital expenditures of \$154.1 million during the first six months of 2016 related to the ReACT™ emission control technology project at Weston Unit 3, a combustion turbine project at the Fox Energy Center, and the SMRP, a project to underground and upgrade certain electric distribution facilities in northern Wisconsin.

The increase in cash paid for capital expenditures at the Illinois segment during 2016 was due to the inclusion of PGL and NSG for all of 2016, compared with only the last six months of 2015. Capital expenditures at the Illinois segment were driven primarily by the SMP at PGL.

The increase in cash paid for capital expenditures at the other states segment during 2016 was due to the inclusion of MERC and MGU for all of 2016, compared with only the last six months of 2015. MERC's and MGU's capital expenditures of \$22.7 million during the first six months of 2016 primarily related to natural gas distribution systems and mains.

The increase in cash paid for capital expenditures at the corporate and other segment during 2016 was driven by a project to implement a new enterprise resource planning system and an information technology project created to improve the billing, call center, and credit collection functions of the Integrys subsidiaries.

See Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Capital Requirements – Capital Expenditures and Significant Capital Projects for more information.

2015 Compared with 2014

The increase in capital expenditures at the Wisconsin segment during 2015 was primarily due to the inclusion of WPS as a result of the Integrys acquisition on June 29, 2015. Significant projects included in WPS's 2015 capital expenditures were the ReACT™ emission control technology project at Weston Unit 3 and the SMRP. The Wisconsin segment also included increased expenditures in 2015 related to WG's Western Gas Lateral project. These increases were partially offset by lower capital expenditures in 2015 for WE's conversion of the fuel source for VAPP from coal to natural gas, as most of the capital expenditures related to this project were incurred in 2014.

The Illinois segment includes capital expenditures from PGL and NSG as a result of the Integrys acquisition on June 29, 2015. In 2015, PGL incurred significant capital expenditures related to the SMP.

The other states segment includes capital expenditures from MERC and MGU as a result of the Integrys acquisition on June 29, 2015.

Financing Activities

2016 Compared with 2015

Net cash related to financing activities decreased \$2,057.5 million during 2016, driven by:

- A \$1,526.4 million net decrease in cash due to a \$1,750.0 million decrease in the issuance of long-term debt during 2016, partially offset by \$223.6 million of lower repayments of long-term debt during 2016. We issued \$1,200.0 million of long-term debt during 2015 in connection with the acquisition of Integrys.
- A \$397.8 million net decrease in cash due to \$234.8 million of net repayments of commercial paper during 2016 compared with \$163.0 million of net borrowings of commercial paper during 2015.
- A \$169.5 million increase in dividends paid on common stock during 2016, due to the issuance of 90.2 million shares of our common stock in June 2015 as a result of the Integrys acquisition and increases to our quarterly dividend rate. See Note 2, Acquisitions, for more information.
- A \$33.3 million increase in cash used to purchase shares of our common stock during 2016 to satisfy requirements of our stock-based compensation plans.

These decreases in net cash related to financing activities were partially offset by a \$52.7 million increase in cash due to the redemption of all of WPS's preferred stock during 2015.

2015 Compared with 2014

Net cash related to financing activities increased \$1,618.0 million during 2015, driven by:

- A \$1,900.0 million increase in the issuance of long-term debt during 2015, of which \$1,200.0 million related to the acquisition of Integrys.
- An \$82.8 million increase in net borrowings of commercial paper during 2015.

These increases in net cash related to financing activities were partially offset by:

- A \$205.3 million increase in retirements of long-term debt during 2015, of which \$130.1 million related to legacy Integrys and its subsidiaries.
- A \$103.4 million increase in dividends paid on common stock due to the issuance of 90.2 million shares of our common stock in June 2015 as a result of the Integrys acquisition and an increase in our quarterly dividend rate effective with the closing of the acquisition.
- A \$52.7 million decrease in cash due to the redemption of all of WPS's preferred stock during 2015.

Significant Financing Activities

For more information on our financing activities, see Note 13, Short-Term Debt and Lines of Credit, and Note 14, Long-Term Debt and Capital Lease Obligations.

CAPITAL RESOURCES AND REQUIREMENTS

Capital Resources

Liquidity

We anticipate meeting our capital requirements for our existing operations through internally generated funds and short-term borrowings, supplemented by the issuance of intermediate or long-term debt securities, depending on market conditions and other factors.

We currently have access to the capital markets and have been able to generate funds internally and externally to meet our capital requirements. Our ability to attract the necessary financial capital at reasonable terms is critical to our overall

strategic plan. We currently believe that we have adequate capacity to fund our operations for the foreseeable future through our existing borrowing arrangements, access to capital markets, and internally generated cash.

WEC Energy Group, WE, WG, WPS, and PGL maintain bank back-up credit facilities, which provide liquidity support for each company's obligations with respect to commercial paper and for general corporate purposes. We review our bank back-up credit facility needs on an ongoing basis and expect to be able to maintain adequate credit facilities to support our operations. See Note 13, Short-Term Debt and Lines of Credit, for more information about these credit facilities.

The following table shows our capitalization structure as of December 31, 2016 and 2015, as well as an adjusted capitalization structure that we believe is consistent with how the rating agencies currently view our 2007 6.25% Series A Junior Subordinated Notes due 2067 (6.25% Junior Notes):

<i>(in millions)</i>	2016		2015	
	Actual	Adjusted	Actual	Adjusted
Common equity	\$ 8,929.8	\$ 9,179.8	\$ 8,654.8	\$ 8,904.8
Preferred stock of subsidiary	30.4	30.4	30.4	30.4
Long-term debt (including current maturities)	9,315.4	9,065.4	9,281.8	9,031.8
Short-term debt	860.2	860.2	1,095.0	1,095.0
Total capitalization	\$ 19,135.8	\$ 19,135.8	\$ 19,062.0	\$ 19,062.0
Total debt	\$ 10,175.6	\$ 9,925.6	\$ 10,376.8	\$ 10,126.8
Ratio of debt to total capitalization	53.2%	51.9%	54.4%	53.1%

Included in long-term debt on our balance sheets as of December 31, 2016 and 2015, is \$500.0 million principal amount of 6.25% Junior Notes. The adjusted presentation attributes \$250.0 million of the 6.25% Junior Notes to common equity and \$250.0 million to long-term debt. As a result of Integrys's repurchase and retirement of some of its 6.11% Junior Notes, we were informed by one rating agency that it will no longer attribute equity credit to Integrys's remaining junior subordinated notes, consisting of \$114.9 million aggregate principal amount of the 6.11% Junior Notes, and \$400.0 million aggregate principal amount of its 6.00% Junior Subordinated Notes due 2073. Therefore, the Integrys junior subordinated notes are no longer being adjusted in the table above. For additional information on the repurchase of the 6.11% Junior Notes, see Note 14, Long-Term Debt and Capital Lease Obligations.

The adjusted presentation of our consolidated capitalization structure is presented as a complement to our capitalization structure presented in accordance with GAAP. Management evaluates and manages our capitalization structure, including our total debt to total capitalization ratio, using the GAAP calculation as adjusted by the rating agency treatment of the 6.25% Junior Notes. Therefore, we believe the non-GAAP adjusted presentation reflecting this treatment is useful and relevant to investors in understanding how management and the rating agencies evaluate our capitalization structure.

For a summary of the interest rate, maturity, and amount outstanding of each series of our long-term debt on a consolidated basis, see our capitalization statements.

As described in Note 11, Common Equity, certain restrictions exist on the ability of our subsidiaries to transfer funds to us. We do not expect these restrictions to have any material effect on our operations or ability to meet our cash obligations.

At December 31, 2016, we were in compliance with all covenants related to outstanding short-term and long-term debt. We expect to be in compliance with all such debt covenants for the foreseeable future. See Note 13, Short-Term Debt and Lines of Credit, for more information about our credit facilities and other short-term credit agreements. See Note 14, Long-Term Debt and Capital Lease Obligations, for more information about our long-term debt.

Working Capital

As of December 31, 2016, our current liabilities exceeded our current assets by approximately \$262.9 million. We do not expect this to have any impact on our liquidity since we believe we have adequate back-up lines of credit in place for ongoing operations. We also can access the capital markets to finance our construction programs and to refinance current maturities of long-term debt, if necessary.

Credit Rating Risk

We do not have any credit agreements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. However, we have certain agreements in the form of commodity contracts and employee benefit plans that could require collateral or a termination payment in the event of a credit rating change to below BBB- at S&P Global Ratings and/or Baa3 at Moody's Investors Service. We also have other commodity contracts that, in the event of a credit rating downgrade, could result in a reduction of our unsecured credit granted by counterparties.

In addition, access to capital markets at a reasonable cost is determined in large part by credit quality. Any credit ratings downgrade could impact our ability to access capital markets.

Subject to other factors affecting the credit markets as a whole, we believe our current ratings should provide a significant degree of flexibility in obtaining funds on competitive terms. However, these security ratings reflect the views of the rating agency only. An explanation of the significance of these ratings may be obtained from the rating agency. Such ratings are not a recommendation to buy, sell, or hold securities. Any rating can be revised upward or downward or withdrawn at any time by a rating agency.

Capital Requirements

Contractual Obligations

We have the following contractual obligations and other commercial commitments as of December 31, 2016:

<i>(in millions)</i>	Payments Due by Period ⁽¹⁾				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt obligations ⁽²⁾	\$ 17,658.0	\$ 555.3	\$ 1,943.2	\$ 1,700.4	\$ 13,459.1
Capital lease obligations ⁽³⁾	85.3	13.9	30.2	33.6	7.6
Operating lease obligations ⁽⁴⁾	95.5	9.9	14.7	10.8	60.1
Energy and transportation purchase obligations ⁽⁵⁾	11,977.5	1,137.7	1,716.2	1,344.7	7,778.9
Purchase orders ⁽⁶⁾	1,129.5	721.8	226.5	88.4	92.8
Pension and OPEB funding obligations ⁽⁷⁾	170.1	113.3	56.8	—	—
Capital contributions to equity method investments	24.1	24.1	—	—	—
Total contractual obligations	\$ 31,140.0	\$ 2,576.0	\$ 3,987.6	\$ 3,177.9	\$ 21,398.5

⁽¹⁾ The amounts included in the table are calculated using current market prices, forward curves, and other estimates.

⁽²⁾ Principal and interest payments on long-term debt (excluding capital lease obligations).

⁽³⁾ Capital lease obligations for power purchase commitments. This amount does not include We Power leases to WE which are eliminated upon consolidation.

⁽⁴⁾ Operating lease obligations for power purchase commitments and rail car leases.

⁽⁵⁾ Energy and transportation purchase obligations under various contracts for the procurement of fuel, power, gas supply, and associated transportation related to utility operations.

⁽⁶⁾ Purchase obligations related to normal business operations, information technology, and other services.

⁽⁷⁾ Obligations for pension and OPEB plans cannot reasonably be estimated beyond 2019.

The table above does not include liabilities related to the accounting treatment for uncertainty in income taxes because we are not able to make a reasonably reliable estimate as to the amount and period of related future payments at this time. For additional information regarding these liabilities, refer to Note 15, Income Taxes.

AROs in the amount of \$557.7 million are not included in the above table. Settlement of these liabilities cannot be determined with certainty, but we believe the majority of these liabilities will be settled in more than five years.

Obligations for utility operations have historically been included as part of the rate-making process and therefore are generally recoverable from customers.

Capital Expenditures and Significant Capital Projects

We have several capital projects that will require significant capital expenditures over the next three years and beyond. All projected capital requirements are subject to periodic review and may vary significantly from estimates, depending on a number of factors. These factors include environmental requirements, regulatory restraints and requirements, changes in tax laws and regulations, acquisition and development opportunities, market volatility, and economic trends. Our estimated capital expenditures for the next three years are as follows:

<i>(in millions)</i>	2017	2018	2019
Wisconsin	\$ 1,376.1	\$ 1,270.5	\$ 1,203.8
Illinois	544.8	517.7	523.4
Other states	91.0	102.7	106.8
We Power	38.4	35.0	36.4
Corporate and other	131.9	30.9	28.9
Total	\$ 2,182.2	\$ 1,956.8	\$ 1,899.3

WPS is continuing work on the SMRP. This project includes converting more than 1,000 miles of overhead distribution power lines to underground in northern Wisconsin and adding distribution automation equipment on 400 miles of lines. WPS expects to invest approximately \$45 million annually through 2018. Subject to regulatory review, Phase II of the SMRP will expand the scope and cost of the original SMRP and will consist of over 900 miles of underground circuit installation. WPS expects to invest approximately \$200 million between 2018 and 2021 related to Phase II. WE, WPS, and WG will also continue to upgrade their electric and natural gas distribution systems to enhance reliability.

In connection with the formation of UMERC, we entered into an agreement with Tilden Mining Company under which it will purchase electric power from UMERC for 20 years. The agreement calls for UMERC to construct and operate approximately 180 MW of natural gas-fired generation located in the Upper Peninsula of Michigan. The estimated cost of this project is approximately \$265 million (\$275 million including AFUDC). See Note 22, Regulatory Environment, for more information about UMERC and this new generation.

In January 2017, we signed an agreement for the acquisition of a natural gas storage facility in Michigan for \$225 million that would provide approximately one-third of the storage needs for our Wisconsin natural gas utilities. In addition, we expect to incur approximately \$5 million of acquisition related costs. See Note 2, Acquisitions, for more information on this transaction.

PGL is continuing work on the SMP, a project under which PGL is replacing approximately 2,000 miles of Chicago's aging natural gas pipeline infrastructure. PGL currently recovers these costs through a surcharge on customer bills pursuant to an ICC approved Qualifying Infrastructure Plant rider, which is in effect through 2023. PGL's projected average annual investment through 2019 is between \$280 million and \$300 million.

We expect to provide capital contributions to ATC (not included in the above table) of approximately \$226 million from 2017 through 2019.

Common Stock Matters

For information related to our common stock matters, see Note 11, Common Equity.

On January 19, 2017, our Board of Directors increased our quarterly dividend to \$0.52 per share effective with the first quarter of 2017 dividend payment, which equates to an annual dividend of \$2.08 per share. In addition, the Board of Directors affirmed our dividend policy that continues to target a dividend payout ratio of 65-70% of earnings.

Investments in Outside Trusts

We use outside trusts to fund our pension and certain OPEB obligations. These trusts had investments of approximately \$3.5 billion as of December 31, 2016. These trusts hold investments that are subject to the volatility of the stock market and interest rates. We contributed \$28.7 million, \$121.0 million, and \$13.9 million to our pension and OPEB plans in 2016, 2015, and 2014, respectively. In January 2017, we contributed \$100.0 million to the pension plans. Future contributions to the plans will be dependent upon many factors, including the performance of existing plan assets and long-term discount rates. For additional information, see Note 17, Employee Benefits.

Off-Balance Sheet Arrangements

We are a party to various financial instruments with off-balance sheet risk as a part of our normal course of business, including financial guarantees and letters of credit that support construction projects, commodity contracts, and other payment obligations. We believe that these agreements do not have, and are not reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. For additional information, see Note 13, Short-Term Debt and Lines of Credit, Note 16, Guarantees, and Note 21, Variable Interest Entities.

FACTORS AFFECTING RESULTS, LIQUIDITY, AND CAPITAL RESOURCES

MARKET RISKS AND OTHER SIGNIFICANT RISKS

We are exposed to market and other significant risks as a result of the nature of our businesses and the environments in which those businesses operate. These risks, described in further detail below, include but are not limited to:

Regulatory Recovery

Our utilities account for their regulated operations in accordance with accounting guidance under the Regulated Operations Topic of the FASB ASC. Our rates are determined by various regulatory commissions.

Regulated entities are allowed to defer certain costs that would otherwise be charged to expense if the regulated entity believes the recovery of those costs is probable. We record regulatory assets pursuant to specific orders or by a generic order issued by our regulators. Recovery of these deferred costs in future rates is subject to the review and approval by those regulators. We assume the risks and benefits of ultimate recovery of these items in future rates. If the recovery of these deferred costs, including those referenced below, is not approved by our regulators, the costs would be charged to income in the current period. In general, our regulatory assets are recovered over a period of between one to six years. Regulators can impose liabilities on a prospective basis for amounts previously collected from customers and for amounts that are expected to be refunded to customers. We record these items as regulatory liabilities. As of December 31, 2016, our regulatory assets were \$3,138.3 million, and our regulatory liabilities were \$1,597.2 million.

We expect to request or have requested recovery of the costs related to the following projects discussed in recent or pending rate proceedings, orders, and investigations involving our utilities:

- In June 2016, the PSCW approved deferral of costs related to WPS's ReACT™ project above the originally authorized \$275.0 million level through 2017. WPS will be required to obtain a separate approval for collection of these deferred costs.
- Prior to its acquisition, Integrys initiated an information technology project with the goal of improving the customer experience at its subsidiaries. Specifically, the project is expected to provide functional and technological benefits to the billing, call center, and credit collection functions. As of December 31, 2016, we had received no significant disallowances of the costs incurred for this project. We will be required to obtain approval for the recovery of additional costs incurred through the completion of this long-term project.
- In January 2014, the ICC approved PGL's use of the Qualifying Infrastructure Plant rider as a recovery mechanism for costs incurred related to investments in qualifying infrastructure plant. This rider is subject to an annual reconciliation whereby costs are reviewed for accuracy and prudence. No schedule has been set for the 2015 reconciliation. The ALJ has placed the 2014 reconciliation on a stay, pending resolution of the ICC ordered stakeholder workshops and the ICC investigative docket regarding anonymous letters it received, both related to PGL's SMP. Although schedules have not been set for the reconciliations, discovery has continued for both the 2014 and 2015 reconciliations. As of December 31, 2016, there can be no assurance that all costs incurred under the Qualifying Infrastructure Plant rider will be recoverable.

See Note 22, Regulatory Environment, for more information regarding recent and pending rate proceedings, orders, and investigations involving our utilities.

Commodity Costs

In the normal course of providing energy, we are subject to market fluctuations in the costs of coal, natural gas, purchased power, and fuel oil used in the delivery of coal. We manage our fuel and natural gas supply costs through a portfolio of short and long-term procurement contracts with various suppliers for the purchase of coal, natural gas, and fuel oil. In addition, we manage the risk of price volatility through natural gas and electric hedging programs.

Embedded within our utilities' rates are amounts to recover fuel, natural gas, and purchased power costs. Our utilities have recovery mechanisms in place that allow them to recover or refund all or a portion of the changes in prudently incurred fuel, natural gas, and purchased power costs from rate case-approved amounts.

Higher commodity costs can increase our working capital requirements, result in higher gross receipts taxes, and lead to increased energy efficiency investments by our customers to reduce utility usage and/or fuel substitution. Higher commodity costs combined with slower economic conditions also expose us to greater risks of accounts receivable write-offs as more customers are unable to pay their bills. See Note 1(d), Revenues and Customer Receivables, for more information on riders and other mechanisms that allow for cost recovery or refund of uncollectible expense.

Weather

Our utilities' rates are based upon estimated normal temperatures. Our electric utility margins are unfavorably sensitive to below normal temperatures during the summer cooling season, and to some extent, to above normal temperatures during the winter heating season. Our natural gas utility margins are unfavorably sensitive to above normal temperatures during the winter heating season. PGL, NSG, and MERC have decoupling mechanisms in place that help reduce the impacts of weather. Decoupling mechanisms differ by state and allow utilities to recover or refund certain differences between actual and authorized margins. A summary of actual weather information in our utilities' service territories during 2016, 2015, and 2014, as measured by degree days, may be found in Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations.

Interest Rates

We are exposed to interest rate risk resulting from our short-term and long-term borrowings and projected near-term debt financing needs. We manage exposure to interest rate risk by limiting the amount of our variable rate obligations and continually monitoring the effects of market changes on interest rates. When it is advantageous to do so, we enter into long-term fixed rate debt. We may also enter into derivative financial instruments, such as swaps, to mitigate interest rate exposure.

Based on the variable rate debt outstanding at December 31, 2016, and December 31, 2015, a hypothetical increase in market interest rates of one percentage point would have increased annual interest expense by \$9.8 million and \$11.0 million in 2016 and 2015, respectively. This sensitivity analysis was performed assuming a constant level of variable rate debt during the period and an immediate increase in interest rates, with no other changes for the remainder of the period.

Marketable Securities Return

We use various trusts to fund our pension and OPEB obligations. These trusts invest in debt and equity securities. Changes in the market prices of these assets can affect future pension and OPEB expenses. Additionally, future contributions can also be affected by the investment returns on trust fund assets. We believe that the financial risks associated with investment returns would be partially mitigated through future rate actions by our various utility regulators.

The fair value of our trust fund assets and expected long-term returns were approximately:

<i>(in millions)</i>	As of December 31, 2016	Expected Return on Assets in 2017
Pension trust funds	\$ 2,709.2	7.11%
OPEB trust funds	\$ 773.5	7.25%

Fiduciary oversight of the pension and OPEB trust fund investments is the responsibility of an Investment Trust Policy Committee. The Committee works with external actuaries and investment consultants on an ongoing basis to establish and monitor investment strategies and target asset allocations. Forecasted cash flows for plan liabilities are regularly updated based on annual valuation results. Target asset allocations are determined utilizing projected benefit payment cash flows and risk analyses of appropriate investments. The targeted asset allocations are intended to reduce risk,

provide long-term financial stability for the plans, and maintain funded levels which meet long-term plan obligations while preserving sufficient liquidity for near-term benefit payments. Investment strategies utilize a wide diversification of asset types and qualified external investment managers.

We consult with our investment advisors on an annual basis to help us forecast expected long-term returns on plan assets by reviewing actual historical returns and calculating expected total trust returns using the weighted-average of long-term market returns for each of the major target asset categories utilized in the fund.

Economic Conditions

We have electric and natural gas utility operations that serve customers in Wisconsin, Illinois, Michigan, and Minnesota. As such, we are exposed to market risks in the regional Midwest economy. In addition, any economic downturn or disruption of national or international markets could adversely affect the financial condition of our customers and demand for their products, which could affect their demand for our products.

Inflation

We continue to monitor the impact of inflation, especially with respect to the costs of medical plans, fuel, transmission access, construction costs, and regulatory and environmental compliance in order to minimize its effects in future years through pricing strategies, productivity improvements, and cost reductions. We do not believe the impact of general inflation will have a material impact on our future results of operations.

For additional information concerning risk factors, including market risks, see the Cautionary Statement Regarding Forward-Looking Information at the beginning of this report.

INDUSTRY RESTRUCTURING

Electric Utility Industry

The regulated energy industry continues to experience significant changes. The FERC continues to support large RTOs, which affects the structure of the wholesale market. To this end, MISO implemented the MISO Energy Markets, including the use of LMP to value electric transmission congestion and losses. Increased competition in the retail and wholesale markets, which may result from restructuring efforts, could have a significant and adverse financial impact on us. It is uncertain when retail choice might be implemented, if at all, in Wisconsin. However, Michigan has adopted a limited retail choice program.

Restructuring in Wisconsin

Electric utility revenues in Wisconsin are regulated by the PSCW. The PSCW has been focused on electric reliability infrastructure issues for the state of Wisconsin in recent years. The PSCW continues to maintain the position that the question of whether to implement electric retail competition in Wisconsin should ultimately be decided by the Wisconsin legislature. No such legislation has been introduced in Wisconsin to date.

Restructuring in Michigan

Under Michigan law, our retail customers may choose an alternative electric supplier to provide power supply service. Some of our small retail customers have switched to an alternative electric supplier. As of December 31, 2016, the law limited customer choice to 10% of our Michigan retail load. Due to the December 2016 passage of Michigan Act 341, this cap could potentially be reduced in future years. The iron ore mine in our service territory and certain load increases by facilities already using an alternative electric supplier are excluded from this cap, if various conditions are met. When a customer switches to an alternative electric supplier, we continue to provide distribution and customer service functions for the customer.

Natural Gas Utility Industry

We offer natural gas transportation services to our customers that elect to purchase natural gas from an alternative retail natural gas supplier. Since these transportation customers continue to use our distribution systems to transport the natural gas to their facilities, we earn distribution revenues from them. As such, the loss of revenue associated with the natural gas that transportation customers purchase from an alternative retail natural gas supplier has little impact on our net income, since it is offset by an equal reduction to natural gas costs.

Restructuring in Wisconsin

The PSCW previously instituted generic proceedings to consider how its regulation of natural gas distribution utilities should change to reflect a competitive environment in the natural gas industry. To date, the PSCW has made a policy decision to provide customer classes with workably competitive market choices the option to choose an alternative retail natural gas supplier. The PSCW has also adopted standards for transactions between a utility and its natural gas marketing affiliates. All of our Wisconsin customer classes have workably competitive market choices and, therefore, can purchase natural gas directly from either an alternative retail natural gas supplier or their local natural gas utility. Currently, we are unable to predict the impact of potential future industry restructuring on our results of operations or financial position.

Restructuring in Illinois

Since 2002, PGL and NSG have provided their customers with the option to choose an alternative retail natural gas supplier. We are not required by the ICC or state law to make this option available to customers, but since this option is currently provided to our Illinois customers, we would need ICC approval to eliminate it.

Restructuring in Minnesota

MERC has provided its commercial and industrial customers with the option to choose an alternative retail natural gas supplier since 2006. We are not required by the MPUC or state law to make this option available to customers, but since this option is currently provided to our Minnesota commercial and industrial customers, we would need MPUC approval to eliminate it.

Restructuring in Michigan

The option to choose an alternative retail natural gas supplier has been provided to WPS's Michigan customers since the late 1990s and MGU's customers since 2005. We are not required by the MPSC or state law to make this option available to customers, but since this option is currently provided to our Michigan customers, we would need MPSC approval to eliminate it.

ENVIRONMENTAL MATTERS

See Note 18, Commitments and Contingencies, for a discussion of certain environmental matters affecting us, including rules and regulations relating to air quality, water quality, land quality, and climate change.

OTHER MATTERS

American Transmission Company Allowed Return on Equity Complaints

In November 2013, a group of MISO industrial customer organizations filed a complaint with the FERC requesting to reduce the base ROE used by MISO transmission owners, including ATC, from 12.2% to 9.15%. In October 2014, the FERC issued an order to hear the complaint on ROE and set a refund effective date retroactive to November 2013. In December 2015, the ALJ issued an initial decision recommending that ATC and all other MISO transmission owners be authorized to collect a base ROE of 10.32%, as well as the 0.5% incentive adder approved by the FERC in January 2015 for MISO transmission owners. The incentive adder only applies to revenues collected after January 6, 2015. In September 2016, the FERC issued a final order related to this complaint affirming the use of the ROEs stated in the ALJ's initial decision, effective as of the order date, on a going-forward basis. The order also requires ATC to provide refunds, with interest, for the 15-month refund period from November 13, 2013, through February 11, 2015. As of December 31, 2016, ATC had started to provide refunds to WE and WPS for transmission costs paid during the refund period, and we expect the refund process to be completed by July 2017. As these refunds are received, WE and WPS reduce the regulatory assets recorded under the PSCW-approved escrow accounting for transmission expense.

In February 2015, a second complaint was filed with the FERC requesting a reduction in the base ROE used by MISO transmission owners, including ATC, to 8.67%, with a refund effective date retroactive to February 12, 2015. In June 2016, the ALJ issued an initial decision recommending that ATC and all other MISO transmission owners be authorized to collect a base ROE of 9.7%, as well as the 0.5% incentive adder approved for MISO transmission owners. The ALJ's initial decision is not binding on the FERC and applies to revenues collected from February 12, 2015, through May 11, 2016. We are not certain when a FERC order related to this matter will be issued.

MISO transmission owners have filed various appeals related to several of the FERC orders with the D.C. Circuit Court of Appeals as well as requests for rehearing.

The decrease in ATC's ROE resulting from the FERC's final order will have a negative impact on our equity earnings and distributions from ATC in the future.

Bonus Depreciation Provisions

The Protecting Americans from Tax Hikes Act of 2015 was signed into law on December 18, 2015. This act extended 50% bonus depreciation to assets placed in service during 2015 through 2017, 40% bonus depreciation to assets placed in service during 2018, and 30% bonus depreciation to assets placed in service during 2019. Bonus depreciation is an additional amount of tax deductible depreciation that is awarded above what would normally be available. Due to the resulting increase in federal tax depreciation, we did not make federal income tax payments for 2016, 2015, or 2014.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Preparation of financial statements and related disclosures in compliance with GAAP requires the application of appropriate technical accounting rules and guidance as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events, including the likelihood of success of particular projects, legal and regulatory challenges, and anticipated recovery of costs. These judgments, in and of themselves, could materially impact the financial statements and disclosures based on varying assumptions. In addition, the financial and operating environment may also have a significant effect, not only on the operation of our business, but on our results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied have not changed.

The following is a list of accounting policies that are most significant to the portrayal of our financial condition and results of operations and that require management's most difficult, subjective, or complex judgments.

Goodwill Impairment

We completed our annual goodwill impairment tests for all of our reporting units that carried a goodwill balance as of July 1, 2016. No impairments were recorded as a result of these tests. For all of our reporting units, the fair value calculated in step one of the test was greater than carrying value. The fair value of each reporting unit was calculated using a combination of the income approach and the market approach.

For the income approach, we used internal forecasts to project cash flows. Any forecast contains a degree of uncertainty, and changes in these cash flows could significantly increase or decrease the fair value of a reporting unit. Since all of our reporting units are regulated, a fair recovery of and return on costs prudently incurred to serve customers is assumed. An unfavorable outcome in a rate case could cause the fair values of our reporting units to decrease.

Key assumptions used in the income approach include ROEs, long-term growth rates used to determine terminal values at the end of the discrete forecast period, and discount rates. The discount rate is applied to estimated future cash flows and is one of the most significant assumptions used to determine fair value under the income approach. As interest rates rise, the calculated fair values will decrease. The discount rate is based on the weighted-average cost of capital for each reporting unit, taking into account both the after-tax cost of debt and cost of equity. The terminal year ROE for each utility is driven by its current allowed ROE. The terminal growth rate is based primarily on a combination of historical and forecasted statistics for real gross domestic product and personal income for each utility service area.

For the market approach, we used an equal weighting of the guideline public company method and the guideline merged and acquired company method. The guideline public company method uses financial metrics from similar publicly traded companies to determine fair value. The guideline merged and acquired company method calculates fair value by analyzing the actual prices paid for recent mergers and acquisitions in the industry. We applied multiples derived from these two methods to the appropriate operating metrics for our reporting units to determine fair value.

The underlying assumptions and estimates used in the impairment tests were made as of a point in time. Subsequent changes in these assumptions and estimates could change the results of the tests.

The fair values of our reporting units exceeded their carrying values by a substantial amount. Based on these results, our reporting units are not at risk of failing step one of the goodwill impairment test.

Our reporting units had the following goodwill balances at July 1, 2016:

<i>(in millions, except percentages)</i>	Goodwill	Percentage of Total Goodwill
Wisconsin	\$ 2,104.3	69.1%
Illinois	758.7	24.9%
Other states	183.2	6.0%
Total goodwill	\$ 3,046.2	100.0%

See Note 10, Goodwill, for more information.

Pension and Other Postretirement Employee Benefits

The costs of providing non-contributory defined pension benefits and OPEB, described in Note 17, Employee Benefits, are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience.

Pension and OPEB costs are impacted by actual employee demographics (including age, compensation levels, and employment periods), the level of contributions made to the plans, and earnings on plan assets. Pension and OPEB costs may also be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets, mortality and discount rates, and expected health care cost trends. Changes made to the plan provisions may also impact current and future pension and OPEB costs.

Pension and OPEB plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity and fixed income market returns, as well as changes in general interest rates, may result in increased or decreased benefit costs in future periods. We believe that such changes in costs would be recovered or refunded at our utilities through the ratemaking process.

The following table shows how a given change in certain actuarial assumptions would impact the projected benefit obligation and the reported net periodic pension cost. Each factor below reflects an evaluation of the change based on a change in that assumption only.

<i>Actuarial Assumption (in millions, except percentages)</i>	Percentage-Point Change in Assumption	Impact on Projected Benefit Obligation	Impact on 2016 Pension Cost
Discount rate	(0.5)	\$ 202.3	\$ 10.4
Discount rate	0.5	(176.1)	(7.4)
Rate of return on plan assets	(0.5)	N/A	13.9
Rate of return on plan assets	0.5	N/A	(13.9)

The following table shows how a given change in certain actuarial assumptions would impact the accumulated OPEB obligation and the reported net periodic OPEB cost. Each factor below reflects an evaluation of the change based on a change in that assumption only.

<i>Actuarial Assumption (in millions, except percentages)</i>	Percentage-Point Change in Assumption	Impact on Postretirement Benefit Obligation	Impact on 2016 Postretirement Benefit Cost
Discount rate	(0.5)	\$ 55.2	\$ 2.8
Discount rate	0.5	(47.7)	(2.1)
Health care cost trend rate	(0.5)	34.9	(4.7)
Health care cost trend rate	0.5	40.0	5.4
Rate of return on plan assets	(0.5)	N/A	3.6
Rate of return on plan assets	0.5	N/A	(3.6)

The discount rates are selected based on hypothetical bond portfolios consisting of noncallable (or callable with make-whole provisions), noncollateralized, high-quality corporate bonds across the full maturity spectrum. The bonds are generally rated "Aa" with a minimum amount outstanding of \$50.0 million. From the hypothetical bond portfolios, a single rate is determined that equates the market value of the bonds purchased to the discounted value of the plans' expected future benefit payments.

We establish our expected return on assets based on consideration of historical and projected asset class returns, as well as the target allocations of the benefit trust portfolios. The assumed long-term rate of return on pension plan assets was 7.12% in 2016, 7.37% in 2015, and 7.25% in 2014. The actual rate of return on pension plan assets, net of fees, was 7.75%, (3.85)%, and 6.17%, in 2016, 2015, and 2014, respectively.

In selecting assumed health care cost trend rates, past performance and forecasts of health care costs are considered. For more information on health care cost trend rates and a table showing future payments that we expect to make for our pension and OPEB, see Note 17, Employee Benefits.

Regulatory Accounting

Our utility operations follow the guidance under the Regulated Operations Topic of the FASB ASC. Our financial statements reflect the effects of the ratemaking principles followed by the various jurisdictions regulating us. Certain items that would otherwise be immediately recognized as revenues and expenses are deferred as regulatory assets and regulatory liabilities for future recovery or refund to customers, as authorized by our regulators. Future recovery of regulatory assets is not assured and is generally subject to review by regulators in rate proceedings for matters such as prudence and reasonableness. Once approved, the regulatory assets and liabilities are amortized into earnings over the rate recovery period. If recovery or refund of costs is not approved or is no longer considered probable, these regulatory assets or liabilities are recognized in current period earnings. Management regularly assesses whether these regulatory assets and liabilities are probable of future recovery or refund by considering factors such as changes in the regulatory environment, earnings from our electric and natural gas utility operations, and the status of any pending or potential deregulation legislation.

The application of the Regulated Operations Topic of the FASB ASC would be discontinued if all or a separable portion of our utility operations no longer met the criteria for application. Our regulatory assets and liabilities would be written off as a charge to income as an unusual or infrequently occurring item in the period in which discontinuation occurred. As of December 31, 2016, we had \$3,138.3 million in regulatory assets and \$1,597.2 million in regulatory liabilities. See Note 6, Regulatory Assets and Liabilities, for more information.

Unbilled Revenues

We record utility operating revenues when energy is delivered to our customers. However, the determination of energy sales to individual customers is based upon the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of their last meter reading are estimated and corresponding unbilled revenues are calculated. This unbilled revenue is estimated each month based upon actual generation and throughput volumes, recorded sales, estimated customer usage by class, weather factors, estimated line losses, and applicable customer rates. Significant fluctuations in energy demand for the unbilled period or changes in the composition of customer classes could impact the accuracy of the unbilled revenue estimate. Total utility operating revenues during 2016 of approximately \$7.4 billion included accrued utility revenues of \$509.8 million as of December 31, 2016.

Income Tax Expense

We are required to estimate income taxes for each of the jurisdictions in which we operate as part of the process of preparing financial statements. This process involves estimating current income tax liabilities together with assessing temporary differences resulting from differing treatment of items, such as depreciation, for income tax and accounting purposes. These differences result in deferred income tax assets and liabilities, which are included within our balance sheets. We also assess the likelihood that our deferred income tax assets will be recovered through future taxable income. To the extent we believe that realization is not likely, we establish a valuation allowance, which is offset by an adjustment to the provision for income taxes in the income statements.

Uncertainty associated with the application of tax statutes and regulations and the outcomes of tax audits and appeals requires that judgments and estimates be made in the accrual process and in the calculation of effective tax rates. Only income tax benefits that meet the "more likely than not" recognition threshold may be recognized or continue to be recognized. Unrecognized tax benefits are re-evaluated quarterly and changes are recorded based on new information, including the issuance of relevant guidance by the courts or tax authorities and developments occurring in the examinations of our tax returns.

Significant management judgment is required in determining our provision for income taxes, deferred income tax assets and liabilities, the liability for unrecognized tax benefits, and any valuation allowance recorded against deferred income

tax assets. The assumptions involved are supported by historical data, reasonable projections, and interpretations of applicable tax laws and regulations across multiple taxing jurisdictions. Significant changes in these assumptions could have a material impact on our financial condition and results of operations. See Note 1(n), Income Taxes, and Note 15, Income Taxes, for a discussion of accounting for income taxes.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results, Liquidity, and Capital Resources – Market Risks and Other Significant Risks, as well as Note 1(s), Fair Value Measurements, Note 1(t), Derivative Instruments, and Note 16, Guarantees, for information concerning potential market risks to which we are exposed.

WEC ENERGY GROUP, INC.
CONSOLIDATED INCOME STATEMENTS

Year Ended December 31 (in millions, except per share amounts)	2016	2015	2014
Operating revenues	\$ 7,472.3	\$ 5,926.1	\$ 4,997.1
Operating expenses			
Cost of sales	2,647.4	2,240.1	2,259.4
Other operation and maintenance	2,185.5	1,709.3	1,112.4
Depreciation and amortization	762.6	561.8	391.4
Property and revenue taxes	194.7	164.4	121.8
Total operating expenses	5,790.2	4,675.6	3,885.0
Operating income	1,682.1	1,250.5	1,112.1
Equity in earnings of transmission affiliate	146.5	96.1	66.0
Other income, net	80.8	58.9	13.4
Interest expense	402.7	331.4	240.3
Other expense	(175.4)	(176.4)	(160.9)
Income before income taxes	1,506.7	1,074.1	951.2
Income tax expense	566.5	433.8	361.7
Net income	940.2	640.3	589.5
Preferred stock dividends of subsidiary	1.2	1.8	1.2
Net income attributed to common shareholders	\$ 939.0	\$ 638.5	\$ 588.3
Earnings per share			
Basic	\$ 2.98	\$ 2.36	\$ 2.61
Diluted	\$ 2.96	\$ 2.34	\$ 2.59
Weighted average common shares outstanding			
Basic	315.6	271.1	225.6
Diluted	316.9	272.7	227.5

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

WEC ENERGY GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31 (in millions)	2016	2015	2014
Net income	\$ 940.2	\$ 640.3	\$ 589.5
Other comprehensive (loss) income, net of tax			
Derivatives accounted for as cash flow hedges			
Gains on settlement, net of tax of \$7.6	—	11.4	—
Reclassification of gains to net income, net of tax	(1.3)	(0.8)	—
Cash flow hedges, net	(1.3)	10.6	—
Defined benefit plans			
Pension and OPEB costs arising during the period, net of tax of \$0.1 and \$(4.2), respectively	(0.8)	(6.3)	—
Amortization of pension and OPEB costs included in net periodic benefit cost, net of tax	0.4	—	—
Defined benefit plans, net	(0.4)	(6.3)	—
Other comprehensive (loss) income, net of tax	(1.7)	4.3	—
Comprehensive income	938.5	644.6	589.5
Preferred stock dividends of subsidiary	1.2	1.8	1.2
Comprehensive income attributed to common shareholders	\$ 937.3	\$ 642.8	\$ 588.3

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

**WEC ENERGY GROUP, INC.
CONSOLIDATED BALANCE SHEETS**

At December 31		
<i>(in millions, except share and per share amounts)</i>	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 37.5	\$ 49.8
Accounts receivable and unbilled revenues, net of reserves of \$108.0 and \$113.3, respectively	1,241.7	1,028.6
Materials, supplies, and inventories	587.6	687.0
Assets held for sale	—	96.8
Prepayments	204.4	285.8
Other	97.5	58.8
Current assets	2,168.7	2,206.8
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$8,214.6 and \$7,919.1, respectively	19,915.5	19,189.7
Regulatory assets	3,087.9	3,064.6
Equity investment in transmission affiliate	1,443.9	1,380.9
Goodwill	3,046.2	3,023.5
Other	461.0	489.7
Long-term assets	27,954.5	27,148.4
Total assets	\$ 30,123.2	\$ 29,355.2
Liabilities and Equity		
Current liabilities		
Short-term debt	\$ 860.2	\$ 1,095.0
Current portion of long-term debt	157.2	157.7
Accounts payable	861.5	815.4
Accrued payroll and benefits	163.8	169.7
Other	388.9	471.2
Current liabilities	2,431.6	2,709.0
Long-term liabilities		
Long-term debt	9,158.2	9,124.1
Deferred income taxes	5,146.6	4,622.3
Deferred revenue, net	566.2	579.4
Regulatory liabilities	1,563.8	1,392.2
Environmental remediation liabilities	633.6	628.2
Pension and OPEB obligations	498.6	543.1
Other	1,164.4	1,071.7
Long-term liabilities	18,731.4	17,961.0
Commitments and contingencies (Note 18)		
Common shareholders' equity		
Common stock – \$0.01 par value; 325,000,000 shares authorized; 315,614,941 and 315,683,496 shares outstanding, respectively	3.2	3.2
Additional paid in capital	4,309.8	4,347.2
Retained earnings	4,613.9	4,299.8
Accumulated other comprehensive income	2.9	4.6
Common shareholders' equity	8,929.8	8,654.8
Preferred stock of subsidiary	30.4	30.4
Total liabilities and equity	\$ 30,123.2	\$ 29,355.2

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

WEC ENERGY GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (in millions)	2016	2015	2014
Operating activities			
Net income	940.2	\$ 640.3	\$ 589.5
Reconciliation to cash provided by operating activities			
Depreciation and amortization	762.6	583.5	417.0
Deferred income taxes and investment tax credits, net	493.8	418.7	328.1
Contributions and payments related to pension and OPEB plans	(28.7)	(121.0)	(13.9)
Equity income in transmission affiliate, net of distributions	(46.6)	(11.0)	(8.5)
Change in –			
Accounts receivable and unbilled revenues	(180.7)	84.0	80.7
Materials, supplies, and inventories	100.0	(69.4)	(71.2)
Other current assets	103.1	(27.2)	(13.9)
Accounts payable	34.4	(9.3)	23.7
Other current liabilities	(20.8)	14.1	(45.3)
Other, net	(53.8)	(209.1)	(87.3)
Net cash provided by operating activities	2,103.5	1,293.6	1,198.9
Investing activities			
Capital expenditures	(1,423.7)	(1,266.2)	(761.2)
Business acquisition, net of cash acquired of \$156.3	—	(1,329.9)	—
Capital contributions to transmission affiliate	(42.3)	(8.7)	(13.1)
Proceeds from the sale of assets and businesses	166.3	28.9	13.9
Withdrawal of restricted cash from Rabbi trust for qualifying payments	26.6	1.4	—
Other, net	3.0	57.0	3.6
Net cash used in investing activities	(1,270.1)	(2,517.5)	(756.8)
Financing activities			
Exercise of stock options	41.6	30.1	50.3
Purchase of common stock	(108.0)	(74.7)	(123.2)
Dividends paid on common stock	(624.9)	(455.4)	(352.0)
Redemption of WPS preferred stock	—	(52.7)	—
Issuance of long-term debt	400.0	2,150.0	250.0
Retirement of long-term debt	(306.0)	(529.6)	(324.3)
Change in short-term debt	(234.8)	163.0	80.2
Other, net	(13.6)	(18.9)	12.8
Net cash (used in) provided by financing activities	(845.7)	1,211.8	(406.2)
Net change in cash and cash equivalents	(12.3)	(12.1)	35.9
Cash and cash equivalents at beginning of year	49.8	61.9	26.0
Cash and cash equivalents at end of year	\$ 37.5	\$ 49.8	\$ 61.9

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

WEC ENERGY GROUP, INC.
CONSOLIDATED STATEMENTS OF EQUITY

<i>(in millions, expect per share amounts)</i>	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	Total Equity
Balance at December 31, 2013	\$ 2.3	\$ 349.7	\$ 3,880.7	\$ 0.3	\$ 4,233.0	\$ 30.4	\$ 4,263.4
Net income attributed to common shareholders	—	—	588.3	—	588.3	—	588.3
Common stock dividends of \$1.56 per share	—	—	(352.0)	—	(352.0)	—	(352.0)
Exercise of stock options	—	50.3	—	—	50.3	—	50.3
Purchase of common stock	—	(123.2)	—	—	(123.2)	—	(123.2)
Stock-based compensation and other	—	23.3	—	—	23.3	—	23.3
Balance at December 31, 2014	\$ 2.3	\$ 300.1	\$ 4,117.0	\$ 0.3	\$ 4,419.7	\$ 30.4	\$ 4,450.1
Net income attributed to common shareholders	—	—	638.5	—	638.5	—	638.5
Other comprehensive income	—	—	—	4.3	4.3	—	4.3
Common stock dividends of \$1.74 per share	—	—	(455.4)	—	(455.4)	—	(455.4)
Exercise of stock options	—	30.1	—	—	30.1	—	30.1
Issuance of common stock for the acquisition of Integrys	0.9	4,072.0	—	—	4,072.9	—	4,072.9
Purchase of common stock	—	(74.7)	—	—	(74.7)	—	(74.7)
Addition of WPS preferred stock	—	—	—	—	—	51.1	51.1
Redemption of WPS preferred stock	—	(1.6)	—	—	(1.6)	(51.1)	(52.7)
Stock-based compensation and other	—	21.3	(0.3)	—	21.0	—	21.0
Balance at December 31, 2015	\$ 3.2	\$ 4,347.2	\$ 4,299.8	\$ 4.6	\$ 8,654.8	\$ 30.4	\$ 8,685.2
Net income attributed to common shareholders	—	—	939.0	—	939.0	—	939.0
Other comprehensive loss	—	—	—	(1.7)	(1.7)	—	(1.7)
Common stock dividends of \$1.98 per share	—	—	(624.9)	—	(624.9)	—	(624.9)
Exercise of stock options	—	41.6	—	—	41.6	—	41.6
Purchase of common stock	—	(108.0)	—	—	(108.0)	—	(108.0)
Stock-based compensation and other	—	29.0	—	—	29.0	—	29.0
Balance at December 31, 2016	\$ 3.2	\$ 4,309.8	\$ 4,613.9	\$ 2.9	\$ 8,929.8	\$ 30.4	\$ 8,960.2

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

WEC ENERGY GROUP, INC.
CONSOLIDATED STATEMENTS OF CAPITALIZATION

At December 31				
<i>(in millions)</i>				
			2016	2015
Common equity (see accompanying statement)			\$ 8,929.8	\$ 8,654.8
Preferred stock of subsidiary (Note 12)			30.4	30.4
Long-term debt	Interest Rate	Year Due		
WEC Energy Group Senior Notes (unsecured)	1.65%	2018	300.0	300.0
	2.45%	2020	400.0	400.0
	3.55%	2025	500.0	500.0
	6.20%	2033	200.0	200.0
WEC Energy Group Junior Notes (unsecured)	6.25%	2067	500.0	500.0
WE Debentures (unsecured)	1.70%	2018	250.0	250.0
	4.25%	2019	250.0	250.0
	2.95%	2021	300.0	300.0
	3.10%	2025	250.0	250.0
	6.50%	2028	150.0	150.0
	5.625%	2033	335.0	335.0
	5.70%	2036	300.0	300.0
	3.65%	2042	250.0	250.0
	4.25%	2044	250.0	250.0
	4.30%	2045	250.0	250.0
	6.875%	2095	100.0	100.0
WPS Notes (unsecured)	5.65%	2017	125.0	125.0
	1.65%	2018	250.0	250.0
	6.08%	2028	50.0	50.0
	5.55%	2036	125.0	125.0
	3.671%	2042	300.0	300.0
	4.752%	2044	450.0	450.0
WG Debentures (unsecured)	3.53%	2025	200.0	200.0
	5.90%	2035	90.0	90.0
	3.71%	2046	200.0	—
PGL First and Refunding Mortgage Bonds (secured) ⁽¹⁾	2.21%	2016	—	50.0
	8.00%	2018	5.0	5.0
	4.63%	2019	75.0	75.0
	3.90%	2030	50.0	50.0
	1.875%	2033	50.0	50.0
	4.00%	2033	50.0	50.0
	4.30%	2035	—	50.0
	3.98%	2042	100.0	100.0
	3.96%	2043	220.0	220.0
	4.21%	2044	200.0	200.0
	3.65%	2046	50.0	—
	3.65%	2046	150.0	—
NSG First Mortgage Bonds (secured) ⁽²⁾	3.43%	2027	28.0	28.0
	3.96%	2043	54.0	54.0
We Power Subsidiary Notes (secured, nonrecourse)	4.91%	⁽³⁾ 2017-2030	106.7	112.1
	5.209%	⁽⁴⁾ 2017-2030	204.8	215.0
	4.673%	⁽⁴⁾ 2017-2031	170.9	178.3
	6.00%	⁽³⁾ 2017-2033	126.1	130.5
	6.09%	⁽⁴⁾ 2030-2040	275.0	275.0
	5.848%	⁽⁴⁾ 2031-2041	215.0	215.0
WECC Notes (unsecured)	6.94%	2028	50.0	50.0
Integrys Senior Notes (unsecured)	8.00%	2016	—	50.0
	4.17%	2020	250.0	250.0
Integrys Junior Notes (unsecured)	3.05%	⁽⁵⁾ 2066	114.9	269.8

Long-term debt (continued)	Interest Rate	Year Due	2016	2015
Integrys Junior Notes (unsecured)	6.00%	2073	400.0	400.0
Other Notes (secured, nonrecourse)	4.81%	2030	2.0	2.0
Obligations under capital leases			29.6	59.9
Total			9,352.0	9,314.6
Integrys acquisition fair value adjustment			33.3	41.1
Unamortized debt issuance costs			(38.1)	(37.8)
Unamortized discount, net and other			(31.8)	(36.1)
Total long-term debt, including current portion			9,315.4	9,281.8
Current portion of long-term debt and capital lease obligations			(157.2)	(157.7)
Total long-term debt			9,158.2	9,124.1
Total long-term capitalization			\$ 18,118.4	\$ 17,809.3

(1) PGL's First Mortgage Bonds are subject to the terms and conditions of PGL's First Mortgage Indenture dated January 2, 1926, as supplemented. Under the terms of the Indenture, substantially all property owned by PGL is pledged as collateral for these outstanding debt securities.

PGL has used certain First Mortgage Bonds to secure tax exempt interest rates. The Illinois Finance Authority has issued Tax Exempt Bonds, and the proceeds from the sale of these bonds were loaned to PGL. In return, PGL issued equal principal amounts of certain collateralized First Mortgage Bonds.

(2) NSG's First Mortgage Bonds are subject to the terms and conditions of NSG's First Mortgage Indenture dated April 1, 1955, as supplemented. Under the terms of the Indenture, substantially all property owned by NSG is pledged as collateral for these outstanding debt securities.

(3) We Power senior notes, secured by a collateral assignment of the leases between PWGS and WE related to PWGS 1 and PWGS 2.

(4) We Power senior notes, secured by a collateral assignment of the leases between ERGSS and WE related to ER 1 and ER 2.

(5) Variable interest rate reset quarterly. The rate was 3.05% as of December 31, 2016. Prior to December 1, 2016, fixed rate of 6.11% .

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

WEC ENERGY GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General Information—On June 29, 2015, Wisconsin Energy Corporation acquired Integrys and changed its name to WEC Energy Group, Inc. WEC Energy Group serves approximately 1.6 million electric customers and 2.8 million natural gas customers, and it owns approximately 60% of ATC. See Note 2, Acquisitions, for more information on this acquisition.

As used in these notes, the term "financial statements" refers to the consolidated financial statements. This includes the income statements, statements of comprehensive income, balance sheets, statements of cash flows, statements of equity, and statements of capitalization, unless otherwise noted.

Our financial statements include the accounts of WEC Energy Group, a diversified energy holding company, and the accounts of our subsidiaries in the following reportable segments:

- Wisconsin segment – Consists of WE, WG, and WPS, which are engaged primarily in the generation of electricity and the distribution of electricity and natural gas in Wisconsin. WE's electric and WPS's electric and natural gas operations in the state of Michigan are also included in this segment.
- Illinois segment – Consists of PGL and NSG, which are engaged primarily in the distribution of natural gas in Illinois.
- Other states segment – Consists of MERC and MGU, which are engaged primarily in the distribution of natural gas in Minnesota and Michigan, respectively.
- Electric transmission segment – Consists of our approximate 60% ownership interest in ATC, a federally regulated electric transmission company.
- We Power segment – Consists of We Power, which is principally engaged in the ownership of electric power generating facilities for long-term lease to WE.
- Corporate and other segment – Consists of the WEC Energy Group holding company, the Integrys holding company, the PELLC holding company, Wispark, Bostco, WECC, WBS, PDL, Wisvest and ITF. The sale of ITF was completed in the first quarter of 2016. In the second quarter of 2016, we sold certain assets of Wisvest. See Note 3, Dispositions, for more information on these sales.

Our financial statements also reflect our proportionate interests in certain jointly owned utility facilities. See Note 8, Jointly Owned Facilities, for more information. The cost method of accounting is used for investments when we do not have significant influence over the operating and financial policies of the investee. Investments in companies not controlled by us, but over which we have significant influence regarding the operating and financial policies of the investee, are accounted for using the equity method.

We prepare our financial statements in conformity with GAAP. We make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

(b) Balance Sheet Presentation—To be consistent with the current year presentation, we changed our December 31, 2015 balance sheet from a utility format to a traditional format. This change revised the order of certain balance sheet line items, but it did not result in any change to the classification of amounts between line items.

(c) Cash and Cash Equivalents—Cash and cash equivalents include marketable debt securities with an original maturity of three months or less.

(d) Revenues and Customer Receivables—We recognize revenues related to the sale of energy on the accrual basis and include estimated amounts for services provided but not yet billed to customers.

We present revenues net of pass-through taxes on the income statements.

Below is a summary of the significant mechanisms our utility subsidiaries had in place that allowed them to recover or refund changes in prudently incurred costs from rate case-approved amounts:

- Fuel and purchased power costs were recovered from customers on a one-for-one basis by our Wisconsin wholesale electric operations and our Michigan retail electric operations.
- Our retail electric rates in Wisconsin are established by the PSCW and include base amounts for fuel and purchased power costs. The electric fuel rules set by the PSCW allow us to defer, for subsequent rate recovery or refund, under or over-collections of actual fuel and purchased power costs that exceed a 2% price variance from the costs included in the rates charged to customers. Our electric utilities monitor the deferral of under-collected costs to ensure that it does not cause them to earn a greater ROE than authorized by the PSCW.
- WE received payments from MISO under an SSR agreement for its PIPP units through February 1, 2015. We recorded revenue for these payments to recover costs for operating and maintaining these units. See Note 22, Regulatory Environment, for more information.
- The rates for all of our natural gas utilities included one-for-one recovery mechanisms for natural gas commodity costs. We defer any difference between actual natural gas costs incurred and costs recovered through rates as a current asset or liability. The deferred balance is returned to or recovered from customers at intervals throughout the year.
- The rates of PGL and NSG included riders for cost recovery of both environmental cleanup costs and energy conservation and management program costs.
- MERC's rates included a conservation improvement program rider for cost recovery of energy conservation and management program costs as well as a financial incentive for meeting energy savings goals.
- The rates of PGL and NSG, and the residential rates of WE and WG, included riders or other mechanisms for cost recovery or refund of uncollectible expense based on the difference between actual uncollectible write-offs and the amounts recovered in rates.
- The rates of PGL, NSG, MERC, and MGU included decoupling mechanisms. These mechanisms differ by state and allow utilities to recover or refund differences between actual and authorized margins. MGU's decoupling mechanism was discontinued after December 31, 2015. See Note 22, Regulatory Environment, for more information.
- PGL's rates included a cost recovery mechanism for SMP costs.

Revenues are also impacted by other accounting policies related to PGL's natural gas hub and our electric utilities' participation in the MISO Energy Markets. Amounts collected from PGL's wholesale customers that use the natural gas hub are credited to natural gas costs, resulting in a reduction to retail customers' charges for natural gas and services. Our electric utilities sell and purchase power in the MISO Energy Markets, which operate under both day-ahead and real-time markets. We record energy transactions in the MISO Energy Markets on a net basis for each hour. If our electric utilities were a net seller in a particular hour, the net amount was reported as operating revenues. If our electric utilities were a net purchaser in a particular hour, the net amount was recorded as cost of sales on our income statements.

We provide regulated electric service to customers in Wisconsin and Michigan and regulated natural gas service to customers in Wisconsin, Illinois, Minnesota, and Michigan. The geographic concentration of our customers did not contribute significantly to our overall exposure to credit risk. We periodically review customers' credit ratings, financial statements, and historical payment performance and require them to provide collateral or other security as needed. Credit risk exposure at WE, WG, PGL, and NSG is mitigated by their recovery mechanisms for uncollectible expense discussed above. As a result, we did not have any significant concentrations of credit risk at December 31, 2016. In addition, there were no customers that accounted for more than 10% of our revenues for the year ended December 31, 2016.

(e) Materials, Supplies, and Inventories—Our inventory as of December 31 consisted of:

<i>(in millions)</i>	2016	2015
Natural gas in storage	\$ 223.1	\$ 284.1
Materials and supplies	206.5	219.2
Fossil fuel	158.0	183.7
Total	\$ 587.6	\$ 687.0

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. Inventories stated on a LIFO basis represented approximately 18% of total inventories at December 31, 2016 and 2015. The estimated replacement cost of natural gas in inventory at December 31, 2016 and 2015, exceeded the LIFO cost by \$92.9 million and \$15.2 million, respectively. In calculating these replacement amounts, PGL and NSG used a Chicago city-gate natural gas price per Dth of \$3.63 at December 31, 2016, and \$2.48 at December 31, 2015.

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

(f) Investments Held in Rabbi Trust—Integrys has a rabbi trust that is used to fund participants' benefits under the Integrys deferred compensation plan and certain Integrys non-qualified pension plans. All assets held within the rabbi trust are restricted as they can only be withdrawn from the trust to make qualifying benefit payments. The trust holds investments that are classified as trading securities for accounting purposes. As we do not intend to sell the investments in the near term, they are included in other long-term assets on our balance sheets. The net unrealized gains and losses included in earnings related to the investments held at the end of the period were not significant for the years ended December 31, 2016 and 2015.

(g) Regulatory Assets and Liabilities—The economic effects of regulation can result in regulated companies recording costs and revenues that have been or are expected to be allowed in the rate-making process in a period different from the period in which the costs or revenues would be recognized by a nonregulated company. When this occurs, regulatory assets and regulatory liabilities are recorded on the balance sheet. Regulatory assets represent probable future revenues associated with certain costs or liabilities that have been deferred and are expected to be recovered through rates charged to customers. Regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts that are collected in rates for future costs. Recovery or refund of regulatory assets and liabilities is based on specific periods determined by the regulators or occurs over the normal operating period of the assets and liabilities to which they relate. If at any reporting date a previously recorded regulatory asset is no longer probable of recovery, the regulatory asset is reduced to the amount considered probable of recovery with the reduction charged to expense in the reporting period the determination is made. See Note 6, Regulatory Assets and Liabilities, for more information.

(h) Property, Plant, and Equipment—We record property, plant, and equipment at cost. Cost includes material, labor, overhead, and both debt and equity components of AFUDC. Additions to and significant replacements of property are charged to property, plant, and equipment at cost; minor items are charged to maintenance expense. The cost of depreciable utility property less salvage value is charged to accumulated depreciation when property is retired.

We record straight-line depreciation expense over the estimated useful life of utility property using depreciation rates approved by the applicable regulators. Annual utility composite depreciation rates are shown below:

Annual Utility Composite Depreciation Rates	2016	2015	2014
WE	3.00%	3.01%	2.93%
WPS *	2.58%	1.30%	N/A
WG	2.34%	2.36%	2.69%
PGL *	3.31%	1.67%	N/A
NSG *	2.44%	1.22%	N/A
MERC *	2.53%	1.26%	N/A
MGU *	2.63%	1.32%	N/A

* The rates shown for 2015 are for a partial year as a result of the acquisition of Integrys. The full year rate would be approximately double the rate shown.

We depreciate our We Power assets over the estimated useful life of the various property components. The components have useful lives of between 10 to 45 years for PWGS 1 and PWGS 2 and 10 to 55 years for ER 1 and ER 2.

We capitalize certain costs related to software developed or obtained for internal use and record these costs to amortization expense over the estimated useful life of the related software, which ranges from 3 to 15 years. If software is retired prior to being fully amortized, the difference is recorded as a loss on the income statement.

(i) Allowance for Funds Used During Construction—AFUDC is included in utility plant accounts and represents the cost of borrowed funds (AFUDC – Debt) used during plant construction, and a return on stockholders' capital (AFUDC – Equity) used for construction purposes. AFUDC – Debt is recorded as a reduction of interest expense, and AFUDC – Equity is recorded in other income, net.

The majority of AFUDC is recorded at WE, WPS, and WG. Approximately 50% of WE's, WPS's, and WG's retail jurisdictional CWIP expenditures are subject to the AFUDC calculation. The AFUDC calculation for WBS uses the WPS AFUDC retail rate, while the other utilities AFUDC rates are determined by their respective state commissions, each with specific requirements. Based on these requirements, the other utilities and WBS did not record significant AFUDC for 2016, 2015, or 2014. Average AFUDC rates are shown below:

	2016	
	Average AFUDC Retail Rate	Average AFUDC Wholesale Rate
WE	8.45%	2.73%
WPS	7.72%	3.00%
WG	8.33%	N/A

Our regulated utilities recorded the following AFUDC for the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
AFUDC – Debt	\$ 10.9	\$ 8.6	\$ 2.3
AFUDC – Equity	\$ 25.1	\$ 20.1	\$ 5.6

(j) Asset Impairment—Goodwill and other intangible assets with indefinite lives are subject to an annual impairment test. Interim impairment tests are performed when impairment indicators are present. Intangible assets with definite lives are reviewed for impairment on a quarterly basis. Other long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

An impairment loss is recognized when the carrying amount of an asset is not recoverable and exceeds the fair value of the asset. The carrying amount of an asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. An impairment loss is measured as the excess of the carrying amount of the asset in comparison to the fair value of the asset.

Due to the acquisition of Integrys, we changed the date of our annual goodwill impairment test from August 31 to July 1. The carrying amount of the reporting unit's goodwill is considered not recoverable if the carrying amount of the reporting unit exceeds the reporting unit's fair value. An impairment loss is recorded for the excess of the carrying amount of the goodwill over its implied fair value. See Note 10, Goodwill, for more information.

The carrying amounts of cost and equity method investments are assessed for impairment by comparing the fair values of these investments to their carrying amounts, if a fair value assessment was completed, or by reviewing for the presence of impairment indicators. If an impairment exists and it is determined to be other-than-temporary, a loss is recognized equal to the amount by which the carrying amount exceeds the investment's fair value.

(k) Deferred Revenue—As part of the construction of We Power's electric generating units, we capitalized interest during construction. As allowed under the lease agreements, we were able to collect the carrying costs during the construction of these generating units from our utility customers. The carrying costs that we collected during construction have been recorded as deferred revenue on our balance sheets and we are amortizing the deferred carrying costs to revenue over the individual lease terms.

(l) Asset Retirement Obligations—We recognize, at fair value, legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and normal operation of the assets. An ARO liability is recorded, when incurred, for these obligations as long as the fair value can be reasonably estimated, even if the timing or method of settling the obligation is unknown. The associated retirement costs are capitalized as part of the related long-lived asset and are depreciated over the useful life of the asset. The ARO liabilities are accreted to their

present values each period using the credit-adjusted risk-free interest rates associated with the expected settlement dates of the AROs. These rates are determined when the obligations are incurred. Subsequent changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the associated retirement costs. For our regulated entities, we recognize regulatory assets or liabilities for the timing differences between when we recover an ARO in rates and when we recognize the associated retirement costs. See Note 9, Asset Retirement Obligations, for more information.

(m) Environmental Remediation Costs—We are subject to federal and state environmental laws and regulations that in the future may require us to pay for environmental remediation at sites where we have been, or may be, identified as a potentially responsible party. Loss contingencies may exist for the remediation of hazardous substances at various potential sites, including coal combustion product landfill sites and manufactured gas plant sites. See Note 9, Asset Retirement Obligations, for more information regarding coal combustion product landfill sites and Note 18, Commitments and Contingencies, for more information regarding manufactured gas plant sites.

We record environmental remediation liabilities when site assessments indicate remediation is probable and we can reasonably estimate the loss or a range of losses. The estimate includes both our share of the liability and any additional amounts that will not be paid by other potentially responsible parties or the government. When possible, we estimate costs using site-specific information but also consider historical experience for costs incurred at similar sites. Remediation efforts for a particular site generally extend over a period of several years. During this period, the laws governing the remediation process may change, as well as site conditions, potentially affecting the cost of remediation.

Our utilities have received approval to defer certain environmental remediation costs, as well as estimated future costs, through a regulatory asset. The recovery of deferred costs is subject to the applicable state Commission's approval.

We review our estimated costs of remediation annually for our manufactured gas plant sites and coal combustion product landfill sites. We adjust the liabilities and related regulatory assets, as appropriate, to reflect the new cost estimates. Any material changes in cost estimates are adjusted throughout the year.

(n) Income Taxes—We follow the liability method in accounting for income taxes. Accounting guidance for income taxes requires the recording of deferred assets and liabilities to recognize the expected future tax consequences of events that have been reflected in our financial statements or tax returns and the adjustment of deferred tax balances to reflect tax rate changes. We are required to assess the likelihood that our deferred tax assets would expire before being realized. If we conclude that certain deferred tax assets are likely to expire before being realized, a valuation allowance would be established against those assets. GAAP requires that, if we conclude in a future period that it is more likely than not that some or all of the deferred tax assets would be realized before expiration, we reverse the related valuation allowance in that period. Any change to the allowance, as a result of a change in judgment about the realization of deferred tax assets, is reported in income tax expense.

Investment tax credits associated with regulated operations are deferred and amortized over the life of the assets. We file a consolidated Federal income tax return. Accordingly, we allocate Federal current tax expense benefits and credits to our subsidiaries based on their separate tax computations. See Note 15, Income Taxes, for more information.

We recognize interest and penalties accrued, related to unrecognized tax benefits, in income tax expense in our income statements.

(o) Guarantees— We follow the guidance of the Guarantees Topic of the FASB ASC, which requires that the guarantor recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. See Note 16, Guarantees, for more information.

(p) Employee Benefits—The costs of pension and OPEB are expensed over the periods during which employees render service. These costs are allocated among our subsidiaries based on current employment status and actuarial calculations, as applicable. Our regulators allow recovery in rates for the utilities' net periodic benefit cost calculated under GAAP. See Note 17, Employee Benefits, for more information.

(q) Stock-Based Compensation— In accordance with the shareholder approved Omnibus Stock Incentive Plan, we provide long-term incentives through our equity interests to our non-employee directors, officers, and other key employees. The plan provides for the granting of stock options, restricted stock, performance shares, and other stock-based awards. Awards may be paid in common stock, cash, or a combination thereof. The number of shares of common stock authorized for issuance under the plan is 34.3 million.

We recognize stock-based compensation expense on a straight-line basis over the requisite service period. Awards classified as equity awards are measured based on their grant-date fair value. Awards classified as liability awards are recorded at fair value each reporting period based on our estimate of the final expected value of the awards.

Stock Options

We grant non-qualified stock options that vest on a cliff-basis after a three-year period. The exercise price of a stock option under the plan cannot be less than 100% of our common stock's fair market value on the grant date. Historically, all stock options have been granted with an exercise price equal to the fair market value of our common stock on the date of the grant. Options may not be exercised within six months of the grant date except in the event of a change in control. Options expire no later than 10 years from the date of the grant.

Our stock options are classified as equity awards. The fair value of our stock options was calculated using a binomial option-pricing model. The following table shows the estimated fair value per stock option granted along with the weighted-average assumptions used in the valuation models:

	2016	2015	2014
Non-qualified stock options granted	794,764	516,475	899,500
Estimated fair value per non-qualified stock option	\$ 5.14	\$ 5.29	\$ 4.18
Assumptions used to value the options:			
Risk-free interest rate	0.4% – 2.2%	0.1% – 2.1%	0.1% – 3.0%
Dividend yield	4.0%	3.7%	3.8%
Expected volatility	18.1%	18.0%	18.0%
Expected life (years)	6.1	5.8	5.8

The risk-free interest rate was based on the United States Treasury interest rate with a term consistent with the expected life of the stock options. The dividend yield was based on our current dividend rate and historical stock prices. Expected volatility and expected life assumptions were based on our historical experience.

Restricted Shares

Restricted shares have a three-year vesting period, and generally, one-third of the award vests on each anniversary of the grant date. Our restricted shares are classified as equity awards.

Performance Units

Officers and other key employees are granted performance units under the WEC Energy Group Performance Unit Plan. Under the plan, the ultimate number of units that will be awarded is dependent on our total shareholder return (stock price appreciation plus dividends) as compared to the total shareholder return of a peer group of companies over a three-year period, and beginning in 2017, other performance metrics as determined by the Compensation Committee. Under the terms of the award, participants may earn between 0% and 175% of the performance unit award, as adjusted pursuant to the terms of the plan. All grants are settled in cash and are accounted for as liability awards accordingly. Stock-based compensation costs are recorded over the three-year performance period.

See Note 11, Common Equity, for more information on our stock-based compensation plans.

(r) Earnings Per Share—We compute basic earnings per share by dividing our net income attributed to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed in a similar manner, but includes the exercise and/or conversion of all potentially dilutive securities. Such dilutive securities include in-the-money stock options. The calculation of diluted earnings per share for the years ended December 31, 2016 and 2015 excluded 181,709 and 516,475 stock options, respectively, that had an anti-dilutive effect. There were no securities that had an anti-dilutive effect for the year ended December 31, 2014.

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

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

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

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

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

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

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

Derivatives were transferred between levels of the fair value hierarchy primarily due to observable pricing becoming available. We recognize transfers at their value as of the end of the reporting period.

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

See Note 19, Fair Value Measurements, for more information.

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

We record derivative instruments on our balance sheets as assets or liabilities 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.

We classify derivative assets and liabilities as current or long-term on our balance sheets based on the maturities of the underlying contracts. Realized gains and losses on derivative instruments are primarily recorded in cost of sales on the income statements. Cash flows from derivative activities are presented in the same category as the item being hedged within operating activities on our statements of cash flows.

Derivative accounting rules provide the option to present certain asset and liability derivative positions net on the balance sheets and to net the related cash collateral against these net derivative positions. We elected not to net these items. On our balance sheets, cash collateral provided to others is reflected in other current assets, and cash collateral received is reflected in other current liabilities. See Note 20, Derivative Instruments, for more information.

(u) Customer Deposits and Credit Balances—When utility customers apply for new service, they may be required to provide a deposit for the service.

Utility customers can elect to be on a budget plan. Under this type of plan, a monthly installment amount is calculated based on estimated annual usage. During the year, the monthly installment amount is reviewed by comparing it to actual usage. If necessary, an adjustment is made to the monthly amount. Annually, the budget plan is reconciled to actual annual usage. Payments in excess of actual customer usage are recorded within current liabilities on our balance sheets.

NOTE 2—ACQUISITIONS

Acquisition of Integrys

On June 29, 2015, Wisconsin Energy Corporation acquired 100% of the outstanding common shares of Integrys and changed its name to WEC Energy Group, Inc. Integrys is a provider of regulated natural gas and electricity, as well as nonregulated renewable energy products and services. Integrys also provided CNG products and services prior to the sale of ITF in the first quarter of 2016. Integrys holds a 34% interest in ATC, a for-profit transmission company regulated by the FERC. The acquisition of Integrys has provided increased scale, operating efficiencies, and the potential for long-term cost savings through a combination of lower capital and operating costs.

Purchase Price

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

<i>(in millions, except per share amounts)</i>	Consideration Paid		
	Stock	Cash	Total
Integrys common shares outstanding at June 29, 2015	79,963,091	79,963,091	
Exchange ratio	1.128		
Wisconsin Energy Corporation shares issued for Integrys shares *	90,187,884		
Closing price of Wisconsin Energy Corporation common shares on June 29, 2015	\$45.16		
Fair value of common stock issued	\$ 4,072.9		\$ 4,072.9
Cash paid per share of Integrys shares outstanding		\$18.58	
Fair value of cash paid for Integrys shares *		\$ 1,486.2	\$ 1,486.2
Consideration attributable to settlement of equity awards, net of tax		\$ 24.0	\$ 24.0
Total purchase price	\$ 4,072.9	\$ 1,510.2	\$ 5,583.1

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

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

Allocation of Purchase Price

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

The excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed was recognized as goodwill. The goodwill reflects the value paid for the increased scale and efficiencies as a result of the combination. The goodwill recognized is not deductible for income tax purposes, and as such, no deferred taxes have been recorded related to goodwill. See Note 10, Goodwill, for the allocation of goodwill to our reportable segments.

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

<i>(in millions)</i>	
Current assets	\$ 1,060.1
Property, plant, and equipment, net	7,107.4
Goodwill	2,604.3
Other long-term assets *	2,830.5
Current liabilities	(1,320.7)
Long-term debt	(2,943.6)
Other long-term liabilities	(3,703.8)
Preferred stock of subsidiary	(51.1)
Total purchase price	\$ 5,583.1

* Includes equity method goodwill related to Integry's investment in ATC. See Note 4, Investment in American Transmission Company, for more information.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which requires that an acquirer recognize and disclose adjustments to provisional amounts that are identified during an acquisition measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early adoption was permitted for any interim and annual financial statements that had not yet been issued. We early adopted ASU 2015-16 in the fourth quarter of 2015. Adoption had no impact on our financial statements.

Conditions of Approval

The acquisition was subject to the approvals of various government agencies, including the FERC, Federal Communications Commission, PSCW, ICC, MPSC, and MPUC. Approvals were obtained from all agencies subject to several conditions.

The PSCW order includes the following conditions:

- WE and WG are each subject to an earnings sharing mechanism for three years beginning January 1, 2016. Under the earnings sharing mechanisms, if either company earns above its authorized return, 50% of the first 50 basis points of additional utility earnings will be shared with customers. For WE, the additional utility earnings will be used to reduce the company's transmission escrow. For WG, additional utility earnings will be used to reduce the costs of the Western Gas Lateral that would otherwise be included in rates. All utility earnings above the first 50 basis points will be used to reduce the transmission escrow for WE and reduce the costs of the Western Gas Lateral that would otherwise be included in rates for WG. For the year ended December 31, 2016, WE and WG recorded a combined \$24.4 million of expense related to these earnings sharing mechanisms.
- Any future electric generation projects affecting Wisconsin ratepayers submitted by us or our subsidiaries will first consider the extent to which existing intercompany resources can meet energy and capacity needs. In September 2015, WPS and WE filed a joint integrated resource plan with the PSCW for their combined loads, which indicated that no new generation is currently needed.

The ICC order includes a base rate freeze for PGL and NSG effective for two years after the close of the acquisition. This base rate freeze does not impact PGL's or NSG's ability to adjust rates through various riders or GCRMs.

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

Pro Forma Information

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

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

<i>(in millions, except per share amounts)</i>	Year Ended December 31	
	2015	2014
Unaudited pro forma financial information		
Operating revenues	\$ 7,727.1	\$ 9,135.4
Net income attributed to common shareholders	\$ 873.5	\$ 869.9
Earnings per share (Basic)	\$ 2.77	\$ 2.76
Earnings per share (Diluted)	\$ 2.75	\$ 2.74

Impact of Acquisition

As a result of the acquisition, our ownership of ATC increased to approximately 60%. We have made commitments with respect to our voting rights of the combined ownership of ATC, which are included as enforceable conditions in the FERC and PSCW orders approving the acquisition. Under GAAP, these commitments do not allow for the consolidation of ATC in our financial statements and the 60% ownership is accounted for as an equity method investment subsequent to the close of the acquisition. See Note 4, Investment in American Transmission Company, for more information.

In connection with the acquisition, WEC Energy Group and its subsidiaries recorded pre-tax acquisition costs of \$3.5 million, \$107.6 million, and \$12.5 million during 2016, 2015, and 2014, respectively. These costs consisted of employee-related expenses, professional fees, and other miscellaneous costs. They are primarily recorded in the other operation and maintenance line item on the income statements.

Included in the 2015 acquisition costs was \$24.9 million of severance expense that resulted from employee reductions related to the post-acquisition integration. Severance expense incurred during 2016 was not significant. The 2015 severance expense was recorded in the following segments:

<i>(in millions)</i>	Year ended December 31, 2015
Wisconsin	\$ 11.1
Illinois	0.9
Other states	0.1
Corporate and other	12.8
Total severance expense	\$ 24.9

Severance payments of \$7.5 million and \$16.9 million were made during 2016 and 2015, respectively. The severance accruals on our balance sheets were not significant at December 31, 2016 and 2015.

Our revenues for the year ended December 31, 2015 include revenues attributable to Integrys of \$1,416.8 million. Included in our net income for the year ended December 31, 2015, is net income attributable to Integrys of \$65.9 million.

Acquisition of a Natural Gas Storage Facility in Michigan

In January 2017, we signed an agreement for the acquisition of a natural gas storage facility in Michigan for \$225 million that would provide approximately one-third of the storage needs for our Wisconsin natural gas utilities. In addition, we expect to incur approximately \$5 million of acquisition related costs. A request has been filed with the PSCW for a declaratory ruling related to the recovery of this investment. PSCW approval and closing of this transaction are expected to occur by the third quarter of 2017.

NOTE 3—DISPOSITIONS

Wisconsin Segment

Sale of Milwaukee County Power Plant

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

Corporate and Other Segment

Sale of Certain Assets of Wisvest

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

Sale of Integrys Transportation Fuels

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

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

<i>(in millions)</i>	2015
Accounts receivable and unbilled revenues	\$ 34.9
Materials, supplies, and inventories	18.4
Other current assets	2.6
Property, plant, and equipment	37.2
Other long-term assets	3.7
Total assets	\$ 96.8
Accounts payable	\$ 12.9
Accrued payroll and benefits	2.4
Other current liabilities	4.5
Pension and OPEB obligations	1.2
Other long-term liabilities	0.6
Total liabilities *	\$ 21.6

* Included in other current liabilities on our balance sheet.

NOTE 4—INVESTMENT IN AMERICAN TRANSMISSION COMPANY

Due to the acquisition of Integrys, our ownership of ATC increased from 26.2% to approximately 60%. ATC is a for-profit, transmission-only company regulated by the FERC and certain state regulatory commissions. We have one representative on ATC's ten-member board of directors. Each member of the board has only one vote. Due to voting requirements, no individual board member has more than 10% of the voting control. The following table shows changes to our investment in ATC during the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
Balance at beginning of period	\$ 1,380.9	\$ 424.1	\$ 402.7
Add: Earnings from equity method investment	146.5	96.1	66.0
Add: Capital contributions	42.3	8.7	13.1
Add: Acquisition of Integrys's investment in ATC	(1.0)	541.5	—
Add: Equity method goodwill from the acquisition of Integrys ⁽¹⁾	10.4	395.8	—
Less: Distributions	135.1 ⁽²⁾	85.1	57.5
Less: Other	0.1	0.2	0.2
Balance at end of period	\$ 1,443.9	\$ 1,380.9	\$ 424.1

⁽¹⁾ Represents the purchase price allocated to Integrys's investment in ATC in excess of the recorded value.

⁽²⁾ Of this amount, \$35.2 million was recorded as a receivable at December 31, 2016.

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

The following table summarizes our significant related party transactions with ATC during the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
Charges to ATC for services and construction	\$ 18.5	\$ 15.4	\$ 8.1
Charges from ATC for network transmission services	357.3	289.2	231.4

As of December 31, 2016 and 2015, our balance sheets included the following receivables and payables related to ATC:

<i>(in millions)</i>	2016	2015
Accounts receivable		
Services provided to ATC	\$ 2.2	\$ 1.0
Accounts payable		
Services received from ATC	28.7	28.3

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

<i>(in millions)</i>	2016	2015	2014
Income statement data			
Revenues	\$ 650.8	\$ 615.8	\$ 635.0
Operating expenses	322.5	319.3	307.4
Other expense	95.5	96.1	88.9
Net income	\$ 232.8	\$ 200.4	\$ 238.7

<i>(in millions)</i>	December 31, 2016	December 31, 2015
Balance sheet data		
Current assets	\$ 75.8	\$ 80.5
Noncurrent assets	4,312.9	3,948.3
Total assets	\$ 4,388.7	\$ 4,028.8
Current liabilities		
Current liabilities	\$ 495.1	\$ 330.3
Long-term debt	1,865.3	1,790.7
Other noncurrent liabilities	271.5	245.0
Shareholders' equity	1,756.8	1,662.8
Total liabilities and shareholders' equity	\$ 4,388.7	\$ 4,028.8

NOTE 5—SUPPLEMENTAL CASH FLOW INFORMATION

<i>(in millions)</i>	2016	2015	2014
Cash (paid) for interest, net of amount capitalized	\$ (411.9)	\$ (329.6)	\$ (241.4)
Cash received (paid) for income taxes, net	39.7	(9.3)	(22.0)
Significant non-cash transactions:			
Accounts payable related to construction costs	170.1	177.1	1.8
Restricted cash used to purchase investments held in the rabbi trust	59.2	60.2	—
Amortization of deferred revenue	24.7	39.9	55.7
Note receivable received related to the sale of AMP Trillium*	—	12.0	—
Capital assets received related to the sale of AMP Trillium *	—	6.3	—

* ITF owned a 30% interest in AMP. See Note 3, Dispositions, for more information on the sale of ITF.

At December 31, 2016 and 2015, restricted cash of \$33.6 million and \$118.4 million, respectively, was recorded within other long-term assets on our balance sheets. The majority of this amount was held in the Integrys rabbi trust and represents a portion of the required funding that was triggered by the announcement of the Integrys acquisition. Withdrawals of restricted cash from the rabbi trust for qualifying payments are shown as an investing activity on the statements of cash flows. Decreases in restricted cash due to the purchase of restricted investments held in the rabbi trust are reflected as non-cash transactions on the statements of cash flows and are included in the table above.

NOTE 6—REGULATORY ASSETS AND LIABILITIES

The following regulatory assets were reflected on our balance sheets as of December 31:

<i>(in millions)</i>	2016	2015	See Note
Regulatory assets ⁽¹⁾⁽²⁾			
Unrecognized pension and OPEB costs ⁽³⁾	\$ 1,252.1	\$ 1,306.4	17
Environmental remediation costs ⁽⁴⁾	702.7	697.0	18
Income tax related items ⁽⁵⁾	285.1	248.3	
Electric transmission costs	234.1	191.5	22
SSR	188.1	86.1	22
AROs	179.2	173.0	9
We Power generation ⁽⁶⁾	54.1	45.4	
Energy efficiency programs ⁽⁷⁾	36.7	48.7	
Derivatives	17.9	70.4	1(t)
Other, net	188.3	234.9	
Total regulatory assets	\$ 3,138.3	\$ 3,101.7	
Balance Sheet Presentation			
Current assets ⁽⁸⁾	\$ 50.4	\$ 37.1	
Regulatory assets	3,087.9	3,064.6	
Total regulatory assets	\$ 3,138.3	\$ 3,101.7	

⁽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 the table.

- (2) As of December 31, 2016, we had \$32.7 million of regulatory assets not earning a return and \$204.0 million of regulatory assets earning a return based on short-term interest rates. The regulatory assets not earning a return relate to certain environmental remediation costs, the recovery of which depends on the timing of the actual expenditures.
- (3) Represents the unrecognized future pension and OPEB costs resulting from actuarial gains and losses on defined benefit and OPEB plans. We are authorized recovery of this regulatory asset over the average remaining service life of each plan.
- (4) As of December 31, 2016, we had not yet made cash expenditures for \$633.6 million of these environmental remediation costs.
- (5) Represents adjustments related to deferred income taxes, which are recovered in rates as the temporary differences that generated the income tax benefit reverse.
- (6) Represents amounts recoverable from customers related to WE's costs of the generating units leased from We Power, including subsequent capital additions.
- (7) Represents amounts recoverable from customers related to programs at the utilities designed to meet energy efficiency standards.
- (8) Short-term regulatory assets are recorded in accounts receivable and unbilled revenues on our balance sheets.

The following regulatory liabilities were reflected on our balance sheets as of December 31:

<i>(in millions)</i>	2016	2015	See Note
Regulatory liabilities			
Removal costs ⁽¹⁾	\$ 1,262.7	\$ 1,209.6	
Mines deferral ⁽²⁾	70.2	31.6	
Energy costs refundable through rate adjustments ⁽³⁾	88.7	76.9	
Unrecognized pension and OPEB costs ⁽⁴⁾	63.0	26.3	17
Derivatives	41.1	12.6	1(t)
Uncollectible expense ⁽⁵⁾	36.1	31.8	
Other, net	35.4	37.2	
Total regulatory liabilities	\$ 1,597.2	\$ 1,426.0	
Balance Sheet Presentation			
Other current liabilities	\$ 33.4	\$ 33.8	
Regulatory liabilities	1,563.8	1,392.2	
Total regulatory liabilities	\$ 1,597.2	\$ 1,426.0	

- (1) Represents amounts collected from customers to cover the cost of future removal of property, plant, and equipment.
- (2) Represents the deferral of revenues less the associated cost of sales related to sales to the mines, which were not included in the 2015 rate order. We intend to request that this deferral be applied for the benefit of Wisconsin retail electric customers in a future rate proceeding.
- (3) Represents energy costs that will be refunded to customers in the future.
- (4) Represents the unrecognized future pension and OPEB costs resulting from actuarial gains and losses on defined benefit and OPEB plans. We will amortize this regulatory liability into net periodic benefit cost over the average remaining service life of each plan.
- (5) Represents amounts refundable to customers related to our uncollectible expense tracking mechanisms and riders. These mechanisms allow us to recover or refund the difference between actual uncollectible write-offs and the amounts recovered in rates.

NOTE 7—PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following utility and non-utility and other assets at December 31:

<i>(in millions)</i>	2016	2015
Utility property, plant, and equipment	\$ 24,185.1	\$ 22,803.7
Less: Accumulated depreciation	7,609.7	7,358.2
Net	16,575.4	15,445.5
CWIP	320.0	672.7
Net utility property, plant, and equipment	16,895.4	16,118.2
Non-utility and other property, plant, and equipment	3,520.3	3,482.2
Less: Accumulated depreciation	604.9	560.9
Net	2,915.4	2,921.3
CWIP	104.7	150.2
Net non-utility and other property, plant, and equipment	3,020.1	3,071.5
Total property, plant, and equipment	\$ 19,915.5	\$ 19,189.7

NOTE 8—JOINTLY OWNED FACILITIES

We Power and WPS hold joint ownership interests in certain electric generating facilities. They are entitled to their share of generating capability and output of each facility equal to their respective ownership interest. They pay their ownership share of additional construction costs and have supplied their own financing for all jointly owned projects. We Power and WPS record their proportionate share of significant jointly owned electric generating facilities as property, plant, and equipment on the balance sheets.

We Power leases its ownership interest in ER 1 and ER 2 to WE, and WE operates these units. WE and WPS record their respective share of fuel inventory purchases and operating expenses, unless specific agreements have been executed to limit their maximum exposure to additional costs. WE's and WPS's proportionate share of direct expenses for the joint operation of these plants is recorded in operating expenses in the income statements.

Information related to jointly owned facilities at December 31, 2016 was as follows:

<i>(in millions, except for percentages and MWs)</i>	We Power		WPS	
	Elm Road Generating Station Units 1 and 2	Weston Unit 4	Columbia Energy Center Units 1 and 2 ⁽²⁾	Edgewater Unit 4
Ownership	83.34%	70.0%	31.8%	31.8%
Share of rated capacity (MWs) ⁽¹⁾	1,056.8	373.5	334.4	98.0
In-service date	2010 and 2011	2008	1975 and 1978	1969
Property, plant, and equipment	\$ 2,430.8	\$ 596.3	\$ 417.9	\$ 45.8
Accumulated depreciation	\$ (331.5)	\$ (170.3)	\$ (128.3)	\$ (31.7)
CWIP	\$ 9.4	\$ 0.2	\$ 41.2	\$ 0.1

⁽¹⁾ Based on expected capacity ratings for summer 2017. The summer period is the most relevant for capacity planning purposes. This is a result of continually reaching demand peaks in the summer months, primarily due to air conditioning demand.

⁽²⁾ Columbia Energy Center (Columbia) is jointly owned by Wisconsin Power and Light (WPL), Madison Gas and Electric (MGE), and WPS. In October 2016, WPL received an order from the PSCW approving amendments to the Columbia joint operating agreement between the parties allowing WPS and MGE to forgo certain capital expenditures at Columbia. As a result, WPL will incur these capital expenditures in exchange for a proportional increase in its ownership share of Columbia. Based upon the additional capital expenditures WPL expects to incur through June 1, 2020, WPS's ownership interest would decrease to 27.5%.

NOTE 9—ASSET RETIREMENT OBLIGATIONS

Our utilities have recorded AROs primarily for the removal of natural gas distribution mains and service pipes (including asbestos and polychlorinated biphenyls [PCBs]); asbestos abatement at certain generation and substation facilities, office buildings, and service centers; the removal and dismantlement of generation facilities; the dismantling of wind generation projects; the disposal of PCB-contaminated transformers; the closure of fly-ash landfills at certain generation facilities; and

the removal of above ground storage tanks. Regulatory assets and liabilities are established by our utilities to record the differences between ongoing expense recognition under the ARO accounting rules and the ratemaking practices for retirement costs authorized by the applicable regulators. AROs have also been recorded by PDL for the removal of solar equipment components. On our balance sheets, AROs are recorded within other long-term liabilities.

The following table shows changes to our AROs during the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
Balance as of January 1	\$ 571.2	\$ 43.6	\$ 42.3
Integrys subsidiaries	—	491.0	—
Accretion	28.3	14.5	2.4
Additions and revisions to estimated cash flows	—	35.5 *	—
Liabilities settled	(41.8)	(13.4)	(1.1)
Balance as of December 31	\$ 557.7	\$ 571.2	\$ 43.6

* During 2015, an ARO of \$16.1 million was recorded for fly-ash landfills located at generation facilities owned by WE and WPS. An ARO of \$9.0 million was also recorded during 2015 for the Hazardous and Solid Waste Management System; Disposal of Coal Combustion Residuals from Electric Utilities rule passed by the EPA in April 2015. In addition, AROs increased \$10.4 million in 2015 due to revisions made to estimated cash flows primarily for changes in the weighted average cost to retire natural gas distribution pipe at PGL and NSG.

NOTE 10—GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired. The following table shows changes to our goodwill balances by segment during the years ended December 31, 2016 and 2015:

<i>(in millions)</i>	Wisconsin		Illinois		Other States		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Goodwill balance as of January 1	\$ 2,109.5	\$ 441.9	\$ 731.2	\$ —	\$ 182.8	\$ —	\$ 3,023.5	\$ 441.9
Adjustment to Integrys purchase price allocation	(5.2)	—	27.5	—	0.4	—	22.7	—
Acquisition of Integrys	—	1,667.6	—	731.2	—	182.8	—	2,581.6
Goodwill balance as of December 31 *	\$ 2,104.3	\$ 2,109.5	\$ 758.7	\$ 731.2	\$ 183.2	\$ 182.8	\$ 3,046.2	\$ 3,023.5

* We had no accumulated impairment losses related to our goodwill as of December 31, 2016.

Due to the acquisition of Integrys, we changed the date of our annual goodwill impairment test from August 31 to July 1. In the third quarter of 2016, annual impairment tests were completed at all of our reporting units that carried a goodwill balance as of July 1, 2016. No impairments resulted from these tests.

NOTE 11—COMMON EQUITY

Stock-Based Compensation Plans

The following table summarizes our pre-tax stock-based compensation expense and the related tax benefit for the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
Stock options	\$ 3.5	\$ 3.3	\$ 3.7
Restricted stock	5.8	7.0	2.8
Performance units	8.7	13.0	15.4
Stock-based compensation expense	\$ 18.0	\$ 23.3	\$ 21.9
Related tax benefit	\$ 7.2	\$ 9.3	\$ 8.8

Stock-based compensation costs capitalized during 2016, 2015, and 2014 were not significant.

Stock Options

The following is a summary of our stock option activity during 2016:

Stock Options	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2016	5,984,664	\$ 33.47		
Granted	794,764	\$ 52.15		
Exercised	(1,644,353)	\$ 25.30		
Forfeited	(12,300)	\$ 52.98		
Outstanding as of December 31, 2016	5,122,775	\$ 38.95	6.0	\$ 100.9
Exercisable as of December 31, 2016	3,710,836	\$ 35.38	5.2	\$ 86.4

The aggregate intrinsic value of outstanding and exercisable options in the above table represents the total pre-tax intrinsic value that would have been received by the option holders had they exercised all of their options on December 31, 2016. This is calculated as the difference between our closing stock price on December 31, 2016, and the option exercise price, multiplied by the number of in-the-money stock options. The intrinsic value of options exercised during the years ended December 31, 2016, 2015, and 2014 was \$55.4 million, \$36.1 million, and \$50.5 million, respectively. The actual tax benefit realized for the tax deductions from option exercises for the same periods was approximately \$22.2 million, \$14.5 million, and \$19.9 million, respectively.

As of December 31, 2016, the total unrecognized compensation cost related to unvested stock options was not significant.

During the first quarter of 2017, the Compensation Committee awarded 552,215 non-qualified stock options with a weighted-average exercise price of \$58.31 and a weighted-average grant date fair value of \$7.45 per option to certain of our officers and other key employees under its normal schedule of awarding long-term incentive compensation.

Restricted Shares

The following restricted stock activity occurred during 2016:

Restricted Shares	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of January 1, 2016	229,018	\$ 46.78
Granted	146,941	\$ 53.69
Released	(141,224)	\$ 46.14
Forfeited	(14,689)	\$ 54.39
Outstanding as of December 31, 2016	220,046	\$ 51.30

The intrinsic value of restricted stock released was \$7.7 million, \$3.7 million, and \$2.7 million for the years ended December 31, 2016, 2015, and 2014, respectively. The actual tax benefit realized for the tax deductions from released restricted shares for the same years was \$3.1 million, \$1.3 million, and \$1.0 million, respectively.

As of December 31, 2016, approximately \$5.1 million of unrecognized compensation cost related to restricted stock was expected to be recognized over the next 1.9 years on a weighted-average basis.

During the first quarter of 2017, the Compensation Committee awarded 82,622 restricted shares to certain of our directors, officers, and other key employees under its normal schedule of awarding long-term incentive compensation. The grant date fair value of these awards was \$58.10 per share.

Performance Units

In 2016, 2015, and 2014, the Compensation Committee awarded 297,305; 195,365; and 233,735 performance units, respectively, to officers and other key employees under the WEC Energy Group Performance Unit Plan.

Performance units with an intrinsic value of \$19.1 million, \$13.2 million, and \$14.8 million were settled during 2016, 2015, and 2014, respectively. The actual tax benefit realized for the tax deductions from the distribution of performance units for the same years was approximately \$6.8 million, \$4.8 million, and \$5.3 million, respectively.

As of December 31, 2016, approximately \$10.2 million of unrecognized compensation cost related to performance units was expected to be recognized over the next 1.4 years on a weighted-average basis.

During the first quarter of 2017, we settled performance units with an intrinsic value of \$6.1 million. The actual tax benefit realized from the distribution of these awards was \$1.8 million. In January 2017, the Compensation Committee also awarded 237,650 performance units to certain of our officers and other key employees under its normal schedule of awarding long-term incentive compensation.

Restrictions

Our ability as a holding company to pay common stock dividends primarily depends on the availability of funds received from our utility subsidiaries and our non-utility subsidiary, We Power. Various financing arrangements and regulatory requirements impose certain restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans, or advances. All of our utility subsidiaries, with the exception of MGU, are prohibited from loaning funds to us, either directly or indirectly.

In accordance with their most recent rate orders, WE, WG, and WPS may not pay common dividends above the test year forecasted amounts reflected in their respective rate cases, if it would cause their average common equity ratio, on a financial basis, to fall below their authorized levels of 51%, 49.5%, and 51%, respectively. A return of capital in excess of the test year amount can be paid by each company at the end of the year provided that their respective average common equity ratios do not fall below the authorized levels.

WE may not pay common dividends to us under WE's Restated Articles of Incorporation if any dividends on its outstanding preferred stock have not been paid. In addition, pursuant to the terms of WE's 3.60% Serial Preferred Stock, WE's ability to declare common dividends would be limited to 75% or 50% of net income during a twelve month period if its common stock equity to total capitalization, as defined in the preferred stock designation, is less than 25% and 20%, respectively.

NSG's long-term debt obligations contain provisions and covenants restricting the payment of cash dividends and the purchase or redemption of its capital stock.

WEC Energy Group and Integrys have the option to defer interest payments on their junior subordinated notes, from time to time, for one or more periods of up to 10 consecutive years per period. During any period in which they defer interest payments, they may not declare or pay any dividends or distributions on, or redeem, repurchase or acquire, their respective common stock.

See Note 13, Short-Term Debt and Lines of Credit, for discussion of certain financial covenants related to short-term debt obligations.

As of December 31, 2016, the restricted net assets of consolidated and unconsolidated subsidiaries and our equity in undistributed earnings of investees accounted for by the equity method totaled approximately \$6.3 billion. This amount exceeds 25% of our consolidated net assets as of December 31, 2016.

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

Share Repurchase Program

We have instructed our independent agents to purchase shares on the open market to fulfill obligations under various stock-based employee benefit and compensations plans and to provide shares to participants in our dividend reinvestment and stock purchase plan. As a result, no new shares of common stock were issued in 2016, 2015, or 2014, other than for the Integrys acquisition. See Note 2, Acquisitions, for more information.

In December 2013, our Board of Directors authorized a share repurchase program for the purchase of up to \$300.0 million of our common stock through open market purchases or privately negotiated transactions from January 1, 2014, through the end of 2017. On June 22, 2014, in connection with entering into the Merger Agreement, the Board of Directors terminated this share repurchase program. The following table identifies shares purchased during the year ended December 31:

<i>(in millions)</i>	2016		2015		2014	
	Shares	Cost	Shares	Cost	Shares	Cost
Under share repurchase programs	—	\$ —	—	\$ —	0.4	\$ 18.6
To fulfill exercised stock options and restricted stock awards	1.8	108.0	1.5	74.7	2.3	104.6
Total	1.8	\$ 108.0	1.5	\$ 74.7	2.7	\$ 123.2

Common Stock Dividends

During the year ended December 31, 2016, our Board of Directors declared common stock dividends which are summarized below:

Date Declared	Date Payable	Per Share	Period
January 21, 2016	March 1, 2016	\$0.4950	First quarter
April 21, 2016	June 1, 2016	\$0.4950	Second quarter
July 21, 2016	September 1, 2016	\$0.4950	Third quarter
October 20, 2016	December 1, 2016	\$0.4950	Fourth quarter

On January 19, 2017, our Board of Directors increased our quarterly dividend to \$0.52 per share effective with the first quarter of 2017 dividend payment, which equates to an annual dividend of \$2.08 per share. In addition, the Board of Directors affirmed our dividend policy that continues to target a dividend payout ratio of 65-70% of earnings.

NOTE 12—PREFERRED STOCK

The following table shows preferred stock authorized and outstanding at December 31, 2016 and 2015:

<i>(in millions, except share and per share amounts)</i>	Shares Authorized	Shares Outstanding	Redemption Price Per Share	Total
WEC Energy Group				
\$0.01 par value Preferred Stock	15,000,000	—	—	\$ —
WE				
\$100 par value, Six Per Cent. Preferred Stock	45,000	44,498	—	4.4
\$100 par value, Serial Preferred Stock	2,286,500			
3.60% Series		260,000	\$ 101	26.0
\$25 par value, Serial Preferred Stock	5,000,000	—	—	—
WPS				
\$100 par value, Preferred Stock	1,000,000	—	—	—
PGL				
\$100 par value, Cumulative Preferred Stock	430,000	—	—	—
NSG				
\$100 par value, Cumulative Preferred Stock	160,000	—	—	—
Total				\$ 30.4

NOTE 13—SHORT-TERM DEBT AND LINES OF CREDIT

The following table shows our short-term borrowings and their corresponding weighted-average interest rates as of December 31:

<i>(in millions, except percentages)</i>	2016	2015
Commercial paper		
Amount outstanding at December 31	\$ 860.2	\$ 1,095.0
Average interest rate on amounts outstanding at December 31	0.96%	0.68%

Our average amount of commercial paper borrowings based on daily outstanding balances during 2016, was \$882.3 million with a weighted-average interest rate during the period of 0.66%.

WEC Energy Group, WE, WPS, WG, and PGL have entered into bank back-up credit facilities to maintain short-term credit liquidity which, among other terms, require them to maintain, subject to certain exclusions, a minimum total funded debt to capitalization ratio of less than 70.0%, 65.0%, 65.0%, 65.0%, and 65.0%, respectively. As of December 31, 2016, all companies were in compliance with their respective ratio.

As of December 31, 2016, we had \$1,620.7 million of available capacity under our bank back-up credit facilities and \$860.2 million of commercial paper outstanding that was supported by the credit facilities.

The information in the table below relates to our revolving credit facilities used to support our commercial paper borrowing program, including remaining available capacity under these facilities as of December 31:

<i>(in millions)</i>	Maturity	2016
WEC Energy Group	December 2020	\$ 1,050.0
WE	December 2020	500.0
WPS	December 2020	250.0
WG	December 2020	350.0
PGL	December 2020	350.0
Total short-term credit capacity		\$ 2,500.0
Less:		
Letters of credit issued inside credit facilities		\$ 19.1
Commercial paper outstanding		860.2
Available capacity under existing agreements		\$ 1,620.7

Each of these facilities has a renewal provision for two one-year extensions, subject to lender approval.

The bank back-up credit facilities contain customary covenants, including certain limitations on the respective companies' ability to sell assets. The credit facilities also contain customary events of default, including payment defaults, material inaccuracy of representations and warranties, covenant defaults, bankruptcy proceedings, certain judgments, Employee Retirement Income Security Act of 1974 defaults, and change of control. In addition, pursuant to the terms of our credit agreement, we must ensure that certain of our subsidiaries comply with several of the covenants contained therein.

NOTE 14—LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

See our statements of capitalization for details on our long-term debt.

Wisconsin Gas LLC

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

The Peoples Gas Light and Coke Company

In December 2016, PGL issued \$150.0 million of 3.65% Series DDD Bonds due December 15, 2046. The net proceeds were used for general corporate purposes, including capital expenditures and the refinancing of short-term debt.

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

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

W.E. Power, LLC

During 2017, \$5.6 million of We Power's outstanding \$106.7 million of 4.91% secured notes will mature. As a result, this balance was included in the current portion of long-term debt on our balance sheet at December 31, 2016.

During 2017, \$4.6 million of We Power's outstanding \$126.1 million of 6.00% secured notes will mature. As a result, this balance was included in the current portion of long-term debt on our balance sheet at December 31, 2016.

During 2017, \$10.8 million of We Power's outstanding \$204.8 million of 5.209% secured notes will mature. As a result, this balance was included in the current portion of long-term debt on our balance sheet at December 31, 2016.

During 2017, \$8.5 million of We Power's outstanding \$170.9 million of 4.673% secured notes will mature. As a result, this balance was included in the current portion of long-term debt on our balance sheet at December 31, 2016.

Integrys Holding, Inc.

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

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

Bonds and Notes

The following table shows the future maturities of our long-term debt outstanding (excluding obligations under capital leases) as of December 31, 2016:

<i>(in millions)</i>	Payments
2017	\$ 154.5
2018	836.1
2019	357.7
2020	684.4
2021	336.2
Thereafter	6,953.5
Total	\$ 9,322.4

We amortize debt premiums, discounts, and debt issuance costs over the life of the debt and we include the costs in interest expense.

As of December 31, 2016, WE was the obligor under a series of tax-exempt pollution control refunding bonds with an outstanding principal amount of \$80.0 million. In August 2009, WE terminated a letter of credit that provided credit and liquidity support for the bonds, which resulted in a mandatory tender of the bonds. WE purchased the bonds at par plus accrued interest to the date of purchase. As of December 31, 2016, the repurchased bonds were still outstanding, but were not reported in our long-term debt since they were held by WE. Depending on market conditions and other factors, WE may change the method used to determine the interest rate on this bond series and have it remarketed to third parties. A related bond series that had an outstanding principal amount of \$67.0 million matured on August 1, 2016.

In connection with our outstanding 2007 6.25% Series A Junior Subordinated Notes (6.25% Junior Notes), we executed a Replacement Capital Covenant dated May 11, 2007 (RCC), which we amended on June 29, 2015, for the benefit of persons that buy, hold, or sell a specified series of our long-term indebtedness (covered debt). Our 6.20% Senior Notes due April 1, 2033 have been designated as the covered debt under the RCC. The RCC provides that we may not redeem, defease, or purchase, and that our subsidiaries may not purchase, any 6.25% Junior Notes on or before May 15, 2037, unless, subject to certain limitations described in the RCC, we have received a specified amount of proceeds from the sale of qualifying securities.

Effective May 2017, the \$500 million of 6.25% Junior Notes will bear interest at the three-month LIBOR plus 211.25 basis points and will reset quarterly.

In connection with Integrys's outstanding 6.11% Junior Notes, Integrys executed a Replacement Capital Covenant dated December 1, 2006, as replaced by a new Replacement Capital Covenant on December 1, 2010 (Integrys RCC) for the benefit of persons that buy, hold, or sell a specified series of its long-term indebtedness (covered debt). Integrys's 4.17% Senior Notes due November 1, 2020, have been designated as the covered debt under the Integrys RCC. The Integrys RCC provides that Integrys may not redeem, defease, or purchase, and that its subsidiaries may not purchase, any 6.11% Junior Notes on or before December 1, 2036, unless, subject to certain limitations described in the Integrys RCC, Integrys has received a specified amount of proceeds from the sale of qualifying securities.

Effective August 2023, Integrys's \$400.0 million of 2013 6.00% Junior Subordinated Notes due 2073 will bear interest at the three-month LIBOR plus 322 basis points and will reset quarterly.

Certain long-term debt obligations contain financial and other covenants. Failure to comply with these covenants could result in an event of default, which could result in the acceleration of outstanding debt obligations.

Obligations Under Capital Leases

In 1997, WE entered into a 25-year power purchase contract with an unaffiliated independent power producer. The contract, for 236 MW of firm capacity from a natural gas-fired cogeneration facility, includes zero minimum energy requirements. When the contract expires in 2022, WE may, at its option and with proper notice, renew for another 10 years or purchase the generating facility at fair value or allow the contract to expire. We account for this contract as a capital lease and recorded the leased facility and corresponding obligation under the capital lease at the estimated fair value of the plant's electric generating facilities. We are amortizing the leased facility on a straight-line basis over the original 25-year term of the contract.

We treat the long-term power purchase contract as an operating lease for rate-making purposes and we record our minimum lease payments as cost of sales on our income statements. We paid a total of \$37.6 million and \$36.2 million in lease payments during 2016 and 2015, respectively. We record the difference between the minimum lease payments and the sum of imputed interest and amortization costs calculated under capital lease accounting as a deferred regulatory asset on our balance sheets. Due to the timing and the amounts of the minimum lease payments, the regulatory asset increased to approximately \$78.5 million during 2009, at which time the regulatory asset began to be reduced to zero over the remaining life of the contract. The total obligation under the capital lease was \$29.6 million as of December 31, 2016, and will decrease to zero over the remaining life of the contract.

The following is a summary of our capitalized leased facilities as of December 31:

<i>(in millions)</i>	2016	2015
Long-term power purchase commitment	\$ 140.3	\$ 140.3
Accumulated amortization	(109.5)	(103.9)
Total leased facilities	\$ 30.8	\$ 36.4

Future minimum lease payments under our capital lease and the present value of our net minimum lease payments as of December 31, 2016 are as follows:

<i>(in millions)</i>	Payments
2017	\$ 13.9
2018	14.7
2019	15.5
2020	16.4
2021	17.2
Thereafter	7.6
Total minimum lease payments	85.3
Less: Estimated executory costs	(39.9)
Net minimum lease payments	45.4
Less: Interest	(15.8)
Present value of net minimum lease payments	29.6
Less: Due currently	(2.7)
Long-term obligations under capital lease	\$ 26.9

NOTE 15—INCOME TAXES

Income Tax Expense

The following table is a summary of income tax expense for the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
Current tax expense	\$ 72.7	\$ 15.1	\$ 33.6
Deferred income taxes, net	498.7	420.4	329.2
Investment tax credit, net	(4.9)	(1.7)	(1.1)
Total income tax expense	\$ 566.5	\$ 433.8	\$ 361.7

Statutory Rate Reconciliation

The provision for income taxes for each of the years ended December 31 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:

<i>(in millions)</i>	2016		2015		2014	
	Amount	Effective Tax Rate	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Expected tax at statutory federal tax rates	\$ 526.4	35.0 %	\$ 375.5	35.0 %	\$ 332.5	35.0 %
State income taxes net of federal tax benefit	72.8	4.8 %	73.1	6.8 %	50.5	5.3 %
Production tax credits	(15.7)	(1.1)%	(17.4)	(1.6)%	(17.4)	(1.8)%
AFUDC – Equity	(8.8)	(0.6)%	(7.1)	(0.7)%	(1.9)	(0.2)%
Investment tax credit restored	(4.9)	(0.3)%	(1.7)	(0.2)%	(1.1)	(0.2)%
Other, net	(3.3)	(0.2)%	11.4	1.1 %	(0.9)	(0.1)%
Total income tax expense	\$ 566.5	37.6 %	\$ 433.8	40.4 %	\$ 361.7	38.0 %

Deferred Income Tax Assets and Liabilities

The components of deferred income taxes as of December 31 are as follows:

<i>(in millions)</i>	2016	2015
Deferred tax assets		
Future tax benefits	\$ 430.4	\$ 382.8
Employee benefits and compensation	222.0	229.9
Deferred revenues	207.2	219.9
Property-related	54.5	59.5
Other	230.6	177.1
Total deferred tax assets	1,144.7	1,069.2
Valuation allowance	(15.0)	(17.1)
Net deferred tax assets	\$ 1,129.7	\$ 1,052.1
Deferred tax liabilities		
Property-related	\$ 4,979.3	\$ 4,451.5
Investment in transmission affiliate	476.9	420.4
Employee benefits and compensation	401.6	428.9
Deferred transmission costs	93.1	76.7
Other	325.4	296.9
Total deferred tax liabilities	6,276.3	5,674.4
Deferred tax liability, net	\$ 5,146.6	\$ 4,622.3

Consistent with rate-making treatment, deferred taxes in the table above are offset for temporary differences that have related regulatory assets and liabilities.

The components of net deferred tax assets associated with federal and state tax benefit carryforwards as of December 31, 2016 and 2015 are summarized in the tables below:

2016 <i>(in millions)</i>	Gross Value	Deferred Tax Effect	Valuation Allowance	Earliest Year of Expiration
Future tax benefits as of December 31, 2016				
Federal net operating loss	\$ 407.6	\$ 142.7	\$ —	2031
Federal foreign tax credit	—	13.5	(13.5)	2017
Other federal tax credit	—	241.1	—	2025
Charitable contribution	9.4	4.0	(1.5)	2016
State net operating loss	482.6	24.3	—	2024
State tax credit	—	4.8	—	2016
Balance as of December 31, 2016	\$ 899.6	\$ 430.4	\$ (15.0)	

2015 <i>(in millions)</i>	Gross Value	Deferred Tax Effect	Valuation Allowance	Earliest Year of Expiration
Future tax benefits as of December 31, 2015				
Federal net operating loss	\$ 412.3	\$ 144.3	\$ —	2031
Federal foreign tax credit	—	15.2	(15.2)	2017
Other federal tax credit	—	207.8	—	2025
Charitable contribution	4.7	1.9	(1.9)	2016
State net operating loss	185.9	9.3	—	2024
State tax credit	—	4.3	—	2016
Balance as of December 31, 2015	\$ 602.9	\$ 382.8	\$ (17.1)	

Valuation allowances of \$15.0 million have been established for certain tax benefit carryforwards obtained in the Integrys acquisition based on our projected ability to realize such benefits by offsetting future tax liabilities. This is primarily the result of the extension of bonus depreciation. Realization is dependent on generating sufficient tax liabilities prior to expiration of the tax benefit carryforwards.

Unrecognized Tax Benefits

We previously adopted accounting guidance related to uncertainty in income taxes. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

<i>(in millions)</i>	2016	2015
Balance as of January 1	\$ 9.5	\$ 7.2
Acquired legacy Integrys unrecognized tax benefits	—	3.6
Additions for tax positions of prior years	6.7	0.3
Additions based on tax positions related to the current year	1.1	0.2
Reductions for tax positions of prior years	(1.0)	(1.1)
Reductions due to statute of limitations	(1.8)	—
Settlements during the period	—	(0.7)
Balance as of December 31	<u>\$ 14.5</u>	<u>\$ 9.5</u>

The amount of unrecognized tax benefits as of December 31, 2016 and 2015, excludes deferred tax assets related to uncertainty in income taxes of \$6.6 million and \$6.2 million, respectively. As of December 31, 2016 and 2015, the net amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate for continuing operations was \$7.9 million and \$2.2 million, respectively.

We recognize interest and penalties accrued related to unrecognized tax benefits as a component of income tax expense. For the years ended December 31, 2016, 2015, and 2014, we recognized \$0.2 million, zero, and \$0.3 million of accrued interest in our income statements, respectively. For the years ended December 31, 2016, 2015, and 2014, we recognized no penalties in our income statements. For the year ended December 31, 2016, we had \$0.8 million of interest accrued and no penalties accrued on our balance sheets. For the year ended December 31, 2015, we had \$0.7 million of interest accrued and \$0.1 million of penalties accrued on our balance sheets.

We do not anticipate any significant increases or decreases in the total amounts of unrecognized tax benefits within the next 12 months.

We file income tax returns in the United States federal jurisdiction and state tax returns based on income in our major state operating jurisdictions of Wisconsin, Illinois, Michigan, and Minnesota. We also file tax returns in other state and local jurisdictions with varying statutes of limitations. As of December 31, 2016, we were subject to examination by state or local tax authorities for the 2011 through 2016 tax years in our major state operating jurisdictions as follows:

Jurisdiction	Years
Federal	2013–2016
Illinois	2013–2016
Michigan	2012–2016
Minnesota	2014–2016
Wisconsin	2011–2016

NOTE 16—GUARANTEES

The following table shows our outstanding guarantees:

<i>(in millions)</i>	Total Amounts Committed at December 31, 2016	Expiration		
		Less Than 1 Year	1 to 3 Years	Over 3 Years
Guarantees				
Standby letters of credit ⁽¹⁾	\$ 29.4	\$ 27.9	\$ 1.5	\$ —
Surety bonds ⁽²⁾	10.9	10.3	0.6	—
Other guarantees ⁽³⁾	7.6	0.5	—	7.1
Total guarantees	<u>\$ 47.9</u>	<u>\$ 38.7</u>	<u>\$ 2.1</u>	<u>\$ 7.1</u>

⁽¹⁾ 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.

⁽²⁾ 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.

(3) Consists of \$7.6 million related to other indemnifications, for which a liability of \$7.1 million related to workers compensation coverage was recorded on our balance sheets.

NOTE 17—EMPLOYEE BENEFITS

Pension and Other Postretirement Employee Benefits

We and our subsidiaries have defined benefit pension plans that cover substantially all of our employees, as well as several unfunded nonqualified retirement plans. In addition, we and our subsidiaries offer multiple OPEB plans to employees. The benefits for a portion of these plans are funded through irrevocable trusts, as allowed for income tax purposes. We also offer medical, dental, and life insurance benefits to active employees and their dependents. We expense the costs of these benefits as incurred.

Generally, former Wisconsin Energy Corporation employees who started with the company after 1995 receive a benefit based on a percentage of their annual salary plus an interest credit, while employees who started before 1996 receive a benefit based upon years of service and final average salary. New Wisconsin Energy Corporation management employees hired after December 31, 2014 receive a 6% annual company contribution to their 401(k) savings plan instead of being enrolled in the defined benefit plans.

For former Integrys employees, the defined benefit pension plans are closed to all new hires. In addition, the service accruals for the defined benefit pension plans were frozen for non-union employees as of January 1, 2013. These employees receive an annual company contribution to their 401(k) savings plan, which is calculated based on age, wages, and full years of vesting service as of December 31 each year.

We use a year-end measurement date to measure the funded status of all of our pension and OPEB plans. Due to the regulated nature of our business, we have concluded that substantially all of the unrecognized costs resulting from the recognition of the funded status of our pension and OPEB plans qualify as a regulatory asset.

The following tables provide a reconciliation of the changes in our plans' benefit obligations and fair value of assets:

<i>(in millions)</i>	Pension Costs		OPEB Costs	
	2016	2015	2016	2015
Change in benefit obligation				
Obligation at January 1	\$ 3,083.0	\$ 1,505.5	\$ 842.0	\$ 397.7
Obligation assumed from acquisition	—	1,594.0	—	493.0
Service cost	45.4	30.4	26.1	20.7
Interest cost	130.8	94.3	37.0	26.7
Participant contributions	—	—	16.4	12.7
Plan amendments	(3.0)	—	(18.9)	—
Actuarial loss (gain)	71.7	14.6	(36.5)	(74.0)
Benefit payments	(269.1)	(156.0)	(49.1)	(36.2)
Federal subsidy on benefits paid	N/A	N/A	1.4	1.6
Plan curtailment	—	0.2	—	(0.2)
Obligation at December 31	\$ 3,058.8	\$ 3,083.0	\$ 818.4	\$ 842.0
Change in fair value of plan assets				
Fair value at January 1	\$ 2,755.1	\$ 1,444.6	\$ 749.8	\$ 333.5
Assets received from acquisition	—	1,420.9	—	442.1
Actual return on plan assets	199.4	(62.1)	51.5	(15.6)
Employer contributions	23.8	107.7	4.9	13.3
Participant contributions	—	—	16.4	12.7
Benefit payments	(269.1)	(156.0)	(49.1)	(36.2)
Fair value at December 31	\$ 2,709.2	\$ 2,755.1	\$ 773.5	\$ 749.8
Funded status at December 31	\$ (349.6)	\$ (327.9)	\$ (44.9)	\$ (92.2)

The amounts recognized on our balance sheets at December 31 related to the funded status of the benefit plans were as follows:

<i>(in millions)</i>	Pension Costs		OPEB Costs	
	2016	2015	2016	2015
Other long-term assets	\$ 74.4	\$ 74.1	\$ 29.7	\$ 50.1
Pension and OPEB obligations *	424.0	402.0	74.6	142.3
Total net liabilities	\$ (349.6)	\$ (327.9)	\$ (44.9)	\$ (92.2)

* Includes \$0.8 million of pension and \$0.4 million of OPEB obligations classified as liabilities held for sale as of December 31, 2015. These amounts are included in other current liabilities on our balance sheets.

The accumulated benefit obligation for all defined benefit pension plans was \$2,939.9 million and \$2,936.4 million as of December 31, 2016, and 2015, respectively.

The following table shows information for pension plans with an accumulated benefit obligation in excess of plan assets. Amounts presented are as of December 31:

<i>(in millions)</i>	2016	2015
Projected benefit obligation	\$ 1,667.0	\$ 1,706.6
Accumulated benefit obligation	1,549.5	1,560.5
Fair value of plan assets	1,242.9	1,304.6

The following table shows the amounts that have not yet been recognized in our net periodic benefit cost as of December 31:

<i>(in millions)</i>	Pension Costs		OPEB Costs	
	2016	2015	2016	2015
Accumulated other comprehensive loss (pre-tax) ⁽¹⁾				
Net actuarial loss (gain)	\$ 12.0	\$ 11.4	\$ (1.0)	\$ (0.6)
Total	\$ 12.0	\$ 11.4	\$ (1.0)	\$ (0.6)
Net regulatory assets ⁽²⁾				
Net actuarial loss	\$ 1,240.7	\$ 798.1	\$ 25.8	\$ 23.7
Prior service costs (credits)	10.5	4.7	(87.9)	(3.3)
Total	\$ 1,251.2	\$ 802.8	\$ (62.1)	\$ 20.4

⁽¹⁾ Amounts related to the nonregulated entities are included in accumulated other comprehensive loss.

⁽²⁾ Amounts related to the utilities and WBS are recorded as net regulatory assets or liabilities.

The following table shows the estimated amounts that will be amortized into net periodic benefit cost during 2017:

<i>(in millions)</i>	Pension Costs	OPEB Costs
Net actuarial loss	\$ 87.2	\$ 5.8
Prior service costs (credits)	3.0	(11.2)
Total 2017 – estimated amortization	\$ 90.2	\$ (5.4)

The components of net periodic benefit cost (including amounts capitalized to our balance sheets) for the years ended December 31 were as follows:

<i>(in millions)</i>	Pension Costs			OPEB Costs		
	2016	2015	2014	2016	2015	2014
Service cost	\$ 45.4	\$ 30.4	\$ 10.1	\$ 26.1	\$ 20.7	\$ 8.5
Interest cost	130.8	94.3	68.1	37.0	26.7	17.8
Expected return on plan assets	(195.9)	(155.6)	(98.6)	(52.7)	(39.6)	(23.7)
Plan settlement	16.5	—	—	—	—	—
Plan curtailment	—	(0.3)	—	—	—	—
Amortization of prior service cost (credit)	3.4	2.2	2.1	(9.4)	(6.4)	(1.8)
Amortization of net actuarial loss	82.9	68.5	36.7	8.5	3.9	1.2
Net periodic benefit cost	\$ 83.1	\$ 39.5	\$ 18.4	\$ 9.5	\$ 5.3	\$ 2.0

The weighted-average assumptions used to determine the benefit obligations for the plans were as follows for the years ended December 31:

	Pension		OPEB	
	2016	2015	2016	2015
Discount rate	4.16%	4.46%	4.14%	4.38%
Rate of compensation increase	3.60%	4.00%	N/A	N/A
Assumed medical cost trend rate	N/A	N/A	7.00%	7.50%
Ultimate trend rate	N/A	N/A	5.00%	5.00%
Year ultimate trend rate is reached	N/A	N/A	2021	2021

The weighted-average assumptions used to determine the net periodic benefit cost for the plans were as follows for the years ended December 31:

	Pension Costs		
	2016	2015	2014
Discount rate	4.35%	4.11%	5.00%
Expected return on plan assets	7.12%	7.37%	7.25%
Rate of compensation increase	3.75%	4.00%	4.00%

	OPEB Costs		
	2016	2015	2014
Discount rate	4.38%	4.09%	4.95%
Expected return on plan assets	7.25%	7.54%	7.50%
Assumed medical cost trend rate (Pre 65/Post 65)	7.50%	7.50%	7.50%
Ultimate trend rate	5.00%	5.00%	5.00%
Year ultimate trend rate is reached	2021	2021	2021

We consult with our investment advisors on an annual basis to help us forecast expected long-term returns on plan assets by reviewing historical returns as well as calculating expected total trust returns using the weighted-average of long-term market returns for each of the major target asset categories utilized in the fund. For 2017, the expected return on assets assumption is 7.11% for the pension plans and 7.25% for the OPEB plans.

Assumed health care cost trend rates have a significant effect on the amounts reported by us for health care plans. For the year ended December 31, 2016, a one-percentage-point change in assumed health care cost trend rates would have had the following effects:

<i>(in millions)</i>	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 8.5	\$ (6.9)
Effect on health care component of the accumulated postretirement benefit obligations	49.6	(39.5)

Plan Assets

Current pension trust assets and amounts which are expected to be contributed to the trusts in the future are expected to be adequate to meet pension payment obligations to current and future retirees.

The Investment Trust Policy Committee oversees investment matters related to all of our funded benefit plans. The Committee works with external actuaries and investment consultants on an on-going basis to establish and monitor investment strategies and target asset allocations. Forecasted cash flows for plan liabilities are regularly updated based on annual valuation results. Target allocations are determined utilizing projected benefit payment cash flows and risk analyses of appropriate investments. They are intended to reduce risk, provide long-term financial stability for the plans and maintain funded levels which meet long-term plan obligations while preserving sufficient liquidity for near-term benefit payments.

The Wisconsin Energy Corporation pension trust target asset allocations are 35% equity investments, 55% fixed income investments, and 10% private equity and real estate investments. The Integrys pension trust target asset allocation is 60% equity investments and 40% fixed income investments. The Wisconsin Energy Corporation OPEB trusts' target asset allocations are 60% equity investments and 40% fixed income investments. The two largest OPEB trusts for Integrys have

target asset allocations of 50% equity investments and 50% fixed income, and 45% equity investments and 55% fixed income, respectively. Equity securities include investments in large-cap, mid-cap, and small-cap companies primarily located in the United States. Fixed income securities include corporate bonds of companies from diversified industries, mortgage and other asset backed securities, commercial paper, and United States Treasuries.

Pension and OPEB plan investments are recorded at fair value. See Note 1(s), Fair Value Measurements, for more information regarding the fair value hierarchy and the classification of fair value measurements based on the types of inputs used. Following our adoption of ASU 2015-07 on January 1, 2016, the assets that are not subject to leveling are investments that are valued using the net asset value per share (or its equivalent) practical expedient. We have applied this approach retrospectively to the 2015 table for comparability.

The following tables provide the fair values of our investments by asset class:

<i>(in millions)</i>	December 31, 2016							
	Pension Plan Assets				OPEB Assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Cash and cash equivalents	\$ 3.7	\$ 58.0	\$ —	\$ 61.7	\$ 28.8	\$ 3.4	\$ —	\$ 32.2
Equity securities:								
United States Equity	273.9	0.1	—	274.0	34.3	—	—	34.3
International Equity	54.1	0.6	—	54.7	3.5	0.2	—	3.7
Fixed income securities: *								
United States Bonds	—	861.3	0.8	862.1	—	137.9	—	137.9
International Bonds	—	75.9	—	75.9	—	8.8	—	8.8
Private Equity and Real Estate	—	—	14.6	14.6	—	—	1.3	1.3
	<u>\$ 331.7</u>	<u>\$ 995.9</u>	<u>\$ 15.4</u>	<u>\$ 1,343.0</u>	<u>\$ 66.6</u>	<u>\$ 150.3</u>	<u>\$ 1.3</u>	<u>\$ 218.2</u>
Investments measured at net asset value				\$ 1,366.2				\$ 555.3
Total	<u>\$ 331.7</u>	<u>\$ 995.9</u>	<u>\$ 15.4</u>	<u>\$ 2,709.2</u>	<u>\$ 66.6</u>	<u>\$ 150.3</u>	<u>\$ 1.3</u>	<u>\$ 773.5</u>

* This category represents investment grade bonds of United States and foreign issuers denominated in United States dollars from diverse industries.

<i>(in millions)</i>	December 31, 2015							
	Pension Plan Assets				OPEB Assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Cash and cash equivalents	\$ 17.0	\$ 29.6	\$ —	\$ 46.6	\$ 10.5	\$ 1.0	\$ —	\$ 11.5
Equity securities:								
United States Equity	132.6	3.4	—	136.0	24.6	0.1	—	24.7
International Equity	103.9	—	—	103.9	21.4	—	—	21.4
Fixed income securities: *								
United States Bonds	11.4	797.3	—	808.7	0.3	122.0	—	122.3
International Bonds	—	80.3	—	80.3	—	8.1	—	8.1
Private Equity and Real Estate	—	—	5.5	5.5	—	—	0.4	0.4
	<u>\$ 264.9</u>	<u>\$ 910.6</u>	<u>\$ 5.5</u>	<u>\$ 1,181.0</u>	<u>\$ 56.8</u>	<u>\$ 131.2</u>	<u>\$ 0.4</u>	<u>\$ 188.4</u>
Investments measured at net asset value				\$ 1,574.1				\$ 561.4
Total	<u>\$ 264.9</u>	<u>\$ 910.6</u>	<u>\$ 5.5</u>	<u>\$ 2,755.1</u>	<u>\$ 56.8</u>	<u>\$ 131.2</u>	<u>\$ 0.4</u>	<u>\$ 749.8</u>

* This category represents investment grade bonds of United States and foreign issuers denominated in United States dollars from diverse industries.

The following tables set forth a reconciliation of changes in the fair value of pension and OPEB plan assets categorized as Level 3 in the fair value hierarchy:

<i>(in millions)</i>	Private Equity and Real Estate		United States Bonds
	Pension	OPEB	Pension
Beginning balance at January 1, 2016	\$ 5.5	\$ 0.4	\$ —
Realized and unrealized gains	0.5	0.1	—
Purchases	8.6	0.8	0.8
Ending balance at December 31, 2016	\$ 14.6	\$ 1.3	\$ 0.8

<i>(in millions)</i>	Private Equity and Real Estate	
	Pension	OPEB
Beginning balance at January 1, 2015	\$ —	\$ —
Purchases	5.5	0.4
Ending balance at December 31, 2015	\$ 5.5	\$ 0.4

Cash Flows

In January 2017, we contributed \$100.0 million to the pension plans. We expect to contribute an additional \$13.2 million to the pension plans and \$0.1 million to the OPEB plans in 2017, dependent upon various factors affecting us, including our liquidity position and possible tax law changes.

The following table shows the payments, reflecting expected future service, that we expect to make for pension and OPEB:

<i>(in millions)</i>	Pension Costs	OPEB Costs
2017	\$ 215.7	\$ 41.8
2018	217.1	49.6
2019	226.5	49.0
2020	233.1	50.9
2021	230.0	53.1
2022-2026	1,031.5	278.5

Savings Plans

We sponsor 401(k) savings plans which allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan-specified guidelines. A percentage of employee contributions are matched by us through a contribution into the employee's savings plan account, up to certain limits. Certain employees participate in a defined contribution pension plan, in which amounts are contributed to the employee's savings plan account based on the employee's wages, age, and years of service. Total costs incurred under all of these plans were \$44.3 million in 2016, \$48.0 million in 2015, and \$14.2 million in 2014.

NOTE 18—COMMITMENTS AND CONTINGENCIES

We and our subsidiaries have significant commitments and contingencies arising from our operations, including those related to unconditional purchase obligations, operating leases, environmental matters, and enforcement and litigation matters.

Unconditional Purchase Obligations

We routinely enter into long-term purchase and sale commitments for various quantities and lengths of time. Our natural gas utilities have obligations to distribute and sell natural gas to their customers, and our electric utilities have obligations to distribute and sell electricity to their customers. The utilities expect to recover costs related to these obligations in future customer rates.

The following table shows our minimum future commitments related to these purchase obligations as of December 31, 2016, including those of our subsidiaries.

<i>(in millions)</i>	Date Contracts Extend Through	Total Amounts Committed	Payments Due By Period					
			2017	2018	2019	2020	2021	Later Years
Electric utility:								
Nuclear	2033	\$ 9,599.8	\$ 415.3	\$ 420.1	\$ 445.4	\$ 475.1	\$ 501.1	\$ 7,342.8
Purchased power	2027	693.3	111.3	75.9	66.2	66.3	63.9	309.7
Coal supply and transportation	2019	455.0	269.4	140.3	45.3	—	—	—
Natural gas utility supply and transportation	2028	1,229.4	341.7	285.5	237.5	159.7	78.6	126.4
Total		\$ 11,977.5	\$ 1,137.7	\$ 921.8	\$ 794.4	\$ 701.1	\$ 643.6	\$ 7,778.9

Operating Leases

We lease property, plant, and equipment under various terms. The operating leases generally require us to pay property taxes, insurance premiums, and maintenance costs associated with the leased property. Many of our leases contain one of the following options upon the end of the lease term: (a) purchase the property at the current fair market value, or (b) exercise a renewal option, as set forth in the lease agreement.

Rental expense attributable to operating leases was \$15.1 million, \$12.7 million, and \$4.8 million in 2016, 2015, and 2014, respectively.

Future minimum payments under noncancelable operating leases are payable as follows:

Year Ending December 31	Payments <i>(in millions)</i>
2017	\$ 9.9
2018	8.8
2019	5.9
2020	5.3
2021	5.5
Later years	60.1
Total	\$ 95.5

Environmental Matters

Consistent with other companies in the energy industry, we face significant ongoing environmental compliance and remediation obligations related to current and past operations. Specific environmental issues affecting us include, but are not limited to, current and future regulation of air emissions such as SO₂, NO_x, fine particulates, mercury, and GHGs; water discharges; disposal of coal combustion products such as fly ash; and remediation of impacted properties, including former manufactured gas plant sites.

We have continued to pursue a proactive strategy to manage our environmental compliance obligations, including:

- the development of additional sources of renewable electric energy supply;
- the addition of improvements for water quality matters such as treatment technologies to meet regulatory discharge limits and improvements to our cooling water intake systems;
- the addition of emission control equipment to existing facilities to comply with ambient air quality standards and federal clean air rules;
- the protection of wetlands and waterways, threatened and endangered species, and cultural resources associated with utility construction projects;
- the retirement of old coal-fired power plants and conversion to modern, efficient, natural gas generation and super-critical pulverized coal generation;

- the beneficial use of ash and other products from coal-fired and biomass generating units; and
- the remediation of former manufactured gas plant sites.

Air Quality

Cross-State Air Pollution Rule – In July 2011, the EPA issued the CSAPR, which replaced a previous rule, the Clean Air Interstate Rule. The purpose of the CSAPR was to limit the interstate transport of NO_x and SO₂ that contribute to fine particulate matter and ozone nonattainment in downwind states through a proposed allowance allocation and trading plan. After several lawsuits and related appeals, in October 2014, the D.C. Circuit Court of Appeals issued a decision that allowed the EPA to begin implementing CSAPR on January 1, 2015. The emissions budgets of Phase I of the rule applied in 2015 and 2016, while the Phase II emissions budgets discussed below apply to 2017 and beyond.

In December 2015, the EPA published its proposed update to the CSAPR for the 2008 ozone NAAQS and issued the final rule in September 2016. Starting in 2017, this rule requires reductions in the ozone season (May 1 through September 30) NO_x emissions from power plants in 23 states in the eastern United States, including Wisconsin. The EPA updated Phase II CSAPR NO_x ozone season budgets for electric generating units in the affected states. In the final rule, the EPA significantly increased the NO_x ozone season budget from the proposed rule for Wisconsin starting in 2017. We believe we are well positioned to meet the rule requirements and do not expect to incur significant costs to comply with this rule.

Sulfur Dioxide National Ambient Air Quality Standards – The EPA issued a revised 1-Hour SO₂ NAAQS that became effective in August 2010. The EPA issued a final rule in August 2015 describing the implementation requirements and established a compliance timeline for the revised standard. The final rule affords state agencies some latitude in rule implementation. A nonattainment designation could have negative impacts for a localized geographic area, including additional permitting requirements for new or existing sources in the area.

In March 2015, a federal court entered a consent decree between the EPA and the Sierra Club and others agreeing to specific actions related to implementing the revised standard for areas containing large sources emitting above a certain threshold level of SO₂. The consent decree required the EPA to complete attainment designations for certain areas with large sources by no later than July 2016. SO₂ emissions from PIPP are above the consent decree emission threshold, which means that the Marquette area required action earlier than would otherwise have been required under the revised NAAQS. However, we were able to show through modeling that the area should be designated as attainment. In July 2016, the EPA finalized its recommendation and published a notice in the Federal Register designating Marquette County, Michigan as unclassified/attainment, effective September 2016.

In June 2016, we provided modeling to the WDNR that shows the area around the Weston Power Plant to be in compliance. Based upon the submittal, the WDNR provided final modeling to the EPA demonstrating the area around the Weston Power Plant to be in compliance. We expect that the EPA will consider the WDNR's recommendation and finalize its recommended designation in August 2017, for finalization by the end of 2017.

We believe our fleet overall is well positioned to meet the new regulation and do not expect to incur significant costs to comply with this regulation.

8-Hour Ozone National Ambient Air Quality Standards – The EPA completed its review of the 2008 8-hour ozone standard in November 2014, and announced a proposal to tighten (lower) the NAAQS. In October 2015, the EPA released the final rule, which lowered the limit for ground-level ozone. This is expected to cause nonattainment designations for some counties in Wisconsin with potential future impacts for our fossil-fueled power plant fleet. For nonattainment areas, the state of Wisconsin will have to develop a state implementation plan to bring the areas back into attainment. We will be required to comply with this state implementation plan no earlier than 2020 and are in the process of reviewing and determining potential impacts resulting from this rule. We believe we are well positioned to meet the rule requirements and do not expect to incur significant costs to comply with this rule.

Mercury and Other Hazardous Air Pollutants – In December 2011, the EPA issued the final MATS rule, which imposed stringent limitations on emissions of mercury and other hazardous air pollutants from coal and oil-fired electric generating units beginning in April 2015. In addition, both Wisconsin and Michigan have state mercury rules that require a 90% reduction of mercury; however, these rules are not in effect as long as MATS is in place. In June 2015, the Supreme Court ruled on a challenge to the MATS rule and remanded the case back to the D.C. Circuit Court of Appeals, ruling that the EPA failed to appropriately consider the cost of the regulation. The MATS rule remains in effect until the D.C. Circuit Court of Appeals takes action on the EPA's April 2016 updated cost evaluation.

We believe that the WE and WPS fleets are well positioned to comply with the final MATS rule and do not expect to incur any significant additional costs to comply with this regulation. The addition of a dry sorbent injection system for further control of mercury and acid gases at PIPP was placed into service in March 2016, allowing PIPP to be in compliance with MATS. Construction and testing of the ReACT™ multi-pollutant control system at Weston Unit 3 is complete, and the unit is currently in compliance with both MATS and the WPS Consent Decree emission requirements.

Climate Change – In 2015, the EPA issued the Clean Power Plan, a final rule regulating GHG emissions from existing generating units, a proposed federal plan and model trading rules as alternatives or guides to state compliance plans, and final performance standards for modified and reconstructed generating units and new fossil-fueled power plants. In October 2015, following publication of the final rule for existing fossil-fueled generating units, numerous states (including Wisconsin and Michigan), trade associations, and private parties filed lawsuits challenging the final rule, including a request to stay the implementation of the final rule pending the outcome of these legal challenges. The D.C. Circuit Court of Appeals denied the stay request, but in February 2016, the Supreme Court stayed the effectiveness of the Clean Power Plan until disposition of the litigation in the D.C. Circuit Court of Appeals and to the extent that further appellate review is sought, at the Supreme Court. In addition, in February 2016, the Governor of Wisconsin issued Executive Order 186, which prohibits state agencies, departments, boards, commissions, or other state entities from developing or promoting the development of a state plan. The D.C. Circuit Court of Appeals heard the case in September 2016.

The final rule for existing fossil-fueled generating units seeks to achieve state-specific GHG emission reduction goals by 2030, and would have required states to submit plans by September 2016. The goal of the final rule is to reduce nationwide GHG emissions by 32% from 2005 levels. The rule is seeking GHG emission reductions in Wisconsin and Michigan of 41% and 39%, respectively, below 2012 levels by 2030. Interim goals starting in 2022 would require states to achieve about two-thirds of the 2030 required reduction. The building blocks used by the EPA to determine each state's emission reduction requirements include a combination of improving power plant efficiency, increasing reliance on combined cycle natural gas units, and adding new renewable energy resources. We continue to evaluate possible reduction opportunities and actions that preserve fuel diversity, lower costs for our customers, and contribute towards long-term GHG reductions, given the uncertain future of the Clean Power Plan and current fuel and technology markets. Our evaluation to date indicates that the Clean Power Plan, as well as current fuel markets and advances in technology, are not expected to result in significant additional compliance costs, including capital expenditures, but could impact how we operate our existing fossil-fueled power plants and biomass facility.

However, the timelines for the 2022 through 2029 interim goals and the 2030 final goal for states, as well as all other aspects of the rule, likely will be changed due to the stay and subsequent legal proceedings. With the new Federal Executive Administration as of January 2017, the Clean Power Plan, or its successor, could be significantly changed from the final rule of October 2015. Notwithstanding the potential changes to the Clean Power Plan, addressing climate change is an integral component of our strategic planning process. We continue to reshape our portfolio of electric generation facilities with investments that will improve our environmental performance, including reduced GHG intensity of our operating fleet. As the regulation of GHG emissions takes shape, our plan is to work with our industry partners, environmental groups, and the State of Wisconsin, with a goal of reducing CO₂ emissions by approximately 40% below 2005 levels by 2030. We continue to evaluate numerous options in order to meet our CO₂ reduction goal, such as increased utilization of existing natural gas combined cycle units, co-firing or switching to natural gas in existing coal-fired units, reduced operation or retirement of existing coal-fired units, addition of new renewable energy resources (wind, solar), and consideration of supply and demand-side energy efficiency and distributed generation.

Draft Federal Plan and Model Trading Rules (Model Rules) were also published in October 2015 for use in developing state plans or for use in states where a plan is not submitted or approved. In December 2015, the state of Wisconsin submitted petitions for reconsideration of the EPA's final standards for existing, as well as for new, modified, and reconstructed generating units. A petition for reconsideration of the EPA's final standards for existing generating units was also submitted jointly by the Wisconsin utilities. Among other things, the petitions narrowly asked the EPA to consider revising the state goal for existing units to reflect the 2013 retirement of the Kewaunee Power Station, which could lower the state's CO₂ equivalent reduction goal by about 10%. In May 2016, the EPA denied the state of Wisconsin's petition for reconsideration related to new, modified, and reconstructed generating units, except that the EPA deferred the portion related to the treatment of biomass. The EPA has not issued decisions yet regarding the above referenced petitions for reconsideration of the final EPA standards for existing generating units. In December 2016, the EPA withdrew the draft Model Rules and accompanying draft documents from the review process and made working drafts available to the public. They are not final documents, are not signed by the Administrator, and will not be published in the Federal Register. The EPA's docket will remain open, with the potential for completing the agency's work on these materials and finalizing them at a later date.

We are required to report our CO₂ equivalent emissions from our electric generating facilities under the EPA Greenhouse Gases Reporting Program. For 2015, we reported aggregated CO₂ equivalent emissions of approximately 31.0 million metric tonnes to the EPA. Based upon our preliminary analysis of the data, we estimate that we will report CO₂ equivalent emissions of approximately 29.6 million metric tonnes to the EPA for 2016. The level of CO₂ and other GHG emissions vary from year to year and are dependent on the level of electric generation and mix of fuel sources, which is determined primarily by demand, the availability of the generating units, the unit cost of fuel consumed, and how our units are dispatched by MISO.

We are also required to report CO₂ equivalent amounts related to the natural gas that our natural gas utilities distribute and sell. For 2015, we reported aggregated CO₂ equivalent emissions of approximately 27.2 million metric tonnes to the EPA. Based upon our preliminary analysis of the data, we estimate that we will report CO₂ equivalent emissions of approximately 26.7 million metric tonnes to the EPA for 2016.

Water Quality

Clean Water Act Cooling Water Intake Structure Rule – In August 2014, the EPA issued a final regulation under Section 316(b) of the Clean Water Act, which requires that the location, design, construction, and capacity of cooling water intake structures at existing power plants reflect the Best Technology Available (BTA) for minimizing adverse environmental impacts from both impingement (entrapping organisms on water intake screens) and entrainment (drawing organisms into water intake). The rule became effective in October 2014, and applies to all of our existing generating facilities with cooling water intake structures, except for the ERGS units, which were permitted under the rules governing new facilities.

Facility owners must select from seven compliance options available to meet the impingement mortality (IM) reduction standard. The rule requires state permitting agencies to make BTA determinations, subject to EPA oversight, for IM reduction over the next several years as facility permits are reissued. Based on our assessment, we believe that existing technologies at our generating facilities, except for Pulliam Units 7 and 8 and Weston Unit 2, satisfy the IM BTA requirements. We plan to evaluate the available IM options for Pulliam Units 7 and 8. We also expect that limited studies will be required to support the future WDNR BTA determinations for Weston Unit 2. Based on preliminary discussions with the WDNR, we anticipate that the WDNR will not require physical modifications to the Weston Unit 2 intake structure to meet the IM BTA requirements based on low capacity use of the unit.

BTA determinations must also be made by the WDNR and MDEQ to address entrainment mortality (EM) reduction on a site-specific basis taking into consideration several factors. We have received an EM BTA determination by the WDNR, with EPA concurrence, for our intake modification at VAPP. BTA determinations for EM will be made in future permit reissuances for Pulliam Units 7 and 8, Weston Units 2 through 4, PWGS, Pleasant Prairie Power Plant, PIPP, and OC 5 through OC 8.

During 2017 and 2018, we will continue to complete studies and evaluate options to address the EM BTA requirements at our plants. With the exception of Pleasant Prairie Power Plant and Weston Units 3 and 4 (which all have existing cooling towers that meet EM BTA requirements) and VAPP, we cannot yet determine what, if any, intake structure or operational modifications will be required to meet the new EM BTA requirements at our facilities. We also expect that limited studies to support WDNR BTA determinations will be conducted at the Weston facility. Based on preliminary discussions with the WDNR, we anticipate that the WDNR will not require physical modifications to the Weston Unit 2 intake structure to meet the EM BTA requirements based on low capacity use of the unit. Based on discussions with the MDEQ, if we provide information about unit retirements with our next National Pollutant Discharge Elimination System permit application and then submit a signed certification by August 2017 stating that PIPP will be retired no later than the end of the next permit cycle (assumed to be October 1, 2022), then the EM BTA requirements will be waived. Entrainment studies are currently being conducted at Pulliam Units 7 and 8 and were recently completed at PIPP. See UMER discussion in Note 22, Regulatory Environment, regarding the potential retirement of PIPP.

We believe our fleet overall is well positioned to meet the new regulation and do not expect to incur significant costs to comply with this regulation.

Steam Electric Effluent Guidelines – The EPA's final steam electric effluent guidelines rule took effect in January 2016 and applies to discharges of wastewater from our power plant processes in Wisconsin and Michigan. This rule is being litigated in the United States Court of Appeals for the Fifth Circuit and may result in changes to the discharge requirements. The WDNR and MDEQ will continue to modify the state rules as necessary and incorporate the new

requirements into our facility permits, which are renewed every five years. We expect the new requirements to be phased in between 2018 and 2023 as our permits are renewed. Our power plant facilities already have advanced wastewater treatment technologies installed that meet many of the discharge limits established by this rule. However, these standards will require additional wastewater treatment retrofits as well as installation of other equipment to minimize process water use. The final rule phases in new or more stringent requirements related to limits of arsenic, mercury, selenium, and nitrogen in wastewater discharged from wet scrubber systems. New requirements for wet scrubber wastewater treatment will require additional zero liquid discharge or other advanced treatment capital improvements for the Oak Creek site and Pleasant Prairie facilities. The rule also requires dry fly ash handling, which is already in place at all of our power plants. Dry bottom ash transport systems are required by the new rule, and modifications will be required at OC 7, OC 8, the Pleasant Prairie units, Pulliam Units 7 and 8, and Weston Unit 3. We are beginning preliminary engineering for compliance with the rule and estimate a total cost range of \$80 million to \$110 million for these advanced treatment and bottom ash transport systems. A similar system would be required at PIPP if we were not expecting to retire the plant. See UMER discussion in Note 22, Regulatory Environment, regarding the potential retirement of PIPP.

Land Quality

Manufactured Gas Plant Remediation – We have identified sites at which our utilities or a predecessor company owned or operated a manufactured gas plant or stored manufactured gas. We have also identified other sites that may have been impacted by historical manufactured gas plant activities. Our natural gas utilities are responsible for the environmental remediation of these sites, some of which are in the EPA Superfund Alternative Approach Program. We are also working with various state jurisdictions in our investigation and remediation planning. These sites are at various stages of investigation, monitoring, remediation, and closure.

In addition, we are coordinating the investigation and cleanup of some of these sites subject to the jurisdiction of the EPA under what is called a "multisite" program. This program involves prioritizing the work to be done at the sites, preparation and approval of documents common to all of the sites, and use of a consistent approach in selecting remedies. At this time, we cannot estimate future remediation costs associated with these sites beyond those described below.

The future costs for detailed site investigation, future remediation, and monitoring are dependent upon several variables including, among other things, the extent of remediation, changes in technology, and changes in regulation. Historically, our regulators have allowed us to recover incurred costs, net of insurance recoveries and recoveries from potentially responsible parties, associated with the remediation of manufactured gas plant sites. Accordingly, we have established regulatory assets for costs associated with these sites.

We have established the following regulatory assets and reserves related to manufactured gas plant sites as of December 31:

<i>(in millions)</i>	2016	2015
Regulatory assets	\$ 702.7	\$ 697.0
Reserves for future remediation	633.4	628.0

Renewables, Efficiency, and Conservation

Wisconsin Legislation – In 2005, Wisconsin enacted Act 141, which established a goal that 10% of all electricity consumed in Wisconsin be generated by renewable resources by December 31, 2015. WE and WPS have achieved renewable energy percentages of 8.27% and 9.74%, respectively, and met their compliance requirements by constructing various wind parks, a biomass facility, and by also relying on renewable energy purchases. WE and WPS continue to review their renewable energy portfolios and acquire cost-effective renewables as needed to meet their requirements on an ongoing basis. The PSCW administers the renewable program related to Act 141, and each utility funds the program based on 1.2% of its annual operating revenues.

Michigan Legislation – In 2008, Michigan enacted Act 295, which required 10% of the state's energy to come from renewables by 2015 and energy optimization (efficiency) targets up to 1% annually by 2015. In December 2016, Michigan revised this legislation with Act 342, which requires additional renewable energy requirements beyond 2015. The new legislation retains the 10% renewable energy portfolio requirement for years 2016 through 2018, increases the requirement to 12.5% for years 2019 through 2020, and increases the requirement to 15.0% for 2021. WE and WPS were in compliance with these requirements as of December 31, 2016. The revised legislation continues to allow recovery of costs incurred to meet the standards and provides for ongoing review and revision to assure the measures taken are cost-effective.

Enforcement and Litigation Matters

We and our subsidiaries are involved in legal and administrative proceedings before various courts and agencies with respect to matters arising in the ordinary course of business. Although we are unable to predict the outcome of these matters, management believes that appropriate reserves have been established and that final settlement of these actions will not have a material effect on our financial condition or results of operations.

Paris Generating Station Units 1 and 4 Construction Permit

In December 2013, Act 91 was signed into law in Wisconsin, creating a process by which the EPA and WDNR were able to revise the regulations and emissions rates applicable to Paris Generating Station Units 1 and 4. Act 91, along with a new construction permit, allowed those units to restart after a temporary outage. In October 2014, the Sierra Club filed for a contested case hearing with the WDNR challenging this permit. In February 2013, the Sierra Club also filed for a contested case hearing with the WDNR in connection with the administrative order issued in this matter, which was granted. The Sierra Club has withdrawn the contested case hearing request, thereby concluding this matter.

Consent Decrees

Wisconsin Public Service Corporation Consent Decree – Weston and Pulliam – In November 2009, the EPA issued a NOV to WPS, which alleged violations of the CAA's New Source Review requirements relating to certain projects completed at the Weston and Pulliam plants from 1994 to 2009. WPS entered into a Consent Decree with the EPA resolving this NOV. This Consent Decree was entered by the United States District Court for the Eastern District of Wisconsin in March 2013.

The final Consent Decree includes:

- the installation of emission control technology, including ReACT™ on Weston 3,
- changed operating conditions (including refueling, repowering, and/or retirement of units),
- limitations on plant emissions,
- beneficial environmental projects totaling \$6.0 million, and
- a civil penalty of \$1.2 million.

The Consent Decree also contains requirements to refuel, repower, and/or retire certain Weston and Pulliam units. Effective June 1, 2015, WPS retired Weston Unit 1 and Pulliam Units 5 and 6. In March 2016, WPS submitted a proposed revision to the EPA to update requirements reflecting the conversion of Weston Unit 2 from coal to natural gas fuel, and also proposed revisions to the list of beneficial environmental projects required by the Consent Decree. These proposed revisions were approved by the EPA in May 2016. The revisions to the environmental projects are not expected to materially impact the overall costs noted above.

WPS received approval from the PSCW in its 2015 rate order to defer and amortize the undepreciated book value of the retired plant related to Weston Unit 1 and Pulliam Units 5 and 6 starting June 1, 2015, and concluding by 2023. Therefore, in June 2015, WPS recorded a regulatory asset of \$11.5 million for the undepreciated book value. In addition, WPS received approval from the PSCW in its rate orders to recover prudently incurred costs as a result of complying with the terms of the Consent Decree, with the exception of the civil penalty.

Also, in May 2010, WPS received from the Sierra Club a Notice of Intent to file a civil lawsuit based on allegations that WPS violated the CAA at the Weston and Pulliam plants. WPS entered into a Standstill Agreement with the Sierra Club by which the parties agreed to negotiate as part of the EPA NOV process, rather than litigate. The Standstill Agreement ended in October 2012, but no further action has been taken by the Sierra Club as of December 31, 2016. It is unknown whether the Sierra Club will take further action in the future.

Joint Ownership Power Plants Consent Decree – Columbia and Edgewater – In December 2009, the EPA issued a NOV to Wisconsin Power and Light, the operator of the Columbia and Edgewater plants, and the other joint owners of these plants, including Madison Gas and Electric, WE (former co-owner of an Edgewater unit), and WPS. The NOV alleged violations of the CAA's New Source Review requirements related to certain projects completed at those plants. WPS, along with Wisconsin Power and Light, Madison Gas and Electric, and WE entered into a Consent Decree with the

EPA resolving this NOV. This Consent Decree was entered by the United States District Court for the Western District of Wisconsin in June 2013. WE paid an immaterial portion of the assessed penalty but has no further obligations under the Consent Decree.

The final Consent Decree includes:

- the installation of emission control technology, including scrubbers at the Columbia plant,
- changed operating conditions (including refueling, repowering, and/or retirement of units),
- limitations on plant emissions,
- beneficial environmental projects, with WPS's portion totaling \$1.3 million, and
- WPS's portion of a civil penalty and legal fees totaling \$0.4 million.

The Consent Decree contains a requirement to, among other things, refuel, repower, or retire Edgewater Unit 4, of which WPS is a joint owner, by no later than December 31, 2018. In the first quarter of 2015, management of the joint owners recommended that Edgewater Unit 4 be retired in December 2018. However, a final decision on how to address the requirement for this unit has not yet been made by the joint owners, as early retirement is contingent on various operational and market factors, and other alternatives to retirement are still available.

NOTE 19—FAIR VALUE MEASUREMENTS

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:

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

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

The derivative assets and liabilities listed in the tables above include options, swaps, futures, physical commodity contracts, and other instruments used to manage market risks related to changes in commodity prices. They also include FTRs, which are used to manage electric transmission congestion costs in the MISO Energy Markets. See Note 20, Derivative Instruments, for more information.

The following table summarizes the changes to derivatives classified as Level 3 in the fair value hierarchy at December 31:

<i>(in millions)</i>	2016	2015	2014
Balance at the beginning of the period	\$ 3.6	\$ 7.0	\$ 3.5
Realized and unrealized (losses) gains	(0.2)	1.3	—
Purchases	15.2	3.9	15.6
Sales	(0.2)	(0.1)	—
Settlements	(13.3)	(11.9)	(12.1)
Acquisition of Integrys	—	(1.3)	—
Transfers out of level 3	—	4.7	—
Balance at the end of the period	\$ 5.1	\$ 3.6	\$ 7.0

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

Fair Value of Financial Instruments

The following table shows the financial instruments included on our balance sheets that are not recorded at fair value at December 31:

<i>(in millions)</i>	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock	\$ 30.4	\$ 28.8	\$ 30.4	\$ 27.3
Long-term debt, including current portion *	\$ 9,285.8	\$ 9,818.2	\$ 9,221.9	\$ 9,681.0

* The carrying amount of long-term debt excludes capital lease obligations of \$29.6 million and \$59.9 million at December 31, 2016 and December 31, 2015, respectively.

NOTE 20—DERIVATIVE INSTRUMENTS

The following table shows our derivative assets and derivative liabilities:

<i>(in millions)</i>	December 31, 2016		December 31, 2015	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Other current				
Natural gas contracts	\$ 31.4	\$ 0.4	\$ 2.6	\$ 38.5
Petroleum products contracts	0.2	0.1	0.9	3.8
FTRs	5.1	—	3.6	—
Coal contracts	1.5	1.4	1.7	6.7
Total other current	\$ 38.2	\$ 1.9	\$ 8.8	\$ 49.0
Other long-term				
Natural gas contracts	\$ 2.9	\$ —	\$ 0.5	\$ 3.3
Petroleum products contracts	—	—	0.3	1.1
Coal contracts	0.5	0.5	0.3	5.6
Total other long-term	\$ 3.4	\$ 0.5	\$ 1.1	\$ 10.0
Total	\$ 41.6	\$ 2.4	\$ 9.9	\$ 59.0

Our estimated notional sales volumes and realized gains (losses) were as follows:

<i>(in millions)</i>	December 31, 2016		December 31, 2015		December 31, 2014	
	Volume	Gains (Losses)	Volume	Gains (Losses)	Volume	Gains
Natural gas contracts	151.1 Dth	\$ (59.6)	86.2 Dth	\$ (50.5)	40.5 Dth	\$ 7.3
Petroleum products contracts	14.7 gallons	(3.2)	7.8 gallons	(1.9)	9.2 gallons	0.5
FTRs	33.7 MWh	13.3	27.3 MWh	6.7	26.1 MWh	12.7
Total		\$ (49.5)		\$ (45.7)		\$ 20.5

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

<i>(in millions)</i>	December 31, 2016		December 31, 2015	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Gross amount recognized on the balance sheet	\$ 41.6	\$ 2.4	\$ 9.9	\$ 59.0
Gross amount not offset on the balance sheet *	(4.9)	(0.5)	(3.0)	(22.5)
Net amount	\$ 36.7	\$ 1.9	\$ 6.9	\$ 36.5

* Includes cash collateral received of \$4.4 million at December 31, 2016, and cash collateral posted of \$19.5 million at December 31, 2015.

At December 31, 2016 and 2015, we had posted cash collateral of \$16.4 million and \$42.3 million, respectively, in our margin accounts. At December 31, 2016, we had also received cash collateral of \$4.4 million in our margin accounts. We had not received any cash collateral at December 31, 2015. Certain of our derivative and non-derivative commodity instruments contain provisions that could require "adequate assurance" in the event of a material change in our creditworthiness, or the posting of additional collateral for instruments in net liability positions, if triggered by a decrease in credit ratings. The aggregate fair value of all derivative instruments with specific credit risk-related contingent features that were in a net liability position at December 31, 2016 and 2015 was \$0.2 million and \$23.8 million, respectively. At December 31, 2016 and 2015, we had not posted any cash 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, 2016, we would not have been required to post any collateral. At December 31, 2015, we would have been required to post collateral of \$18.0 million.

During 2015, we settled several forward interest rate swap agreements entered into to mitigate interest 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 hedging accounting treatment, the proceeds of \$19.0 million received upon settlement of these agreements were deferred in accumulated other comprehensive income and are being amortized as a decrease to interest expense over the periods in which the interest costs are recognized in earnings.

During 2016, we reclassified \$2.2 million of forward interest rate swap agreement settlements deferred in accumulated other comprehensive income as a reduction to interest expense. We estimate that during the next twelve months, \$2.2 million will be reclassified from accumulated other comprehensive income as a reduction to interest expense.

NOTE 21—VARIABLE INTEREST ENTITIES

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. This ASU focuses on the consolidation analysis for companies that are required to evaluate whether they should consolidate certain legal entities. It emphasizes the risk of loss when determining a controlling financial interest and amends the guidance for assessing how related party relationships affect the consolidation analysis of variable interest entities. We adopted the standard upon its effective date in the first quarter of 2016, and our adoption resulted in no changes to our disclosures or financial statement presentation.

The primary beneficiary of a variable interest entity must consolidate the entity's assets and liabilities. In addition, certain disclosures are required for significant interest holders in variable interest entities.

We assess our relationships with potential variable interest entities, such as our coal suppliers, natural gas suppliers, coal transporters, natural gas transporters, and other counterparties related to power purchase agreements, investments, and joint ventures. In making this assessment, we consider, along with other factors, the potential that our contracts or other arrangements provide subordinated financial support, the obligation to absorb the entity's losses, the right to receive residual returns of the entity, and the power to direct the activities that most significantly impact the entity's economic performance.

American Transmission Company

We own approximately 60% of ATC, a for-profit, electric transmission company regulated by the FERC and certain state regulatory commissions. We have determined that ATC is a variable interest entity but that consolidation is not required since we are not ATC's primary beneficiary. As a result of our limited voting rights, we do not have the power to direct the activities that most significantly impact ATC's economic performance. We account for ATC as an equity method investment. See Note 4, Investment in American Transmission Company, for more information.

The significant assets and liabilities related to ATC recorded on our balance sheets included our equity investment and accounts payable. At December 31, 2016, and 2015, our equity investment was \$1,443.9 million and \$1,380.9 million, respectively, which approximates our maximum exposure to loss as a result of our involvement with ATC. In addition, we had \$28.7 million and \$28.3 million of accounts payable due to ATC at December 31, 2016, and 2015, respectively, for network transmission services.

Purchased Power Agreement

We have identified a purchased power agreement that represents a variable interest. This agreement is for 236 MW of firm capacity from a natural gas-fired cogeneration facility, and we account for it as a capital lease. The agreement includes no minimum energy requirements over the remaining term of approximately five years. We have examined the risks of the entity, including operations, maintenance, dispatch, financing, fuel costs, and other factors, and have determined that we are not the primary beneficiary of the entity. We do not hold an equity or debt interest in the entity, and there is no residual guarantee associated with the purchased power agreement.

We have approximately \$85.3 million of required payments over the remaining term of this agreement. We believe that the required lease payments under this contract will continue to be recoverable in rates. Total capacity and lease payments under this contract for the years ended December 31, 2016, 2015, and 2014, were \$54.2 million, \$53.6 million, and \$53.0 million, respectively. Our maximum exposure to loss is limited to the capacity payments under the contract.

NOTE 22—REGULATORY ENVIRONMENT

Wisconsin Electric Power Company

2015 Wisconsin Rate Order

In May 2014, WE applied to the PSCW for a biennial review of costs and rates. In December 2014, the PSCW approved the following rate adjustments, effective January 1, 2015:

- A net bill increase related to non-fuel costs for WE's retail electric customers of approximately \$2.7 million (0.1%) in 2015. This amount reflected WE's receipt of SSR payments from MISO that were higher than WE anticipated when it filed its rate request in May 2014, as well as an offset of \$26.6 million related to a refund of prior fuel costs and the remainder of the proceeds from a Treasury Grant that WE received in connection with its biomass facility. The majority of this \$26.6 million was returned to customers in the form of bill credits in 2015.
- A rate increase for WE's retail electric customers of \$26.6 million (0.9%) in 2016 related to the expiration of the bill credits provided to customers in 2015.
- A rate decrease of \$13.9 million (-0.5%) in 2015 related to a forecasted decrease in fuel costs.
- A rate decrease of \$10.7 million (-2.4%) for WE's natural gas customers in 2015, with no rate adjustment in 2016.
- A rate increase of approximately \$0.5 million (2.0%) for WE's Downtown Milwaukee (Valley) steam utility customers in 2015, with no rate adjustment in 2016.
- A rate increase of approximately \$1.2 million (7.3%) for WE's Milwaukee County steam utility customers in 2015, with no rate adjustment in 2016. As a result of the sale of the MCPP, WE no longer has any Milwaukee County steam utility customers. See Note 3, Dispositions, for more information about the sale of the MCPP.

The authorized ROE for WE was set at 10.2%, and its common equity component remained at an average of 51%. The PSCW order reaffirmed the deferral of WE's transmission costs, and it verified that 2015 and 2016 fuel costs should continue to be monitored using a 2% tolerance window. The PSCW approved a change in rate design for WE, which included higher fixed charges to better match the related fixed costs of providing service. The PSCW order also authorized escrow accounting for SSR revenues because of the uncertainty of the actual revenues WE will receive under the PIPP SSR agreements. Under escrow accounting, WE records SSR revenues of \$90.7 million a year. If actual SSR payments from MISO exceed \$90.7 million a year, the difference is deferred and returned to customers, with interest, in a future rate case. If actual SSR payments from MISO are less than \$90.7 million a year, the difference is deferred and will be recovered from customers with interest, in a future rate case.

In January 2015, certain parties appealed a portion of the PSCW's final decision adopting WE's specific rate design changes, including new charges for customer-owned generation within its service territory. The Dane County Circuit Court, in its November 2015 order, ruled that there was not enough evidence provided in WE's rate case to support a demand charge for customer-owned generation. As a result, this demand charge did not take effect on January 1, 2016. No other rates approved by the PSCW in the rate case were impacted by the Dane County Circuit Court order.

Earnings Sharing Agreement

In May 2015, the PSCW approved the acquisition of Integrys subject to the condition of an earnings sharing mechanism for WE. See Note 2, Acquisitions, for more information on this earnings sharing mechanism.

2013 Wisconsin Rate Order

In March 2012, WE initiated a rate proceeding with the PSCW. In December 2012, the PSCW approved the following rate adjustments, effective January 1, 2013:

- A net bill increase related to non-fuel costs for WE's retail electric customers of approximately \$70.0 million (2.6%) in 2013. This amount reflected an offset of approximately \$63.0 million (2.3%) for bill credits related to the proceeds of the Treasury Grant, including associated tax benefits. Absent this offset, the retail electric rate increase for non-fuel costs was approximately \$133.0 million (4.8%) in 2013.

- An electric rate increase for WE's electric customers of approximately \$28.0 million (1.0%) in 2014, and a \$45.0 million (-1.6%) reduction in bill credits.
- Recovery of a forecasted increase in fuel costs of approximately \$44.0 million (1.6%) in 2013.
- A rate decrease of approximately \$8.0 million (-1.9%) for WE's natural gas customers in 2013, with no rate adjustment in 2014. The WE rates reflected a \$6.4 million reduction in bad debt expense.
- An increase of approximately \$1.3 million (6.0%) for WE's Downtown Milwaukee (Valley) steam utility customers in 2013 and another \$1.3 million (6.0%) in 2014.
- An increase of approximately \$1.0 million (7.0%) in 2013 and \$1.0 million (6.0%) in 2014 for WE's Milwaukee County steam utility customers.

Based on the PSCW order, the authorized ROE for WE remained at 10.4%. In addition, the PSCW approved escrow accounting treatment for the Treasury Grant. The PSCW also determined the construction costs for the ERGS units were prudently incurred, and it approved the recovery of the majority of these costs in rates.

Wisconsin Gas LLC

2015 Wisconsin Rate Order

In May 2014, WG applied to the PSCW for a biennial review of costs and rates. In December 2014, the PSCW approved rate increases of \$17.1 million (2.6%) in 2015 and \$21.4 million (3.2%) in 2016 for WG's natural gas customers. These rate adjustments were effective January 1, 2015. The authorized ROE for WG was set at 10.3%. The PSCW also authorized an increase in WG's common equity component to an average of 49.5%.

Earnings Sharing Agreement

In May 2015, the PSCW approved the acquisition of Integrys subject to the condition of an earnings sharing mechanism for WG. See Note 2, Acquisitions, for more information on this earnings sharing mechanism.

2013 Wisconsin Rate Order

In March 2012, WG initiated a rate proceeding with the PSCW. In December 2012, the PSCW approved a rate decrease of approximately \$34.0 million (-5.5%) for WG's natural gas customers in 2013, with no rate adjustment in 2014. The WG rates reflected a \$43.8 million reduction in bad debt expense. The rate adjustments were effective January 1, 2013, and the authorized ROE for WG remained at 10.5%.

Wisconsin Public Service Corporation

2016 Wisconsin Rate Order

In April 2015, WPS initiated a rate proceeding with the PSCW. In December 2015, the PSCW issued a final written order for WPS, effective January 1, 2016. The order, which reflects a 10.0% ROE and a common equity component average of 51.0%, authorized a net retail electric rate decrease of \$7.9 million (-0.8%) and a net retail natural gas rate decrease of \$6.2 million (-2.1%). The decrease in retail electric rates was due to lower monitored fuel costs in 2016 compared to 2015. Absent the adjustment for electric fuel costs, WPS would have realized an electric rate increase. Based on the order, the PSCW allowed WPS to escrow ATC and MISO network transmission expenses through 2016. In addition, future SSR payments will continue to be escrowed until a future rate proceeding. The order directed WPS to defer as a regulatory asset or liability the differences between actual transmission expenses and those included in rates. In addition, the PSCW approved a deferral for ReACT™, which required WPS to defer the revenue requirement of ReACT™ costs above the authorized \$275.0 million level through 2016. Fuel costs will continue to be monitored using a 2% tolerance window.

In March 2016, WPS requested extensions from the PSCW through 2017 for the deferral of the revenue requirement of ReACT™ costs above the authorized \$275.0 million level as well as escrow accounting of ATC and MISO network transmission expenses. In April 2016, WPS also requested to extend through 2017 the previously approved deferral of the revenue requirement difference between the Real Time Market Pricing and the standard tariffed rates for any of WPS's current large commercial and industrial customers who entered into a service agreement with WPS under Real Time Market Pricing prior to April 15, 2016. These requests were approved by the PSCW in June 2016. The amounts deferred related to these items as of December 31, 2016, were not material.

2015 Wisconsin Rate Order

In April 2014, WPS initiated a rate proceeding with the PSCW. In December 2014, the PSCW issued a final written order for WPS, effective January 1, 2015. It authorized a net retail electric rate increase of \$24.6 million and a net retail natural gas rate decrease of \$15.4 million, reflecting a 10.20% ROE. The order authorized a common equity component average of 50.28%. The PSCW approved a change in rate design for WPS, which included higher fixed charges to better match the related fixed costs of providing service. In addition, the order continued to exclude a decoupling mechanism that was terminated beginning January 1, 2014.

The primary driver of the increase in retail electric rates was higher costs of fuel for electric generation of approximately \$42.0 million. In addition, 2015 rates included approximately \$9.0 million of lower refunds to customers related to decoupling over-collections. In 2015 rates, WPS refunded approximately \$4.0 million to customers related to 2013 decoupling over-collections compared with refunding approximately \$13.0 million to customers in 2014 rates related to 2012 decoupling over-collections. Absent these adjustments for electric fuel costs and decoupling refunds, WPS would have realized an electric rate decrease. In addition, WPS received approval from the PSCW to defer and amortize the undepreciated book value associated with Pulliam Units 5 and 6 and Weston Unit 1 starting with the actual retirement date, June 1, 2015, and concluding by 2023. See Note 18, Commitments and Contingencies, for more information. The PSCW allowed WPS to escrow ATC and MISO network transmission expenses for 2015 and 2016. As a result, WPS deferred as a regulatory asset the difference between actual transmission expenses and those included in rates until a future rate proceeding. Finally, the PSCW ordered that 2015 fuel costs should continue to be monitored using a 2% tolerance window.

The retail natural gas rate decrease was driven by the approximate \$16.0 million year-over-year negative impact of decoupling refunds to and collections from customers. In 2015 rates, WPS refunded approximately \$8.0 million to customers related to 2013 decoupling over-collections compared with recovering approximately \$8.0 million from customers in 2014 rates related to 2012 decoupling under-collections. Absent the adjustment for decoupling refunds to and collections from customers, WPS would have realized a retail natural gas rate increase.

2015 Michigan Rate Order

In October 2014, WPS initiated a rate proceeding with the MPSC. In April 2015, the MPSC issued a final written order for WPS, effective April 24, 2015, approving a settlement agreement. The order authorized a retail electric rate increase of \$4.0 million to be implemented over three years to recover costs for the 2013 acquisition of the Fox Energy Center as well as other capital investments associated with the Crane Creek wind farm and environmental upgrades at generation plants. The rates reflected a 10.2% ROE and a common equity component average of 50.48%. The increase reflected the continued deferral of costs associated with the Fox Energy Center until the second anniversary of the order. The increase also reflected the deferral of Weston Unit 3 ReACT™ environmental project costs. On the second anniversary of the order, WPS will discontinue the deferral of Fox Energy Center costs and will begin amortizing this deferral along with the deferral associated with the termination of a tolling agreement related to the Fox Energy Center. WPS also received approval from the MPSC to defer and amortize the undepreciated book value of the retired plant associated with Pulliam Units 5 and 6 and Weston Unit 1 starting with the actual retirement date, June 1, 2015, and concluding by 2023. As a result of the formation of UMERC, WPS transferred the deferrals mentioned above, as well as its customers and property, plant, and equipment located in the Upper Peninsula of Michigan to the new utility, effective January 1, 2017. Therefore, the terms and conditions of this rate order are now applicable to UMERC. UMERC will not seek an increase to legacy WPS retail electric base rates that would become effective prior to January 1, 2018.

The Peoples Gas Light and Coke Company and North Shore Gas Company

Base Rate Freeze

In June 2015, the ICC approved the acquisition of Integrys subject to the condition that PGL and NSG will not seek increases of their base rates that would become effective earlier than two years after the close of the acquisition.

Illinois Investigations

In March 2015, the ICC opened a docket, naming PGL as respondent, to investigate the veracity of certain allegations included in anonymous letters that the ICC staff received regarding PGL's SMP. This matter is still pending.

In December 2015, the ICC ordered a series of stakeholder workshops to evaluate PGL's SMP. This ICC action did not impact PGL's ongoing work to modernize and maintain the safety of its natural gas distribution system, but it instead

provided the ICC with an opportunity to analyze long-term elements of the program through the stakeholder workshops. The workshops commenced in January 2016 and were completed in March 2016. The ICC staff submitted a report on the workshop process in May 2016. In July 2016, the ICC initiated a proceeding to review, among other things, the planning, reporting, and monitoring of the program, including what the target end date for the program should be. This proceeding is expected to result in a final order by the ICC in 2017. We are currently unable to determine what, if any, long-term impact there will be on PGL's SMP.

2015 Illinois Rate Order

In February 2014, PGL and NSG initiated a rate proceeding with the ICC. In January 2015, the ICC issued a final written order for PGL and NSG, effective January 28, 2015. The order authorized a retail natural gas rate increase of \$74.8 million for PGL and \$3.7 million for NSG. In February 2015, the ICC issued an amendatory order that revised the increases to \$71.1 million for PGL and \$3.5 million for NSG, effective February 26, 2015, to reflect the extension of bonus depreciation in 2014. The rates for PGL reflected a 9.05% ROE and a common equity component average of 50.33%. The rates for NSG reflected a 9.05% ROE and a common equity component average of 50.48%. The rate order allowed PGL and NSG to continue the use of their decoupling mechanisms and uncollectible expense true-up mechanisms. In addition, PGL recovers a return on certain investments and depreciation expense through the Qualifying Infrastructure Plant rider, and accordingly, such costs are not subject to PGL's rate order.

PGL's Qualifying Infrastructure Plant rider allows for the recovery of costs incurred related to investments in qualifying infrastructure plant. This rider is subject to an annual reconciliation whereby costs are reviewed for accuracy and prudence. No schedule has been set for the 2015 reconciliation. The ALJ has placed the 2014 reconciliation on stay, pending resolution of several open matters related to PGL's SMP. Although schedules have not been set for the reconciliations, discovery has continued for both the 2014 and 2015 reconciliations. As of December 31, 2016, there can be no assurance that all costs incurred under the Qualifying Infrastructure Plant rider will be recoverable.

Minnesota Energy Resources Corporation

2016 Minnesota Rate Case

In September 2015, MERC initiated a rate proceeding with the MPUC. In October 2016, the MPUC issued a final written order for MERC, which is expected to be effective in the first quarter of 2017. The order authorized a retail natural gas rate increase of \$6.8 million (3.0%). The rates reflect a 9.11% ROE and a common equity component average of 50.32%. The order approved MERC's request to continue the use of its currently authorized decoupling mechanism for another three years. The final approved rate increase was lower than the interim rates collected from customers during 2016. Therefore, as of December 31, 2016, we estimate that \$3.0 million will be refunded to MERC's customers during 2017.

2015 Minnesota Rate Case

In September 2013, MERC initiated a rate proceeding with the MPUC. In October 2014, the MPUC issued a final written order for MERC, effective April 1, 2015. The order authorized a retail natural gas rate increase of \$7.6 million. The rates reflected a 9.35% ROE and a common equity component average of 50.31%. The order approved a deferral of customer billing system costs, for which recovery was requested in MERC's 2016 rate case. A decoupling mechanism with a 10% cap remains in effect for MERC's residential and small commercial and industrial customers. The final approved rate increase was lower than the interim rates collected from customers during 2014. Therefore, MERC refunded \$4.7 million to customers in 2015.

Michigan Gas Utilities Corporation

2016 Michigan Rate Order

In June 2015, MGU initiated a rate proceeding with the MPSC. In December 2015, the MPSC issued a final written order, approving a settlement agreement for MGU. The order, which reflects a 9.9% ROE and a common equity component average of 52.0%, authorized a retail natural gas rate increase of \$3.4 million (2.4%), effective January 1, 2016. Based on the settlement agreement, MGU discontinued the use of its decoupling mechanism after December 31, 2015. In addition, since bonus depreciation was in effect in 2016, MGU established a regulatory liability for the resulting cost savings and must refund the liability in its next general rate case.

Upper Michigan Energy Resources Corporation

In December 2016, both the MPSC and the PSCW approved the operation of UMERC as a stand-alone utility in the Upper Peninsula of Michigan and it became operational effective January 1, 2017. This utility holds the electric and natural gas distribution assets previously held by WE and WPS located in the Upper Peninsula of Michigan.

In August 2016, we entered into an agreement with the Tilden Mining Company (Tilden) under which it will purchase electric power from UMERC for its iron ore mine for 20 years. The agreement also calls for UMERC to construct and operate approximately 180 MW of natural gas-fired generation located in the Upper Peninsula of Michigan. On January 30, 2017, UMERC filed an application with the MPSC for a certificate of necessity to begin construction of the proposed generation. The estimated cost of this project is approximately \$265 million (\$275 million with AFUDC), 50% of which is expected to be recovered from Tilden, with the remaining 50% expected to be recovered from utility customers located in the Upper Peninsula of Michigan. Subject to regulatory approval of both the agreement with Tilden and the construction of the proposed generation, the new units are expected to begin commercial operation in 2019 and should allow for the retirement of PIPP no later than 2020. Tilden will remain a customer of WE until this new generation begins commercial operation.

NOTE 23—OTHER INCOME, NET

Total other income, net was as follows for the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
AFUDC – Equity	\$ 25.1	\$ 20.1	\$ 5.6
Gain on repurchase of notes	23.6	—	—
Gain on asset sales	19.6	22.9	7.5
Other, net	12.5	15.9	0.3
Other income, net	\$ 80.8	\$ 58.9	\$ 13.4

NOTE 24—SEGMENT INFORMATION

At December 31, 2016, we reported six segments, which are described below.

- The Wisconsin segment includes the electric and natural gas utility operations of WE, WG, and WPS, including WE's and WPS's electric and natural gas operations in the state of Michigan that were transferred to UMERC effective January 1, 2017.
- The Illinois segment includes the natural gas utility and non-utility operations of PGL and NSG.
- The other states segment includes the natural gas utility and non-utility operations of MERC and MGU.
- The electric transmission segment includes our approximate 60% ownership interest in ATC, a for-profit, electric transmission company regulated by the FERC and certain state regulatory commissions.
- The We Power segment includes our nonregulated entity that owns and leases generating facilities to WE.
- The corporate and other segment includes the operations of the WEC Energy Group holding company, the Integrys holding company, the Peoples Energy, LLC holding company, Wispark, Bostco, Wisvest, WECC, WBS, PDL, and ITF. The sale of ITF was completed in the first quarter of 2016. In the second quarter of 2016, we sold certain assets of Wisvest. See Note 3, Dispositions, for more information on these sales.

All of our operations and assets are located within the United States. The following tables show summarized financial information related to our reportable segments for the years ended December 31, 2016, 2015, and 2014.

Regulated Operations									
2016 (in millions)	Wisconsin	Illinois	Other States	Electric Transmission	Total Regulated Operations	We Power	Corporate and Other	Reconciling Eliminations	WEC Energy Group Consolidated
External revenues	\$ 5,805.4	\$ 1,242.2	\$ 376.5	\$ —	\$ 7,424.1	\$ 24.9	\$ 23.3	\$ —	\$ 7,472.3
Intersegment revenues	0.3	—	—	—	0.3	423.3	—	(423.6)	—
Other operation and maintenance	2,025.4	485.1	110.1	—	2,620.6	4.3	(15.8)	(423.6)	2,185.5
Depreciation and amortization	496.6	134.0	21.1	—	651.7	68.3	42.6	—	762.6
Operating income (loss)	1,027.0	239.6	49.9	—	1,316.5	375.6	(10.0)	—	1,682.1
Equity in earnings of transmission affiliate	—	—	—	146.5	146.5	—	—	—	146.5
Interest expense	180.9	38.9	8.5	—	228.3	62.1	120.9	(8.6)	402.7
Capital expenditures	910.9	293.2	59.5	—	1,263.6	62.3	97.8	—	1,423.7
Total assets *	21,730.7	5,714.6	995.1	1,476.9	29,917.3	2,777.1	778.0	(3,349.2)	30,123.2

* Total assets at December 31, 2016 reflect an elimination of \$2,029.5 million for all lease activity between We Power and WE.

Regulated Operations									
2015 (in millions)	Wisconsin	Illinois	Other States	Electric Transmission	Total Regulated Operations	We Power	Corporate and Other	Reconciling Eliminations	WEC Energy Group Consolidated
External revenues	\$ 5,186.1	\$ 503.4	\$ 149.3	\$ —	\$ 5,838.8	\$ 40.0	\$ 47.3	\$ —	\$ 5,926.1
Intersegment revenues	5.0	—	—	—	5.0	405.2	—	(410.2)	—
Other operation and maintenance	1,741.0	219.6	50.0	—	2,010.6	4.3	103.7	(409.3)	1,709.3
Depreciation and amortization	408.6	63.3	10.0	—	481.9	67.5	12.4	—	561.8
Operating income (loss)	884.2	78.1	6.0	—	968.3	373.4	(91.2)	—	1,250.5
Equity in earnings of transmission affiliate	—	—	—	96.1	96.1	—	—	—	96.1
Interest expense	157.1	19.9	5.1	—	182.1	63.4	91.0	(5.1)	331.4
Capital expenditures	950.3	194.4	34.7	—	1,179.4	53.4	33.4	—	1,266.2
Total assets *	21,113.5	5,462.9	918.0	1,381.0	28,875.4	2,779.0	1,132.5	(3,431.7)	29,355.2

* Total assets at December 31, 2015 reflect an elimination of \$2,105.3 million for all lease activity between We Power and WE.

Regulated Operations									
2014 (in millions)	Wisconsin	Illinois	Other States	Electric Transmission	Total Regulated Operations	We Power	Corporate and Other	Reconciling Eliminations	WEC Energy Group Consolidated
External revenues	\$ 4,932.1	\$ —	\$ —	\$ —	\$ 4,932.1	\$ 55.7	\$ 9.3	\$ —	\$ 4,997.1
Intersegment revenues	9.2	—	—	—	9.2	383.4	—	(392.6)	—
Other operation and maintenance	1,462.7	—	—	—	1,462.7	4.4	33.0	(387.7)	1,112.4
Depreciation and amortization	323.2	—	—	—	323.2	66.7	1.5	—	391.4
Operating income (loss)	770.2	—	—	—	770.2	368.0	(26.1)	—	1,112.1
Equity in earnings of transmission affiliate	—	—	—	66.0	66.0	—	—	—	66.0
Interest expense	127.6	—	—	—	127.6	64.6	48.8	(0.7)	240.3
Capital expenditures	715.0	—	—	—	715.0	41.0	5.2	—	761.2
Total assets *	14,403.8	—	—	424.1	14,827.9	2,789.9	253.3	(2,966.1)	14,905.0

* Total assets at December 31, 2014 reflect an elimination of \$2,172.9 million for all lease activity between We Power and WE.

NOTE 25—QUARTERLY FINANCIAL INFORMATION (Unaudited)

<i>(in millions, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2016					
Operating revenues	\$ 2,194.8	\$ 1,602.0	\$ 1,712.5	\$ 1,963.0	\$ 7,472.3
Operating income	589.3	332.1	399.0	361.7	1,682.1
Net income attributed to common shareholders	346.2	181.4	217.0	194.4	939.0
Earnings per share *					
Basic	\$ 1.10	\$ 0.57	\$ 0.69	\$ 0.62	\$ 2.98
Diluted	1.09	0.57	0.68	0.61	2.96
2015					
Operating revenues	\$ 1,387.9	\$ 991.2	\$ 1,698.7	\$ 1,848.3	\$ 5,926.1
Operating income	358.8	165.8	345.7	380.2	1,250.5
Net income attributed to common shareholders	195.8	80.9	182.5	179.3	638.5
Earnings per share *					
Basic	\$ 0.87	\$ 0.36	\$ 0.58	\$ 0.57	\$ 2.36
Diluted	0.86	0.35	0.58	0.57	2.34

* Earnings per share for the individual quarters do not total the year ended earnings per share amount because of changes to the average number of shares outstanding and changes in incremental issuable shares throughout the year.

Due to various factors, including the acquisition of Integrys on June 29, 2015, the quarterly results of operations are not necessarily comparable.

NOTE 26—NEW ACCOUNTING PRONOUNCEMENTS

Revenue Recognition

In May 2014, the FASB and the International Accounting Standards Board issued their joint revenue recognition standard, ASU 2014-09, Revenue from Contracts with Customers. Several amendments were issued subsequent to the standard to clarify the guidance. The core principle of the guidance is to recognize revenue in an amount that an entity is entitled to receive in exchange for goods and services. The guidance also requires additional disclosures about the nature, amount, timing, and uncertainty of revenues and the related cash flows arising from contracts with customers.

We intend to adopt this standard for interim and annual periods beginning January 1, 2018, as required, and plan to use the modified retrospective method of adoption. This method will result in a cumulative-effect adjustment that will be recorded on the balance sheet as of the beginning of 2018, as if the standard had always been in effect. Disclosures in 2018 will include a reconciliation of results under the new revenue guidance compared with what would have been reported in 2018 under the old revenue recognition guidance in order to help facilitate comparability with the prior periods.

We are currently reviewing our contracts with customers and related financial disclosures to evaluate the impact of the amended guidance on our existing revenue recognition policies and procedures. We consider tariff sales at our regulated utilities, excluding the revenue component related to alternative revenue programs, to be in the scope of the new standard. We have evaluated the nature of these revenues and do not expect that there will be a significant shift in the timing or pattern of revenue recognition for such sales. However, in our evaluation, we are also monitoring unresolved implementation issues for our industry, including the impacts of the new guidance on our ability to recognize revenue for certain contracts where collectability is uncertain and the accounting for contributions in aid of construction (CIAC). We currently account for CIAC funds received from customers and/or developers outside of revenue, as a reduction to property, plant, and equipment. The final resolution of these issues could impact our current accounting policies and revenue recognition.

Classification and Measurement of Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Classification and Measurement of Financial Assets and Liabilities. This guidance is effective for fiscal years and interim periods beginning after December 15, 2017, and will be recorded with a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year in which the guidance is effective. This guidance requires equity investments, including other ownership interests such as partnerships, unincorporated joint ventures, and limited liability companies, to be measured at fair value with changes in fair value

recognized in net income. It also simplifies the impairment assessment of equity investments without readily determinable fair values and amends certain disclosure requirements associated with the fair value of financial instruments. This ASU does not apply to investments accounted for under the equity method of accounting. We are currently assessing the effects this guidance may have on our financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and will be applied using a modified retrospective approach. The main provision of this ASU is that lessees will be required to recognize lease assets and lease liabilities for most leases, including those classified as operating leases under GAAP. We are currently assessing the effects this guidance may have on our financial statements.

Stock-Based Compensation

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Under this ASU, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement, the tax effects of exercised or vested awards are treated as discrete items in the reporting period in which they occur, and excess tax benefits are recognized in the current period regardless of whether the benefit reduces taxes payable. On the cash flow statement, excess tax benefits are classified along with other income tax cash flows as an operating activity, and cash paid by an employer when directly withholding shares for tax purposes is classified as a financing activity. We adopted this guidance effective January 1, 2017, and do not believe it will have a significant impact on our financial statements.

Financial Instruments Credit Losses

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. This ASU introduces a new impairment model known as the current expected credit loss model. The ASU requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. Previously, recognition of the full amount of credit losses was generally delayed until the loss was probable of occurring. We are currently assessing the effects this guidance may have on our financial statements.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and will be applied using a retrospective transition method. There are eight main provisions of this ASU for which current GAAP either is unclear or does not include specific guidance. We are currently assessing the effects this guidance may have on our financial statements.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, Restricted Cash. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Under this ASU, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-the period and end-of-the period total amounts shown on the statements of cash flows. We do not believe the adoption of this guidance will have a significant impact on our financial statements.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of WEC Energy Group, Inc.:

Milwaukee, Wisconsin

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of WEC Energy Group Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated income statements, statements of comprehensive income, statements of equity, and statements of cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of WEC Energy Group, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

February 28, 2017



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of WEC Energy Group, Inc.:

Milwaukee, Wisconsin

We have audited the internal control over financial reporting of WEC Energy Group, Inc. and subsidiaries (the "Company") as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2016 of the Company and our report dated February 28, 2017 expressed an unqualified opinion on those financial statements.

A handwritten signature in black ink that reads "Deloitte & Touche LLP".

February 28, 2017

INTERNAL CONTROL OVER FINANCIAL REPORTING

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our and our subsidiaries' internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, our management concluded that our and our subsidiaries' internal control over financial reporting was effective as of December 31, 2016.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

For Deloitte & Touche LLP's Report of Independent Registered Public Accounting Firm, attesting to the effectiveness of our internal controls over financial reporting, see Page F-91.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting during the fourth quarter of 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

WEC ENERGY GROUP, INC. COMPARATIVE SELECTED FINANCIAL DATA AND OTHER STATISTICS

As of or for Year Ended December 31					
<i>(in millions, except per share information)</i>	2016	2015 *	2014	2013	2012
Operating revenues	\$ 7,472.3	\$ 5,926.1	\$ 4,997.1	\$ 4,519.0	\$ 4,246.4
Net income attributed to common shareholders	939.0	638.5	588.3	577.4	546.3
Total assets	30,123.2	29,355.2	14,905.0	14,443.2	14,163.0
Preferred stock of subsidiary	30.4	30.4	30.4	30.4	30.4
Long-term debt (excluding current portion)	9,158.2	9,124.1	4,170.7	4,347.0	4,437.1
Weighted average common shares outstanding					
Basic	315.6	271.1	225.6	227.6	230.2
Diluted	316.9	272.7	227.5	229.7	232.8
Earnings per share					
Basic	\$ 2.98	\$ 2.36	\$ 2.61	\$ 2.54	\$ 2.37
Diluted	\$ 2.96	\$ 2.34	\$ 2.59	\$ 2.51	\$ 2.35
Dividends per share of common stock	\$ 1.98	\$ 1.74	\$ 1.56	\$ 1.45	\$ 1.20

* Includes the impact of the Integrys acquisition for the last two quarters of 2015. See Note 2, Acquisitions, for more information.

PERFORMANCE GRAPH

The performance graph below shows a comparison of the cumulative total return, assuming reinvestment of dividends, over the last five years had \$100 been invested at the close of business on December 31, 2011, in each of:

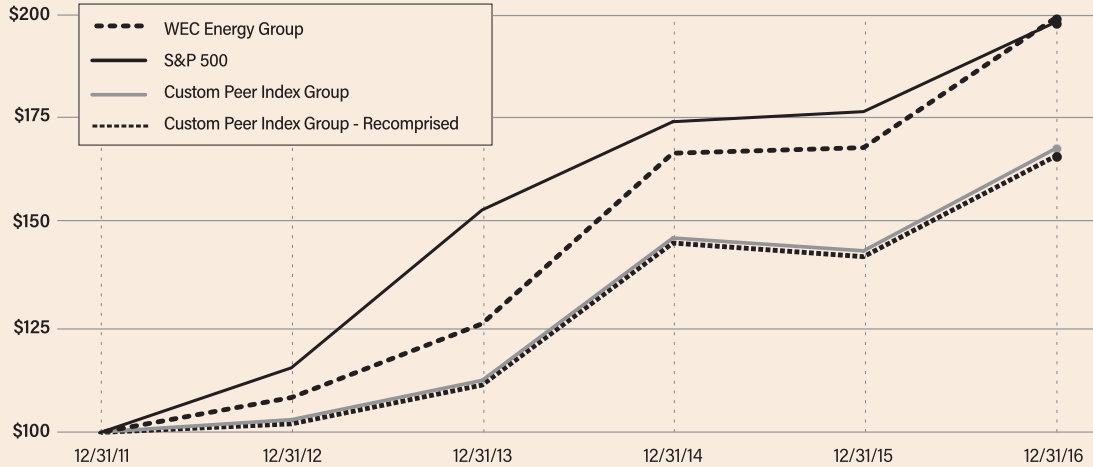
- WEC Energy Group common stock;
- a Custom Peer Group Index;
- a recomprised Custom Peer Group Index; and
- the Standard & Poor's 500 Index ("S&P 500").

Custom Peer Group Index. We have used the Custom Peer Group Index for peer comparison purposes because we believe the Index provided an accurate representation of our peers. The Custom Peer Group Index is a market capitalization-weighted index of companies, including WEC Energy Group, that are similar to us in terms of size and business model.

In addition to WEC Energy Group, the companies in the Custom Peer Group Index are Alliant Energy Corporation; Ameren Corporation; American Electric Power Company, Inc.; CMS Energy Corporation; Consolidated Edison, Inc.; DTE Energy Company; Duke Energy Corp.; Edison International; Eversource Energy; FirstEnergy Corp.; Great Plains Energy, Inc.; NiSource Inc.; OGE Energy Corp.; PG&E Corporation; Pinnacle West Capital Corporation; SCANA Corporation; The Southern Company; Westar Energy, Inc.; and Xcel Energy Inc.

Custom Peer Group Index – Recomprised. In May 2016, Great Plains Energy, Inc. announced it had entered into an agreement to purchase Westar Energy, Inc. Therefore, in December 2016, we recomprised our Custom Peer Group to remove Westar Energy, Inc. We believe the Custom Peer Group Index, as recomprised, continues to be made up of companies that are similar to us in terms of business model and long-term strategies.

Five-Year Cumulative Return



Value of Investment at Year-End

	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
WEC Energy Group, Inc.	\$100	\$108.91	\$126.47	\$167.05	\$168.37	\$199.03
Custom Peer Group Index	\$100	\$102.68	\$112.03	\$145.91	\$142.86	\$167.03
Custom Peer Group Index - Recomprised	\$100	\$102.66	\$111.89	\$145.68	\$142.43	\$166.01
S&P 500	\$100	\$115.99	\$153.54	\$174.54	\$176.94	\$198.09

MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

NUMBER OF COMMON STOCKHOLDERS

As of January 31, 2017, based upon the number of WEC Energy Group stockholder accounts (including accounts in our dividend reinvestment and stock purchase plan), we had approximately 55,000 registered stockholders.

COMMON STOCK LISTING AND TRADING

Our common stock is listed on the New York Stock Exchange under the ticker symbol "WEC."

DIVIDENDS AND COMMON STOCK PRICES

Common Stock Dividends of WEC Energy Group

Cash dividends on our common stock, as declared by our Board of Directors, are normally paid on or about the first day of March, June, September, and December of each year. We review our dividend policy on a regular basis. Subject to any regulatory restrictions or other limitations on the payment of dividends, future dividends will be at the discretion of the Board of Directors and will depend upon, among other factors, earnings, financial condition, and other requirements. For information regarding restrictions on the ability of our subsidiaries to pay us dividends, see Note 11, Common Equity.

On January 19, 2017, the Board of Directors increased the quarterly dividend to \$0.5200 per share effective with the first quarter of 2017 dividend payment, which equates to an annual dividend of \$2.08 per share. In addition, the Board of Directors affirmed our dividend policy that continues to target a dividend payout ratio of 65.0–70.0% of earnings.

Range of WEC Energy Group Common Stock Prices and Dividends

Quarter	2016			2015		
	High	Low	Dividend	High	Low	Dividend
First	\$ 60.16	\$ 50.44	\$ 0.4950	\$ 58.01	\$ 47.51	\$ 0.4225
Second	\$ 65.30	\$ 55.46	0.4950	\$ 51.54	\$ 44.93	0.4225
Third	\$ 66.10	\$ 59.03	0.4950	\$ 52.29	\$ 44.97	0.4404
Fourth	\$ 60.13	\$ 53.66	0.4950	\$ 53.88	\$ 47.98	0.4575
Annual	\$ 66.10	\$ 50.44	\$ 1.9800	\$ 58.01	\$ 44.93	\$ 1.7429

BOARD OF DIRECTORS



John F. Bergstrom

Director since 1987.
Chairman and Chief Executive Officer of Bergstrom Corporation, which owns and operates numerous automobile sales and leasing companies.



Paul W. Jones

Director since 2015.
Retired Executive Chairman and Chief Executive Officer of A.O. Smith Corporation, a leading manufacturer of residential and commercial water heaters and boilers. Non-Executive Chairman of Rexnord Corporation.



Barbara L. Bowles

Director since 1998.
Retired Vice Chair of Profit Investment Management and Retired Chairman of The Kenwood Group, Inc., investment advisory firms. The Kenwood Group, Inc. was merged into Profit Investment Management in 2006.



Gale E. Klappa

Director since 2003.
Non-Executive Chairman of the Board of WEC Energy Group, Inc.



William J. Brodsky

Director since 2015.
Chairman of the Board from May 2014 to February 28, 2017 of CBOE Holdings, Inc., which is the holding company for the Chicago Board Options Exchange and CBOE Futures Exchange.



Henry W. Knuettel

Director since 2013.
Retired Chairman and Chief Executive Officer of Regal Beloit Corporation, a leading manufacturer of electric motors, mechanical and electrical motion controls, and power generation products.



Albert J. Budney, Jr.

Director since 2015.
Retired President and Director of Niagara Mohawk Holdings, Inc., a holding company that distributes electricity in areas of New York through its utility subsidiaries.



Allen L. Leverett

Director since 2016.
President and Chief Executive Officer of WEC Energy Group, Inc.



Patricia W. Chadwick

Director since 2006.
President of Ravengate Partners, LLC, which provides businesses and not-for-profit institutions with advice about the financial markets, business management, and global economics.



Ulice Payne, Jr.

Director since 2003.
Managing Member of Addison-Clifton, LLC, which provides global trade compliance advisory services.



Curt S. Culver

Director since 2004.
Non-Executive Chairman of the Board of MGIC Investment Corporation and Mortgage Guaranty Insurance Corporation, a private mortgage insurance company.



Mary Ellen Stanek

Director since 2012.
Managing Director and Director of Asset Management of Baird Financial Group; Chief Investment Officer, Baird Advisors; President, Baird Funds, Inc. Baird Financial Group provides wealth management, capital markets, private equity, and asset management services to clients worldwide.



Thomas J. Fischer

Director since 2005.
Principal of Fischer Financial Consulting LLC, which provides consulting on corporate financial, accounting, and governance matters.

OFFICERS

The names and positions as of December 31, 2016 of WEC Energy Group's officers are listed below.

Allen L. Leverett⁽¹⁾ – President and Chief Executive Officer.

Robert M. Garvin⁽¹⁾ – Executive Vice President-External Affairs.

J. Patrick Keyes⁽¹⁾ – Executive Vice President-Strategy.

Scott J. Lauber⁽¹⁾ – Executive Vice President and Chief Financial Officer.

Susan H. Martin⁽¹⁾ – Executive Vice President, General Counsel and Corporate Secretary.

M. Beth Straka⁽¹⁾ – Senior Vice President-Corporate Communications and Investor Relations.

Darnell K. DeMasters – Vice President-Federal Government Affairs.

William J. Guc⁽¹⁾ – Vice President and Controller.

James A. Schubilske⁽¹⁾ – Vice President and Treasurer.

Keith H. Ecke – Assistant Corporate Secretary.

David L. Hughes – Assistant Treasurer.

⁽¹⁾ Executive Officer of WEC Energy Group as of December 31, 2016.

The following individuals are also executive officers of WEC Energy Group as of December 31, 2016:

- J. Kevin Fletcher – President of WEC Energy Group's Wisconsin segment, which includes Wisconsin Electric Power Company, Wisconsin Gas LLC, and Wisconsin Public Service Corporation.
- Charles R. Matthews – President of Peoples Energy, LLC, and President and Chief Executive Officer of The Peoples Gas Light and Coke Company and North Shore Gas Company.
- Tom Metcalfe – Executive Vice President-Generation of Wisconsin Electric Power Company and Wisconsin Public Service Corporation.
- Joan M. Shafer – Executive Vice President-Human Resources and Organizational Effectiveness of WEC Energy Group's Wisconsin utility subsidiaries.



NOTICE OF 2017 ANNUAL MEETING AND PROXY STATEMENT

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

March 23, 2017

To the Stockholders of WEC Energy Group, Inc.:

On behalf of the Board of Directors, you are cordially invited to attend WEC Energy Group's 2017 Annual Meeting of Stockholders to be held at Concordia University Wisconsin in Mequon, just north of Milwaukee. **To attend, you must pre-register and present photo identification at the door.** Instructions on how to pre-register are provided on page P-83. If you are not able to attend, you may listen to a live webcast available on our Website at: www.wecenergygroup.com/invest/annualmtg.htm. An archive of the webcast will be available on our Website for approximately 12 months following the meeting. **Regardless of whether you plan to attend, please take a moment to vote your proxy.**

WEC Energy Group's Annual Meeting will be held as follows:

WHEN: Thursday, May 4, 2017
10:00 a.m., Central time

WHERE: Concordia University Wisconsin
R. John Buuck Field House
12800 North Lake Shore Drive
Mequon, Wisconsin 53097

ITEMS OF BUSINESS:

- Elect thirteen directors for terms expiring in 2018.
- Ratify Deloitte & Touche LLP as independent auditors for 2017.
- Advisory vote on compensation of the named executive officers.
- Advisory vote to establish the frequency of "say-on-pay" advisory votes.
- Consider any other matters that may properly come before the meeting.

RECORD DATE: February 23, 2017

VOTING BY PROXY: *Your vote is important.* You may vote by:

- using the Internet;
- telephone; or
- returning the proxy card in the envelope provided.

This year we will again follow the Securities and Exchange Commission rule that allows companies to deliver proxy materials to their stockholders online. On or about March 23, 2017, we began mailing stockholders a Notice Regarding the Availability of Proxy Materials instead of a paper copy of the proxy statement and 2016 Annual Report. This Notice contains instructions on how to access our proxy materials and vote online. **If you receive paper copies of the materials, consider signing up to receive them electronically in the future by following the instructions contained on page P-80.** By delivering our proxy materials electronically, we can provide our stockholders with the information they need in a more cost-effective manner.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 4, 2017 – The Proxy Statement and 2016 Annual Report are available at: www.envisionreports.com/wec.

By Order of the Board of Directors,

A handwritten signature in black ink that reads "Susan H. Martin".

Susan H. Martin
Executive Vice President, General Counsel and Corporate Secretary

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PROXY SUMMARY

This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting.

BUSINESS OF THE ANNUAL MEETING OF STOCKHOLDERS

WEC Energy Group, Inc.'s ("WEC Energy Group" or the "Company") upcoming Annual Meeting will be held at Concordia University Wisconsin on Thursday, May 4, 2017. Certain details regarding the business of the meeting follow. For additional information about the Annual Meeting, including the vote required for each proposal, see the preceding "Notice of Annual Meeting of Stockholders" on page P-3, as well as "Information About the Annual Meeting" in this proxy statement beginning on page P-81.

Matters Requiring A Vote Of Stockholders

There are four items of business for which the Company is soliciting a stockholder vote in conjunction with the Annual Meeting:

Proposal Item	Board Vote Recommendation	Page
1. Election of Directors – Terms Expiring in 2018	FOR each nominee	P-22
2. Ratification of Deloitte & Touche LLP as Independent Auditors for 2017	FOR	P-35
3. Advisory Vote on Compensation of the Named Executive Officers	FOR	P-76
4. Advisory Vote to Establish the Frequency of Say-On-Pay Advisory Votes	FOR every year	P-77

Voting

Registered stockholders of record as of the February 23, 2017 record date are encouraged to vote using one of the following options. Stockholders who hold shares in street name through an intermediary on this date must obtain a legal proxy from their broker, bank or other nominee granting the right to vote.



Internet at
www.investorvote.com/wec



Call toll-free
at 800-652-8683



Mail
signed proxy card



In person at
the Annual Meeting

Annual Meeting Attendance

Pre-registration is required. In addition, for entry into the meeting each stockholder will be required to present a government-issued photo identification, such as a driver's license, state identification card, or passport.

Information on how to pre-register can be found on page P-83.

Electronic Access to Annual Meeting Information

For information regarding how you can receive future proxy materials and annual reports electronically, please see "Electronic Access to Annual Meeting Information" beginning on page P-79 of this proxy statement.

2016 BUSINESS HIGHLIGHTS

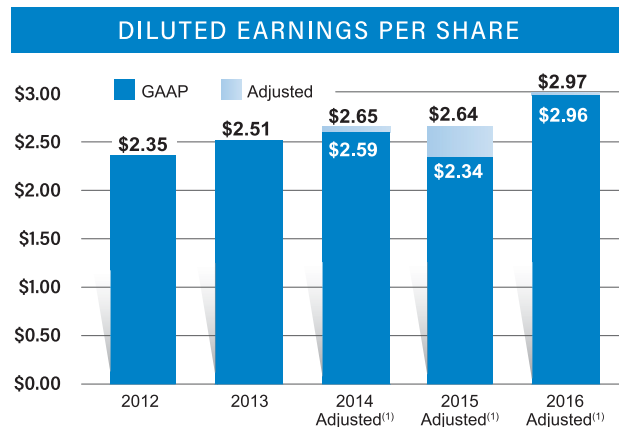
We completed our first full year of combined utility operations as WEC Energy Group in 2016 following Wisconsin Energy Corporation's acquisition of Integrys Energy Group in June 2015. Following the acquisition, we deliver electricity and natural gas to approximately 4.4 million customers in four states – Wisconsin, Illinois, Michigan, and Minnesota.

During 2016, we made excellent progress in our efforts to integrate our employees, merge and improve business processes, and consolidate our IT infrastructure. At the same time, the Company achieved solid results and continued to create long-term value for our stockholders and customers by focusing on the following:

- World-class reliability
- Operating efficiency
- Employee safety
- Financial discipline
- Exceptional customer care

2016 Financial Performance

- WEC Energy Group delivered solid earnings growth again, generated strong cash flow, and increased the dividend for the 13th consecutive year.
- Achieved fully diluted earnings and adjusted earnings per share of \$2.96 and \$2.97, respectively.⁽²⁾
- Each of our regulated utility subsidiaries earned its allowed rate of return.
- Returned approximately \$625 million to WEC Energy Group stockholders through dividends.
- In January 2017, the Board raised the quarterly dividend to \$0.52 per share, which is equivalent to an annual dividend rate of \$2.08 per share.



⁽¹⁾ Excludes costs of \$0.01, \$0.30, and \$0.06 per share for 2016, 2015, and 2014, respectively, related to our acquisition of Integrys. See Appendix A on P-85 for a full GAAP reconciliation and an explanation of why we believe the presentation of adjusted earnings per share is relevant and useful to investors.

⁽²⁾ This measure is a component of our short-term incentive compensation program.

2016 Operational Performance

- WEC Energy Group was recognized in 2016 by Corporate Responsibility Magazine in its annual “Most Responsible Companies Ranked by Industry Sector” in the Utility category.
- Our utilities continued to balance the delivery of safe, reliable, and affordable energy with a commitment to protecting the environment.
- We Energies was named the most reliable utility in the Midwest for the sixth year by PA Consulting Group and received the first-ever Outstanding Customer Reliability Experience Award for effective customer service and communications.
- We received the best results in our history for large customer satisfaction as surveyed by TQS Research and achieved a third place national ranking.⁽²⁾
- All major utility subsidiaries either met or exceeded our overall customer satisfaction targets.⁽²⁾
- WEC Energy Group's utility companies experienced growing employee participation in health and wellness programs, as well as increased proactive safety reporting, helping to reduce the number of OSHA-reportable incidents and lost-time incidents by almost 17% on a year over year basis.⁽²⁾
- We Energies Supplier Diversity Initiative was recognized by the National Association of Minority Contractors-Wisconsin Chapter for outreach, support, commitment, and leadership in minority business development in the Wisconsin construction industry.⁽²⁾

2016 Strategic Performance

- Continued the successful integration of Integrys Energy Group into WEC Energy Group.
- Transitioned leadership of the Company, from Gale E. Klappa to Allen L. Leverett as CEO, effective May 1, 2016.
- Formed a stand-alone utility (Upper Michigan Energy Resources Corporation) to serve customers in Michigan's Upper Peninsula and to facilitate a long-term generation solution for the region.
- Sold Wisconsin Electric Power Company's ("WE") Milwaukee County Power Plant, a coal-fired power plant, in 2016 as part of our long-term strategy to restructure the Company's generation portfolio to meet changing demands and regulations.
- Sold the compressed natural gas business, Trillium CNG, thereby exiting a significant non-regulated business.
- Announced a plan to work with industry partners, environmental groups, and the state of Wisconsin with a goal of reducing CO₂ emissions from our electric generating fleet by approximately 40% below 2005 levels by 2030.
- Deployed capital during 2016 to focus on strengthening and modernizing the reliability of the Company's generation and distribution networks. Highlights include:

At year-end 2016, implementation of the Improved Customer Experience project was 80% complete; when fully implemented, this \$100-plus million customer care software project will provide all of the Company's customers, located across four states, with a common experience, while also improving business capability and service delivery across all of our utility subsidiaries.

Illinois. The Peoples Gas Light & Coke Company ("PGL"), one of the Company's Illinois utility subsidiaries, completed a top to bottom review of the capital construction project underway in the City of Chicago to modernize the natural gas infrastructure; management successfully worked with regulators to identify and prioritize 2016 capital expenditures, while also implementing enhanced project controls and significantly reducing class 2 methane leaks.

PGL also broke ground on a \$20 million, 100,000-plus square foot state-of-the art training facility in Chicago, which will provide training for current and future utility employees, as well as prepare high school students for careers as utility workers.

Wisconsin. In November 2016, Wisconsin Public Service Corporation's ("WPS") ReACT™ system went into commercial operation at Weston Unit 3, one of our coal-fired facilities; this \$345 million capital project installed an air quality control system that is the first of its kind in the United States. The ReACT™ system is currently meeting or exceeding all environmental performance expectations, including reducing sulfur dioxide and mercury emissions from Weston Unit 3 to near zero.

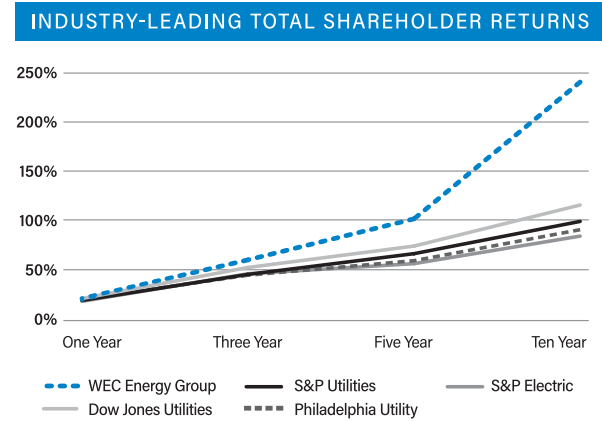
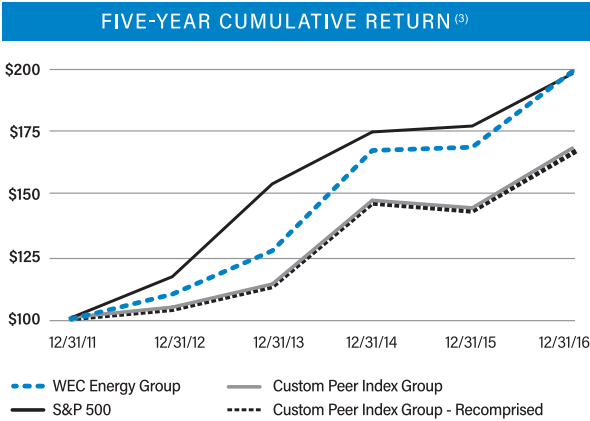
WPS met the scheduling, safety, and reliability improvement targets set for 2016 on a five-year, \$220 million system modernization and reliability project; upon completion in 2018, the company will have converted more than 1,100 miles of overhead lines to underground and added distribution automation equipment on 400 miles of lines.

The new powerhouse at WE's Twin Falls hydroelectric plant went into commercial operation in July 2016; forecasted at \$64 million, this capital project was completed on schedule and under budget, and has increased plant capacity by 50%.

We completed the expansion of the coal storage facilities at WE's Oak Creek Power Plant site; this \$62 million project, finished under budget, was placed into service ahead of schedule in December 2016 and is already providing fueling flexibility benefits that lower costs for customers.

LONG-TERM STOCKHOLDER RETURNS

Over the past decade, WEC Energy Group has consistently delivered among the best total returns in the industry and did so again in 2016.



⁽³⁾ The Five-Year Cumulative Return Chart shows a comparison of the cumulative total return, assuming reinvestment of dividends, over the last five years had \$100 been invested at the close of business on December 31, 2011. For information about the Custom Peer Index Group and the Recomprised Custom Peer Index Group, see page F-93 in the Company's 2016 Annual Report.

Source: Bloomberg; assumes all dividends are reinvested and returns are compounded daily.

2016 EXECUTIVE COMPENSATION HIGHLIGHTS (Page P-39)

Key Compensation Program Changes

In 2016, we made some changes to our compensation program that followed from our stockholder engagement efforts and our focus on continually refining our executive compensation program to more effectively align executive pay with performance and reflect best compensation practices.

Competitive Benchmarking - Recomprised Market Data Sources. Based upon a recommendation from our independent compensation consultant, Frederic W. Cook & Co. ("Frederic Cook"), the Compensation Committee revised the data sources used to benchmark executive compensation. Instead of considering just market data obtained from Willis Towers Watson's Executive Compensation Data Bank, Frederic Cook also considered survey data from Aon Hewitt and a comparison group of 19 companies comparable in size to WEC Energy Group that share similar traits with the Company. For additional information on our benchmarking methodology, see "Competitive Benchmarking" on page P-44 of this proxy statement.

Long-Term Incentive Awards - Performance Unit Plan - Short-Term Dividend Equivalents. The Compensation Committee amended and restated the Company's Performance Unit Plan effective January 1, 2016, to provide that short-term dividend equivalents are paid out at the end of a three-year performance period based on WEC Energy Group's total stockholder return over the three-year performance period as compared to the stockholder return of a peer group of companies. Short-term dividend equivalents granted prior to January 1, 2016 were paid out annually on unearned performance units if the Company met applicable earnings per share targets. For additional information on the short-term dividend equivalents, see "Short-Term Dividend Equivalents" on page P-50 of this proxy statement.

Long-Term Incentive Awards - Performance Unit Plan - Additional Performance Measure. On December 1, 2016, based upon feedback we received from stockholders during our investor outreach efforts, the Compensation Committee amended and restated the Company's Performance Unit Plan effective January 1, 2017, to provide for an Additional Performance Measure (in addition to total stockholder return), which is defined as the performance criterion or criteria (if any) that the Compensation Committee selects at the time of the award, in its

sole discretion, against which WEC Energy Group's performance will be measured. For additional information regarding the change, see "Long-Term Incentive Compensation - Performance Units" on page P-49 of this proxy statement.

Executive Compensation Overview

Compensation awarded to, earned by, or paid to the Company's Named Executive Officers ("NEOs") during 2016 is set forth in the "Summary Compensation Table" on page P-57 and described in "Compensation Discussion and Analysis" beginning on page P-39 in this proxy statement.

Performance-Based Executive Compensation Program (Page P-39)

The primary objective of the executive compensation program is to provide a competitive, performance-based plan that enables the Company to attract and retain key individuals. The program has been designed to provide a level of compensation that is strongly dependent upon the achievement of our short-term and long-term goals. To that end, a substantial portion of pay is at risk and, generally, the value will only be realized upon strong corporate performance.

Short-term performance targets are based upon the achievement of pre-established stockholder, customer, and employee-focused objectives, which include:

- Financial performance, measured by earnings per share and cash flow, as well as utility net income for utility officers; and
- Operational performance, measured in the areas of customer satisfaction, safety, and supplier and workforce diversity.

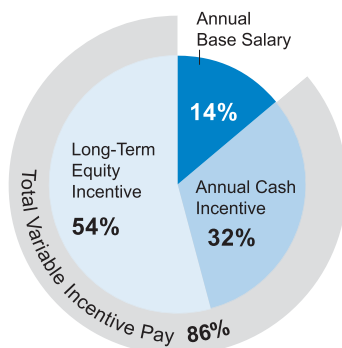
Long-term incentives are designed to link the interests of our executives and other key employees to creating long-term stockholder value. Long-term equity incentive awards are comprised of performance units, stock options, and restricted stock.

Total Direct Compensation Components

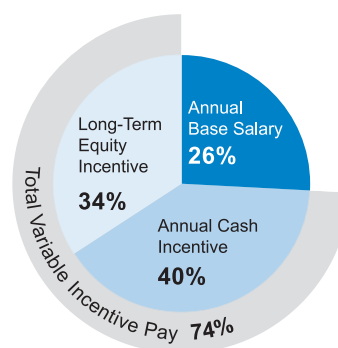
Component	Terms/Conditions
Annual Base Salary	Annual evaluation takes into consideration level of experience, performance, responsibility, contribution to the results of the Company's operations, and peer data.
Annual Cash Incentive Awards	
Short-Term Performance Plan	Award is based upon level of achievement of pre-established financial and operational targets aligned with stockholder, customer, and employee-focused objectives; all payments are variable and at risk. Financial targets: Earnings per share, cash flow, utility net income * Operational targets: Customer satisfaction, employee safety, and workforce and supplier diversity *Utility net income is a performance metric for those officers whose positions primarily relate to utility operations.
Long-Term Equity Incentive Awards	
Performance Units	Award is contingent on Company's "total stockholder return" in comparison to a peer group of companies over a three-year period; exceptional performance versus peers results in higher payouts; substantially lower performance than peers results in no payout. For 2017, an additional performance measure will be based on the weighted average actual return on equity for the Company's primary utilities compared to the weighted average authorized return on equity for the same utilities. Short-term dividend equivalents are credited and accumulated as reinvested dividends on each performance unit such that the performance units and accumulated dividends will be paid out at the end of the three-year performance period, contingent upon performance.
Stock Options	Long-term value is tied to Company performance and stock price appreciation following the grant date.
Restricted Stock	Long-term value is tied to stock price appreciation and dividends.

With respect to these components of total direct compensation, 86% of Mr. Leverett's compensation as CEO and an average of 74% of the other NEOs' compensation, excluding Mr. Klappa, is tied to Company performance and is not guaranteed, demonstrating the significance of variable incentive compensation in the total direct compensation mix.

CEO 2016 TOTAL DIRECT COMPENSATION MIX



OTHER NEOs 2016 TOTAL DIRECT COMPENSATION MIX



2016 CORPORATE GOVERNANCE HIGHLIGHTS (Page P-13)

A comprehensive discussion of the Company's Corporate Governance practices starts on page P-13.

WEC Energy Group was one of the earliest adopters of a formal set of Corporate Governance Guidelines, which have been modified over time as governance practices and stockholder expectations have evolved. Our Guidelines closely align with the *Commonsense Principles of Corporate Governance*, a well-publicized best practice framework recommended by a coalition of companies and investors in July 2016. See page P-14 for more detail.

Highlights of our 2016 corporate governance performance include:

Investor Outreach. Direct engagement by senior management and the Non-Executive Chairman of the Board with nearly 30 of the Company's top institutional investors, representing nearly 35% of outstanding shares, took place throughout the year:

- Provided investors with an opportunity to discuss with us our governance and compensation practices, as well as environmental and social performance matters.
- Requested feedback from stockholders as the Board developed and adopted a proxy access bylaw in 2016 (page P-21).
- Discussed enhancements to our executive compensation program, including the changes described on pages P-8 to P-9.

Strategic Planning Process. In keeping with its standard practices, the Board was regularly engaged in discussions with management on strategic initiatives throughout the year, utilizing several mechanisms:

- At every board meeting, the CEO held substantive discussions with the Board on strategic matters.
- External subject matter experts as appropriate, in addition to senior level and executive management employees, regularly attended board and committee meetings throughout the year to conduct detailed informational sessions.
- The CEO and other members of senior management communicated with the directors as needed between meetings to follow-up on matters discussed at the meetings.

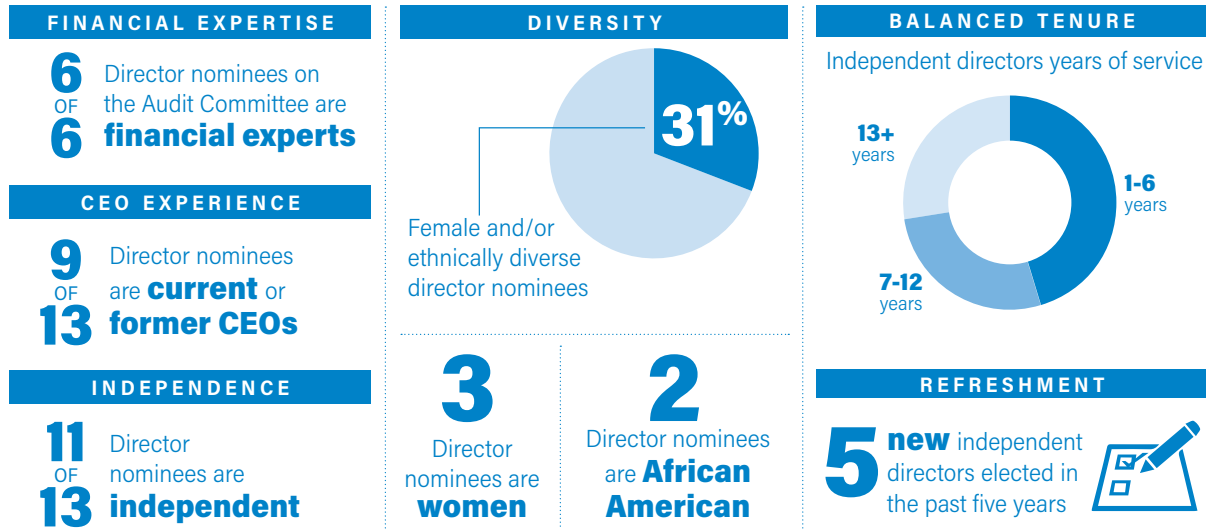
Governance and Risk Management. Applying their diversity of experiences and core competencies (page P-23), the Board provided critical input in several key areas in 2016, which was particularly valuable during this first full year operating as a bigger company with both a larger utility business portfolio and geographical footprint:

- Provided guidance to ensure a smooth transition for the new CEO and other new key executive management appointed in 2016.
- Shared insights on successful engagement with investors, utilizing experience gained from serving on other boards.
- Leveraged relationships with key local stakeholders, especially in the newly-acquired Illinois service territory, to help strengthen relationships for the new management team.
- Worked closely with the independent compensation consultant to align our compensation practices with stockholder interests.
- Advised management on significant financing and investment decisions on major capital projects and investments.
- Recommended enhancements to the parent and subsidiary companies' governance processes to allow for appropriate risk oversight over a larger organization.
- Strengthened the board succession planning process through focused committee and board discussions on core competencies needed given the Company's industry, risks, and strategic direction (page P-23).
- Engaged in thoughtful discussions with management on the Company's strategy for setting and achieving short- and long-term environmental and social performance goals and objectives.

2017 DIRECTOR NOMINEES (Page P-23)

Board Composition. The Corporate Governance Committee has evaluated each individual director nominee listed under Proposal 1 and confirmed that he or she has the right competencies, qualifications, and experiences required to further the success of the Company’s business. In addition, the Committee believes the collective diversity of these nominees, along with a balanced tenure that indicates a mix of both deep historical knowledge and new perspectives, enables the Board to appropriately represent stockholder interests and effectively carry out its oversight function.

The collective diversity of the nominees is summarized as follows. Individual core competencies, qualifications, and experiences are included in the director biographies, beginning on page P-25.



PROXY STATEMENT

This proxy statement is being furnished to stockholders beginning on or about March 23, 2017, in connection with the solicitation of proxies by the WEC Energy Group, Inc. (“WEC Energy Group” or the “Company”) Board of Directors (the “Board”) to be used at the Annual Meeting of Stockholders on Thursday, May 4, 2017 (the “Meeting”) at 10:00 a.m., Central time, at Concordia University Wisconsin in the R. John Buuck Field House located at 12800 North Lake Shore Drive, Mequon, Wisconsin 53097, and at all adjournments or postponements of the Meeting, for the purposes listed in the Notice of Annual Meeting of Stockholders.

CORPORATE GOVERNANCE

What is the Company's corporate governance framework?

Since 1996, the Board has maintained Corporate Governance Guidelines that provide a framework under which it conducts business. WEC Energy Group was one of the earliest adopters of a formal set of Corporate Governance Guidelines. The guidelines address governance matters including director selection and election, determination of independence, board leadership, board committee structure and evaluation, chief executive officer performance evaluation, and management succession.

To maintain effective guidelines, the Corporate Governance Committee annually reviews the Company's governance practices, taking into consideration discussions with stockholders as part of our investor outreach program, industry surveys, and benchmarking studies, as well as governance guidelines published by proxy advisors. Our guidelines align with the *Commonsense Principles of Corporate Governance*, a recommended governance framework, published by a coalition of companies and investors in July 2016 and summarized as follows:

Commonsense Principles	WEC Energy Group Practices	
Board composition/internal governance	✓	<ul style="list-style-type: none"> • 11 of 13 independent directors • Annual election of directors since 2005 • Board committee structure/service evaluated annually • Stockholders can nominate directors • Stock ownership requirements • Balanced director tenure/retirement age at 72 • Diverse representation of skills and competencies • Annual board performance evaluation
Board responsibilities	✓	<ul style="list-style-type: none"> • Chairman active in stakeholder communications • Board participation in critical activities, including setting agenda
Stockholder rights	✓	<ul style="list-style-type: none"> • Proxy access bylaw • Dual class voting is not practiced • Written consent/special meeting provisions
Public reporting	✓	<ul style="list-style-type: none"> • Transparent quarterly financial results; reported using GAAP • Quarterly reporting framed in broader context of strategy • Disclosure of long-term goals is specific and measurable • Take long-term strategic view and explain how material decisions are consistent with that view
Board leadership	✓	<ul style="list-style-type: none"> • Separate CEO/chair roles • Presiding independent director • Independent Audit and Oversight, Compensation, Finance, and Corporate Governance Committees
Management succession planning	✓	<ul style="list-style-type: none"> • Board interaction with and evaluation of senior management • Public disclosure of succession planning
Management compensation	✓	<ul style="list-style-type: none"> • Competitively tailored to business and industry, aligned with long-term performance and business strategy • Includes short- and long-term metrics, cash, and equity components; a substantial portion of compensation is at risk • Public disclosure of benchmarks and performance measurements • Clawback policies for cash and equity

The Company's Website, wecenergygroup.com, contains information on the Company's governance activities. The Website, under the "Governance" section, includes the Code of Business Conduct, Corporate Governance Guidelines, charters for the Board's Audit and Oversight, Compensation, Corporate Governance, and Finance Committees, and other useful information.

As policies are continually evolving, the Company encourages you to periodically visit the Website. Copies of these documents may also be requested in writing from the Corporate Secretary.

Does the Company have a written code of ethics?

Yes. All WEC Energy Group directors, executive officers, and employees, including the principal executive, financial, and accounting officers, have a responsibility to comply with WEC Energy Group's Code of Business Conduct, to seek advice in doubtful situations, and to report suspected violations.

WEC Energy Group's Code of Business Conduct addresses, among other things: conflicts of interest; confidentiality; fair dealing; protection and proper use of Company assets; and compliance with laws, rules, and regulations (including insider trading laws). **The Company has not provided any waiver to the Code for any director, executive officer, or other employee.**

The Code of Business Conduct is posted in the "Governance" section of the Company's Website at wecenergygroup.com. It is also available in print to any stockholder upon request in writing to the Corporate Secretary.

The Company has several ways employees can raise questions concerning WEC Energy Group's Code of Business Conduct and other Company policies. As one reporting mechanism, the Company has contracted with an independent service for employees to confidentially and anonymously report suspected violations of the Code of Business Conduct or other concerns, including those regarding accounting, internal accounting controls, or auditing matters.

Does the Company have policies and procedures in place to review and approve related party transactions?

Yes. All employees of WEC Energy Group, including executive officers and members of the Board, are required to comply with the Company's Code of Business Conduct. The Code of Business Conduct addresses, among other things, what actions are required when potential conflicts of interest may arise, including those from related party transactions. Specifically, executive officers and members of the Board are required to obtain approval of the Audit and Oversight Committee Chair before: (1) obtaining any financial interest in or participating in any business relationship with any company, individual, or concern doing business with WEC Energy Group or any of its subsidiaries; (2) participating in any joint venture, partnership, or other business relationship with WEC Energy Group or any of its subsidiaries; and (3) serving as an officer or member of the board of any substantial outside for-profit organization. Furthermore, before serving as an officer or member of the board of any substantial outside for-profit organization, the Chief Executive Officer ("CEO") must obtain the approval of the full Board; members of the WEC Energy Group Board must obtain the prior approval of the Corporate Governance Committee. In addition, executive officers must obtain the prior approval of the CEO before accepting a position with a substantial non-profit organization; members of the Board must notify the Compliance Officer when joining the board of a substantial non-profit organization, but do not need to obtain prior approval.

WEC Energy Group's Code of Business Conduct also requires employees and directors to notify the Compliance Officer of situations where family members are a supplier or significant customer of WEC Energy Group or employed by one. To the extent the Compliance Officer deems it appropriate, she will consult with the Audit and Oversight Committee Chair in situations involving executive officers and members of the Board.

STOCKHOLDER OUTREACH AND ENGAGEMENT

What is the Company's philosophy on stockholder engagement?

Accountability to stockholders is critical to the Company's long-term success. We have mechanisms in place to ensure that management and the Board hear, understand, and consider the issues that matter most to our stockholders. This ongoing engagement helps provide valuable insight as to how our stockholders view the Company's practices and policies, helps us set goals and expectations, and helps identify emerging issues that may affect our strategy and/or corporate governance and compensation practices.

What steps does the Company take to engage with investors?

The Company's outreach and engagement program took many forms during 2016:

- Direct engagement by senior management and the Non-Executive Chairman of the Board of Directors with the Company's largest stockholders to discuss issues of interest, including corporate governance, executive compensation, and corporate responsibility practices. These conversations are reported to the Board and are taken into consideration when reviewing and modifying governance and compensation practices and policies.
- Investor presentations conducted at analyst meetings and investor conferences across the U.S., Canada, and Europe.
- CEO, Chief Financial Officer ("CFO"), and other senior management meetings and conference calls with stockholders to discuss corporate strategy, financial and business performance, and to update stockholders on key developments.
- Investors are invited to listen to Webcasts of the Annual Meeting and quarterly earnings conference calls, and to view the annual report, news releases, Securities and Exchange Commission ("SEC") filings, and other significant corporate publications on our Website.
- The opportunity to attend and voice opinions at our Annual Meeting.
- The ability for stockholders to submit stockholder proposals and director nominees, and to formally nominate director candidates using proxy access under our bylaws.
- Annual election of directors, who are elected by majority vote in uncontested elections.

- Annual advisory vote on our executive compensation program (“say-on-pay”).
- Strong Board committee structure which allows the Board to focus on issues that matter most to our stockholders, including consideration of previous stockholder votes on say-on-pay, director elections, and other matters when developing policies and practices.
- Process for stockholders to directly correspond with individual directors via the Corporate Secretary (page P-21).

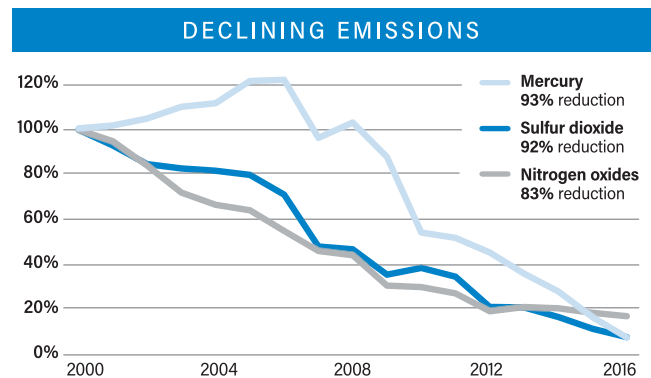
ENVIRONMENTAL AND SOCIAL PERFORMANCE

BALANCING RELIABILITY AND CUSTOMER COSTS WITH ENVIRONMENTAL STEWARDSHIP

While providing safe, reliable, and affordable energy to customers is a responsibility WEC Energy Group takes seriously, we also are focused on our responsibility and commitment to protecting the environment.

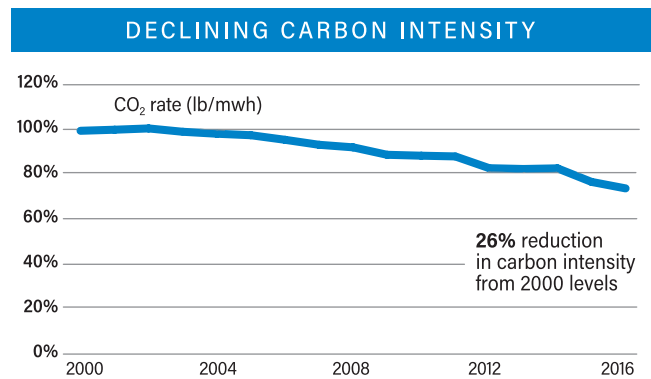
SUPPORTING A CLEAN ENERGY FUTURE

For more than a decade, WEC Energy Group has implemented a multi-emission strategy to achieve greater environmental benefit for lower cost. The diagram to the right illustrates that, since 2000, nitrogen oxide emissions are down more than 80%, while mercury and sulfur dioxide emissions are down more than 90%.



REDUCING GREENHOUSE GAS EMISSIONS

Addressing climate change is an integral component of our strategic planning process. We will continue to reshape our portfolio of electric generation facilities with investments that are cost effective for our customers, preserve fuel diversity, and will improve our environmental performance, including reduced greenhouse gas (GHG) intensity of our operating fleet. Our plan is to work with industry partners, environmental groups, and the state of Wisconsin with a goal of reducing CO₂ emissions from the Company-owned fossil-fueled electric generating fleet by approximately 40% below 2005 levels by 2030.



The diagram to the right illustrates the progress we have made in reducing our carbon intensity since 2000.

LONG-STANDING ATTENTION TO SOCIAL PERFORMANCE

Social performance is a way to measure how a company manages relationships with its employees, suppliers, customers, and the communities where it operates. Since 2004, WEC Energy Group has strategically linked management annual incentive compensation to operational goals that include the following social performance measures: employee safety, customer satisfaction, and supplier and workforce diversity.

To learn more about the Company’s corporate responsibility efforts, please view our Corporate Responsibility Report which is posted to the Company’s Website at www.wecenergygroup.com/csr.

BOARD OF DIRECTORS

BOARD LEADERSHIP

Is the office of CEO combined with the office of Chairman of the Board?

Effective May 1, 2016, the office of CEO was separated from the office of Chairman of the Board. Gale Klappa serves as Non-Executive Chairman, and Allen Leverett serves as CEO. Consistent with WEC Energy Group's bylaws and our Corporate Governance Guidelines, the Board retains the right to exercise its discretion in combining or separating the offices of Chief Executive Officer and Chairman of the Board.

Does the Board have an independent lead or presiding director?

Yes. Director Bowles, an independent director and Chair of the Corporate Governance Committee, currently serves as presiding director. In that role, Director Bowles:

- Presides at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors;
- Serves as liaison between the CEO and the independent directors under most circumstances, although each individual director has full access to the CEO;
- Has authority to call meetings of the independent directors;
- Reviews and provides input to meeting agendas for the Board and its Committees;
- Reviews meeting schedules to assure there is sufficient time for discussion of all agenda items;
- Reviews all proposed changes to committee charters; and
- Leads the annual Board evaluation.

Do the non-management directors meet separately from management?

Yes. At every regularly scheduled Board meeting, executive sessions are scheduled for the non-management directors only and for the independent directors only. With the exception of Gale Klappa, all non-management directors are independent.

Are directors subject to term limits?

The Board does not believe it is appropriate or necessary to limit the number of terms a director may serve. The Board values the participation and insight of directors who have developed an increased understanding of the governance of the Company and the specific issues it faces doing business in a complex industry, as well as those directors who bring fresh and varied perspectives. Therefore, the Board is comprised of members with diverse backgrounds and tenure.

The Corporate Governance Committee annually evaluates each director nominee to confirm that he or she has the skills, education, experience, and qualifications required to help further the success of the Company's business and represent stockholder interests.

How can interested parties contact the members of the Board?

Correspondence may be sent to the directors, including the non-management directors, in care of the Corporate Secretary, Susan H. Martin, at the Company's principal business office, 231 West Michigan Street, PO Box 1331, Milwaukee, Wisconsin 53201.

All communications received as set forth above will be opened by the Corporate Secretary for the sole purpose of confirming the contents represent a message to the Company's directors. Pursuant to instructions from the Board of Directors, all communication, other than advertising, promotion of a product or service, or patently offensive material, will be forwarded promptly to the addressee.

BOARD INDEPENDENCE

How are directors determined to be independent?

No director qualifies as independent unless the Board affirmatively determines that the director has no material relationship with the Company. The Corporate Governance Guidelines provide that the Board should consist of at least a two-thirds majority of independent directors.

What are the Board's standards of independence?

The guidelines the Board uses in determining director independence are located in Appendix A of the Corporate Governance Guidelines. These standards of independence, which are summarized below, include those established by the New York Stock Exchange as well as a series of standards that are more comprehensive than New York Stock Exchange requirements. A director will be considered independent by the Board if the director:

- has not been an employee of the Company for the last five years;
- has not received, in the past three years, more than \$120,000 per year in direct compensation from the Company, other than director fees or deferred compensation for prior service;
- is not a current partner or employee of a firm that is the Company's internal or external auditor, was not within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time, has no immediate family member who is a current partner of such a firm, or has no immediate family member who is a current employee of such a firm and personally works on the Company's audit;
- has not been an executive officer, in the past three years, of another company where any of the Company's present executives at the same time serves or served on that other company's compensation committee;
- in the past three years, has not been an employee of a company that makes payments to, or receives payments from, the Company for property or services in an amount which in any single fiscal year is the greater of \$1 million or 2% of such other company's consolidated gross revenues;
- has not received, during the current calendar year or the immediately preceding calendar year, remuneration, other than de minimus remuneration, as a result of services as, or being affiliated with an entity that serves as, an advisor, consultant, or legal counsel to the Company or to a member of the Company's senior management, or a significant supplier of the Company;
- has no personal service contract(s) with the Company or any member of the Company's senior management;
- is not an employee or officer with a not-for-profit entity that receives 5% or more of its total annual charitable awards from the Company;
- is not employed by a public company at which an executive officer of the Company serves as a director; and
- does not have any beneficial ownership interest of 5% or more in an entity that has received remuneration, other than de minimus remuneration, from the Company, our subsidiaries or affiliates.

The Board also considers whether a director's immediate family members meet the above criteria, as well as whether a director has any relationships with WEC Energy Group's affiliates for certain of the above criteria, when determining the director's independence.

Who are the independent directors?

The Board has affirmatively determined that Directors Bergstrom, Bowles, Brodsky, Budney, Chadwick, Culver, Fischer, Jones, Knueppel, Payne, and Stanek have no relationships described in the Board's standards of independence noted above and otherwise have no material relationships with WEC Energy Group and are independent. Director Leverett is not independent due to his employment with WEC Energy Group. Director Klappa is not independent due to his prior employment with WEC Energy Group.

Since 2005, WEC Energy Group has engaged Baird Financial Group primarily to provide consulting services for investments held in the Company's various benefit plan trusts. The Board reviewed the terms of this engagement, including the approximately \$588,000 in fees paid to Baird in 2016 (which are less than one-tenth of 1% of Baird's total revenue), and Ms. Stanek's position at Baird, and concluded that such engagement is not material and did not impact Ms. Stanek's independence.

BOARD COMMITTEES

What are the committees of the Board?

The Board of Directors has the following committees: Audit and Oversight, Compensation, Corporate Governance, Finance, and Executive. All committees, except the Executive Committee, operate under a charter approved by the Board. The members and the responsibilities of each committee are listed on page P-32 of this proxy statement under the heading "Committees of the Board of Directors."

Does the Board have a nominating committee?

Yes. The Corporate Governance Committee is responsible for, among other things, identifying and evaluating director nominees. The chair of the Corporate Governance Committee coordinates this effort.

Are the Audit and Oversight, Corporate Governance, and Compensation Committees comprised solely of independent directors?

Yes. These committees are comprised solely of independent directors, as determined under New York Stock Exchange rules and the Board's Corporate Governance Guidelines.

In addition, the Board has determined that each member of the Audit and Oversight Committee and of the Compensation Committee is independent under the rules of the New York Stock Exchange applicable to audit committee and compensation committee members, respectively. The Audit and Oversight Committee is a separately designated committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended.

Are all the members of the Audit Committee financially literate and does the committee have an "audit committee financial expert?"

Yes. The Board has determined that all of the members of the Audit and Oversight Committee are financially literate as required by New York Stock Exchange rules and qualify as audit committee financial experts within the meaning of SEC rules.

How does the Compensation Committee administer the executive and director compensation programs?

One of the principal responsibilities of the Compensation Committee is to provide competitive, performance-based executive and director compensation programs.

With respect to the executive compensation program, the Compensation Committee's responsibilities include:

- determining and annually reviewing the Compensation Committee's compensation philosophy;
- reviewing and determining the compensation paid to executive officers (including base salaries, incentive compensation, and benefits);
- overseeing the compensation and benefits to be paid to other officers and key employees;
- establishing and administering the CEO compensation package; and
- reviewing the results of the most recent stockholder advisory vote on compensation of the NEOs.

The Compensation Committee is also charged with administering the compensation package of WEC Energy Group's non-management directors. The Compensation Committee meets with the Corporate Governance Committee annually to review the compensation package of WEC Energy Group's non-management directors and to determine the appropriate amount of such compensation.

The Compensation Committee, which has authority to retain advisers, including compensation consultants, at WEC Energy Group's expense, retained Frederic Cook to analyze and help develop the Company's executive compensation program, and to assess whether the compensation program is competitive and supports the Committee's objectives. Frederic Cook also assesses and provides recommendations on non-management director compensation, as discussed in more detail on page P-33.

Frederic Cook is engaged solely by the Compensation Committee to provide executive compensation consulting services, and does not provide any additional services to the Company. In connection with its retention of Frederic Cook, the Compensation Committee reviewed Frederic Cook's independence including: (1) the amount of fees received by Frederic

Cook from WEC Energy Group as a percentage of Frederic Cook's total revenue; (2) Frederic Cook's policies and procedures designed to prevent conflicts of interest; and (3) the existence of any business or personal relationships that could impact independence. After reviewing these and other factors, the Compensation Committee determined that Frederic Cook is independent and the engagement did not present any conflicts of interest. Frederic Cook also determined that it was independent from the Company's management, which was confirmed in a written statement delivered to the Compensation Committee.

For more information regarding our executive and director compensation processes and procedures, please refer to "Compensation Discussion and Analysis" beginning on page P-39 and to "Director Compensation" beginning on page P-33, respectively.

PERFORMANCE EVALUATIONS

Does the Board evaluate CEO performance?

Yes. The Compensation Committee, on behalf of the Board, annually evaluates the performance of the CEO and reports the results to the Board. As part of this practice, the Compensation Committee obtains from each non-management director his or her input on the CEO's performance, which input is then discussed in executive session with all non-management directors.

The CEO is evaluated in a number of areas including leadership, vision, financial stewardship, strategy development, management development, effective communication with constituencies, demonstrated integrity, and effective representation of the Company in community and industry affairs. The Chair of the Compensation Committee shares the evaluation results with the CEO. The process is also used by the Compensation Committee to determine appropriate compensation for the CEO. This procedure allows the Board to evaluate the CEO and to communicate the Board's expectations.

Does the Board evaluate its own performance?

Yes. The Board annually evaluates its own performance. Each director is asked to consider the performance of the Board on such things as: (1) establishing appropriate corporate governance practices; (2) providing appropriate oversight for key affairs of the Company (including its strategic plans, long-range goals, financial and operating performance, risks to the enterprise, and customer satisfaction initiatives); (3) communicating the Board's expectations and concerns to the CEO; (4) overseeing opportunities critical to the Company; and (5) operating in a manner that ensures open communication, candid and constructive dialogue, as well as critical questioning. The Corporate Governance Committee uses the results of this process as part of its annual review of the Corporate Governance Guidelines and to foster continuous improvement of the Board's activities.

Is Board committee performance evaluated?

Yes. Each committee, except the Executive Committee, conducts an annual performance evaluation of its own activities and reports the results to the Board. The evaluation compares the performance of each committee with the requirements of its charter. The results of the annual evaluations are used by each committee to identify both its strengths and areas where its governance practices can be improved. Each committee may adjust its charter, with Board approval, based on the evaluation results.

RISK OVERSIGHT

What is the Board's role in risk oversight?

The Board oversees the Company's risk environment and has delegated specific risk monitoring responsibilities to the Audit and Oversight Committee and the Finance Committee as described in each committee's charter. Both of these committees routinely report back to the Board. The Board and its committees also receive regular briefings from management on specific areas of risk as well as emerging risks to the enterprise.

Over the course of the year, the Audit and Oversight Committee hears reports from management on the Company's major risk exposures in such areas as compliance, environmental, legal/litigation, technology security (cybersecurity), and ethical conduct, as well as steps taken to monitor and control such exposures. The Finance Committee discusses the Company's risk assessment and risk management policies; it also provides oversight of insurance matters to ensure that

its risk management program is functioning properly. Both committees have direct access to, and meet as needed with, Company representatives without other management present to discuss matters related to risk management.

The CEO, who is ultimately responsible for managing risk, routinely reports to the Board on risk-related matters. As part of this process, the business unit leaders identify existing, new, or emerging issues or changes within their business areas that could have enterprise implications and report them to senior management. Management is tasked with ensuring that these risks and opportunities are appropriately addressed. The Company has established an Enterprise Risk Steering Committee, comprised of senior level management employees, whose purpose is to foster an enterprise-wide approach to managing risk and compliance. The results of each of these risk-management efforts are reported to the CEO and to the Board or its appropriate committee.

The Board believes that its leadership structure and enterprise risk management program support the risk oversight function of the Board.

STOCKHOLDER NOMINEES AND PROPOSALS

What is the process used to identify director nominees and how do I recommend a nominee to the Corporate Governance Committee?

Candidates for director nomination may be proposed by stockholders, the Corporate Governance Committee, and other members of the Board. The Corporate Governance Committee may pay a third party to identify qualified candidates; however, no such firm was engaged with respect to the nominees listed in this proxy statement. No formal stockholder nominations or recommendations for director candidates were received.

Stockholders wishing to propose director candidates for consideration and recommendation by the Corporate Governance Committee for election at the 2018 Annual Meeting of Stockholders must submit the candidates' names and qualifications to the Corporate Governance Committee no later than November 1, 2017, via the Corporate Secretary, Susan H. Martin, at the Company's principal business office, 231 West Michigan Street, PO Box 1331, Milwaukee, Wisconsin 53201. Stockholders may also propose director candidates for consideration and recommendation by the Board by following the guidelines outlined in the Company's bylaws and summarized on page P-23 of this proxy statement.

Does the Company have a proxy access bylaw?

Yes. Stockholders voted in favor of a non-binding proxy access bylaw proposal that was considered at the 2016 Annual Meeting of Stockholders. After this vote, the Company conducted an extensive evaluation that included feedback from (1) our top institutional investors, (2) proxy advisors, and (3) the proponent of the stockholder proposal. Based upon its evaluation and stockholder feedback, the Board adopted a proxy access bylaw in October 2016. The bylaw allows a stockholder (or a group of up to 20 stockholders) who own at least 3% of our stock for a period of three years the right to nominate candidates for up to the greater of 2 nominees or 20% of the Board.

What is the deadline for stockholders to submit proposals for the 2018 Annual Meeting of Stockholders?

Stockholders who intend to have a proposal considered for inclusion in the Company's proxy materials for presentation at the 2018 Annual Meeting of Stockholders must submit the proposal to the Company no later than November 23, 2017.

Stockholders who intend to present a proposal at the 2018 Annual Meeting of Stockholders without inclusion of such proposal in the Company's proxy materials, or who propose to nominate a person for election as a director at the 2018 Annual Meeting, are required to provide notice of such proposal or nomination, containing the information required by the Company's bylaws, to the Company at least 70 days and not more than 100 days prior to the scheduled date of the 2018 Annual Meeting of Stockholders. The 2018 Annual Meeting of Stockholders is tentatively scheduled for May 3, 2018.

Under our new proxy access bylaw, if a stockholder (or a group of up to 20 stockholders) who has owned at least 3% of our shares of common stock for at least three years and has complied with the other requirements set forth in the Company's bylaws wants us to include director nominees (up to the greater of two nominees or 20% of the Board) in our proxy statement for the 2018 Annual Meeting of Stockholders, the nominations must be received by our Corporate Secretary and must arrive at the Company in a timely manner, between 120 and 150 days prior to the anniversary of the date our proxy statement was first sent to stockholders in connection with our last annual meeting, which would be no earlier than October 24, 2017 and no later than November 23, 2017.

Correspondence in this regard should be directed to the Corporate Secretary, Susan H. Martin, at the Company's principal business office, 231 West Michigan Street, PO Box 1331, Milwaukee, Wisconsin 53201.

PROPOSAL 1: ELECTION OF DIRECTORS – TERMS EXPIRING IN 2018

WEC Energy Group's bylaws require each director to be elected annually to hold office for a one-year term. Because this is an uncontested election, our majority vote standard for election of directors will apply. Under this standard, the director nominees will be elected only if the number of votes cast favoring such nominee's election exceeds the number of votes cast opposing that nominee's election, as long as a quorum is present. Therefore, presuming a quorum is present, shares not voted, whether by broker non-vote, abstention, or otherwise, have no effect in the election of directors.

Proxies may not be voted for more than 13 persons in the election of directors.

The Board requires its current and potential directors to have a broad range of skills, education, experience, and qualifications that will benefit WEC Energy Group and our stockholders. Information regarding the specific criteria and processes used to evaluate director nominees can be found on page P-23.

The Board's nominees for election are:

- **John F. Bergstrom**
- **Patricia W. Chadwick**
- **Paul W. Jones**
- **Allen L. Leverett**
- **Barbara L. Bowles**
- **Curt S. Culver**
- **Gale E. Klappa**
- **Ulice Payne, Jr.**
- **William J. Brodsky**
- **Thomas J. Fischer**
- **Henry W. Kneuppel**
- **Mary Ellen Stanek**
- **Albert J. Budney, Jr.**

Each nominee has consented to being nominated and to serve if elected. In the unlikely event that any nominee becomes unable to serve for any reason, the proxies will be voted for a substitute nominee selected by the Board upon the recommendation of the Corporate Governance Committee of the Board. Information regarding each nominee is included on the following pages.

The Board of Directors recommends that you vote "FOR" all of the director nominees.

DIRECTOR NOMINEES

Criteria and Processes Used to Evaluate Nominees

The Corporate Governance Committee evaluates director nominees in the context of the Board as a whole with the goal of recommending nominees with diverse backgrounds and experience that, together, can best perpetuate the success of WEC Energy Group's business and represent stockholder interests. In addition to evaluating director nominees on the basis of the director candidate criteria, board diversity, and independence as described below, the Corporate Governance Committee has determined, through the Board succession planning process, that the Board should consist of candidates that collectively possess the following core competencies in order to effectively carry out its oversight function. Key core competencies, qualifications, and experience for each director are listed in their respective biographies under the heading "Nominees for Election to the Board of Directors."

Director Candidate Criteria. The Corporate Governance Committee has established criteria for evaluating director candidates, as set forth in the Company's Corporate Governance Guidelines, which include: proven integrity; mature and independent judgment; vision and imagination; ability to objectively appraise problems; ability to evaluate strategic options and risks; sound business experience and acumen; relevant technological, political, economic, or social/cultural expertise; social consciousness; achievement of prominence in career; familiarity with national and international issues affecting the Company's businesses; contribution to the Board's desired diversity and balance; and, in the case of new directors, availability to serve for five years before reaching the directors' retirement age of 72.



As stated in its charter, the Corporate Governance Committee reviews these criteria annually; in mid-2016, the Committee completed its review and had no recommended changes. In selecting the 2017 nominees for director, the Corporate Governance Committee determined that the candidates fulfill these criteria.

During 2016, Director Brodsky reached retirement age. The Corporate Governance Committee discussed this matter in January 2017 and agreed that Director Brodsky's long history living and working in, and deep knowledge of, the metro-Chicago area, as well as his strong strategic relationships, continue to provide special expertise to the Board that is critical to the successful operations of the Company's Illinois utilities. As a result, upon the recommendation of the Corporate Governance Committee, the Board of Directors approved Director Brodsky's continued service beyond age 72 and nominated him to continue serving as a director for a term expiring in 2018.

Board Diversity. The Corporate Governance Committee does not have a specific policy with regard to the consideration of diversity in identifying director nominees. However, the Corporate Governance Committee strives to recommend candidates who each bring a unique perspective to the Board in order to contribute to the collective diversity of the Board. As part of its process in connection with the nomination of directors to the Board, the Corporate Governance Committee considers several factors to ensure the entire Board collectively embraces a wide variety of characteristics, including professional background, experience, skills, and knowledge, as well as the criteria listed above. Each candidate will generally exhibit different and varying degrees of these characteristics. With respect to the Company's current slate of director nominees, the Company also benefits from the diversity inherent from differences in board member gender, ethnicity, tenure, and maturity as depicted on the infographic on page P-12.

Director Independence. Prior to nomination, both new and returning directors are evaluated to ensure compliance with the Board's standards of independence, as described in detail on page P-18. Additionally, the Corporate Governance Committee reviews potential conflicts of interest, including interlocking directorships and substantial business, civic, and/or social relationships with other members of the Board that could impair the prospective Board member's ability to act independently from the other Board members and management.

Director Nominee Evaluation Process. Once a person has been identified by the Corporate Governance Committee as a potential candidate, the Corporate Governance Committee may collect and review publicly available information regarding the person to assess whether that person should be considered further. If the Corporate Governance Committee determines that the candidate warrants further consideration, the chair or another member of the Board of Directors contacts the person. Generally, if the person expresses a willingness to be considered and to serve on the Board, the Corporate Governance Committee requests additional information from the candidate, reviews the person's accomplishments and qualifications, and conducts one or more interviews with the candidate. In certain instances, Corporate Governance Committee members may contact one or more references provided by the candidate or may contact other members of the business community or other persons who may have greater firsthand knowledge of the candidate's accomplishments.

The Corporate Governance Committee evaluates director candidates, including those proposed by stockholders, using this criteria and process. The process is designed to provide the Board with a diversity of experience and stability to allow it to effectively meet the many challenges WEC Energy Group faces in today's challenging economic environment.

Nominees for Election to the Board of Directors

The following 13 individuals have been nominated for election to the Board of Directors at the Annual Meeting. Biographical information for each director nominee is set forth below. Ages are as of January 19, 2017, the date each person was designated as a nominee of the Board for election at the Meeting.



John F. Bergstrom

Age: 70
Director Since: 1987
Board Committees: Audit and Oversight; Compensation (Chair); Executive
Core Competencies: CEO experience; Talent management and executive compensation; Business operations and customer service

- Bergstrom Corporation – Chairman and CEO since 1982. Bergstrom Corporation owns and operates numerous automobile sales and leasing companies.
- Director of Advance Auto Parts Inc. since 2008; Director of Associated Banc-Corp since 2010; Director of Kimberly-Clark Corporation since 1987.
- Director of WEC Energy Group since 1987; Director of Wisconsin Electric Power Company from 1985 to June 2015.

Specific qualifications and experience

Mr. Bergstrom brings to our Board of Directors 35 years of leadership experience as CEO of Bergstrom Corporation, one of the top 50 automotive dealership groups in America. With significant business operations in WEC Energy Group utilities' service territories and customer service perspective, Mr. Bergstrom brings strong insight with respect to the needs and concerns of WEC Energy Group's large retail customers, as well as perspective on the business environment in the State of Wisconsin, home to WEC Energy Group's corporate headquarters and our largest utility subsidiaries. His deep governance knowledge, which includes over 50 years of combined experience as a director on the boards of other publicly traded U.S. corporations and regional non-profit entities, including the Green Bay Packers, Inc., is particularly valuable to board and committee discussions focused on executive compensation and succession planning matters, as well as strategic planning initiatives. With a focus on excellence, Mr. Bergstrom has attained the National Association of Corporate Directors ("NACD") top designation of Board Leadership Fellow.



Barbara L. Bowles

Age: 69
Director Since: 1998
Board Committees: Audit and Oversight; Corporate Governance (Chair); Executive
WEC Board: Presiding Director
Core Competencies: Corporate governance; Financial strategy and investment management; Risk assessment

- Profit Investment Management – Retired Vice Chair. Served as Vice Chair from January 2006 until retirement in December 2007. Profit Investment Management is an investment advisory firm.
- The Kenwood Group, Inc. – Retired Chairman. Served as Chairman from 2000 until 2006 when The Kenwood Group, Inc. merged into Profit Investment Management. CEO from 1989 to 2005.
- Director of Hospira, Inc. from 2008 to 2015.
- Director of WEC Energy Group since 1998; Director of Wisconsin Electric Power Company from 1998 to June 2015.

Specific qualifications and experience

As founder, CEO, and retired Chairman of The Kenwood Group, Inc., a Chicago-based investment advisory firm that managed pension funds for corporations, public institutions, and endowments, Ms. Bowles, who is a Chartered Financial Analyst, brings over 20 years of investment advisory experience to our Board of Directors. Having also served as a portfolio manager and utility analyst for more than 10 years, and as a chief investor relations officer for two Fortune 50 companies, she contributes valuable perspective as to what issues are important to large investors. In the role of Chief Compliance Officer of Profit Investment Management, Ms. Bowles gained a deep understanding of corporate governance issues and concerns, experience she applies to her positions as Chair of WEC Energy Group's Corporate Governance Committee and independent presiding director. She also contributes valuable risk management and financial reporting insights as a member of the Audit and Oversight Committee, expertise she developed from current and past service as a director on the boards of several other public companies where she has served on the audit and finance committees. With utility subsidiaries located in Chicago, the Board of Directors also benefits from the economic and political perspectives Ms. Bowles provides as a result of her involvement in several important non-profit organizations in Chicago.



William J. Brodsky

Age: 72
Director Since: 2015
Board Committee: Finance
Core Competencies: CEO experience; Financial strategy and investment management; Regulated industry

- CBOE Holdings, Inc. – Chairman of the Board from May 2014 to February 28, 2017. Served as Executive Chairman from 2013 to May 2014 and Chairman and CEO from 2010 to 2013. CBOE Holdings, Inc. is the holding company for the Chicago Board Options Exchange, an exchange that focuses on options contracts for individual equities, indexes, and volatility (VIX), and CBOE Futures Exchange which offers volatility futures.
- The Chicago Board Options Exchange – Chairman of the Board from May 2014 to February 28, 2017. Served as Executive Chairman from 2013 to May 2014 and Chairman and CEO from 1997 to 2013.
- Chairman of Cedar Street Asset Management LLC since 2016. Cedar Street Asset Management LLC is a Chicago-based portfolio management firm that specializes in investments in international equities.
- Director of WEC Energy Group since June 2015; Director of Integrys Energy Group from February 2007 to June 2015.

Specific qualifications and experience

Mr. Brodsky brings to our Board of Directors extensive finance, regulatory, and business management experience gained from nearly 35 years of combined service as CEO of The Chicago Board Options Exchange, CBOE Holdings, Inc., and the Chicago Mercantile Exchange. His over 40 years of experience in the financial markets industry, and recognition as a leading industry advocate in options market policy and regulation, is particularly valuable in his service on the WEC Energy Group Finance Committee where he can apply his keen insights to the Company's financial strategy and investment management matters.

Mr. Brodsky's extensive knowledge of the economic and governmental challenges as well as policy issues facing a public company doing business in Illinois is of great value to the Board, as is his extensive past and present experience serving on the boards of numerous highly-visible not-for-profit organizations in the metro Chicago area.



Albert J. Budney, Jr.

Age: 69
Director Since: 2015
Board Committee: Corporate Governance
Core Competencies: Regulated industry; Business operations and customer service; Corporate governance

- Niagara Mohawk Holdings, Inc. – Retired President and Director. Niagara Mohawk Holdings, Inc. a holding company that distributes electricity in areas of New York through its utility subsidiaries.
- Director of WEC Energy Group since June 2015; Director of Integrys Energy Group from February 2007 to June 2015.

Specific qualifications and experience

With over 40 years of utility experience in senior leadership positions, Mr. Budney brings to our Board of Directors extensive knowledge in managing the operations of a utility company and the complexities that arise from operating in a highly-regulated industry. He has acquired considerable board experience in utility industry mergers and acquisitions having served as a director of Niagara Mohawk Holdings when it was acquired by National Grid, as well as serving as a director of WPS Resources Corporation when it purchased Peoples Energy Corporation and changed its name to Integrys Energy Group, and has since been acquired by WEC Energy Group. He also brings to the Board a broad knowledge in governance, customer service, and corporate management matters, most recently having served as both the Chair of the Corporate Governance Committee and lead director of Integrys Energy.



Patricia W. Chadwick

Age: 68
Director Since: 2006
Board Committees: Audit and Oversight; Finance
Core Competencies: Financial strategy and investment management; Accounting/auditing oversight and financial reporting; Strategic planning

- Ravengate Partners, LLC – President since 1999. Ravengate Partners, LLC provides businesses and not-for-profit institutions with advice about the financial markets, business management, and global economics.
- Director of AMICA Mutual Insurance Company since 1992; Director of VOYA Mutual Funds (previously ING Mutual Funds) since 2006; Director of The Royce Funds since 2009.
- Director of WEC Energy Group since 2006; Director of Wisconsin Electric Power Company from 2006 to June 2015.

Specific qualifications and experience

Ms. Chadwick, who is a Chartered Financial Analyst, brings to our Board of Directors extensive investment management expertise gained from 30 years of experience as an investment professional/portfolio manager or principal. As founder and President of Ravengate Partners, a firm that has been educating and advising businesses and not-for-profit institutions about the financial markets, independent research, and global economic activity since 1999, Ms. Chadwick's insights into what the investment industry is thinking and discussing is of great value to the Board as it contemplates its financial plan and strategy. Her knowledge on capital markets is particularly helpful to WEC Energy Group and its subsidiaries which operate in a capital-intensive industry and must consistently access the capital markets. Ms. Chadwick serves as a director on the boards of two registered investment companies, VOYA Mutual Funds and The Royce Funds, which afford her a perspective on current issues and concerns of today's investors, and she is a board director and Finance Committee member of AMICA Mutual Insurance Company, where she has gained a deep understanding of insurance risk management matters; she applies these to her role on the WEC Energy Group Finance Committee.



Curt S. Culver

Age: 64
Director Since: 2004
Board Committees: Corporate Governance; Finance (Chair)
Core Competencies: CEO experience; Corporate governance; Talent management and executive compensation

- MGIC Investment Corporation – Non-executive Chairman of the Board since March 2015. Served as Chairman from 2005 to February 2015, CEO from 2000 to February 2015, and President from 1999 to 2006. MGIC Investment Corporation is the parent of Mortgage Guaranty Insurance Corporation.
- Mortgage Guaranty Insurance Corporation – Non-executive Chairman of the Board since March 2015. Served as Chairman from 2005 to February 2015, CEO from 1999 to February 2015, and President from 1996 to 2006. Mortgage Guaranty Insurance Corporation is a private mortgage insurance company.
- Director of MGIC Investment Corporation since 1999.
- Director of WEC Energy Group since 2004; Director of Wisconsin Electric Power Company from 2004 to June 2015.

Specific qualifications and experience

Having served for 15 years as the CEO of Mortgage Guaranty Insurance Corporation and its parent company, MGIC Investment Corporation, Mr. Culver brings to our board of directors a strong working knowledge of the strategic, economic, and compliance issues facing a large publicly-traded company headquartered in Milwaukee, Wisconsin. As chair of the Finance Committee, he provides expertise in the financial markets and risk assessment and management; his experience in the insurance industry also puts him in a position to advise on the Company's insurance program and its effect on overall risk management. Mr. Culver's broad corporate governance experience from his extensive past and present service on the boards of several highly-visible Milwaukee-area non-profit entities and two private for-profit organizations is of great value to the Board.



Thomas J. Fischer

Age: 69
Director Since: 2005
Board Committees: Audit and Oversight (Chair); Compensation; Executive
Core Competencies: Accounting/auditing oversight and financial reporting; Regulated industry; Strategic planning

- Fischer Financial Consulting LLC – Principal since 2002. Fischer Financial Consulting LLC provides consulting on corporate financial, accounting, and governance matters.
- Director of Badger Meter, Inc. since 2003; Director of Regal Beloit Corporation since 2004.
- Director of Actuant Corporation from 2003 to January 2017.
- Director of WEC Energy Group since 2005; Director of Wisconsin Electric Power Company from 2005 to June 2015.

Specific qualifications and experience

Mr. Fischer provides our Board of Directors with significant expertise in accounting and auditing matters, including financial reporting and regulatory compliance, risk assessment and management, and corporate governance issues. His experience in these areas comes from 33 years of work at Arthur Andersen, a large, international independent accounting firm, where for 22 years, he served as a partner responsible for services provided to large, complex public and private companies and several public utility audits. Since 2002, Mr. Fischer has provided consulting services to companies in the areas of corporate financial, accounting, and governance matters. Mr. Fischer, who is a Certified Public Accountant, brings extensive knowledge and experience to his responsibilities as WEC Energy Group's Audit and Oversight Committee Chair as a result of his past and present service on several other audit committees at public companies based in Wisconsin. His significant expertise is invaluable to WEC Energy Group's Board as it navigates a complex and evolving regulatory compliance landscape.



Paul W. Jones

Age: 68
Director Since: 2015
Board Committee: Audit and Oversight
Core Competencies: Strategic planning; Business operations and customer service; Corporate governance

- A.O. Smith Corporation – Retired Executive Chairman and CEO. A.O. Smith Corporation is a leading manufacturer of residential and commercial water heaters and boilers.
- Rexnord Corporation – Non-executive Chairman since 2015. Director since 2014.
- Director of Federal Signal Corporation since 1998; Director of A.O. Smith Corporation since 2004.
- Director of WEC Energy Group since June 2015; Director of Integrys Energy Group from 2011 to June 2015.

Specific qualifications and experience

Having held leadership positions at A.O. Smith Corporation, U.S. Can Company, Inc., and Greenfield Industries, Mr. Jones brings to our Board of Directors over 25 years of senior and executive management experience in managing business operations for large retail and industrial entities. As the retired executive Chairman and CEO of A.O. Smith Corporation, a large, publicly traded company that is also headquartered in Milwaukee, Wisconsin, he has an understanding of the customer base and an appreciation for the economic issues facing the Company with our headquarters in Milwaukee. Mr. Jones previously served on the board of directors of the Milwaukee-based Bucyrus International, Inc., prior to its acquisition by Caterpillar, Inc., where he gained perspective on the concerns of an energy-intensive utility customer located in one of the Company's largest service territories. Mr. Jones is also one of three former Integrys Energy Group board members elected to the WEC Energy Group Board following its acquisition of Integrys, and therefore, provides helpful perspective on the utility subsidiaries that were acquired. With close to 20 years of service as a public company board director, including rotations as committee chair of the governance and nominating, finance, and compensation committees, as well as his current role as non-executive chairman of Rexnord Corporation, Mr. Jones contributes a deep understanding of corporate governance practices.



Gale E. Klappa

Age: 66
Director Since: 2003
Board Committee: Executive (Chair)
Core Competencies: CEO experience; Regulated industry; Financial strategy and investment management

- WEC Energy Group, Inc. – Non-Executive Chairman of the Board since May 2016; Chairman of the Board and CEO from 2004 to May 2016; President from 2003 to August 2013.
- Wisconsin Electric Power Company – Chairman of the Board from 2004 to May 2016; CEO from 2003 to May 2016; President from 2003 to June 2015.
- Director of Associated Banc-Corp since 2016; Director of Badger Meter, Inc. since 2010; Director of Joy Global Inc. since 2006.
- Director of WEC Energy Group since 2003; Director of Wisconsin Electric Power Company from 2003 to May 2016.
- Director of The Peoples Gas Light and Coke Company, a public utility subsidiary of WEC Energy Group located in Chicago, Illinois, since June 2015.

Specific qualifications and experience

Mr. Klappa has more than 40 years of experience working in the public utility industry, the last 24 at a senior executive level. He retired as the Company's CEO in May 2016, at which time he transitioned to his current role as Non-Executive Chairman of the Board. Under his leadership, the Company successfully completed its 2015 acquisition of Integrys Energy Group. Prior to joining the Company in 2003, Mr. Klappa served in various executive leadership roles at The Southern Company, a public utility holding company serving the southeastern United States. With his extensive experience in the business operations and C-suite leadership of publicly regulated utilities, his service as a board member for three other public companies, and his contributions to significant economic development initiatives in southeastern Wisconsin, Mr. Klappa leads the Board with a deep understanding of the financial investment decisions and public policy issues facing large public companies in the utility sector.



Henry W. Kneuppel

Age: 68
Director Since: 2013
Board Committees: Audit and Oversight; Corporate Governance
Core Competencies: CEO experience; Business operations and customer service; Corporate governance

- Regal Beloit Corporation – Retired Chairman of the Board and CEO. Served as CEO from 2005 to 2011 and as Chairman from 2006 to 2011. Regal Beloit Corporation is a leading manufacturer of electric motors, mechanical and electrical motion controls, and power generation products.
- Harsco Corporation – Independent, Non-Executive Chairman of the Board from September 2012 until September 2014. Served as Interim Chairman and CEO from February 2012 to September 2012. Director from 2008 to April 2016. Harsco Corporation is a diversified, worldwide industrial services company.
- Director of Regal Beloit Corporation since 1987; Director of Snap-on Incorporated since 2011.
- Director of WEC Energy Group since 2013; Director of Wisconsin Electric Power Company from 2013 to June 2015.

Specific qualifications and experience

With more than 30 years of senior management experience at Regal Beloit Corporation, including five years as the combined Chairman of the Board and CEO, Mr. Kneuppel brings extensive executive management experience to our Board of Directors. Regal Beloit Corporation is a Wisconsin-based manufacturer of electrical motors, mechanical and electrical motion controls, and power generation products, which gives Mr. Kneuppel knowledge of equipment used in the Company's operations. He currently serves on the boards of several large, publicly-traded industrial companies and provides the Board with perspective on operational and customer service matters the Company faces with our large commercial and industrial customers. Mr. Kneuppel also brings to the Board a wide range of knowledge and experience in board governance, having served for more than 30 years as a director for several publicly-traded companies, including his role as the independent, non-executive chairman of the board of Harsco Corporation.



Allen L. Leverett

Age: 50
Director Since: 2016
Board Committee: Executive
Core Competencies: Regulated industry; Risk assessment; CEO experience

- WEC Energy Group, Inc. – CEO since May 2016; President since August 2013; Executive Vice President from 2004 to July 2013; Chief Financial Officer ("CFO") from 2003 until 2011. Mr. Leverett also served as the principal executive officer of WEC Energy Group's generation operations from 2011 to May 2016.
- Wisconsin Electric Power Company – Chairman of the Board and CEO since May 2016; President from June 2015 to May 2016; Executive Vice President from 2004 until June 2015; CFO from 2003 until 2011.
- Director of WEC Energy Group since January 2016; Director of Wisconsin Electric Power Company since June 2015.
- Mr. Leverett also serves as an executive officer and/or director of several other major subsidiaries of WEC Energy Group.

Specific qualifications and experience

Having worked in the public utility industry for nearly 25 years, Mr. Leverett has developed a deep understanding of the complexities of the Company's industry, operations, and regulatory environment, while having built extensive leadership experience. Prior to joining the Company, Mr. Leverett served in executive positions at Georgia Power and Southern Company Services, where he held overall responsibility for financial planning and analysis, capital markets and leasing, treasury, and investor relations. He joined the Company in 2003 as CFO and has proceeded to hold numerous executive positions, including CEO of the Company's power generation group, with overall responsibility for electric generation fleet operations and planning, fuel procurement, environmental compliance, and renewable energy development strategy. Since May 1, 2016, Mr. Leverett has served as CEO of WEC Energy Group, adding to his roles as President and Director. Mr. Leverett's experience and insights in running a regulated public company are critical to the Board as it carries out its oversight of the Company's risk environment.



Ulice Payne, Jr.

Age: 61
Director Since: 2003
Board Committees: Compensation; Executive; Finance
Core Competencies: Risk assessment; Business operations and customer service; Governmental, legal, public policy, and community relations

- Addison-Clifton, LLC – Managing Member since 2004. Addison-Clifton, LLC provides global trade compliance advisory services.
- Director of Foot Locker, Inc. since December 2016; Director of Manpower Group since 2007; Trustee of The Northwestern Mutual Life Insurance Company since 2005.
- Director of WEC Energy Group since 2003; Director of Wisconsin Electric Power Company from 2003 to June 2015.

Specific qualifications and experience

Mr. Payne brings to our Board of Directors strong business leadership experience within the local Milwaukee community and state of Wisconsin, previously serving in roles that included the Securities Commissioner for the state of Wisconsin, managing partner of the Milwaukee law office of Foley & Lardner, and president and CEO of the Milwaukee Brewers Baseball Club, Inc. In addition, Mr. Payne is and has been involved in numerous Milwaukee-area non-profit entities, making him well-positioned to provide the Board with perspective on the economic and social issues affecting the greater Milwaukee area as well as a broad spectrum of the Company's customers. As founder and President of Addison-Clifton, LLC, which provides global trade compliance consulting, Mr. Payne understands the importance of providing clients with exceptional customer service, a focus that is critical to execution of WEC Energy Group's strategic initiatives. Mr. Payne also contributes valuable financial and risk assessment insights gained throughout his career, including from his past and present service on the boards of several public companies.



Mary Ellen Stanek

Age: 60

Director Since: 2012

Board Committee: Finance

Core Competencies: Financial strategy and investment management; Risk assessment; Governmental, legal, public policy, and community relations

- Baird Financial Group – Managing Director and Director of Asset Management since 2000. Baird Financial Group provides wealth management, capital markets, private equity, and asset management services to clients worldwide.
- Baird Advisors – Chief Investment Officer since 2000. Baird Advisors is an institutional fixed income investment advisor.
- Baird Funds, Inc. – President since 2000. Baird Funds is a publicly registered investment company.
- Trustee of The Northwestern Mutual Life Insurance Company since 2009.
- Director of Journal Media Group, Inc. and its predecessor companies from 2002 to April 2016.
- Director of WEC Energy Group since 2012; Director of Wisconsin Electric Power Company from 2012 to June 2015.

Specific qualifications and experience

Ms. Stanek, who is a Chartered Financial Analyst, brings to our Board of Directors her extensive financial and investment strategy expertise, resulting from over 35 years of investment management experience. As Managing Director and Director of Asset Management of Baird Financial Group, a position she has held since 2000, Ms. Stanek's expertise in fixed income investments provides the Board and management with invaluable financial strategy insight relative to WEC Energy Group and its subsidiaries, which customarily issue debt securities as a means of raising capital. As a member of the WEC Energy Group Finance Committee, she also offers valuable perspective on insurance risk matters, having served for 15 years as a director of West Bend Mutual Insurance Company. In addition to her recognition as a leader in Milwaukee's financial community, Ms. Stanek has dedicated significant time to serving on the boards of a large number of Milwaukee-area non-profit organizations, through which she has developed strong relationships with key community leaders and stakeholders. From these experiences, she brings the Board insightful perspectives on issues impacting the culture and viability of the workforce, as well as customer concerns.

COMMITTEES OF THE BOARD OF DIRECTORS

Members	Principal Responsibilities; Meetings
<p>Audit and Oversight</p> <p>Thomas J. Fischer, Chair John F. Bergstrom Barbara L. Bowles Patricia W. Chadwick Paul W. Jones Henry W. Knueppel</p>	<ul style="list-style-type: none"> • Oversee the integrity of the financial statements. • Oversee management compliance with legal and regulatory requirements. • Review, approve, and evaluate the independent auditors' services. • Oversee the performance of the internal audit function and independent auditors. • Discuss risk management and major risk exposures and steps taken to monitor and control such exposures. • Prepare the report required by the SEC for inclusion in the proxy statement. • Establish procedures for the submission of complaints and concerns regarding WEC Energy Group's accounting or auditing matters. • The Audit and Oversight Committee conducted six meetings in 2016.
<p>Compensation</p> <p>John F. Bergstrom, Chair Thomas J. Fischer Ulice Payne, Jr.</p>	<ul style="list-style-type: none"> • Identify through succession planning potential executive officers. • Provide competitive, performance-based executive and director compensation programs. • Set performance goals for the CEO, annually evaluate the CEO's performance against such goals, and determine compensation adjustments based on whether these goals have been achieved. • Prepare the report required by the SEC for inclusion in the proxy statement. • The Compensation Committee conducted seven meetings in 2016 and executed two written unanimous consents.
<p>Corporate Governance</p> <p>Barbara L. Bowles, Chair Albert J. Budney, Jr. Curt S. Culver Henry W. Knueppel</p>	<ul style="list-style-type: none"> • Establish and annually review the Corporate Governance Guidelines to verify that the Board is effectively performing its fiduciary responsibilities to stockholders. • Establish and annually review director candidate selection criteria. • Identify and recommend candidates to be named as nominees of the Board for election as directors. • Lead the Board in its annual review of the Board's performance. • The Corporate Governance Committee conducted three meetings in 2016 and executed one written unanimous consent.
<p>Finance</p> <p>Curt S. Culver, Chair William J. Brodsky Patricia W. Chadwick Ulice Payne, Jr. Mary Ellen Stanek</p>	<ul style="list-style-type: none"> • Review and monitor the Company's current and long-range financial policies and strategies, including our capital structure and dividend policy. • Authorize the issuance of corporate debt within limits set by the Board. • Discuss policies with respect to risk assessment and risk management. • Approve the Company's financial plan, including the capital budget. • The Finance Committee conducted four meetings in 2016 and executed one written unanimous consent.

Executive Committee. The Board also has an Executive Committee which may exercise all powers vested in the Board except action regarding dividends or other distributions to stockholders, filling Board vacancies, and other powers which by law may not be delegated to a committee or actions reserved for a committee comprised of independent directors. The members of the Executive Committee are Gale E. Klappa (Chair), John F. Bergstrom, Barbara L. Bowles, Thomas J. Fischer, Allen L. Leverett, and Ulice Payne, Jr. The Executive Committee did not meet in 2016.

In addition to the number of committee meetings listed in the preceding table, the Board met eight times in 2016 and executed six signed, written unanimous consents. The average meeting attendance during the year was over 95%. All directors attended more than 75% of the total number of meetings of the Board and Board committees on which he or she served.

Generally, all directors are expected to attend the Company's annual meetings of stockholders. All directors attended the Annual Meeting of Stockholders held on May 5, 2016.

DIRECTOR COMPENSATION

The following table summarizes total compensation awarded to, earned by, or paid to each of WEC Energy Group's non-management directors during 2016.

Name	Fees Earned or Paid In Cash (\$)	(1)(2) Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	(3) All Other Compensation (\$)	Total (\$)
John F. Bergstrom	90,000	125,000	—	—	—	27,571	242,571
Barbara L. Bowles	85,000	125,000	—	—	—	25,463	235,463
William J. Brodsky	75,000	125,000	—	—	—	—	200,000
Albert J. Budney, Jr.	75,000	125,000	—	—	—	—	200,000
Patricia W. Chadwick	75,000	125,000	—	—	—	27,815	227,815
Curt S. Culver	85,000	125,000	—	—	—	19,793	229,793
Thomas J. Fischer	95,000	125,000	—	—	—	31,759	251,759
Paul W. Jones	75,000	125,000	—	—	—	—	200,000
Gale E. Klappa ⁽⁴⁾	—	—	—	—	—	—	—
Henry W. Knueppel	75,000	125,000	—	—	—	—	200,000
Ulice Payne, Jr.	75,000	125,000	—	—	—	14,427	214,427
Mary Ellen Stanek	75,000	125,000	—	—	—	—	200,000

□

- (1) The amounts reported reflect the aggregate grant date fair value, as computed in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 718, of restricted stock awards made to the directors in 2016. Each restricted stock award vests in full on the third anniversary of the grant date.
- (2) Other than Mr. Brodsky (2,540 shares), Mr. Budney (2,540 shares), Mr. Jones (2,540 shares), and Mr. Klappa (2,931 shares), each current director held 7,001 shares of restricted stock as of December 31, 2016.
- (3) All amounts represent costs for the Directors' Charitable Awards Program. See "Compensation of the Board of Directors" below for additional information regarding this program.
- (4) Mr. Klappa was executive Chairman and CEO of WEC Energy Group until May 1, 2016, and therefore, is considered a Named Executive Officer. All of Mr. Klappa's compensation he received as a director is reported in the "Summary Compensation Table" on page P-57.

Compensation of the Board of Directors

2016 Compensation. During 2016, each non-management director (other than Mr. Klappa) received an annual retainer fee of \$75,000. In addition, during 2016, non-management chairs of the Finance Committee and the Corporate Governance Committee each received an annual retainer of \$10,000, the chair of the Compensation Committee received an annual retainer of \$15,000, and the chair of the Audit and Oversight Committee received an annual retainer of \$20,000. The Company reimbursed non-management directors for all out-of-pocket travel expenses (which reimbursed amounts are not reflected in the table above).

On January 4, 2016, each non-management director (other than Mr. Klappa) also received the 2016 annual stock compensation award in the form of restricted stock equal to a value of \$125,000, with all shares vesting three years from the grant date. Employee directors do not receive these fees.

Insurance is also provided by the Company for director liability coverage, fiduciary and employee benefit liability coverage, and travel accident coverage for director travel on Company business. The premiums paid for this insurance are not included in the amounts reported in the table above.

□

Effective May 1, 2016, Mr. Klappa retired as executive Chairman of the Board and CEO of WEC Energy Group. Mr. Klappa continued as a director and became Non-Executive Chairman of the Board. Consistent with the Company's compensation policy for non-management directors, Mr. Klappa received an annual retainer fee of \$75,000 and an annual restricted stock award equal to a value of \$125,000, both of which were prorated for the number of months to be served during 2016 as a non-management director. In connection with his service as Non-Executive Chairman of the Board, Mr. Klappa received an additional annual retainer fee of \$125,000 and an additional annual restricted stock award equal to a value of \$125,000, both of which were prorated for the number of months to be served during 2016 as Non-Executive Chairman. The restricted stock awarded to Mr. Klappa vests three years from the date of grant.

Deferred Compensation Plan. Non-management directors may defer all or a portion of director fees pursuant to the Directors' Deferred Compensation Plan. Prior to January 1, 2017, deferred amounts could be credited to any of ten measurement funds, including a WEC Energy Group phantom stock account. Effective January 1, 2017, directors have two investment options in the plan - the Company's stock measurement fund and the Prime Rate Fund. The value of these accounts will appreciate or depreciate based on market performance, as well as through the accumulation of reinvested dividends. Deferral amounts are credited to accounts in the name of each participating director on the books of WEC Energy Group, are unsecured, and are payable only in cash following termination of the director's service to WEC Energy Group. The deferred amounts will be paid out of general corporate assets or the assets of the Wisconsin Energy Corporation 2014 Rabbi Trust discussed later in this proxy statement.

Legacy Charitable Awards Program. Directors elected prior to January 1, 2007 participate in a Directors' Charitable Awards Program under which the Company intends to contribute up to \$100,000 per year for 10 years to one or more charitable organizations chosen by each director, including employee directors, following the director's death. Charitable donations under the program will be paid out of general corporate assets. Directors derive no financial benefit from the program, and all income tax deductions accrue solely to the Company. The tax deductibility of these charitable donations mitigates the net cost to the Company. The Directors' Charitable Awards Program has been eliminated for any new directors elected after January 1, 2007. Directors already participating as of that date are Messrs. Bergstrom, Culver, Fischer, Klappa, and Payne, and Ms. Bowles and Chadwick.

2017 Compensation. In December 2016, the Compensation Committee conducted its annual review of non-management director compensation and determined that, based upon research provided by Frederic Cook, the total director compensation package remained slightly below the market median in light of the increased size and complexity of the Company following the Integrys acquisition. The Compensation Committee determined that it was appropriate to increase the annual cash retainer award by \$25,000. As a result, effective January 1, 2017, upon the recommendation of the Compensation Committee, the Board of Directors increased the annual cash retainer award from \$75,000 to \$100,000. The Compensation Committee concluded that the chair fee retainers, including the annual cash retainer for the Non-Executive Chairman, and the amount of the annual restricted stock award, would remain at the levels approved for the 2016 calendar year.

In December 2016, also based upon market research provided by Frederic Cook, the Compensation Committee concluded that it would be appropriate to reduce the vesting schedule for restricted stock awarded to directors. As a result, upon the recommendation of the Compensation Committee, the Board of Directors shortened the vesting period for future restricted awards to directors from three years to one year effective for awards granted after January 1, 2017.

PROPOSAL 2: RATIFICATION OF DELOITTE & TOUCHE LLP AS INDEPENDENT AUDITORS FOR 2017

The Audit and Oversight Committee of the Board of Directors has sole authority to select, evaluate, and, where appropriate, terminate and replace the independent auditors. The Audit and Oversight Committee has appointed Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending December 31, 2017. The Audit and Oversight Committee believes that stockholder ratification of this matter is important considering the critical role the independent auditors play in maintaining the integrity of the Company's financial statements. If stockholders do not ratify the selection of Deloitte & Touche LLP, the Audit and Oversight Committee will reconsider the selection.

Deloitte & Touche LLP has served as the independent auditors for the Company for the last 15 fiscal years beginning with the fiscal year ended December 31, 2002. The members of the Audit and Oversight Committee and the other members of the Board believe that the continued retention of Deloitte & Touche LLP to serve as the Company's independent external auditor is in the best interests of the Company and our stockholders.

Ratification of Deloitte & Touche LLP as the Company's independent auditors requires the affirmative vote of a majority of the votes cast in person or by proxy at the Meeting. Presuming a quorum is present, shares not voted, whether by broker non-vote, abstention, or otherwise, have no effect on the outcome of this matter.

Representatives of Deloitte & Touche LLP are expected to be present at the Meeting. They will have an opportunity to make a statement if they so desire and are expected to respond to appropriate questions that may be directed to them. Information concerning Deloitte & Touche LLP can be found in the following pages.

**The Board of Directors recommends that you vote "FOR"
the ratification of Deloitte & Touche LLP as independent auditors for 2017.**

INDEPENDENT AUDITORS' FEES AND SERVICES

Pre-Approval Policy. The Audit and Oversight Committee has a formal policy delineating its responsibilities for reviewing and approving, in advance, all audit, audit-related, tax, and other services of the independent auditors. As such, the Audit and Oversight Committee is responsible for the audit fee negotiations associated with the Company's retention of independent auditors.

The Audit and Oversight Committee is committed to ensuring the independence of the auditors, both in appearance as well as in fact. In order to assure continuing auditor independence, the Audit and Oversight Committee periodically considers whether there should be a regular rotation of the independent external audit firm. In addition, the Audit and Oversight Committee is directly involved in the selection of Deloitte & Touche LLP's lead engagement partner.

Under the pre-approval policy, before engagement of the independent auditors for the next year's audit, the independent auditors will submit (1) a description of all services anticipated to be rendered, as well as an estimate of the fees for each of the services, for the Audit and Oversight Committee to approve, and (2) written confirmation that the performance of any non-audit services is permissible and will not impact the firm's independence. Annual pre-approval will be deemed effective for a period of twelve months from the date of pre-approval, unless the Audit and Oversight Committee specifically provides for a different period. A fee level will be established for all permissible, pre-approved non-audit services. Any additional audit service, audit-related service, tax service, and other service must also be pre-approved.

The Audit and Oversight Committee delegated pre-approval authority to the Committee's Chair. The Audit and Oversight Committee Chair is required to report any pre-approval decisions at the next scheduled Audit and Oversight Committee meeting. Under the pre-approval policy, the Audit and Oversight Committee may not delegate to management its responsibilities to pre-approve services performed by the independent auditors.

Under the pre-approval policy, prohibited non-audit services are services prohibited by the Securities and Exchange Commission or by the Public Company Accounting Oversight Board (United States) to be performed by the Company's independent auditors. These services include: bookkeeping or other services related to the accounting records or financial statements of the Company; financial information systems design and implementation; appraisal or valuation services;

fairness opinions or contribution-in-kind reports; actuarial services; internal audit outsourcing services; management functions, or human resources, broker-dealer, investment advisor or investment banking services; legal services and expert services unrelated to the audit; services provided for a contingent fee or commission; and services related to planning, marketing or opining in favor of the tax treatment of a confidential transaction or an aggressive tax position transaction that was initially recommended, directly or indirectly, by the independent auditors. In addition, the Audit and Oversight Committee has determined that the independent auditors may not provide any services, including personal financial counseling and tax services, to any officer or other employee of the Company who serves in a financial reporting oversight role or to the chair of the Audit and Oversight Committee or to an immediate family member of these individuals, including spouses, spousal equivalents, and dependents.

Fee Table. The following table shows the fees, all of which were pre-approved by the Audit and Oversight Committee, for professional audit services provided by Deloitte & Touche LLP for the audit of the annual financial statements of the Company and its subsidiaries for fiscal years 2016 and 2015, and fees for other services rendered during those periods. No fees were paid to Deloitte & Touche LLP pursuant to the “de minimus” exception to the pre-approval policy permitted under the Securities Exchange Act of 1934, as amended.

	<u>2016</u>	<u>2015</u> ⁽¹⁾
Audit Fees ⁽²⁾	\$ 4,886,950	\$ 4,988,090
Audit-Related Fees ⁽³⁾	—	32,940
Tax Fees	—	—
All Other Fees ⁽⁴⁾	7,946	4,950
Total	\$ 4,894,896	\$ 5,025,980

- ⁽¹⁾ Includes fees incurred by the legacy Integrys Energy Group family of companies following the acquisition of Integrys on June 29, 2015.
- ⁽²⁾ Audit Fees consist of fees for professional services rendered in connection with the audits of: (1) the annual financial statements of the Company and its subsidiaries, (2) the effectiveness of internal control over financial reporting, and (3) other non-recurring audit work. This category also includes reviews of financial statements included in Form 10-Q filings of the Company and its subsidiaries and services provided in connection with statutory and regulatory filings or engagements.
- ⁽³⁾ Audit-Related Fees consist of fees for professional services that are reasonably related to the performance of the audit or review of the Company’s financial statements and are not reported under “Audit Fees.”
- ⁽⁴⁾ All Other Fees consist of costs for certain employees to attend accounting/tax seminars hosted by Deloitte & Touche LLP plus the subscription cost for the use of a Deloitte & Touche LLP accounting research tool.

AUDIT AND OVERSIGHT COMMITTEE REPORT

The Audit and Oversight Committee, which is comprised solely of independent directors, oversees the integrity of the financial reporting process on behalf of the Board of WEC Energy Group, Inc. In addition, the Audit and Oversight Committee oversees compliance with legal and regulatory requirements. The Audit and Oversight Committee operates under a written charter approved by the Board, which can be found in the “Governance” section of the Company’s Website at wecenergygroup.com.

The Audit and Oversight Committee is also directly responsible for the appointment, compensation, retention, and oversight of the Company’s independent auditors, as well as the oversight of the Company’s internal audit function.

In order to assure continuing auditor independence, the Audit and Oversight Committee periodically considers whether there should be a regular rotation of the independent external audit firm. For 2017, the Audit and Oversight Committee has appointed Deloitte & Touche LLP to remain as the Company’s independent auditors, subject to stockholder ratification. The members of the Audit and Oversight Committee and other members of the Board believe that the continued retention of Deloitte & Touche LLP to serve as the Company’s independent external auditor is in the best interests of the Company and its stockholders.

The Audit and Oversight Committee is directly involved in the selection of Deloitte & Touche LLP’s lead engagement partner in conjunction with a mandated rotation policy and are also responsible for audit fee negotiations with Deloitte & Touche LLP.

Management is responsible for the Company’s financial reporting process, the preparation of consolidated financial statements in accordance with generally accepted accounting principles, and the system of internal controls and procedures designed to provide reasonable assurance regarding compliance with accounting standards and applicable laws and regulations. The Company’s independent auditors are responsible for performing an independent audit of the Company’s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the “PCAOB”) and issuing a report thereon.

The Audit and Oversight Committee held six meetings during 2016. Meetings are designed to facilitate and encourage open communication among the members of the Audit and Oversight Committee, management, the internal auditors, and the Company’s independent auditors, Deloitte & Touche LLP. During these meetings, we reviewed and discussed with management, among other items, the Company’s unaudited quarterly and audited annual financial statements and the system of internal controls designed to provide reasonable assurance regarding compliance with accounting standards and applicable laws.

We have reviewed and discussed with management and the Company’s independent auditors the Company’s audited consolidated financial statements and related footnotes for the fiscal year ended December 31, 2016, and the independent auditor’s report on those financial statements. Management represented to us that the Company’s financial statements were prepared in accordance with generally accepted accounting principles. Deloitte & Touche LLP presented the matters required to be discussed with the Audit and Oversight Committee by PCAOB Auditing Standard No. 16, *Communications with Audit Committees*. This review included a discussion with management and the independent auditors about the quality of the Company’s accounting principles, the reasonableness of significant estimates and judgments, and the disclosures in the Company’s financial statements, as well as the disclosures relating to critical accounting policies.

In addition, we received the written disclosures and the letter relative to the auditors’ independence from Deloitte & Touche LLP, as required by applicable requirements of the PCAOB regarding Deloitte & Touche LLP’s communications with the Audit and Oversight Committee concerning independence. The Audit and Oversight Committee discussed with Deloitte & Touche LLP its independence and also considered the compatibility of non-audit services provided by Deloitte & Touche LLP with maintaining its independence.

Based on these reviews and discussions, the Audit and Oversight Committee recommended to the Board that the audited financial statements be included in WEC Energy Group’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and filed with the Securities and Exchange Commission.

Respectfully submitted to WEC Energy Group stockholders by the Audit and Oversight Committee of the Board.

The Audit and Oversight Committee

Thomas J. Fischer, Committee Chair
John F. Bergstrom
Barbara L. Bowles
Patricia W. Chadwick
Paul W. Jones
Henry W. Knueppel

COMPENSATION OF NAMED EXECUTIVE OFFICERS

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COMPENSATION DISCUSSION AND ANALYSIS

The following discussion provides an overview and analysis of our executive compensation program, including the role of the Compensation Committee of our Board, the elements of our executive compensation program, the purposes and objectives of these elements, and the manner in which we established the compensation of our NEOs for fiscal year 2016.

References to “we,” “us,” “our,” “Company,” and “WEC Energy Group” in this discussion and analysis mean WEC Energy Group, Inc. and its management, as applicable.

EXECUTIVE SUMMARY

Overview

The primary objective of our executive compensation program is to provide a competitive, performance-based plan that enables the Company to attract and retain key individuals and to reward them for achieving both the Company’s short-term and long-term goals without creating an incentive for our NEOs to take excessive risks. Our program has been designed to provide a level of compensation that is strongly dependent upon the achievement of short-term and long-term goals that are aligned with the interests of our stockholders and customers. To that end, a substantial portion of pay is at risk, and generally, the value will only be realized upon strong corporate performance.

2016 Business Highlights

We completed our first full year of combined utility operations as WEC Energy Group in 2016 following Wisconsin Energy Corporation’s acquisition of Integrys Energy Group in June 2015. Following the acquisition, we deliver electricity and natural gas to approximately 4.4 million customers in four states - Wisconsin, Illinois, Michigan, and Minnesota.

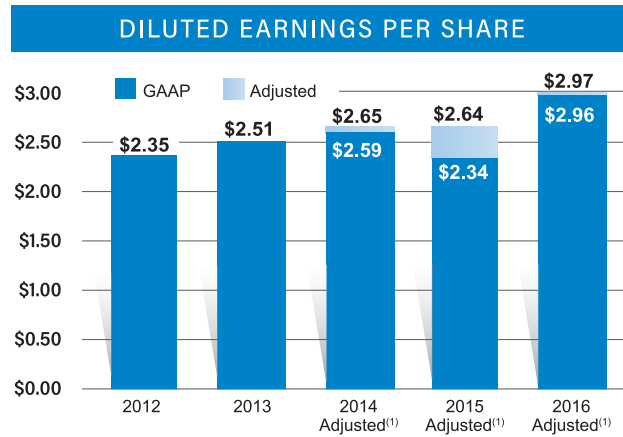
During 2016, we made excellent progress in our efforts to integrate our employees, merge and improve business processes, and consolidate our IT infrastructure. At the same time, the Company achieved solid results and continued to create long-term value for our stockholders and customers by focusing on the following:

- World-class reliability
- Operating efficiency
- Employee safety
- Financial discipline
- Exceptional customer care

Commitment to Stockholder Value Creation. Financially, WEC Energy Group again delivered solid earnings growth, generated strong cash flow, and increased the dividend for the 13th consecutive year. In January 2016, the Board raised the quarterly dividend 8.2% to \$0.4950 per share, equivalent to an annual rate of \$1.98 per share. In January 2017, the Board increased the quarterly dividend to \$0.5200 per share, which is equivalent to an annual rate of \$2.08 per share, in line with our plan to maintain a dividend payout ratio of 65% to 70% of earnings. The Company also turned in strong performances in employee safety, customer satisfaction, and network reliability during 2016. Specific Company achievements during 2016 include:

2016 Financial Highlights

- WEC Energy Group delivered solid earnings growth again, generated strong cash flow, and increased the dividend for the 13th consecutive year.
- Achieved fully diluted earnings and adjusted earnings per share of \$2.96 and \$2.97, respectively. ⁽²⁾
- Each of our regulated utility subsidiaries earned its allowed rate of return.
- Returned approximately \$625 million to WEC Energy Group stockholders through dividends.
- In January 2017, the Board raised the quarterly dividend to \$0.52 per share, which is equivalent to an annual dividend rate of \$2.08 per share.



⁽¹⁾ Excludes costs of \$0.01, \$0.30, and \$0.06 per share for 2016, 2015, and 2014, respectively, related to our acquisition of Integrys. See Appendix A on P-85 for a full GAAP reconciliation and an explanation of why we believe the presentation of adjusted earnings per share is relevant and useful to investors.

⁽²⁾ This measure is a component of our short-term incentive compensation program.

2016 Operational Performance

- WEC Energy Group was recognized in 2016 by Corporate Responsibility Magazine in its annual “Most Responsible Companies Ranked by Industry Sector” in the Utility category.
- Our utilities continued to balance the delivery of safe, reliable, and affordable energy with a commitment to protecting the environment.
- We Energies was named the most reliable utility in the Midwest for the sixth year by PA Consulting Group and also received the first-ever Outstanding Customer Reliability Experience Award for effective customer service and communications.
- We received the best results in our history for large customer satisfaction as surveyed by TQS Research and achieved a third place national ranking. ⁽²⁾
- All major utility subsidiaries either met or exceeded our overall customer satisfaction targets. ⁽²⁾
- WEC Energy Group’s utility companies experienced growing employee participation in health and wellness programs, as well as increased proactive safety reporting, helping to reduce the number of OSHA-reportable incidents and lost-time incidents by almost 17% on a year-over-year basis. ⁽²⁾
- We Energies Supplier Diversity Initiative was recognized by the National Association of Minority Contractors-Wisconsin Chapter for outreach, support, commitment, and leadership in minority business development in the Wisconsin construction industry. ⁽²⁾

2016 Strategic Performance

- Continued the successful integration of Integrys Energy Group into WEC Energy Group.
- Transitioned leadership of the Company, from Gale E. Klappa to Allen L. Leverett as CEO, effective May 1, 2016.
- Formed a stand-alone utility (Upper Michigan Energy Resources Corporation) to serve customers in Michigan’s Upper Peninsula and to facilitate a long-term generation solution for the region.
- Sold Wisconsin Electric Power Company’s (“WE’s”) Milwaukee County Power Plant, a coal-fired power plant, in 2016 as part of our long-term strategy to restructure the Company’s generation portfolio to meet changing demands and regulations.
- Sold the compressed natural gas business, Trillium CNG, thereby exiting a significant non-regulated business.
- Announced a plan to work with industry partners, environmental groups, and the state of Wisconsin with a goal of reducing CO₂ emissions from our electric generating fleet by approximately 40% below 2005 levels by 2030.

- Deployed capital during 2016 to focus on strengthening and modernizing the reliability of our generation and distribution networks. Highlights include:

At year-end 2016, implementation of the Improved Customer Experience project was 80% complete; when fully implemented, this \$100-plus million customer care software project will provide all of the Company's customers, located across four states, with a common experience, while also improving business capability and service delivery across all of our utility subsidiaries.

Illinois. The Peoples Gas Light & Coke Company ("PGL"), one of the Company's Illinois utility subsidiaries, completed a top to bottom review of the capital construction project underway in the City of Chicago to modernize the natural gas infrastructure; management successfully worked with regulators to identify and prioritize 2016 capital expenditures, while also implementing enhanced project controls and significantly reducing class 2 methane leaks.

PGL also broke ground on a \$20 million, 100,000-plus square foot state-of-the art training facility in Chicago, which will provide training for current and future utility employees, as well as prepare high school students for careers as utility workers.

Wisconsin. In November 2016, Wisconsin Public Service Corporation's ("WPS") ReACT™ system went into commercial operation at Weston Unit 3, one of our coal-fired facilities; this \$345 million capital project installed an air quality control system that is the first of its kind in the United States. The ReACT™ system is currently meeting or exceeding all environmental performance expectations, including reducing sulfur dioxide and mercury emissions from Weston Unit 3 to near zero.

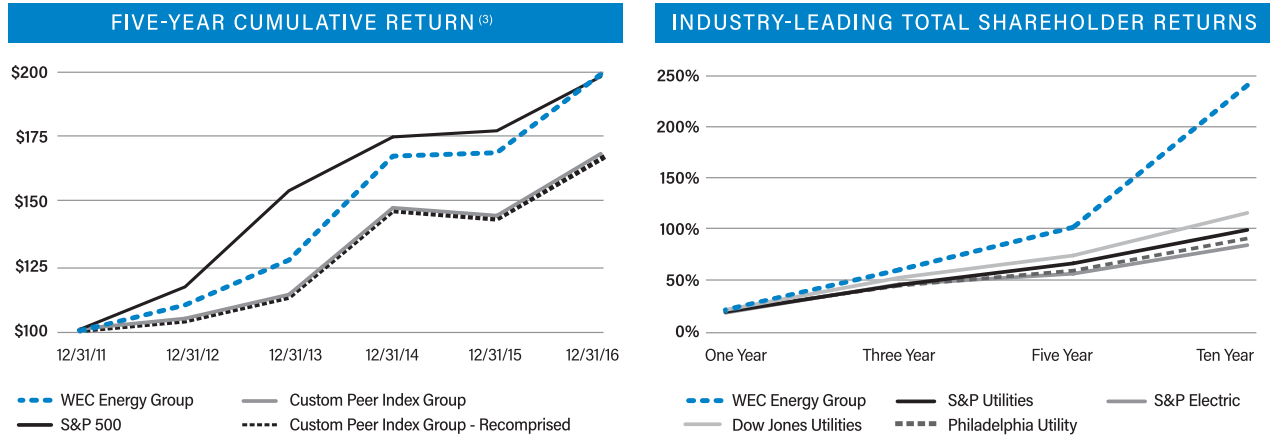
WPS met the scheduling, safety, and reliability improvement targets set for 2016 on a five-year, \$220 million system modernization and reliability project; upon completion in 2018, the company will have converted more than 1,100 miles of overhead lines to underground and added distribution automation equipment on 400 miles of lines.

The new powerhouse at WE's Twin Falls hydroelectric plant went into commercial operation in July 2016; forecasted at \$64 million, this capital project was completed on schedule and under budget, and has increased plant capacity by 50%.

We completed the expansion of the coal storage facilities at WE's Oak Creek Power Plant site; this \$62 million project, finished under budget, was placed into service ahead of schedule in December 2016 and is already providing fueling flexibility benefits that lower costs for customers.

Long-Term Stockholder Returns

Over the past decade, WEC Energy Group has consistently delivered among the best total returns in the industry and did so again in 2016.



⁽³⁾ The Five-Year Cumulative Return Chart shows a comparison of the cumulative total return, assuming reinvestment of dividends, over the last five years had \$100 been invested at the close of business on December 31, 2011. For information about the Custom Peer Index Group and the Re Comprised Custom Peer Index Group, see page F-93 in the Company's 2016 Annual Report.

Source: Bloomberg; assumes all dividends are reinvested and returns are compounded daily.

Key Compensation Program Changes

In 2016, we made some changes to our compensation program that followed from stockholder engagement efforts and our focus on continually refining our executive compensation program to more effectively align executive pay with performance and reflect best compensation practices.

Competitive Benchmarking - Re Comprised Market Data Sources. Based upon a recommendation from our independent compensation consultant, Frederic Cook, the Compensation Committee revised the data sources used to benchmark executive compensation. Instead of considering just market data obtained from Willis Towers Watson's Executive Compensation Data Bank, Frederic Cook also considered survey data from Aon Hewitt and a comparison group of 19 companies comparable in size to WEC Energy Group that share similar traits with the Company. For additional information on our benchmarking methodology, see "Competitive Benchmarking" on page P-44 of this proxy statement.

Long-Term Incentive Awards - Performance Unit Plan - Short-Term Dividend Equivalents. The Compensation Committee amended and restated the Company's Performance Unit Plan effective January 1, 2016, to provide that short-term dividend equivalents are paid out at the end of a three-year performance period based on WEC Energy Group's total stockholder return over the three-year performance period as compared to the stockholder return of a peer group of companies. Short-term dividend equivalents granted prior to January 1, 2016 were paid out annually on unearned performance units if the Company met applicable earnings per share targets. For additional information on the short-term dividend equivalents, see "Short-Term Dividend Equivalents" on page P-50 of this proxy statement.

Long-Term Incentive Awards - Performance Unit Plan - Additional Performance Measure. On December 1, 2016, based upon feedback we received from stockholders during our investor outreach efforts, the Compensation Committee amended and restated the Company's Performance Unit Plan effective January 1, 2017, to provide for an "Additional Performance Measure" (in addition to total stockholder return), which is defined as the performance criterion or criteria (if any) that the Compensation Committee selects at the time of the award, in its sole discretion, against which WEC Energy Group's performance will be measured. For additional information regarding the change, see "Long-Term Incentive Compensation - Performance Units" on page P-49 of this proxy statement.

Consideration of 2016 Stockholder Advisory Vote and Stockholder Outreach

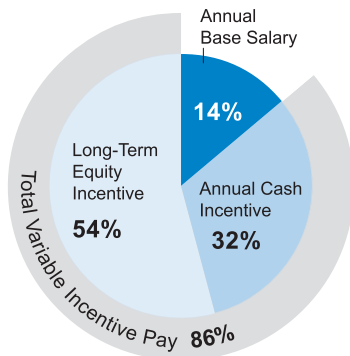
At the 2016 Annual Meeting of Stockholders, the Company's stockholders approved the compensation of our named executive officers with 85.8% of the votes cast. The Compensation Committee considered this outcome as well as the feedback received during meetings we held with a number of our institutional stockholders and determined that additional changes should be made to the executive compensation program. As indicated above, the Compensation Committee amended WEC Energy Group's Performance Unit Plan to provide for an Additional Performance Measure. In light of the significant stockholder support our executive compensation program received in 2015, the payout levels under our performance-based program for 2016, and the additional changes made to the program, the Compensation Committee continues to believe that the compensation program is competitive, aligned with our financial and operational performance, and in the best interests of the Company, stockholders, and customers.

COMPONENTS OF OUR EXECUTIVE COMPENSATION PROGRAM

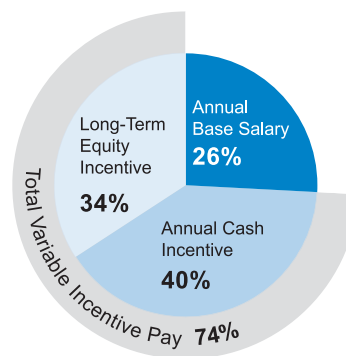
We have three primary elements of total direct compensation: (1) base salary; (2) annual incentive awards; and (3) long-term incentive awards consisting of a mix of performance units, stock options, and restricted stock. The Compensation Committee retained Frederic Cook as its independent compensation consultant to advise the Compensation Committee with respect to our executive compensation program. The Compensation Committee generally relied on the recommendations of Frederic Cook as it developed the 2016 program.

On January 27, 2016, the Board appointed Mr. Leverett to serve as our CEO effective upon Mr. Klappa's retirement on May 1, 2016. Mr. Klappa continues to serve as the Non-Executive Chairman of the Board. As shown in the charts below, 86% of Mr. Leverett's 2016 total direct compensation as CEO and an average of 74% of the other NEO's (other than Mr. Klappa) 2016 total direct compensation is tied to Company performance and is not guaranteed.

CEO 2016 TOTAL DIRECT COMPENSATION MIX



OTHER NEOs 2016 TOTAL DIRECT COMPENSATION MIX



The other NEOs total direct compensation mix does not include Mr. Klappa's compensation as his compensation mix was based upon his position as CEO and significantly changes the reported NEO mix. If Mr. Klappa is included in the calculation of the other NEOs total compensation mix, the amounts reported in the chart above change as follows: Annual Base Salary (15%); Annual Cash Incentive (24%); and Long-Term Equity Incentive (61%).

To the extent feasible, we believe it is important that the Company's compensation program not dilute the interests of current stockholders. Therefore, we currently use open market purchases to satisfy our benefit plan obligations, including the exercise of stock options and vesting of restricted stock.

In addition to the components of total direct compensation identified above, our retirement programs are another important component of our compensation program.

This Compensation Discussion and Analysis contains a more detailed discussion of each of the above components for 2016, including Frederic Cook's recommendations with respect to each component.

Compensation Governance and Practices

The Compensation Committee annually reviews and considers the Company's compensation policies and practices to ensure our executive compensation program aligns with our compensation philosophy. Highlighted below is an overview of our current compensation practices.

What We Do	
<ul style="list-style-type: none"> • Our compensation program focuses on key Company results (financial, safety, customer satisfaction, diversity) that are aligned with our strategic goals. • A substantial portion of compensation is at risk and tied to Company performance. • The compensation program has a long-term orientation aligned with stockholder interests. • The Compensation Committee's independent compensation consultant reviews competitive employment market data from two general industry surveys and a comparison group of companies similar to WEC Energy Group. • We have implemented a clawback policy that provides for the recoupment of incentive-based compensation. (page P-54) • Annual incentive-based compensation contains multiple, pre-established performance metrics aligned with stockholder and customer interests. (page P-46) • The Performance Unit Plan award payouts (including dividend equivalents) are based on stockholder return as compared to an appropriate peer group and, beginning with the 2017 award, Additional Performance Measure(s), if any, selected by the Compensation Committee. 	<ul style="list-style-type: none"> • The Performance Unit Plan requires a separation from service following a change in control for award vesting to occur. (page P-53) • Equity award and other benefit plan obligations are satisfied through open market purchases of WEC Energy Group common stock. • Meaningful stock ownership levels are required for senior executives. (page P-54) • Ongoing engagement with investors takes place to ensure that compensation practices are responsive to stockholder interests. • We prohibit hedging and pledging of WEC Energy Group common stock. (page P-54) • We have a policy that prohibits entry into any new arrangements that obligate the Company to pay directly or reimburse individual tax liability for benefits provided by the Company. (page P-56) • We prohibit repricing of stock options without stockholder approval. • The Compensation Committee retains an independent compensation consultant to help design the Company's compensation program and determine competitive levels of pay.

Competitive Benchmarking

As a general matter, we believe the labor market for WEC Energy Group executive officers is consistent with that of general industry. Although we recognize our business is focused on the energy services industry, our goal is to have an executive compensation program that will allow us to be competitive in recruiting the most qualified candidates to serve as executive officers of the Company, including individuals who may be employed outside of the energy services industry. Further, in order to retain top performing executive officers, we believe our compensation practices must be competitive with those of general industry.

To confirm that our annual executive compensation is competitive with the market, Frederic Cook reviewed the compensation data obtained from Willis Towers Watson's 2016 Executive Compensation Data Bank as well as similar data from Aon Hewitt. Frederic Cook also analyzed the compensation data from a peer group of 19 companies similar to WEC Energy Group in size and business model. The methodology used by Frederic Cook to determine the peer group of companies is described below.

Frederic Cook started with U.S. companies in the Standard & Poor's database, and then limited those companies to the same line of business as WEC Energy Group as indicated by the Global Industry Classification Standards. This list of companies was then further limited to companies with revenues between \$3 billion and \$30 billion (approximately one-third to three times the size of WEC Energy Group's revenues), and that were within a reasonable size range in various other measures such as operating income, total assets, total employees, and market capitalization. From this list, Frederic Cook selected companies similar in overall size to WEC Energy Group with consideration given to companies that met one or more of the following criteria:

- Diversified, technically sophisticated utility operations (e.g., multiple utilities, electric utilities);
- Minimal non-regulated business; and/or
- Operates in the Midwest.

These criteria resulted in a comparison group of 20 companies with median revenues and market capitalization of approximately \$12 billion and \$17 billion, respectively.

After reviewing the proposed comparison group, the Compensation Committee requested Frederic Cook to conduct additional analysis of the group because the Compensation Committee wanted WEC Energy Group to be positioned closer to the median of the group in various measures of company size besides market capitalization. Based upon this feedback, Frederic Cook removed the two largest companies and added NiSource resulting in a revised comparison group consisting of the 19 companies listed below.

- Alliant Energy Corporation
- Ameren Corporation
- American Electric Power Company
- CMS Energy Corporation
- CenterPoint Energy
- Consolidated Edison, Inc.
- DTE Energy Co.
- Dominion Resources
- Edison International
- Entergy Inc.
- Eversource Energy
- FirstEnergy Corp.
- NiSource Inc.
- PG&E Corporation
- PPL Corp.
- Pinnacle West Capital Corp.
- SCANA Corporation
- The Southern Company
- Xcel Energy Inc.

The Compensation Committee approved this revised comparison group.

DETERMINATION OF MARKET MEDIAN

In order to determine the “market median” for our NEOs, Frederic Cook recommended that the survey data from Willis Towers Watson and Aon Hewitt receive a 75% weighting and the comparison group of 19 companies receive a 25% weighting. The Compensation Committee agreed with this recommendation. The survey data received a higher weighting because we consider the labor market for our executives to be consistent with that of general industry. Using this methodology, Frederic Cook recommended, and the Compensation Committee approved, the appropriate market median for each of our NEOs.

The comparison of each component of compensation with the appropriate market median when setting the compensation levels of our NEOs drives the allocation of cash versus non-cash compensation and short-term versus long-term incentive compensation.

ANNUAL BASE SALARY

The annual base salary component of our executive compensation program provides each executive officer with a fixed level of annual cash compensation. We believe that providing annual cash compensation through a base salary is an established market practice and is a necessary component of a competitive compensation program.

Based upon the market data analyzed by Frederic Cook, we generally target base salaries to be within (plus or minus) 15% of the market median for each NEO. However, the Compensation Committee may, in its discretion, adjust base salaries outside of this 15% band when the Compensation Committee deems it appropriate.

Actual salary determinations are made taking into consideration factors such as the relative levels of individual experience, performance, responsibility, and contribution to the results of the Company’s operations. At the beginning of each year, our CEO develops a list of goals for WEC Energy Group and our employees to achieve during the upcoming year. At the end of the year, our CEO measures the performance of the Company against each stated goal and reports the results to the Board. The Compensation Committee then takes the Company’s performance into consideration when establishing our CEO’s compensation for the upcoming year. Our CEO undertakes a similar process with the NEOs, who develop individual goals related to the achievement of the Company’s goals developed by our CEO. At the end of the year, each officer’s performance is measured against these goals. Compensation recommendations and determinations for the upcoming year for each executive officer also take into consideration the level of such performance.

Mr. Klappa served as executive Chairman and CEO until his retirement on May 1, 2016. As a result, he received \$455,710, which represents a pro-rata portion of his annual base salary that had been established by the Compensation Committee in December 2015. Mr. Klappa’s annual base salary reflected the fact that his tenure of 13 years was longer than many of those in the traditional market median. Following his retirement, Mr. Klappa no longer received base salary and instead received compensation for his service as a director, including service as Non-Executive Chairman of the Board. See "Director Compensation" on page P-33 of this proxy statement.

Mr. Leverett's base salary was initially set at \$825,000. However, in April 2016, in recognition of Mr. Leverett's new position as WEC Energy Group's CEO, the Compensation Committee increased Mr. Leverett's annual base salary by 21.2% to \$1,000,000 effective May 1, 2016.

With respect to each other NEO, in December 2015, Mr. Klappa, then CEO, recommended an annual base salary to the Compensation Committee based upon a review of the market compensation data provided by Frederic Cook and the factors described above. The Compensation Committee approved the recommendations, which represented an average increase in annual base salary of approximately 3% for Messrs. Keyes and Garvin, and Ms. Martin.

In recognition of his appointment as Executive Vice President and Chief Financial Officer ("CFO"), the Compensation Committee increased Mr. Lauber's annual base salary by 35% to \$376,165, effective April 1, 2016. In addition, in recognition of his appointment as President of our Wisconsin utilities, the Compensation Committee increased Mr. Fletcher's annual base salary by 6.6% to \$420,000, effective May 1, 2016.

Other than with respect to Mr. Lauber, the annual base salary of each NEO was within our targeted range of the market median as discussed above. Mr. Lauber's base salary was set below the target range because of how significant the one-time increase would have been in order to bring his salary within the range. Therefore, the Compensation Committee intends to increase Mr. Lauber's salary in multiple steps to move it within the target range.

ANNUAL CASH INCENTIVE COMPENSATION

We provide annual cash incentive compensation through our Short-Term Performance Plan ("STPP"). The STPP provides for annual cash awards to NEOs based upon the achievement of pre-established stockholder, customer, and employee focused objectives. All payments under the STPP are at risk. Payments are made only if performance goals are achieved, and awards may be less or greater than targeted amounts based on actual performance. Payments under the STPP are intended to reward achievement of short-term goals that contribute to stockholder and customer value, as well as individual contributions to successful operations.

2016 Target Awards. Each year, the Compensation Committee approves a target level of compensation under the STPP for each of our NEOs. This target level of compensation is expressed as a percentage of base salary.

In the first quarter of 2016, the target award levels for Messrs. Leverett and Lauber were increased to 110% and 75% of base salary, respectively, in each case in recognition of appointment to their new positions. Therefore, Mr. Leverett's STPP payout level reflects a 90% target level for four months and a 110% target level for eight months; Mr. Lauber's STPP payout level reflects a 45% target level for three months and a 75% target level for nine months.

The year-end 2016 target awards for each NEO (other than Mr. Klappa) were as follows:

Executive Officer	Target STPP Award as a Percentage of Base Salary
Mr. Leverett	110%
Mr. Lauber	75%
Mr. Keyes	75%
Ms. Martin	70%
Mr. Garvin	60%
Mr. Fletcher	70%

The target award levels of each officer named in the table above reflect median incentive compensation practices as indicated by the market data.

Based upon the market data provided by Frederic Cook, Mr. Klappa's annual incentive target was set at 120% of his base salary. As a result of his retirement as executive Chairman and CEO effective May 1, 2016, Mr. Klappa was entitled to a pro rata amount of his annual incentive, or \$1,134,718.

For 2016, the possible payout for any NEO ranged from 0% of the target award to 210% of the target award, based on performance.

2016 Financial Goals under the STPP. The Compensation Committee adopted the 2016 STPP with a continued principal focus on financial results. In December 2015, the Compensation Committee approved WEC Energy Group's earnings per share (75% weight) and cash flow (25% weight) as the primary performance measures to be used in 2016. For those officers whose positions primarily relate to utility operations in Wisconsin, the Compensation Committee approved WEC Energy Group's earnings per share (25% weight) and cash flow (25% weight), as well as aggregate net income of WEC Energy Group's Wisconsin utility operations (50% weight), as the primary performance measures to be used in 2016. We believe earnings per share and cash flow are key indicators of financial strength and performance and are recognized as such by the investment community. Utility net income is an important financial measure as it is an indicator of the return on equity earned by our utilities, and in order to meet our earnings per share targets it is important that our utilities earn at or close to their authorized rate of return.

In January 2016, the Compensation Committee approved the performance goals under the STPP for WEC Energy Group's earnings per share as follows:

Earnings Per Share Performance Goal	Earnings Per Share CAGR	Payout Level
\$2.81	3.4%	25%
\$2.83	4.2%	50%
\$2.86	5.1%	100%
\$2.88	5.9%	135%
\$2.94	8.0%	200%

If the Company's performance falls between these levels, the payout level with respect to earnings per share is determined by interpolating on a straight line basis the appropriate payout level.

The Company's growth plan, which has been communicated to the public, calls for a long-term compound annual growth rate ("CAGR") in earnings per share of 5.0% to 7.0% off of a 2015 base of \$2.72 per share, with 6.0% to 8.0% growth in 2016. At the time the Compensation Committee was establishing targets for 2016, we believed that this CAGR plus our continued growth in dividends would support a premium valuation as compared to the Company's peers. Therefore, the above target (135%) and maximum payout levels (200%) were tied to achievement of the 6.0% to 8.0% growth in 2016. The target (100%) payout level was tied to a 5.1% CAGR as the Compensation Committee thought it appropriate that the NEOs and other Company employees be awarded for achieving a CAGR within the Company's long-term CAGR range in 2016. The CAGR at each of the threshold (25%) and below target (50%) payout levels recognizes that the acquisition of Integrys would still have achieved one of our criteria for entering into the transaction - that it be accretive to earnings in the first full year after the acquisition.

In January 2016, the Compensation Committee approved the performance goals under the STPP for WEC Energy Group's cash flow as follows (\$ in millions):

Cash Flow	Payout Level
\$(300)	25%
\$(275)	50%
\$(250)	100%
\$(220)	135%
\$(200)	200%

If the Company's performance falls between these levels, the payout level with respect to cash flow is determined by interpolating on a straight line basis the appropriate payout level.

Once the Compensation Committee established the earnings per share performance level goals, it set the cash flow performance levels at the amount of cash flow estimated to be necessary to achieve the corresponding earnings per share performance level. In the judgment of the Compensation Committee, these cash flow targets reasonably represented the amount of cash flow necessary to achieve a combination of earnings per share performance and appropriate capital spending levels given the scope of WEC Energy Group's construction program.

In January 2016, the Compensation Committee approved the performance goals under the STPP for the Wisconsin utilities' net income (based on the earnings per share performance goals) as follows (\$ in millions):

Net Income	Weighted Return on Equity	Payout Level
\$540	9.88%	25%
\$545	9.97%	50%
\$550	10.05%	100%
\$555	10.14%	135%
\$564	10.30%	200%

2016 Financial Performance under the STPP. In January 2017, the Compensation Committee reviewed our actual performance for 2016 against the financial and operational performance goals established under the STPP, subject to final audit.

WEC Energy Group's 2016 financial performance satisfied the maximum payout level established for earnings per share, cash flow, and net income for the Wisconsin utilities. WEC Energy Group's GAAP earnings per share and adjusted earnings per share were \$2.96 and \$2.97, respectively, for 2016. WEC Energy Group's cash flow was \$153.3 million, and the Wisconsin utilities' net income was \$567.5 million for 2016. Cash flow is measured by subtracting WEC Energy Group's cash used in capital expenditures and for the payment of dividends from WEC Energy Group's cash provided by operations. Net income is measured against the net income from WEC Energy Group's Wisconsin segment excluding contributions to the Wisconsin utilities' charitable foundations. Our adjusted earnings per share, cash flow, and net income are not measures of financial performance under generally accepted accounting principles.

By satisfying the maximum payout level with respect to these financial measures, the NEOs earned 200% of the target award from the financial goal component of the STPP.

2016 WEC Energy Group Operational Goals and Performance under the STPP. Similar to prior years, in December 2015 and January 2016, the Compensation Committee also approved operational performance measures and targets under the STPP. Annual incentive awards could be increased or decreased by up to 10% of the target award based upon WEC Energy Group's performance in the operational areas of customer satisfaction (5% weight), safety (2.5% weight), and supplier and workforce diversity (2.5% weight). The Compensation Committee recognizes the importance of strong operational results to the success of the Company and has identified these three operational areas in particular as being critical to that success.

The following table provides the operational goals approved by the Compensation Committee for 2016, as well as WEC Energy Group's performance against these goals:

Operational Measure	Below Goal	Goal	Above Goal	Final Result
Customer Satisfaction:	-5.00%	0.00%	+5.00%	
Percentage of "Highly Satisfied" - Company	<72.3%	72.3% - 78.4%	>78.4%	80.2%
Transaction	<80.2%	80.2% - 85.6%	>85.6%	86.7%
Safety:	-2.50%	0.00%	+2.50%	
Lost Time Injury - Incidents	>75	54 - 75	<54	49
OSHA Recordable Incidents	>225	184 - 225	<184	163
Diversity:	-2.50%	0.00%	+2.50%	
Supplier (\$ in Millions)	<133.5	133.5 - 177.4	>177.4	171.0
Workforce - Assessment	Not Met	Met	Exceeded	Met

WEC Energy Group's performance with respect to operational goals generated a 7.5% increase to the compensation awarded under the STPP for 2016 as WEC Energy Group exceeded the customer satisfaction and safety target performance measures. The Compensation Committee measured customer satisfaction levels based on the results of surveys that an independent third party conducted of customers who had direct contact with our utilities during the year, which measured (1) customers' satisfaction with the respective utility overall, and (2) customers' satisfaction with respect to the particular transactions with the applicable utility.

2016 Wisconsin Utilities Operational Goals and Performance under the STPP. For those officers whose positions primarily relate to utility operations in Wisconsin, STPP awards could be increased or decreased by up to 10% based upon performance in the operational areas of customer satisfaction (5% weight), safety (2.5% weight), and supplier diversity (1.25% weight) for WEC Energy Group's Wisconsin utility operations, as well as WEC Energy Group's performance in the operational area of workforce diversity (1.25% weight). The following table provides the operational goals approved by the Compensation Committee for 2016 for WEC Energy Group's Wisconsin utility operations, as well as the Company's performance against these goals:

Operational Measure	Below Goal	Goal	Above Goal	Final Result
Customer Satisfaction:	-5.00%	0.00%	+5.00%	
Percentage of "Highly Satisfied" - Company	<75.0%	75.0% - 81.0%	>81.0%	82.2%
Transaction	<83.0%	83.0% - 89.0%	>89.0%	88.8%
Safety:	-2.50%	0.00%	+2.50%	
Lost Time Injury - Incidents	>26	16 - 26	<16	26
OSHA Recordable Incidents	>112	88 - 112	<88	88
Diversity:	-2.50%	0.00%	+2.50%	
Supplier (\$ in Millions)	<73.5	73.5 - 102.4	>102.4	105.8
Workforce - Assessment	Not Met	Met	Exceeded	Met

The Wisconsin utilities' performance with respect to operational goals generated a 3.75% increase to the compensation awarded under the STPP for 2016. The Compensation Committee measured customer satisfaction levels based on the results of surveys that an independent third party conducted of customers who had direct contact with our Wisconsin utilities during the year, which measured (1) customers' satisfaction with the specific Wisconsin utility overall, and (2) customers' satisfaction with respect to their particular transactions with their specific utility. Our Wisconsin utilities exceeded target level performance with respect to the first customer satisfaction measure; those utilities also exceeded target level performance with respect to supplier diversity.

The Compensation Committee retains the right to exercise discretion in adjusting awards under the STPP when it deems appropriate, but did not factor individual contributions into determining the amount of the awards for the NEOs for 2016. Because the Company's performance against the financial and operational goals resulted in significant STPP awards in 2016, the Compensation Committee determined that no further adjustments based upon individual contributions or otherwise were appropriate.

Based on the Company's performance against the financial and operational goals established by the Compensation Committee, Mr. Leverett received annual incentive cash compensation under the STPP of \$2,035,229 for 2016. This represented 216% of his annual base salary. Messrs. Lauber, Keyes, Garvin, and Fletcher, and Ms. Martin, received annual cash incentive compensation for 2016 under the STPP equal to 143%, 156%, 124%, 143%, and 145% of their respective annual base salaries, representing a range of 203.75% to 207.5% of the target award for each officer.

LONG-TERM INCENTIVE COMPENSATION

The Compensation Committee administers our 1993 Omnibus Stock Incentive Plan, amended and restated effective January 1, 2016, which is a stockholder-approved, long-term incentive plan designed to link the interests of our executives and other key employees to creating long-term stockholder value. It allows for various types of awards tied to the performance of our common stock, including stock options, stock appreciation rights, and restricted stock. The Compensation Committee also administers the WEC Energy Group Performance Unit Plan, under which the Compensation Committee may award performance units. The Compensation Committee primarily uses (1) performance units, including dividend-equivalents, (2) stock options, and (3) restricted stock to deliver long-term incentive opportunities.

Performance Units. Each year, the Compensation Committee makes annual grants of performance units under the Performance Unit Plan. The performance units are designed to provide a form of long-term incentive compensation that aligns the interests of management with those of a typical utility stockholder who is focused not only on stock price appreciation but also on dividends. In 2016, under the terms of the performance units, payouts were based on the Company's level of "total stockholder return" (stock price appreciation plus reinvested dividends) in comparison to a peer group of companies over a three-year performance period. The performance units are settled in cash.

Changes to Performance Unit Plan. On December 1, 2016, based upon feedback we received from stockholders during our investor outreach efforts, the Compensation Committee amended and restated the Performance Unit Plan, effective January 1, 2017, to provide for an Additional Performance Measure in addition to the performance measure of total stockholder return. "Additional Performance Measure" is defined as the performance criterion or criteria (if any) that the Compensation Committee selects, in its sole discretion, based on the attainment of specific levels of performance by WEC Energy Group. Performance units will continue to vest in an amount between 0% and 175% of the target award based upon WEC Energy Group's comparative total stockholder return over a three-year performance period. However, the vesting percentage may be adjusted based upon WEC Energy's performance against the Additional Performance Measure(s).

The Additional Performance Measure(s), if any, must be selected by the Compensation Committee at the beginning of the three-year performance period. For each year during the performance period, the Compensation Committee will select the target(s) for the Additional Performance Measure(s) and the potential adjustment to the vesting percentage for that year based on achievement of the Additional Performance Measure(s) relative to the selected target(s). The actual adjustment, if any, to the vesting percentage based upon the Additional Performance Measure(s) will be determined annually. In no event will any adjustment cause the vesting percentage over the three-year performance period to be less than zero. For the 2017 performance unit awards, the Compensation Committee selected performance against the weighted average authorized return on equity of all WEC Energy Group's utility subsidiaries as the Additional Performance Measure. In order to achieve our financial goals, it is important that the Company's utilities earn at or close to their authorized return on equity.

Short-Term Dividend Equivalents. Prior to January 1, 2016, certain officers, including the NEOs, and employees were eligible to receive dividend equivalents under the STPP in an amount equal to the number of performance units at the target 100% rate held by each such officer or employee on the dividend declaration date multiplied by the amount of cash dividends paid by the Company on a share of our common stock on such date. The short-term dividend equivalents vested at the end of each year only if the Company achieved the performance target or targets for that year established by the Compensation Committee in the same manner as the performance targets are established under the STPP for the annual incentive awards.

In 2015, the Compensation Committee determined that short-term dividend equivalents should no longer vest annually on unearned performance units and, therefore, would no longer be issued under the STPP. Therefore, in December 2015, the Compensation Committee amended and restated the Company's Performance Unit Plan effective January 1, 2016, to provide for short-term dividend equivalents. Pursuant to the amendments to the Performance Unit Plan, beginning with the 2016 awards of performance units, we increase the number of unvested performance units as of any date that we declare a cash dividend on our common stock by the amount of the short-term dividend equivalents. Short-term dividend equivalents are calculated by multiplying (a) the number of unvested performance units held by a plan participant as of the related dividend record date by (b) the amount of cash dividend payable by the Company on a share of common stock; and (c) dividing the result by the closing price for a share of the Company's common stock on the dividend payment date. In effect, short-term dividend equivalents will be credited and accumulated as reinvested dividends on each performance unit so that the performance units and accumulated dividends will be paid out at the end of the three-year performance period, rather than paying out the dividend equivalents annually on unearned performance units.

Short-term dividend equivalents will be treated as additional unvested performance units and will be subject to the same vesting, forfeiture, payment, termination, and other terms and conditions as the original performance units to which they relate. In addition, outstanding short-term dividend equivalents will be treated as unvested performance units for purposes of calculating future short-term dividend equivalents.

Stock Options. Each year, the Compensation Committee also makes annual stock option grants as part of our long-term incentive program. These stock options have an exercise price equal to the fair market value of our common stock on the date of grant and expire on the 10th anniversary of the grant date. Since management benefits from a stock option award only to the extent our stock price appreciates above the exercise price of the stock option, stock options align the interests of management with those of our stockholders in attaining long-term stock price appreciation.

Restricted Stock. The Compensation Committee also awards restricted stock as part of the long-term incentive plan, consistent with market practice. Similar to performance units, restricted stock aligns the interests of management with a typical utility stockholder who is focused on stock price appreciation and dividends.

Aggregate 2016 Long-Term Incentive Awards. In establishing the target value of long-term incentive awards and the appropriate mix of performance units, stock options, and restricted stock for each NEO in 2016, the Compensation Committee reviewed the market compensation data and analysis provided by Frederic Cook. Based on Frederic Cook’s analysis, the Compensation Committee determined that the long-term incentive awards would be weighted 65% performance units, 20% stock options, and 15% restricted stock. These target values were presented to and approved by the Compensation Committee in December 2015. In addition, based upon the recommendation by Frederic Cook, effective May 2, 2016, the Compensation Committee awarded Mr. Leverett additional long-term incentive awards consisting of performance units, stock options, and restricted stock equal to a value of \$1,238,333 in order to better align his total 2016 long-term incentive award with that of a CEO at a company similar in size to WEC Energy Group. Mr. Leverett’s appointment was effective on Sunday, May 1, 2016, a non-trading day.

Based upon the market data provided by Frederic Cook, we target the long-term incentive award to be within (plus or minus) 20% of the market median value of long-term incentive compensation. All of the NEO’s long-term incentive awards were within this target range for 2016.

2016 Stock Option Grants. In December 2015, the Compensation Committee approved the grant of stock options to each of our NEOs and established an overall pool of options that were granted to approximately 200 other employees. The option grants to the NEOs were made effective January 4, 2016, the first trading day of 2016. The options were granted with an exercise price equal to the average of the high and low prices reported on the NYSE for shares of WEC Energy Group common stock on the grant date. The options were granted in accordance with our standard practice of making annual stock option grants effective on the first trading day of each year, and the timing of the grants was not tied to the timing of any release of material information. In addition, as discussed above, in April 2016, the Compensation Committee approved a grant of additional stock options to Mr. Leverett effective as of May 2, 2016.

These stock options have a term of 10 years and vest 100% on the third anniversary of the date of grant. The vesting of the stock options may be accelerated in connection with a change in control or an executive officer’s termination of employment. Subject to the limitations of the 1993 Omnibus Stock Incentive Plan, the Compensation Committee has the power to amend the terms of any option (with the participant’s consent). See “Potential Payments upon Termination or Change in Control” beginning on page P-70 for additional information.

For purposes of determining the appropriate number of options to grant to a particular NEO, the value of an option was determined based on the Black-Scholes option pricing model. We use the Black-Scholes option pricing model for purposes of the compensation valuation. The following table provides the number of options granted to each NEO in 2016.

Executive Officer	Options Granted
Mr. Leverett	125,134
Mr. Lauber	6,720
Mr. Klappa	190,830
Mr. Keyes	37,665
Ms. Martin	24,850
Mr. Garvin	17,210
Mr. Fletcher	14,260

For financial reporting purposes, the stock options granted on January 4, 2016 had a grant date fair value of \$5.71 per option for Messrs. Leverett, Lauber, Keyes, Garvin, and Fletcher, and a grant date fair value of \$4.28 for Mr. Klappa and Ms. Martin. Mr. Klappa and Ms. Martin are considered to be “retirement eligible.” Therefore, their options are presumed to have a shorter expected life, which results in a lower option value. For financial reporting purposes, the stock options granted on May 2, 2016 to Mr. Leverett had a grant date fair value of \$6.99 per option.

2016 Restricted Stock Awards. In December 2015, the Compensation Committee also approved the grant of restricted stock to each of our NEOs and established an overall pool of restricted stock that was granted to approximately 200 other employees. The grants to the NEOs were also made effective January 4, 2016. The restricted stock vests in three equal annual installments beginning on January 4, 2017.

The vesting of the restricted stock may be accelerated in connection with a termination of employment due to a change in control, death or disability, or by action of the Compensation Committee. See “Potential Payments upon Termination or Change in Control” beginning on page P-70 for additional information. Tax withholding obligations related to vesting may be satisfied, at the option of the executive officer, by withholding shares otherwise deliverable upon vesting or by cash. The NEOs have the right to vote the restricted stock and to receive cash dividends when the Company pays a dividend to our stockholders.

For purposes of determining the appropriate number of shares of restricted stock to grant to a particular NEO, the Compensation Committee used a value of \$50.024 per share. This value was based on the volume weighted price of WEC Energy Group’s common stock for the ten trading days beginning on December 7, 2015 and ending on December 18, 2015. The Compensation Committee uses the volume weighted price in order to minimize the impact of day to day volatility in the stock market. The measurement period is customarily early to mid-December for annual awards to shorten the timeframe between the calculation of the awards and the actual grant date. The following table provides the number of shares of restricted stock granted to each NEO in January 2016.

Executive Officer	Restricted Stock Granted
Mr. Leverett	7,173
Mr. Lauber	585
Mr. Klappa	16,602
Mr. Keyes	3,276
Ms. Martin	2,160
Mr. Garvin	1,497
Mr. Fletcher	1,239

As discussed above, in April 2016, the Compensation Committee approved a grant of 3,186 shares of restricted stock to Mr. Leverett, effective as of May 2, 2016, in connection with his appointment as CEO, that vests in three equal annual installments beginning May 2, 2017. The Compensation Committee also granted 2,858 shares of restricted stock to Mr. Klappa, effective as of May 2, 2016, in connection with his appointment as Non-Executive Chairman of the Board, that vests three years following the grant date on May 2, 2019.

In addition, in connection with Mr. Klappa’s retirement as CEO, and in light of WEC Energy Group’s industry-leading performance during his tenure and his significant contributions to the development and execution of the Company’s strategic plan, the Compensation Committee vested the remaining balance of several awards of restricted stock to Mr. Klappa, consisting of 47,181 shares.

2016 Performance Units. In 2016, the Compensation Committee granted performance units to each of our NEOs and approved a pool of performance units that were granted to approximately 200 other employees. With respect to the 2016 performance units, the amount of the benefit that ultimately vests will be dependent upon the Company’s total stockholder return over a three-year period ending December 31, 2018, as compared to the total stockholder return of the custom peer group described below. Total stockholder return is the calculation of total return (stock price appreciation plus reinvestment of dividends) based upon an initial investment of \$100 and subsequent \$100 investments at the end of each quarter during the three-year performance period.

Upon vesting, the performance units will be settled in cash in an amount determined by multiplying the number of performance units that have vested by the closing price of the Company’s common stock on the last trading day of the performance period.

In addition to WEC Energy Group, the 2016 performance unit peer group originally included:

- Alliant Energy Corporation
- Ameren Corporation
- American Electric Power Company
- CMS Energy Corporation
- Consolidated Edison, Inc.
- DTE Energy Co.
- Duke Energy Corp.
- Edison International
- Eversource Energy
- FirstEnergy Corp.
- Great Plains Energy, Inc.
- NiSource Inc.
- OGE Energy Corp.
- PG&E Corporation
- Pinnacle West Capital Corp.
- SCANA Corporation
- The Southern Company
- Westar Energy, Inc.
- Xcel Energy Inc.

The peer group is chosen by the Compensation Committee, based upon management's recommendation and with the concurrence of Frederic Cook. This peer group was chosen because we believe these companies are similar to WEC Energy Group in terms of business model and long-term strategies, with a focus on regulated utility operations rather than a non-regulated business model. There is significant overlap between the performance unit peer group and the comparison group developed by Frederic Cook for purposes of benchmarking compensation levels. However, there are several companies that are different among the two groups because Frederic Cook places significant weight on the financial metrics of the companies included in its comparison group, whereas we focus more on operational measures for the performance unit peer group.

In December 2016, the Compensation Committee determined that Westar Energy, Inc. should be removed from the custom peer group for the outstanding 2014 - 2016 performance unit awards, and should not be included in any future peer groups. On May 31, 2016, Great Plains Energy announced that it had entered into an agreement to purchase Westar Energy. Upon this announcement, there was a significant increase in Westar Energy's stock price which we believe was not the result of ongoing operating performance. This action is consistent with the Compensation Committee's past decisions to adjust the peer group to account for the impact of mergers and acquisitions.

The required percentile ranking for total stockholder return and the applicable vesting percentage are set forth in the chart below.

Performance Percentile Rank	Vesting Percent
< 25 th Percentile	0%
25 th Percentile	25%
Target (50 th Percentile)	100%
75 th Percentile	125%
90 th Percentile	175%

If the Company's rank is between the benchmarks identified above, the vesting percentage will be determined by interpolating on a straight line basis the appropriate vesting percentage. Unvested performance units generally are immediately forfeited upon a NEO's cessation of employment with WEC Energy Group prior to completion of the three-year performance period. However, the performance units will vest immediately at the target 100% rate upon the termination of the NEO's employment (1) by reason of disability or death or (2) after a change in control of WEC Energy Group. In addition, a prorated number of performance units (based upon the target 100% rate) will vest upon the termination of employment of the NEO by reason of retirement prior to the end of the three-year performance period.

For purposes of determining the appropriate number of performance units to grant to a particular NEO, the Compensation Committee used a value of \$50.024 per unit, the same value used for the restricted stock granted in January 2016. The following table provides the number of units granted to each NEO effective January 4, 2016, at the 100% target level.

Executive Officer	Performance Units Granted
Mr. Leverett	31,090
Mr. Lauber	2,535
Mr. Klappa	71,945
Mr. Keyes	14,200
Ms. Martin	9,370
Mr. Garvin	6,490
Mr. Fletcher	5,375

With respect to the additional 13,800 performance units granted to Mr. Leverett effective May 2, 2016 in connection with his appointment as CEO, the Compensation Committee used a value of \$58.325 per unit, the same value used for the additional restricted stock granted to Mr. Leverett in May 2016.

2016 Payouts under Previously Granted Long-Term Incentive Awards. In 2014, the Compensation Committee granted performance unit awards to participants in the Performance Unit Plan, including the NEOs. The terms of the performance units granted in 2014 were substantially similar to those of the performance units granted in 2016

described above, and the required performance percentile ranks and related vesting schedule were identical to that of the 2016 units.

Payouts under the 2014 performance units were based on our total stockholder return for the three-year performance period ended December 31, 2016 against the same group of peer companies used for the 2016 performance unit awards, except that the 2014 peer group included Avista Corporation and Portland General Electric, but did not include Edison International.

Accounting for these changes, our total stockholder return was at the 42nd percentile of the peer group for the three-year performance period ended December 31, 2016, resulting in the performance units vesting at a level of 76.3%. The actual payouts were determined by multiplying the number of vested performance units by the closing price of our common stock (\$58.65) on December 30, 2016, the last trading day of the performance period. The actual payout to each NEO is reflected in the "Option Exercises and Stock Vested for Fiscal Year 2016" table.

COMPENSATION RECOUPMENT POLICY

Accountability is a fundamental value of WEC Energy Group. To reinforce this value through the Company's executive compensation program, the Compensation Committee has adopted a clawback policy that provides for the recoupment of incentive-based compensation in the event WEC Energy Group is required to prepare an accounting restatement due to material noncompliance with any financial reporting requirement under the securities laws (other than restatements permitted as a result of changes in accounting principles or interpretation). Pursuant to the policy, the Compensation Committee will recover from any current or former executive officer who has received incentive-based compensation during the three-year period preceding the date on which WEC Energy Group is required to prepare the accounting restatement, any portion of the incentive-based compensation paid in excess of what would have been paid to the executive officer under the restated financial results. The Company may also recover incentive-based compensation if an executive officer's employment is terminated for cause, or the executive officer violates a noncompetition or other restrictive covenant.

STOCK OWNERSHIP GUIDELINES

The Compensation Committee believes that an important adjunct to the long-term incentive program is significant stock ownership by officers who participate in the program, including the NEOs. Accordingly, the Compensation Committee has implemented stock ownership guidelines requiring officers who participate in the long-term incentive program to hold an amount of Company common stock and other equity-related Company securities that varies depending upon such officer's level.

In addition to shares owned outright, holdings of each of the following are included in determining compliance with our stock ownership guidelines: restricted stock; WEC Energy Group phantom stock units held in the Executive Deferred Compensation Plan; WEC Energy Group stock held in the WEC Energy Group 401(k) plan and the WEC Energy Group Retirement Savings Plan; performance units at target; and shares held by a brokerage account, jointly with an immediate family member or in a trust.

Until December 31, 2016, the guidelines required each executive officer, including the NEOs, to acquire (generally within five years of appointment as an executive officer) and hold common stock and other equity-related securities of the Company having a minimum fair market value ranging from 250% to 500% of base salary. Effective January 1, 2017, the Compensation Committee changed the range to 250% to 600% of base salary. The Compensation Committee believes these stock ownership guidelines discourage unreasonable risk taking by Company officers.

The Compensation Committee annually reviews whether executive officers are in compliance with these guidelines. The last review was completed in July 2016. The Compensation Committee determined that the CEO is in compliance with the new ownership guidelines, and all of the other NEOs are in compliance or making appropriate progress to comply with these guidelines.

PROHIBITION ON HEDGING AND PLEDGING

WEC Energy Group's Corporate Securities Trading Policy prohibits the use of any strategies or products, including derivatives and short-selling techniques, to hedge against potential changes in the value of WEC Energy Group's

common stock. The policy also prohibits the holding of WEC Energy Group securities in a margin account, as well as the pledging of WEC Energy Group securities as collateral for a loan.

LIMITED TRADING WINDOWS

Officers, including the NEOs, other key employees, and the Company's directors may only transact in WEC Energy Group securities during approved trading windows after satisfying mandatory pre-clearance requirements.

RETIREMENT PROGRAMS

We also maintain retirement plans in which our NEOs participate: a defined benefit pension plan of the cash balance type, a supplemental executive retirement plan, and individual letter agreements with some of the NEOs. We believe our retirement plans are a valuable benefit in the attraction and retention of our employees, including the NEOs. We believe that providing a foundation for long-term financial security for our employees, beyond their employment with the Company, is a valuable component of our overall compensation program which will inspire increased loyalty and improved performance. For more information about our retirement plans, see "Pension Benefits at Fiscal Year-End 2016" and "Retirement Plans."

The Compensation Committee did not amend or otherwise modify Mr. Leverett's employment agreement, dated as of December 28, 2008, in any way in connection with his service as CEO.

OTHER BENEFITS, INCLUDING PERQUISITES

We provide our executive officers, including the NEOs, with employee benefits and a limited number of perquisites. Except as specifically noted elsewhere in this proxy statement, the employee benefits programs in which executive officers participate (which provide benefits such as medical coverage, retirement benefits, and annual contributions to a qualified savings plan) are generally the same programs offered to substantially all of the Company's salaried employees.

The perquisites made available to executive officers include financial planning, membership in a service that provides health care and safety management when traveling outside the United States, payment of the cost of a mandatory physical exam that the Board requires annually, limited spousal travel for business purposes, and monitoring costs related to a residential security system. The Company also pays periodic dues and fees for club memberships for certain of the NEOs and other designated officers.

We customarily review market data regarding executive perquisite practices on an annual basis. Following our acquisition of Integrys, the Compensation Committee undertook a thorough review of WEC Energy Group's perquisite practices with Frederic Cook. For 2016, Frederic Cook recommended to the Compensation Committee that the Company retain our current package of perquisites. WEC Energy Group has a legacy group of executives who are still eligible for gross-ups. We reimburse those executives for taxes paid on income attributable to the financial planning benefits provided to the executives only if the executive uses the Company's identified preferred provider, AYCO. We believe the use of the preferred financial adviser provides administrative benefits and eases communication between Company personnel and the financial adviser.

We pay periodic dues and fees for certain club memberships as we have found that the use of these facilities helps foster better customer and community relationships. Officers, including the NEOs, are expected to use clubs for which the Company pays dues primarily for business purposes. We do not pay any additional expenses incurred for personal use of these facilities, and officers are required to reimburse the Company to the extent that it pays for any such personal use. The total annual club dues are included in the "Summary Compensation Table." We do not permit personal use of the airplane utilized by the Company. We do allow spousal travel if an executive's spouse is accompanying the executive on business travel and the airplane is not fully utilized by Company personnel. There is no incremental cost to the Company for this travel, other than the reimbursement for taxes paid on imputed income attributable to the executives for this perquisite, as the airplane cost is the same regardless of whether an executive's spouse travels.

In addition, each of our executive officers is eligible to participate in an officer life insurance benefit. If an executive officer chooses to participate, upon such officer's death while employed by the Company, a benefit is paid to his or her designated beneficiary in an amount equal to the value of three times the officer's base salary at the time of death.

TAX GROSS-UP POLICY

The Compensation Committee adopted a formal policy that prohibits entry into any contract, agreement, or arrangement with any officer of the Company that obligates the Company to pay directly or reimburse the officer for any portion of the officer's individual tax liability for benefits provided by the Company. Excluded from this policy are (1) agreements or arrangements entered into prior to December 2014 when the policy was adopted, (2) agreements or arrangements entered into prior to, and assumed by the Company in connection with, any merger or acquisition, or (3) plans or policies applicable to Company employees generally.

This policy formalizes WEC Energy Group's practice since the beginning of 2006 to not include any provisions requiring a gross-up for excise tax in any new executive employment agreement, as well as the Compensation Committee's policy since July 2011 to eliminate tax gross-ups on perquisites provided by the Company to its officers (except to officers who were already receiving gross-ups as of July 2011). Of the NEOs, Messrs. Leverett, Lauber, Klappa, and Garvin, and Ms. Martin, were receiving gross-ups from the Company prior to July 2011.

SEVERANCE BENEFITS AND CHANGE IN CONTROL

Several years ago, the Compensation Committee determined that it would no longer offer severance and change in control benefits in employment agreements. Therefore, Messrs. Lauber, Keyes, and Garvin, and Ms. Martin, have not entered into an employment agreement that provides for these benefits. However, they are eligible to participate in the Company's Severance Pay Plan. Prior to that time, each of Messrs. Leverett, Klappa, and Fletcher entered into an employment agreement with the Company which includes severance and change in control provisions. For a discussion of the severance and change in control benefits available under these agreements, and to our executive officers generally, see "Potential Payments upon Termination or Change in Control."

In addition, our supplemental pension plan provides that in the event of a change in control, each NEO will be entitled to a lump sum payment of amounts due under the plan if employment is terminated within 18 months of the change in control.

IMPACT OF PRIOR COMPENSATION

The Compensation Committee does not believe it is appropriate to consider the amounts realized or realizable from prior incentive compensation awards when establishing future levels of short-term and long-term incentive compensation.

SECTION 162(m) OF THE INTERNAL REVENUE CODE

Section 162(m) of the Internal Revenue Code limits the deductibility of certain executives' compensation that exceeds \$1 million per year, unless the compensation is performance-based under Section 162(m) and is issued through a plan that has been approved by stockholders. Although the Compensation Committee takes into consideration the provisions of Section 162(m), it believes that maintaining tax deductibility is only one consideration among many in the design of an effective executive compensation program.

With respect to 2016 compensation for the NEOs, the stock option grants under the 1993 Omnibus Stock Incentive Plan have been structured to qualify as performance-based compensation under Section 162(m). The remaining components of the 2016 compensation program do not qualify for tax deductibility under Section 162(m).

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

The Compensation Committee

John F. Bergstrom, Committee Chair
Thomas J. Fischer
Ulice Payne, Jr.

EXECUTIVE COMPENSATION TABLES

The following table summarizes total compensation awarded to, earned by, or paid to WEC Energy Group's Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and each of the other individuals identified in the table below (the "NEOs").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	(5) Stock Awards (\$)	(7) Option Awards (\$)	(8) Non-Equity Incentive Plan Compensation (\$)	(10) Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	(11) (12) All Other Compensation (\$)	Total (\$)	Total Without Change in Pension Value (\$)
Allen L. Leverett President and Chief Executive Officer	2016	941,667	—	2,939,251	769,144	2,162,593	4,549,812	140,512	11,502,979	6,963,294
	2015	799,155	—	2,762,955	481,762	1,680,500	925,639	132,014	6,782,025	5,858,590
	2014	774,000	—	1,759,152	671,616	1,598,927	1,578,300	125,250	6,507,245	4,928,945
Scott J. Lauber ⁽¹⁾ Executive Vice President and Chief Financial Officer	2016	351,784	—	158,886	38,371	513,010	65,818	38,116	1,165,985	1,103,685
Gale E. Klappa ⁽²⁾ Non-Executive Chairman of the Board	2016	589,043 ⁽³⁾	—	7,427,755 ⁽⁶⁾	816,752	1,179,632 ⁽⁹⁾	925,719	210,435	11,149,336	10,250,269
	2015	1,324,739	—	5,388,193	809,646	3,454,116	2,573,492	276,582	13,826,768	11,260,113
	2014	1,283,040	—	3,969,744	1,061,898	3,289,058	2,647,425	246,641	12,497,806	9,850,381
J. Patrick Keyes ⁽²⁾ Executive Vice President-Strategy	2016	546,400	—	889,965	215,067	904,320	111,973	73,034	2,740,759	2,630,909
	2015	531,002	—	1,121,231	201,993	911,839	90,080	71,410	2,927,555	2,837,539
	2014	515,536	—	752,317	287,248	846,957	105,365	70,153	2,577,576	2,472,211
Susan H. Martin Executive Vice President, General Counsel and Corporate Secretary	2016	515,000	—	587,165	106,358	779,035	102,117	113,108	2,202,783	2,103,032
	2015	475,000	—	824,278	87,032	741,831	86,748	58,343	2,273,232	2,186,678
	2014	430,499	—	429,204	114,795	649,371	79,808	110,671	1,814,348	1,734,540
Robert M. Garvin Executive Vice President - External Affairs	2016	416,120	—	406,738	98,269	541,443	75,596	65,541	1,603,707	1,528,639
	2015	404,000	—	709,707	88,189	539,575	60,584	62,499	1,864,554	1,804,019
	2014	386,548	30,000 ⁽⁴⁾	323,646	123,572	505,437	72,709	61,126	1,503,038	1,430,329
J. Kevin Fletcher ⁽¹⁾ President - WE, WG and WPS	2016	411,345	—	336,818	81,425	606,866	671,274	39,869	2,147,597	1,482,133

Note: In order to show the effect that the year-over-year change in pension value had on total compensation, as determined under applicable SEC rules, we have included an additional column to show total compensation minus the change in pension value. The amounts reported in the Total Without Change in Pension Value column may differ substantially from the amounts reported in the Total column required under SEC rules and are not a substitute for total compensation. Total Without Change in Pension Value represents total compensation, as determined under applicable SEC rules, minus the change in pension value reported in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column. The change in pension value is subject to many external variables, such as interest rates, that are not related to Company performance. Therefore, we do not believe a year-over-year change in pension value is helpful in evaluating compensation for comparative purposes.

- (1) Mr. Lauber, who was named Executive Vice President and CFO effective April 1, 2016, and Mr. Fletcher, who was named President of the Wisconsin utilities effective May 1, 2016, became named executive officers in 2016. Therefore, no information has been provided for 2014 and 2015 for either officer.
- (2) Mr. Klappa was the executive Chairman of the Board and CEO of WEC Energy Group until May 1, 2016, at which time he retired and became Non-Executive Chairman of the Board. Mr. Keyes was Executive Vice President and CFO until April 1, 2016, at which time he became Executive Vice President-Strategy of WEC Energy Group and President of our Minnesota and Michigan utilities.
- (3) Includes pro rata Board of Director fees earned by Mr. Klappa in the amount of \$133,333.
- (4) Constitutes discretionary bonus paid to Mr. Garvin for exceptional work on legislative and regulatory matters during 2014.
- (5) The amounts reported reflect the aggregate grant date fair value, as computed in accordance with FASB ASC Topic 718 excluding estimated forfeitures, of performance units and restricted stock awarded to each NEO in the respective year for which such amounts are

reported. The amounts reported for the performance units are based upon the probable outcome as of the grant date of associated performance and market conditions, and are consistent with our estimate, as of the grant date, of aggregate compensation cost to be recognized over the three-year performance period. The actual value received by the executives from these awards may range from \$0 to greater than the reported amounts, depending upon the Company's performance and the executive's number of additional years of service with the Company.

The value of the performance unit awards as of the grant date, assuming achievement of the highest level of performance and excluding any performance units resulting from short-term dividend equivalents, for each of Messrs. Leverett, Lauber, Klappa, Keyes, Garvin, and Fletcher, and Ms. Martin, is \$4,179,276, \$225,903, \$6,411,661, \$1,265,486, \$578,406, \$479,001, and \$835,068, respectively, for the 2016 awards. The value of the performance unit awards as of the grant date, assuming achievement of the highest level of performance, for each of Messrs. Leverett, Lauber, Klappa, Keyes, Garvin, and Fletcher, and Ms. Martin, is \$2,729,329, \$186,508, \$6,162,162, \$1,144,595, \$499,382, \$449,872 and \$662,298, respectively, for the 2015 awards. See "Option Exercises and Stock Vested For Fiscal Year 2016" for the amount of the actual payout with respect to the 2014 award of performance units. Not included are the performance unit awards resulting from short-term dividend equivalents that may increase this amount depending upon WEC Energy Group's total stockholder return over a three-year performance period.

- (6) In connection with Mr. Klappa's retirement, and in light of his many contributions to the success of the Company, the Compensation Committee accelerated the vesting of 47,181 shares of restricted stock previously awarded to him. The fair value associated with this acceleration was \$2,751,832, which is included in the reported amount. The prorated payout to Mr. Klappa for the performance units that were granted in 2016 is reflected in the "Option Exercises and Stock Vested for Fiscal Year 2016" table. The amount also includes \$166,667 related to the restricted stock award granted on becoming the Non-Executive Chairman of the Board.
- (7) The amounts reported reflect the aggregate grant date fair value, as computed in accordance with FASB ASC Topic 718 excluding estimated forfeitures, of options awarded to each NEO in the respective year for which such amounts are reported. The actual value received by the executives from these awards may range from \$0 to greater than the reported amounts, depending upon Company performance. In accordance with FASB ASC Topic 718, we made certain assumptions in our calculation of the grant date fair value of the stock options. See "Stock Options" in Note 1(q) -- Stock-Based Compensation, in the Notes to Consolidated Financial Statements in our 2016 Annual Report on Form 10-K for a description of these assumptions. For 2016, the assumptions made in connection with the valuation of the stock options are the same as described in Note 1(q), except that the expected life of the options is 4.1 years for Mr. Klappa and Ms. Martin, and 7.8 years for Messrs. Leverett, Lauber, Keyes, Garvin, and Fletcher. The change in the expected life of the options as set forth in Note 1(q) resulted from the fact that Mr. Klappa and Ms. Martin were "retirement eligible" as of the grant date, and Messrs. Leverett, Lauber, Keyes, Garvin, and Fletcher were not, whereas the assumption described in Note 1(q) is a weighted average of all option holders.
- (8) Consists of the annual incentive compensation and short-term dividend equivalents earned under WEC Energy Group's STPP. The amounts earned for each award for 2016 are shown below.

Name	Annual Incentive Award (\$)	Short-Term Dividend Equivalents (\$)	Total (\$)
Allen L. Leverett	2,035,229	127,364	2,162,593
Scott J. Lauber	504,100	8,910	513,010
Gale E. Klappa	1,134,718	44,914	1,179,632
J. Patrick Keyes	850,335	53,985	904,320
Susan H. Martin	748,038	30,997	779,035
Robert M. Garvin	518,069	23,374	541,443
J. Kevin Fletcher	586,680	20,186	606,866

- (9) Represents prorated amounts earned by Mr. Klappa prior to his retirement.
- (10) The amounts reported for 2016, 2015, and 2014 reflect the aggregate change in the actuarial present value of each applicable NEO's accumulated benefit under all defined benefit plans from December 31, 2015 to December 31, 2016, December 31, 2014 to December 31, 2015, and December 31, 2013 to December 31, 2014, respectively. For 2016 and 2015, the amounts reported also include above-market earnings on compensation that is deferred by the NEOs into the Prime Rate Fund under WEC Energy Group's Executive Deferred Compensation Plan. Above-market earnings represent the difference between the interest rate used to calculate earnings under the Plan and 120% of the applicable federal long-term rate prescribed by the Internal Revenue Code. The amounts earned for 2016 are shown below.

Name	Change in Pension Value (\$)	Non-Qualified Deferred Compensation Earnings (\$)	Total (\$)
Allen L. Leverett	4,539,685	10,127	4,549,812
Scott J. Lauber	62,300	3,518	65,818
Gale E. Klappa	899,067	26,652	925,719
J. Patrick Keyes	109,850	2,123	111,973
Susan H. Martin	99,751	2,366	102,117
Robert M. Garvin	75,068	528	75,596
J. Kevin Fletcher	665,464	5,810	671,274

In 2016, for purposes of calculating the actuarial present value of Mr. Leverett's defined benefit pension plan, we assumed that Mr. Leverett would stay with the Company until age 60 at which time he would be entitled to an unreduced pension benefit. \$2.9 million of the amount

reported for Mr. Leverett's aggregate change in actuarial present value relates to this change in assumption. For 2016, 2015, and 2014, the applicable discount rate used to value pension plan liabilities moved from 4.45% to 4.15%, 4.15% to 4.45%, and 5.00% to 4.15%, respectively. As the discount rate decreases, the Company's pension funding obligation increases, and vice versa. The changes in the actuarial present values of the NEOs' pension benefits do not constitute cash payments to the NEOs.

The pension values reported represent only WEC Energy Group's obligation of the aggregate change in the actuarial present value of each NEO's accumulated benefit under all defined benefit plans. Messrs. Leverett, Klappa, and Fletcher are entitled to receive pension benefits from prior employers. To the extent such prior employers are unable to pay their pension obligations, WEC Energy Group may be obligated to pay the total amount.

⁽¹¹⁾ During 2016, each NEO received financial planning services and, other than Mr. Klappa, the cost of an annual physical exam; Messrs. Leverett, Klappa, and Ms. Martin received reimbursement for club dues; Messrs. Leverett, Lauber, and Klappa were provided with membership in a service that provides healthcare and safety management when traveling outside the United States; and Mr. Klappa received reimbursement for monitoring costs related to a home security system. In addition, the NEOs were eligible to receive reimbursement for taxes paid on imputed income attributable to certain perquisites including spousal travel and related costs for industry events where it is customary and expected that officers attend with their spouses. During 2016, Mr. Klappa utilized the benefit of spousal travel for business purposes with the associated tax reimbursement. These tax reimbursements are reflected in the Summary Compensation Table (see the third bullet point in Note 12 below). Other than the tax reimbursement, there is no incremental cost to the Company related to this spousal travel.

⁽¹²⁾ For Mr. Klappa, the amount reported in All Other Compensation for 2016 includes \$21,434 attributable to WEC Energy Group's Directors' Charitable Awards Program in connection with Mr. Klappa's service on the Company's Board. See "Director Compensation" for a description of the Directors' Charitable Awards Program.

All Other Compensation for Messrs. Leverett, Lauber, Klappa, Keyes, Garvin, and Fletcher, and Ms. Martin, for 2016 also consists of:

- Employer matching of contributions into the WEC Energy Group 401(k) plan in the amount of \$10,325 for Messrs. Leverett, Lauber, Keyes, and Garvin; \$10,600 for Mr. Klappa; \$7,768 for Mr. Fletcher; and \$5,973 for Ms. Martin;
- "Make-whole" payments under the Executive Deferred Compensation Plan that provides a match at the same level as the WEC Energy Group 401(k) plan (4% for up to 7% of wages) for all deferred salary and bonus not otherwise eligible for a match in the amounts of \$87,483, \$12,938, \$44,709, \$26,406, \$130,034, \$26,701, and \$37,930, respectively; and
- Tax reimbursements or "gross-ups" for all applicable perquisites in the amounts of \$20,968, \$5,048, \$25,002, and \$14,290 for Messrs. Leverett, Lauber, Klappa, and Garvin, respectively, and \$25,229 for Ms. Martin.

GRANTS OF PLAN-BASED AWARDS FOR FISCAL YEAR 2016

The following table shows additional data regarding incentive plan awards to the NEOs in 2016.

Name	Grant Date	Action Date ⁽¹⁾	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽²⁾			Estimated Future Payouts Under Equity Incentive Plan Awards ⁽³⁾			All Other Stock Awards: Number of Shares of Stock or Units ⁽⁴⁾	All Other Option Awards ⁽⁵⁾			Grant Date Fair Value of Stock and Option Awards (\$)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		Number of Securities Underlying Options (#)	Exercise or Base Price ⁽⁶⁾ (\$/Sh)	Closing Market Price (\$/Sh)	
Allen L. Leverett	1/21/16	—	245,208	980,833	2,059,749	—	—	—	—	—	—	—	—
	1/21/16	—	—	127,364	—	—	—	—	—	—	—	—	—
	1/4/16	12/3/15	—	—	—	7,773	31,090	54,408	—	—	—	—	1,583,258
	1/4/16	12/3/15	—	—	—	—	—	—	7,173	—	—	—	365,285
	1/4/16	12/3/15	—	—	—	—	—	—	—	82,455	50.925	51.32	470,818
	5/2/16	4/21/16	—	—	—	3,450	13,800	24,150	—	—	—	—	804,885
	5/2/16	4/21/16	—	—	—	—	—	—	3,186	—	—	—	185,823
5/2/16	4/21/16	—	—	—	—	—	—	—	42,679	58.325	58.42	298,326	
Scott J. Lauber	1/21/16	—	60,735	242,940	510,174	—	—	—	—	—	—	—	—
	1/21/16	—	—	8,910	—	—	—	—	—	—	—	—	—
	1/4/16	12/3/15	—	—	—	634	2,535	4,436	—	—	—	—	129,095
	1/4/16	12/3/15	—	—	—	—	—	—	585	—	—	—	29,791
	1/4/16	12/3/15	—	—	—	—	—	—	—	6,720	50.925	51.32	38,371
Gale E. Klappa	1/21/16	—	136,713	546,852	1,148,389	—	—	—	—	—	—	—	—
	1/21/16	—	—	44,914	—	—	—	—	—	—	—	—	—
	1/4/16	12/3/15	—	—	—	17,986	71,945	125,904	—	—	—	—	3,663,799
	1/4/16	12/3/15	—	—	—	—	—	—	16,602	—	—	—	845,457
	1/4/16	12/3/15	—	—	—	—	—	—	—	190,830	50.925	51.32	816,752
	5/2/16	4/21/16	—	—	—	—	—	—	2,858	—	—	—	166,693
5/2/16	4/21/16	—	—	—	—	—	—	47,181	—	—	—	2,751,832	
J. Patrick Keyes	1/21/16	—	102,450	409,800	860,580	—	—	—	—	—	—	—	—
	1/21/16	—	—	53,985	—	—	—	—	—	—	—	—	—
	1/4/16	12/3/15	—	—	—	3,550	14,200	24,850	—	—	—	—	723,135
	1/4/16	12/3/15	—	—	—	—	—	—	3,276	—	—	—	166,830
	1/4/16	12/3/15	—	—	—	—	—	—	—	37,665	50.925	51.32	215,067
Susan H. Martin	1/21/16	—	90,125	360,500	757,050	—	—	—	—	—	—	—	—
	1/21/16	—	—	30,997	—	—	—	—	—	—	—	—	—
	1/4/16	12/3/15	—	—	—	2,343	9,370	16,398	—	—	—	—	477,167
	1/4/16	12/3/15	—	—	—	—	—	—	2,160	—	—	—	109,998
	1/4/16	12/3/15	—	—	—	—	—	—	—	24,850	50.925	51.32	106,358
Robert M. Garvin	1/21/16	—	62,418	249,672	524,311	—	—	—	—	—	—	—	—
	1/21/16	—	—	23,374	—	—	—	—	—	—	—	—	—
	1/4/16	12/3/15	—	—	—	1,623	6,490	11,358	—	—	—	—	330,503
	1/4/16	12/3/15	—	—	—	—	—	—	1,497	—	—	—	76,235
	1/4/16	12/3/15	—	—	—	—	—	—	—	17,210	50.925	51.32	98,269
J. Kevin Fletcher	1/21/16	—	71,985	287,941	604,676	—	—	—	—	—	—	—	—
	1/21/16	—	—	20,186	—	—	—	—	—	—	—	—	—
	1/4/16	12/3/15	—	—	—	1,344	5,375	9,406	—	—	—	—	273,722
	1/4/16	12/3/15	—	—	—	—	—	—	1,239	—	—	—	63,096
	1/4/16	12/3/15	—	—	—	—	—	—	—	14,260	50.925	51.32	81,425

(1) On December 3, 2015, the Compensation Committee awarded the 2016 option, restricted stock, and performance unit grants effective the first trading day of 2016 (January 4, 2016). On April 21, 2016, the Compensation Committee awarded restricted stock to Mr. Klappa in connection with his service as Non-Executive Chairman of the Board, and accelerated the vesting of 47,181 shares of restricted stock in connection with his retirement as CEO, effective the first trading date following commencement of his service (May 2, 2016). In addition, on April 21, 2016, the Compensation Committee awarded additional options, restricted stock and performance units to Mr. Leverett in connection with his service as CEO, effective the first trading date following commencement of his service (May 2, 2016).

(2) Non-equity incentive plan awards consist of annual incentive awards under WEC Energy Group's STPP (reported on the first line) and short-term dividend equivalents paid under the STPP (reported on the second line). The short-term dividend equivalents only vest upon achievement of the established performance target; otherwise, no dividend equivalents vest. For a more detailed description of the STPP and short-term dividend equivalents, see the Compensation Discussion and Analysis.

For Mr. Klappa, these represent prorated amounts to account for his retirement effective May 1, 2016. For Mr. Leverett, the STPP award reflects prorated amounts based upon his base salary and target STPP award as President for four months and as President and CEO for eight

months. For Mr. Lauber, the STPP award reflects prorated amounts based upon his base salary and target STPP award as Vice President and Treasurer for three months and as Executive Vice President and CFO for nine months.

- (3) Consists of performance units awarded under the WEC Energy Group Performance Unit Plan. WEC Energy Group's Performance Unit Plan provides for short-term dividend equivalents. The number of performance units awarded will be increased as of any date that WEC Energy Group declares a cash dividend on its common stock by the amount of short-term dividend equivalents awarded. In effect, short-term dividend equivalents will be credited and accumulated as reinvested dividends on each performance unit so that the performance units and accumulated dividends will be paid out at the end of the performance units' three-year performance period, contingent upon the Company's performance. Therefore, the number of performance units reported at each of the threshold, target, and maximum levels in this table will increase by the number of short-term dividend equivalents earned. For a more detailed description of the performance units and short-term dividend equivalents and how such dividend equivalents are calculated, see the Compensation Discussion and Analysis.
- (4) Consists of restricted stock awarded under the 1993 Omnibus Stock Incentive Plan. For a more detailed description of the terms of the restricted stock, see the Compensation Discussion and Analysis.
- (5) Consists of non-qualified stock options to purchase shares of WEC Energy Group common stock pursuant to the 1993 Omnibus Stock Incentive Plan. For a more detailed description of the terms of the options, see the Compensation Discussion and Analysis.
- (6) The exercise price of the option awards is equal to the fair market value of WEC Energy Group's common stock on the date of grant. Fair market value is the average of the high and low prices of WEC Energy Group common stock reported in the New York Stock Exchange Composite Transaction Report on the grant date.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2016

The following table reflects the number and value of exercisable and unexercisable options as well as the number and value of other equity awards held by the NEOs at fiscal year-end 2016.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options: Exercisable (#)	Number of Securities Underlying Unexercised Options: Unexercisable ⁽¹⁾ (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested ⁽²⁾ (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ⁽³⁾ (\$)
Allen L. Leverett	29,715	—	—	29.3475	1/03/21	—	—	—	—
	112,250	—	—	34.875	1/03/22	—	—	—	—
	197,360	—	—	37.46	1/02/23	—	—	—	—
	—	134,055	—	41.025	1/02/24	—	—	—	—
	—	77,955	—	52.895	1/02/25	—	—	—	—
	—	82,455	—	50.925	1/04/26	—	—	—	—
	—	42,679	—	58.325	5/02/26	—	—	—	—
	—	—	—	—	—	29,006	1,701,202	—	—
	—	—	—	—	—	—	—	29,485	1,729,295
	—	—	—	—	—	—	—	46,321	2,716,727
Scott J. Lauber	6,650	—	—	21.1075	1/02/19	—	—	—	—
	1,500	—	—	24.92	1/04/20	—	—	—	—
	1,240	—	—	29.3475	1/03/21	—	—	—	—
	3,650	—	—	34.875	1/03/22	—	—	—	—
	6,360	—	—	37.46	1/02/23	—	—	—	—
	—	9,560	—	41.025	1/02/24	—	—	—	—
	—	5,330	—	52.895	1/02/25	—	—	—	—
	—	6,720	—	50.925	1/04/26	—	—	—	—
	—	—	—	—	—	3,587	210,378	—	—
	—	—	—	—	—	—	—	2,015	118,180
—	—	—	—	—	—	—	2,623	153,839	
Gale E. Klappa	41,060	—	—	24.92	1/04/20	—	—	—	—
	100,610	—	—	29.3475	1/03/21	—	—	—	—
	255,280	—	—	34.875	1/03/22	—	—	—	—
	479,650	—	—	37.46	1/02/23	—	—	—	—
	302,535	—	—	41.025	1/02/24	—	—	—	—
	176,010	—	—	52.895	1/02/25	—	—	—	—
	190,830	—	—	50.925	1/04/26	—	—	—	—
	—	—	—	—	—	2,858	167,622	—	—
J. Patrick Keyes	10,460	—	—	34.875	1/03/22	—	—	—	—
	95,265	—	—	37.46	1/02/23	—	—	—	—
	—	57,335	—	41.025	1/02/24	—	—	—	—
	—	32,685	—	52.895	1/02/25	—	—	—	—
	—	37,665	—	50.925	1/04/26	—	—	—	—
	—	—	—	—	—	10,611	622,335	—	—
	—	—	—	—	—	—	—	12,365	725,207
—	—	—	—	—	—	—	14,692	861,686	
Susan H. Martin	15,470	—	—	37.46	1/02/23	—	—	—	—
	—	32,705	—	41.025	1/02/24	—	—	—	—
	—	18,920	—	52.895	1/02/25	—	—	—	—
	—	24,850	—	50.925	1/04/26	—	—	—	—
	—	—	—	—	—	8,773	514,536	—	—
	—	—	—	—	—	—	—	7,155	419,641
—	—	—	—	—	—	—	9,694	568,553	

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options: Exercisable (#)	Number of Securities Underlying Unexercised Options: Unexercisable ⁽¹⁾ (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested ⁽²⁾ (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ⁽³⁾ (\$)
Robert M. Garvin	33,910	—	—	37.46	1/02/23	—	—	—	—
	—	24,665	—	41.025	1/02/24	—	—	—	—
	—	14,270	—	52.895	1/02/25	—	—	—	—
	—	17,210	—	50.925	1/04/26	—	—	—	—
	—	—	—	—	—	7,679	450,373	—	—
	—	—	—	—	—	—	—	5,395	316,417
	—	—	—	—	—	—	—	6,715	393,835
J. Kevin Fletcher	18,260	—	—	34.875	1/03/22	—	—	—	—
	33,670	—	—	37.46	1/02/23	—	—	—	—
	—	20,525	—	41.025	1/02/24	—	—	—	—
	—	12,845	—	52.895	1/02/25	—	—	—	—
	—	14,260	—	50.925	1/04/26	—	—	—	—
	—	—	—	—	—	4,539	266,212	—	—
	—	—	—	—	—	—	—	4,860	285,039
—	—	—	—	—	—	—	5,561	326,153	

- ⁽¹⁾ All options reported in this column were granted ten years prior to their respective expiration date and vest 100% on the third anniversary of the grant date.
- ⁽²⁾ Effective January 2, 2014, Messrs. Leverett, Lauber, Keyes, Garvin, and Fletcher, and Ms. Martin, were granted restricted stock awards of 8,040, 573, 3,438, 1,479, 1,230, and 1,962 shares, respectively, which began vesting in three equal annual installments on January 2, 2015. Effective January 2, 2015, Messrs. Leverett, Lauber, Keyes, Garvin, and Fletcher, and Ms. Martin, were granted restricted stock awards of 6,804, 465, 2,853, 1,245, 1,119, and 1,650 shares, respectively, which began vesting in three equal annual installments on January 2, 2016. On July 31, 2015, Messrs. Leverett, Lauber, Keyes, Garvin, and Fletcher, and Ms. Martin, were granted restricted stock awards of 17,145, 3,751, 6,429, 7,287, 3,215, and 7,287 shares, respectively, for the key role each played in closing the acquisition of Integrys Energy Group. These shares vest in three equal installments on January 29, 2016, January 31, 2017, and July 31, 2018. Effective January 4, 2016, Messrs. Leverett, Lauber, Keyes, Garvin, and Fletcher, and Ms. Martin, were granted restricted stock awards of 7,173, 585, 3,276, 1,497, 1,239, and 2,160 shares, respectively, which began vesting in three equal annual installments on January 4, 2017. Effective May 2, 2016, Mr. Leverett was granted a restricted stock award of 3,186 shares, which will vest in three equal annual installments beginning May 2, 2017. Effective May 2, 2016, Mr. Klappa was granted a restricted stock award of 2,858 shares, which will vest 100% on May 2, 2019. Other than with respect to Mr. Klappa's restricted stock award, the vesting of the restricted stock may be accelerated in connection with a termination of employment due to a change in control, death or disability, or by action of the Compensation Committee. The vesting of Mr. Klappa's restricted stock may be accelerated in connection with a change in control, death or disability, or by action of the Compensation Committee.
- ⁽³⁾ The number of performance units reported were awarded in 2015 (first line) and 2016 (second line) and vest at the end of the three-year performance period ending December 31, 2017 and December 31, 2018, respectively. The number of performance units reported and their corresponding value are based upon a payout at the target amount for 2015 and 2016. The number and value of the 2016 performance units includes performance units resulting from the grant of short-term dividend equivalents in 2016.

OPTION EXERCISES AND STOCK VESTED FOR FISCAL YEAR 2016

This table shows the number and value of (1) stock options that were exercised by the NEOs, (2) restricted stock awards that vested, and (3) performance units that vested in 2016.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ⁽¹⁾ (\$)	Number of Shares Acquired on Vesting ⁽²⁾ (#)	Value Realized on Vesting ⁽³⁾⁽⁴⁾ (\$)
Allen L. Leverett	201,035	7,188,368	13,221	698,392
	—	—	26,583	1,559,088
Scott J. Lauber	—	—	1,678	90,946
	—	—	1,896	111,204
Gale E. Klappa	663,960	24,605,149	71,712 ⁽⁵⁾	4,032,467 ⁽⁵⁾
	—	—	98,800 ⁽⁶⁾	5,751,129 ⁽⁶⁾
J. Patrick Keyes	—	—	5,474	288,178
	—	—	11,369	666,774
Susan H. Martin	53,610	1,487,169	4,351	232,246
	—	—	6,486	380,375
Robert M. Garvin	19,225	514,130	3,776	202,964
	—	—	4,891	286,847
J. Kevin Fletcher	—	—	2,290	121,325
	—	—	4,071	238,741

- (1) Value realized upon the exercise of options is determined by multiplying the number of shares received upon exercise by the difference between the market price of WEC Energy Group common stock at the time of exercise and the exercise price.
- (2) Reflects the number of shares of restricted stock that vested in 2016 (first line) and, except for Mr. Klappa, the number of performance units that vested as of December 31, 2016, the end of the applicable three-year performance period (second line). The performance units were settled in cash.
- (3) Restricted stock value realized is determined by multiplying the number of shares of restricted stock that vested by the fair market value of WEC Energy Group common stock on the date of vesting. We compute fair market value as the average of the high and low prices of WEC Energy Group common stock reported in the New York Stock Exchange Composite Transaction Report on the vesting date.
- (4) Other than Mr. Klappa, performance units value realized is determined by multiplying the number of performance units (granted in 2014) that vested by the closing market price of WEC Energy Group common stock on December 30, 2016.
- (5) Includes 47,181 shares of restricted stock for which the Compensation Committee accelerated vesting effective May 1, 2016. The value realized by Mr. Klappa in connection with this acceleration was \$2,751,832, and was determined using the average of the high and low prices of WEC Energy Group common stock on May 2, 2016.
- (6) Reflects the prorated number of performance units awarded in 2014, 2015, and 2016 (based upon the target 100% rate) that vested pursuant to the terms of the WEC Energy Group Performance Unit Plan upon Mr. Klappa's retirement. The value realized was determined using the closing price of WEC Energy Group common stock on April 29, 2016.

PENSION BENEFITS AT FISCAL YEAR-END 2016

The following table sets forth information for each NEO regarding their pension benefits at fiscal year-end 2016 under WEC Energy Group's three different retirement plans discussed below.

Name	Plan Name	Number of Years Credited Service ⁽¹⁾ (#)	Present Value of Accumulated Benefit ⁽²⁾⁽³⁾ (\$)	Payments During Last Fiscal Year (\$)
Allen L. Leverett	WEC Energy Group Plan	13.50	283,237	—
	SERP	13.50	1,761,109	—
	Individual Letter Agreement	28.00	8,414,704	—
Scott J. Lauber	WEC Energy Group Plan	26.50	484,070	—
	SERP	26.50	157,170	—
	Individual Letter Agreement	—	—	—
Gale E. Klappa	WEC Energy Group Plan	13.00	294,661	14,695
	SERP	13.00	3,504,646	152,919
	Individual Letter Agreement	38.67	24,748,956	1,079,880
J. Patrick Keyes	WEC Energy Group Plan	5.67	105,774	—
	SERP	5.67	280,097	—
	Individual Letter Agreement	5.67	139,232	—
Susan H. Martin	WEC Energy Group Plan	16.75	266,899	—
	SERP	16.75	339,180	—
	Individual Letter Agreement	—	—	—
Robert M. Garvin	WEC Energy Group Plan	5.67	111,226	—
	SERP	5.67	199,207	—
	Individual Letter Agreement	5.67	69,618	—
J. Kevin Fletcher	WEC Energy Group Plan	5.17	97,092	—
	SERP	5.17	172,813	—
	Individual Letter Agreement	39.75	3,626,145	—

(1) Years of service are computed as of December 31, 2016, the pension plan measurement date used for financial statement reporting purposes. Messrs. Leverett, Klappa, and Fletcher have been credited with 14.5, 25.67, and 34.58 years of service, respectively, pursuant to the terms of their Individual Letter Agreements ("ILAs"). The increase in the aggregate amount of each of Messrs. Leverett's, Klappa's, and Fletcher's accumulated benefit under all of WEC Energy Group's retirement plans resulting from the additional years of credited service is \$6,637,340, \$20,981,171, and \$3,165,031, respectively.

(2) The key assumptions used in calculating the actuarial present values reflected in this column are:

- Earliest projected unreduced retirement age based on projected service:
 - For Mr. Leverett, age 60.
 - For Mr. Lauber, age 60.
 - For Mr. Klappa, age 65.67 (actual age at retirement).
 - For Mr. Keyes, age 55.58.
 - For Ms. Martin, age 65.
 - For Mr. Garvin, age 54.75.
 - For Mr. Fletcher, age 65.
- Discount rate of 4.15%.
- Cash balance interest crediting rate of 5.00%.
- Form of payment:
 - Messrs. Leverett and Fletcher: WEC Energy Group Plan and SERP - Lump sum; ILA - Life annuity.
 - Messrs. Lauber, Keyes, Garvin, and Ms. Martin: WEC Energy Group Plan and SERP - Lump sum.
 - Messrs. Keyes and Garvin: ILA - Lump sum.
 - Mr. Klappa's actual form of payment elected at retirement: WEC Energy Group Plan, SERP, and ILA - Life annuity.
- Mortality Table, for Messrs. Leverett's and Klappa's life annuity – RP2014/Male/White Collar with modified MP2014 projection.

In 2016, for purposes of calculating the actuarial present value of Mr. Leverett's accumulated benefits, we assumed that Mr. Leverett would stay with the Company until age 60 at which time he would be entitled to an unreduced pension benefit. \$2.9 million of the amount reported for Mr. Leverett's present value of accumulated benefit under his ILA relates to this change in assumption.

(3) WEC Energy Group's pension benefit obligations to Messrs. Leverett, Klappa, and Fletcher will be partially offset by pension benefits Messrs. Leverett, Klappa, and Fletcher are entitled to receive from their former employers. The amounts reported for Messrs. Leverett, Klappa, and Fletcher, represent only WEC Energy Group's obligation of the aggregate actuarial present value of each of their accumulated benefit under all of the plans. The total aggregate actuarial present value of each of Messrs. Leverett's, Klappa's, and Fletcher's accumulated benefit under all of the plans is \$11,070,928, \$33,435,067, and \$6,052,166, respectively, \$611,878, \$4,886,805,

and \$2,156,116 of which we estimate the prior employer is obligated to pay. If Messrs. Leverett, Klappa, or Fletcher's former employer becomes unable to pay its portion of his respective accumulated pension benefit, WEC Energy Group may be obligated to pay the total amount.

RETIREMENT PLANS

WEC Energy Group maintains three different plans providing for retirement payments and benefits for the NEOs: a defined benefit pension plan of the cash balance type ("WEC Energy Group Plan"); a supplemental executive retirement plan ("SERP"); and ILAs. The compensation currently considered for purposes of the retirement plans (other than the WEC Energy Group Plan) for Messrs. Leverett, Klappa, and Fletcher is \$2,237,997, \$3,986,708, and \$856,869, respectively. These amounts represent the average compensation (consisting of base salary and annual incentive compensation) for the 36 highest consecutive months. For Messrs. Lauber, Keyes, Garvin, and Ms. Martin, the compensation considered for purposes of the retirement plans (other than the WEC Energy Group Plan) is \$588,449, \$1,382,729, \$925,160, and \$1,213,250, respectively. These amounts represent their 2016 base salary, plus their 2015 STPP award paid in 2016. As of December 31, 2016, Messrs. Leverett, Lauber, Klappa, Keyes, Garvin, and Fletcher, and Ms. Martin, currently have or are considered to have 28.00, 26.50, 38.67, 5.67, 5.67, 39.75, and 16.75 credited years of service, respectively, under the various supplemental plans described below. Messrs. Lauber, Keyes, and Garvin, and Ms. Martin, were not granted additional years of credited service.

The WEC Energy Group Plan

Most regular full-time and part-time employees, including the NEOs, participate in the WEC Energy Group Plan. The WEC Energy Group Plan bases a participant's defined benefit pension on the value of a hypothetical account balance. For individuals participating in the WEC Energy Group Plan as of December 31, 1995, a starting account balance was created equal to the present value of the benefit accrued as of December 31, 1994, under the plan benefit formula prior to the change to a cash balance approach. That formula provided a retirement income based on years of credited service and average compensation (consisting of base salary and annual incentive compensation) for the 36 highest consecutive months, with an adjustment to reflect the Social Security integrated benefit. In addition, individuals participating in the WEC Energy Group Plan as of December 31, 1995, received a special one-time transition credit amount equal to a specified percentage varying with age multiplied by credited service and 1994 base pay.

The present value of the accrued benefit as of December 31, 1994, plus the transition credit, was also credited with interest at a stated rate. For 1996 through 2007, a participant received annual credits to the account equal to 5% of base pay (including WEC Energy Group 401(k) plan pre-tax deferrals and other items), plus an interest credit on all prior accruals equal to 4% plus 75% of the annual time-weighted trust investment return for the year in excess of 4%. From 2008 through 2013, the interest credit percentage was set at either the long-term corporate bond third segment rate, published by the Internal Revenue Service, or 4%, whichever was greater.

Effective January 1, 2014, participants receive an annual credit to the account equal to 6% of base pay (including WEC Energy Group 401(k) plan pre-tax deferrals and other items), plus an interest credit on all prior accruals equal to a 5% fixed rate. For participants in the WEC Energy Group Plan on December 31, 2007 and December 31, 2013, their WEC Energy Group Plan benefit will never be less than the benefit accrued as of December 31, 2007 and December 31, 2013, respectively. The WEC Energy Group Plan benefit will be calculated under all three formulas to provide participants with the greater benefit; however, in calculating a participant's benefit accrued as of December 31, 2007 and December 31, 2013, interest credits as defined under each of the prior WEC Energy Group Plan formulas will be taken into account but not any additional pay credits.

Participants who were "grandfathered" as of December 31, 1995, as discussed below, will still receive the greater of the grandfathered benefit or the cash balance benefit.

The life annuity payable under the WEC Energy Group Plan is determined by converting the hypothetical account balance credits into annuity form.

Individuals who were participants in the WEC Energy Group Plan on December 31, 1995 were "grandfathered" so that they will not receive any lower retirement benefit than would have been provided under the formula in effect through December 31, 1995, had it continued. This amount continued to increase until December 31, 2010, at which time it was frozen. Upon retirement, participants will receive the greater of this frozen amount or the accumulated cash balance.

For Messrs. Leverett, Lauber, and Klappa, estimated benefits under the grandfathered formula are higher than under the cash balance plan formula. Messrs. Keyes and Garvin, and Ms. Martin, do not participate in the grandfathered formula. Although all of the NEOs participate in the cash balance plan formula, pursuant to the agreements discussed below, Messrs. Leverett's and Klappa's total retirement benefits would be determined by the prior plan benefit formula if they were to retire at or after age 60. Mr. Klappa retired effective May 1, 2016 at the age of 65. These benefits are payable under the ILAs, not the WEC Energy Group Plan. These agreements also provide that the prior plan benefit formula will continue to be applied until retirement, with no amounts frozen as of December 31, 2010. Mr. Leverett would receive the cash balance in his account if he was to terminate employment prior to attaining the age of 60.

Under the WEC Energy Group Plan, participants receive unreduced pension benefits upon reaching one of the following three thresholds: (1) age 65; (2) age 62 with 30 years of service; or (3) age 60 with 35 years of service.

Pursuant to the Internal Revenue Code, only \$265,000 of pension eligible earnings (base pay and annual incentive compensation) may be considered for purposes of the WEC Energy Group Plan.

Supplemental Executive Retirement Plans and Individual Letter Agreements

Designated officers of WEC Energy Group, including all of the NEOs, participate in the SERP, which is part of the Supplemental Pension Plan (the "SPP") adopted to comply with Section 409A of the Internal Revenue Code. The SERP provides monthly supplemental pension benefits to participants, which will be paid out of unsecured corporate assets, or the grantor trust described below, in an amount equal to the difference between the actual pension benefit payable under the WEC Energy Group Plan and what such pension benefit would be if calculated without regard to any limitation imposed by the Internal Revenue Code on pension benefits or covered compensation, including amounts deferred to the WEC Energy Group Executive Deferred Compensation Plan. Except for a "change in control" of WEC Energy Group, as defined in the SPP, and pursuant to the terms of the ILAs discussed below, no payments are made until after the participant's retirement at or after age 60 or death. If a participant in the SERP dies prior to age 60, his or her beneficiary is entitled to receive retirement benefits under the SERP.

WEC Energy Group entered into agreements with Messrs. Leverett and Klappa to provide them with supplemental retirement benefits upon retirement at or after age 60. The supplemental retirement payments are intended to make the total retirement benefits payable to the executive comparable to that which would have been received under the WEC Energy Group Plan as in effect on December 31, 1995, had the defined benefit formula then in effect continued until the executive's retirement, calculated without regard to Internal Revenue Code limits, and as if the executive had started participation in the WEC Energy Group Plan on January 1, 1989 for Mr. Leverett and at age 27 for Mr. Klappa. The retirement benefits payable to Messrs. Leverett and Klappa will be offset by the value of any qualified or non-qualified defined benefit pension plans of prior employers.

Messrs. Leverett's and Klappa's agreements also provide for a pre-retirement spousal benefit to be paid to their spouses in the event of the executive's death while employed by the Company. The benefit payable is equal to the amount which would have been received by the executive's spouse under the WEC Energy Group Plan as in effect on December 31, 1995, had the benefit formula then in effect continued until the executive's death, calculated without regard to Internal Revenue Code limits, and as if the executive had started at the ages or dates indicated above for each executive. The spousal benefit payable would be offset by one-half of the value of any qualified or non-qualified deferred benefit pension plans of Messrs. Leverett's and Klappa's prior employers.

WEC Energy Group entered into an agreement with Mr. Keyes when he was hired as Vice President and Treasurer that provides for a supplemental pension benefit account, which was credited with \$100,000. This account will be credited with interest annually at the same rate as the WEC Energy Group Plan. The account balance will vest at the earliest to occur of Mr. Keyes attaining age 60 or completion of 10 years of service.

Mr. Garvin's agreement also provides for a supplemental pension benefit account, which was credited with \$50,000. This account will be credited with interest annually at the same rate as the WEC Energy Group Plan. The account balance will vest at the earliest to occur of Mr. Garvin attaining age 60 or completion of 10 years of service.

WEC Energy Group entered into an agreement with Mr. Fletcher to provide him with supplemental retirement benefits upon his retirement, provided he completed one year of service with the Company. The supplemental retirement payments are intended to make the total retirement benefits payable to the executive comparable to that which would have been received under the executive's prior employer's defined benefit pension plan, calculated without regard to Internal Revenue Code limits, and as if his employment continued with the prior employer and the defined benefit formula

then in effect under the prior employer's plan continued to his retirement. The retirement benefits payable as a result of this agreement will be offset by the value of any qualified and non-qualified defined benefit pension plan of the prior employer.

The purpose of these agreements was to ensure that Messrs. Leverett, Klappa, Keyes, Garvin, and Fletcher did not lose pension earnings by joining the executive management team at WEC Energy Group they otherwise would have received from their former employers. Without providing a means to retain these pension benefits, it would have been difficult for WEC Energy Group to attract these officers.

The SPP provides for a mandatory lump sum payment upon a change in control if the executive's employment is terminated within 18 months after the change in control. The Wisconsin Energy Corporation 2014 Rabbi Trust, a grantor trust, funds certain non-qualified benefits, including the SPP and the ILAs, as well as the Executive Deferred Compensation Plan and the Directors' Deferred Compensation Plan. See "Potential Payments upon Termination or Change in Control" later in this proxy statement for additional information.

Effective January 1, 2015, all newly hired management employees, including executive officers, will receive a 6% contribution annually from the Company into WEC Energy Group's 401(k) plan rather than participate in the WEC Energy Group Plan. In connection with this new plan, the Compensation Committee adopted the WEC Energy Group Non-Qualified Retirement Savings Plan which provides "make-whole" benefits to address Internal Revenue Code limits on the amount of money that can be contributed to a 401(k) plan. The NEOs do not participate in these plans as they are grandfathered under the WEC Energy Group Plan.

NONQUALIFIED DEFERRED COMPENSATION FOR FISCAL YEAR 2016

The following table reflects activity by the NEOs during 2016 in WEC Energy Group's Executive Deferred Compensation Plan discussed below.

Name	Executive Contributions in Last Fiscal Year ⁽¹⁾	Registrant Contributions in Last Fiscal Year ⁽¹⁾	Aggregate Earnings In Last Fiscal Year	Aggregate Withdrawals / Distributions	Aggregate Balance at Last Fiscal Year-End ⁽²⁾
	(\$)	(\$)	(\$)	(\$)	(\$)
Allen L. Leverett	337,315	87,483	184,950	—	4,569,754
Scott J. Lauber	92,539	12,938	55,306	—	1,198,082
Gale E. Klappa	294,210	130,035	286,365	854,416	7,689,744
J. Patrick Keyes	1,230,920	44,709	222,480	—	3,248,340
Susan H. Martin	455,796	37,930	71,770	—	1,984,376
Robert M. Garvin	64,762	26,406	9,473	—	420,391
J. Kevin Fletcher	301,724	26,701	53,933	—	1,667,917

⁽¹⁾ All of the amounts are reported as compensation in the "Summary Compensation Table" of this proxy statement.

⁽²⁾ \$2,653,620, \$6,427,571, \$1,620,519, \$288,906, and \$573,525 of the reported amounts were reported as compensation in the Summary Compensation Tables in prior proxy statements for Messrs. Leverett, Klappa, Keyes, and Garvin, and Ms. Martin, respectively. Mr. Lauber and Mr. Fletcher became named executive officers in 2016.

Executive Deferred Compensation Plan

WEC Energy Group maintains two executive deferred compensation plans in which the NEOs participate: the Legacy WEC Energy Group Executive Deferred Compensation Plan (the "Legacy EDCP"), and the WEC Energy Group Executive Deferred Compensation Plan (the "EDCP") adopted effective January 1, 2005 to comply with Section 409A of the Internal Revenue Code. The Legacy EDCP provides that (1) amounts earned, deferred, vested, credited, and/or accrued as of December 31, 2004 are preserved and frozen so that these amounts are exempt from Section 409A and (2) no new employees may participate in the Legacy EDCP as of January 1, 2005. Since January 1, 2005, all deferrals have been made to the EDCP. The provisions of the EDCP as in effect on December 31, 2016, are described below, as are the payout provisions of the Legacy EDCP.

The EDCP. Under the plan, a participant may defer up to 50% of his or her base salary, annual incentive compensation and vested awards of performance units. Stock option gains, vested restricted stock, and short-term dividend equivalents may not be deferred into the EDCP.

Generally, deferral elections are made annually by each participant for the upcoming plan year. The Company maintains detailed records tracking each participant's "account balance." In addition to deferrals made by the participants, the Company may also credit each participant's account balance by matching a certain portion of each participant's deferral. Such deferral matching is determined by a formula taking into account the matching rate applicable under the Company's 401(k) plan, the percentage of compensation subject to such matching rate, the participant's gross compensation eligible for matching, and the amount of eligible compensation actually deferred. Also, in our discretion, the Company may credit any other amounts, as appropriate, to each participant's account.

Participants may elect to participate in the Company's stock measurement fund and/or the Prime Rate Fund. The Company tracks each participant's account balance as though the balance was actually invested in these funds. Fund elections are not actual investments, but are elections chosen only for purposes of calculating market gain or loss on deferred amounts for the duration of the deferral period. Each participant may select the amount of deferred compensation to be allocated among the two measurement funds. Contributions and deductions may be made to each participant's account based on the performance of the measurement fund(s) elected.

The annual rate of return for the calendar year ended December 31, 2016 for the WEC Energy Group Common Stock Fund and the Prime Rate Fund was 18.21% and 3.50%, respectively.

Each participant's account balance is debited or credited periodically based on the performance of the measurement fund(s) elected by the participant. Subject to certain restrictions, participants may make changes to their measurement fund elections by notice to the committee administering the plan.

At the time of his or her deferral election, each participant may designate a prospective payout date for any or the entire amount deferred, plus any amounts debited or credited to the deferred amount as of the designated payout date. Amounts deferred into the EDCP may not be withdrawn at the discretion of the participant and a change to the designated payout date delays the initial payment five years beyond the originally designated payout date. In addition, the Company may not limit payout amounts in order to deduct such amounts under Section 162(m) of the Internal Revenue Code.

The balance of a participant's account is payable on his or her retirement in either a lump sum payout or in annual installments, at the election of the participant. Upon the death of a participant after retirement, payouts are made to the deceased participant's beneficiary in the same manner as though such payout would have been made to the participant had the participant survived. In the event of a participant's termination of employment prior to retirement, the participant may elect to receive a payout beginning the year after termination in the amount of his or her account balance as of the termination date either in a lump sum or in annual installments over a period of five years. Disability is not itself a payment event until the participant terminates employment with WEC Energy Group or its subsidiaries. A participant's account balance will be paid out in a lump sum if the participant separates from service with WEC Energy Group or its subsidiaries within 18 months after a change in control of WEC Energy Group, as defined in the plan. The deferred amounts will be paid out of the general corporate assets or the assets of the Wisconsin Energy Corporation 2014 Rabbi Trust.

The Legacy EDCP. At the time of his or her deferral election, each participant designated a prospective payout date for any or the entire amount deferred, plus any amounts debited or credited to the deferred amount as of the designated payout date. A participant may elect, at any time, to withdraw part (a minimum of \$25,000) or all of his or her account balance, subject to a withdrawal penalty of 10%. Payout amounts may be limited to the extent to which they are deductible by the Company under Section 162(m) of the Internal Revenue Code.

The balance of a participant's account is payable on his or her retirement in either a lump sum payout or in annual installments, at the election of the participant. Upon the death of a participant after retirement, payouts are made to the deceased participant's beneficiary in the same manner as though such payout would have been made to the participant had the participant survived. In the event of a participant's termination of employment prior to retirement, the participant may elect to receive a payout beginning the year after termination in the amount of his or her account balance as of the termination date either in a lump sum or in annual installments over a period of five years. Any participant who suffers from a continued disability will be entitled to the benefits of plan participation unless and until the committee administering the plan determines that the participant has been terminated for purposes of continued participation in the plan. Upon any such determination, the disabled participant is paid out as though the participant had retired. Except in certain limited circumstances, participants' account balances will be paid out in a lump sum (1) upon the occurrence of a change in control, as defined in the plan, or (2) upon any downgrade of the Company's senior debt obligations to less than "investment grade." The deferred amounts will be paid out of the general corporate assets or the assets of the Wisconsin Energy Corporation 2014 Rabbi Trust.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The tables below reflect the amount of compensation payable to each of our NEOs in the event of termination of each executive's employment. These amounts are in addition to each NEO's aggregate balance in the EDCP at fiscal year-end 2016, as reported in column (f) under "Nonqualified Deferred Compensation for Fiscal Year 2016." The amount of compensation payable to each NEO (other than Mr. Klappa) upon voluntary termination, normal retirement, for-cause termination, involuntary termination (by the Company for any reason other than cause, death or disability or by the executive for "good reason"), termination following a "change in control," disability, and death are set forth below. The amounts shown assume that such termination was effective as of December 31, 2016 and include amounts earned through that date, and are estimates of the amounts which would be paid out to the NEOs upon termination. The amounts shown under "Normal Retirement" assume the NEOs were retirement eligible with no reduction of retirement benefits. The amounts shown under "Termination Upon a Change in Control" assume the NEOs terminated employment as of December 31, 2016, which was within 18 months of a change in control of WEC Energy Group. The amounts reported in the row titled "Retirement Plans" in each table below are not in addition to the amounts reflected under "Pension Benefits at Fiscal Year-End 2016." The actual amounts to be paid out can only be determined at the time of an officer's termination of employment.

Payments Made Upon Voluntary Termination or Termination for Cause, Death or Disability

In the event a NEO voluntarily terminates employment or is terminated for cause, death, or disability, the officer will receive:

- accrued but unpaid base salary and, for termination by death or disability, prorated annual incentive compensation;
- 401(k) plan and EDCP account balances;
- the WEC Energy Group Plan cash balance;
- in the case of death or disability, full vesting in all outstanding stock options, restricted stock, and performance units (otherwise, the ability to exercise already vested options within three months of termination) as well as vesting in the SERP and ILAs; and
- if voluntary termination occurs after age 60, such termination is treated as a normal retirement.

NEOs are also entitled to the value of unused vacation days, if any, and for termination by death, benefits payable under the officer life insurance benefit if the NEO participates in such benefit.

Payments Made Upon Normal Retirement

In the event of the retirement of a NEO, the officer will receive:

- accrued but unpaid base salary and prorated annual incentive compensation;
- full vesting in all outstanding stock options and a prorated amount of performance units;
- full vesting in all retirement plans, including the WEC Energy Group Plan, SERP, and ILAs; and
- 401(k) plan and EDCP account balances.

NEOs are also entitled to the value of unused vacation days, if any.

In addition to the receipt of these benefits by Mr. Klappa, in connection with his retirement on May 1, 2016, the Compensation Committee accelerated the vesting of 47,181 shares of restricted stock. See "Summary Compensation Table" above for information regarding Mr. Klappa's prorated annual incentive compensation. See "Options Exercised and Stock Vested for Fiscal Year 2016" for additional information regarding the vesting of Mr. Klappa's restricted stock and performance unit awards. The value of stock options that vested upon Mr. Klappa's retirement (based on the excess of the market price of the Company's common stock on May 2, 2016 over the exercise price of such options) was \$7,601,732.

Payments Made Under Employment Agreements Upon a Change in Control, Involuntary Termination, or Termination for Good Reason

WEC Energy Group has entered into a written employment agreement with Mr. Leverett, which provides for certain severance benefits as described below. The Compensation Committee did not amend or otherwise modify Mr. Leverett's employment agreement, dated as of December 28, 2008, in any way in connection with his service as CEO.

Under the agreement with Mr. Leverett, severance benefits are provided if his employment is terminated:

- in anticipation of or following a change in control by the Company for any reason, other than cause, death, or disability;
- by Mr. Leverett for good reason in anticipation of or following a change in control;
- by Mr. Leverett within six months after completing one year of service following a change in control; or
- in the absence of a change in control, by the Company for any reason other than cause, death, or disability or by Mr. Leverett for good reason.

Upon termination of his employment in connection with a change in control, Mr. Leverett's agreement provides for:

- a lump sum severance payment equal to three times the sum of Mr. Leverett's highest annual base salary in effect for the three years preceding his termination and highest bonus amount;
- three years continuation of health and certain other welfare benefit coverage and eligibility for retiree health coverage thereafter;
- a payment equal to the value of three additional years of participation in the applicable qualified and non-qualified retirement plans based upon the higher of (1) the annual base salary in effect at the time of termination, and (2) any salary in effect during the 180 day period preceding termination, plus the highest bonus amount;
- a payment equal to the value of three additional years of Company match in the 401(k) plan and EDCP;
- full vesting in all outstanding stock options, restricted stock, and other equity awards;
- 401(k) and EDCP account balances;
- certain financial planning services and other benefits; and,
- a "gross up" payment should any payments under the agreement trigger federal excise taxes under the "parachute payment" provisions of the tax law.

If Mr. Leverett's employment is terminated by the Company for any reason other than cause, death, or disability, or by him for good reason in the absence of a change in control, payments and other benefits tied to a three year multiple will instead be tied to a two year multiple. In addition, Mr. Leverett would not be entitled to receive any gross-up.

The highest bonus amount would be calculated as the larger of (1) the current target bonus for the fiscal year in which employment termination occurs, or (2) the highest bonus paid in any of the last three fiscal years of the Company prior to termination or the change in control. The agreement contains a one-year non-compete provision applicable on termination of employment.

Pursuant to the terms of the agreement with Mr. Fletcher, severance benefits are provided if his employment is terminated (1) by the Company for any reason other than cause, death, or disability, or (2) by Mr. Fletcher for good reason. Upon termination, Mr. Fletcher's agreement provides for (1) a lump sum payment equal to 2.99 times his annual base salary for the fiscal year in which termination occurs, and (2) health, life and other welfare benefits (excluding disability benefits) for a period of three years following termination.

Pursuant to the terms of the SPP and ILAs, retirement benefits are paid to the NEOs upon termination of employment within 18 months of a change in control. Participants in the SPP, including the NEOs, are also eligible to receive a supplemental disability benefit in an amount equal to the difference between the actual amount of the benefit payable under the long-term disability plan applicable to all employees and what such disability benefit would have been if calculated without regard to any limitation imposed by the broad-based plan on annual compensation recognized thereunder.

Generally, pursuant to Mr. Leverett's agreement, a change in control is deemed to occur:

- (1) if any person or group acquires WEC Energy Group common stock that constitutes more than 50% of the total fair market value or total voting power of WEC Energy Group;
- (2) if any person or group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) WEC Energy Group common stock that constitutes 30% or more of the total voting power of WEC Energy Group;
- (3) if a majority of the members of WEC Energy Group's Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of WEC Energy Group's Board before the date of appointment or election; or
- (4) if any person or group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) assets from WEC Energy Group that have a total gross fair market value equal to or more than 40% of the total gross value of all the assets of WEC Energy Group immediately before such acquisition or acquisitions, unless the assets are transferred to:
 - an entity that is controlled by the stockholders of the transferring corporation;
 - a stockholder of WEC Energy Group in exchange for or with respect to its stock;
 - an entity of which WEC Energy Group owns, directly or indirectly, 50% or more of its total value or voting power; or
 - a person or group (or an entity of which such person or group owns, directly or indirectly, 50% or more of our total value or voting power) that owns, directly or indirectly, 50% or more of the total value or voting power of WEC Energy Group.

Generally, pursuant to Mr. Leverett's and Mr. Fletcher's ILAs, good reason means:

- (1) a material reduction in the executive's base compensation;
- (2) a material change in the geographic location at which the executive must perform services;
- (3) a material breach of the agreement by the Company; or
- (4) with respect to Mr. Leverett's ILA only and solely in the context of a change in control, a material reduction of the executive's duties and responsibilities.

Mr. Klappa's employment agreement was similar to Mr. Leverett's agreement. In connection with his retirement on May 1, 2016, Mr. Klappa was not entitled to any severance benefits.

Payments under the Severance Pay Plan

Messrs. Lauber, Keyes, and Garvin, and Ms. Martin, have not entered into any agreement that provides for severance benefits upon a change in control or otherwise. All four officers are eligible to participate in the Company's Severance Pay Plan, in which all management employees are eligible to participate. In the event a participant is involuntarily terminated, other than for cause, death, disability, retirement, or resignation, the participant is entitled to receive severance pay in an amount equal to the sum of: (1) 4% of the participant's annual base salary and target bonus, plus (2) 4% of the participant's annual base salary and target bonus multiplied by his or her completed years of service with the Company. The maximum amount of severance pay that can be received under the plan is twelve months of a participant's annual base salary and target bonus.

Potential Payments to Named Executive Officers Upon Termination or Change in Control of the Company

The following tables show the potential payments upon termination or a change in control of the Company for:

Executive Benefits and Payments Upon Separation	Voluntary Termination (\$)	Normal Retirement (\$)	For Cause Termination (\$)	Involuntary Termination (\$)	Termination Upon Change in Control (\$)	Disability (\$)	Death (\$)
Allen L. Leverett							
Compensation:							
Cash Severance	—	—	—	5,020,808	7,531,212	—	—
Additional Pension Credited Service	—	—	—	2,172,885	2,447,828	—	—
Additional 401(k) and EDCP Match	—	—	—	200,832	301,248	—	—
Long-Term Incentive Compensation:							
Performance Units	—	2,030,463	—	4,362,094	4,362,094	4,362,094	4,362,094
Restricted Stock	—	—	—	1,701,202	1,701,202	1,701,202	1,701,202
Options	—	3,462,186	—	3,462,186	3,462,186	3,462,186	3,462,186
Benefits & Perquisites:							
Retirement Plans	283,237	10,459,050	283,237	6,850,697	6,864,192	10,459,050	4,128,202
Health and Welfare Benefits	—	—	—	37,219	67,641	—	—
Excise Tax Gross-Up	—	—	—	—	—	—	—
Financial Planning	—	—	—	54,000	54,000	—	—
Outplacement	—	—	—	30,000	30,000	—	—
Death Benefit	—	—	—	—	—	—	3,000,000
Total	283,237	15,951,699	283,237	23,891,923	26,821,603	19,984,532	16,653,684
Scott J. Lauber							
Compensation:							
Cash Severance	—	—	—	619,105	619,105	—	—
Additional Pension Credited Service	—	—	—	—	—	—	—
Additional 401(k) and EDCP Match	—	—	—	—	—	—	—
Long-Term Incentive Compensation:							
Performance Units	—	128,326	—	—	266,858	266,858	266,858
Restricted Stock	—	—	—	—	210,378	210,378	210,378
Options	—	251,081	—	—	251,081	251,081	251,081
Benefits & Perquisites:							
Retirement Plans	641,239	641,239	641,239	641,239	641,239	641,239	442,884
Health and Welfare Benefits	—	—	—	9,305	9,305	—	—
Excise Tax Gross-Up	—	—	—	—	—	—	—
Financial Planning	—	—	—	—	—	—	—
Outplacement	—	—	—	—	—	—	—
Death Benefit	—	—	—	—	—	—	1,128,495
Total	641,239	1,020,646	641,239	1,269,649	1,997,966	1,369,556	2,299,696
J. Patrick Keyes							
Compensation:							
Cash Severance	—	—	—	229,488	229,488	—	—
Additional Pension Credited Service	—	—	—	—	—	—	—
Additional 401(k) and EDCP Match	—	—	—	—	—	—	—
Long-Term Incentive Compensation:							
Performance Units	—	761,042	—	—	1,558,037	1,558,037	1,558,037
Restricted Stock	—	—	—	—	622,335	622,335	622,335
Options	—	1,489,594	—	—	1,489,594	1,489,594	1,489,594
Benefits & Perquisites:							
Retirement Plans	105,774	525,102	105,774	525,102	525,102	525,102	506,943
Health and Welfare Benefits	—	—	—	9,305	9,305	—	—
Excise Tax Gross-Up	—	—	—	—	—	—	—
Financial Planning	—	—	—	—	—	—	—
Outplacement	—	—	—	—	—	—	—
Death Benefit	—	—	—	—	—	—	1,639,200
Total	105,774	2,775,738	105,774	763,895	4,433,861	4,195,068	5,816,109

Executive Benefits and Payments Upon Separation	Voluntary Termination (\$)	Normal Retirement (\$)	For Cause Termination (\$)	Involuntary Termination (\$)	Termination Upon Change in Control (\$)	Disability (\$)	Death (\$)
Susan H. Martin							
Compensation:							
Cash Severance	—	—	—	595,340	595,340	—	—
Additional Pension Credited Service	—	—	—	—	—	—	—
Additional 401(k) and EDCP Match	—	—	—	—	—	—	—
Long-Term Incentive Compensation:							
Performance Units	462,924	462,924	—	462,924	969,191	969,191	969,191
Restricted Stock	—	—	—	—	514,536	514,536	514,536
Options	877,276	877,276	—	877,276	877,276	877,276	877,276
Benefits & Perquisites:							
Retirement Plans	606,079	606,079	606,079	606,079	606,079	606,079	604,440
Health and Welfare Benefits	—	—	—	9,305	9,305	—	—
Excise Tax Gross-Up	—	—	—	—	—	—	—
Financial Planning	—	—	—	—	—	—	—
Outplacement	—	—	—	—	—	—	—
Death Benefit	—	—	—	—	—	—	1,545,000
Total	1,946,279	1,946,279	606,079	2,550,924	3,571,727	2,967,082	4,510,443
Robert M. Garvin							
Compensation:							
Cash Severance	—	—	—	159,790	159,790	—	—
Additional Pension Credited Service	—	—	—	—	—	—	—
Additional 401(k) and EDCP Match	—	—	—	—	—	—	—
Long-Term Incentive Compensation:							
Performance Units	—	337,824	—	—	697,055	697,055	697,055
Restricted Stock	—	—	—	—	450,373	450,373	450,373
Options	—	649,792	—	—	649,792	649,792	649,792
Benefits & Perquisites:							
Retirement Plans	111,226	380,051	111,226	380,051	380,051	380,051	366,897
Health and Welfare Benefits	—	—	—	9,305	9,305	—	—
Excise Tax Gross-Up	—	—	—	—	—	—	—
Financial Planning	—	—	—	—	—	—	—
Outplacement	—	—	—	—	—	—	—
Death Benefit	—	—	—	—	—	—	1,248,360
Total	111,226	1,367,667	111,226	549,146	2,346,366	2,177,271	3,412,477
J. Kevin Fletcher							
Compensation:							
Cash Severance	—	—	—	1,255,800	1,255,800	—	—
Additional Pension Credited Service	—	—	—	—	—	—	—
Additional 401(k) and EDCP Match	—	—	—	—	—	—	—
Long-Term Incentive Compensation:							
Performance Units	—	295,127	—	—	600,283	600,283	600,283
Restricted Stock	—	—	—	—	266,212	266,212	266,212
Options	—	545,835	—	—	545,835	545,835	545,835
Benefits & Perquisites:							
Retirement Plans	3,896,050	3,896,050	3,896,050	3,896,050	3,896,050	3,896,050	2,392,404
Health and Welfare Benefits	—	—	—	55,828	55,828	—	—
Excise Tax Gross-Up	—	—	—	—	—	—	—
Financial Planning	—	—	—	—	—	—	—
Outplacement	—	—	—	—	—	—	—
Death Benefit	—	—	—	—	—	—	1,260,000
Total	3,896,050	4,737,012	3,896,050	5,207,678	6,620,008	5,308,380	5,064,734

RISK ANALYSIS OF COMPENSATION POLICIES AND PRACTICES

As part of its process to determine the 2016 compensation of WEC Energy Group's NEOs, the Compensation Committee analyzed whether WEC Energy Group's compensation program taken as a whole creates risks that are reasonably likely to have a material adverse effect on the Company. The Compensation Committee concluded it does not. This analysis applies generally to the compensation program for WEC Energy Group's employees since all management employees (both officers and non-officers) above a certain level are provided with substantially the same mix of compensation as the NEOs. The compensation package provided to employees below this level is not applicable to this analysis as such compensation package does not provide sufficient incentive to take risks that could materially affect the Company.

There is no objective way to measure risk resulting from a corporation's compensation program; therefore, this analysis is subjective in nature. We believe that the only elements of WEC Energy Group's compensation program that could incentivize risk-taking by our employees, and therefore have a reasonable likelihood of materially adversely affecting the Company, are the annual cash incentive compensation and the long-term incentive compensation, the payout of which is dependent on the achievement of certain performance levels by the Company. Based upon the value of each of these elements to the overall compensation mix and the relative value each has to the other, we believe the Company's compensation program is appropriately balanced. We believe that the mix of short- and long-term awards minimizes risks that may be taken, as any risks taken for short-term gains could ultimately jeopardize the Company's ability to meet the long-term performance objectives. Given the current balance of compensation elements, we do not believe WEC Energy Group's compensation program incentivizes unreasonable risk-taking by management.

The Compensation Committee's stock ownership guidelines require officers who participate in the long-term incentive compensation program to hold an amount of Company common stock and other equity-related Company securities that varies depending upon such officers' level. Through December 31, 2016, the guidelines required the Company's executive officers to hold common stock and other equity-related securities of the Company having a minimum fair market value ranging from 250% to 500% of base salary. Effective January 1, 2017, the stock ownership guidelines were revised to increase the top end of the range to 600% of base salary. The Compensation Committee believes these stock ownership guidelines further discourage unreasonable risk taking by Company officers.

As part of this analysis, we also considered the nature of WEC Energy Group's business as a public utility holding company and the fact that substantially all of the Company's earnings and other financial results are generated by, or relate to, regulated public utilities. The highly regulated nature of WEC Energy Group's business, including limits on the amount of profit the Company's public utility subsidiaries (and therefore, WEC Energy Group) may earn, significantly reduces any incentive to engage in conduct that would be reasonably likely to have a material adverse effect on the Company.

PROPOSAL 3: ADVISORY VOTE ON COMPENSATION OF THE NAMED EXECUTIVE OFFICERS

Pursuant to Section 14A of the Securities Exchange Act of 1934, the Company seeks your advisory vote on the approval of the compensation paid to our NEOs (commonly referred to as "Say-on-Pay") as described in the Compensation Discussion and Analysis and the related tables included in this proxy statement. Approval, on a non-binding, advisory basis, of the compensation of the NEOs requires the affirmative vote of a majority of the votes cast in person or by proxy at the Meeting. Presuming a quorum is present, shares not voted, whether by broker non-vote, abstention, or otherwise, have no effect on the outcome of this matter. Because your vote is advisory, it will not be binding on the Board or the Company. However, the Compensation Committee will review the voting results and take them into consideration when making future decisions regarding executive compensation.

As described in the Compensation Discussion and Analysis on pages P-39 through P-56 of this proxy statement, the Compensation Committee has structured the Company's executive compensation program with the following objectives in mind:

- offer a competitive, performance-based plan;
- enable the Company to attract and retain key individuals;
- reward achievement of the Company's short-term and long-term goals; and
- align with the interest of the Company's stockholders and customers.

As described in this proxy statement, the Company believes that the compensation paid to our NEOs in 2016 was well-tailored to achieve these objectives, tying a significant portion of total pay to performance and aligning the interests of the NEOs with those of stockholders and customers. We encourage you to carefully review the Compensation Discussion and Analysis and related tables included above, which describe in greater detail WEC Energy Group's compensation philosophy and programs, as well as the 2016 compensation levels, in connection with approval of the following resolution:

"RESOLVED, that the stockholders approve, on an advisory basis, the compensation paid to the Company's named executive officers as disclosed in the Proxy Statement for the 2017 Annual Meeting."

**The Board of Directors recommends that you vote "FOR"
the advisory vote on Executive Compensation.**

PROPOSAL 4: ADVISORY VOTE TO ESTABLISH THE FREQUENCY OF "SAY-ON-PAY" ADVISORY VOTES

The Company also seeks your input with regard to the frequency of future advisory "say-on-pay" votes. In particular, we are asking whether the advisory vote should occur every year, every two years, or every three years. The Company recommends that you support a frequency period of every year for future non-binding "say-on-pay" votes.

A stockholder advisory vote on executive compensation is very important to the Company and our stockholders. Therefore, we believe that stockholders should have an opportunity to cast this vote annually. Setting a one-year period for holding this stockholder vote enhances stockholder communication by providing a clear, simple means for the Company to obtain information on investor sentiment about our executive compensation philosophy and program, and whether it appropriately rewards management for WEC Energy Group's financial and operational performance. Also, we have found that an advisory vote every year enhances our stockholder engagement and outreach. Accordingly, as indicated below, the Board of Directors recommends that you vote in favor of an annual vote on our executive compensation when considering the following resolution:

"RESOLVED, that an advisory vote of the Company's stockholders to approve the compensation of the Company's named executive officers be held at an annual meeting of stockholders every year, every two years, or every three years, whichever frequency receives the highest number of stockholder votes in connection with the adoption of this resolution."

You have four choices in voting for this item. You can choose whether the "say-on-pay" vote should be conducted every year, every two years or every three years. The frequency receiving the greatest number of votes will be considered the frequency approved by stockholders. You may also abstain from voting on this item. You are not voting to approve or disapprove the Board of Directors' recommendation on this matter.

Because your vote is advisory, it will not be binding on the Board or the Company. However, the Board will review the voting results and take them into consideration when making future decisions regarding the frequency of "say-on-pay" advisory votes on compensation of the named executive officers.

The Board of Directors recommends that you vote for a frequency of "EVERY YEAR."

WEC ENERGY GROUP COMMON STOCK OWNERSHIP

Beneficial Ownership. The following table lists the beneficial ownership of WEC Energy Group common stock of each director nominee, NEO, and of all of the directors and executive officers as a group as of January 31, 2017. In general, “beneficial ownership” includes those shares as to which the indicated persons have voting power or investment power and stock options that are exercisable currently or within 60 days of January 31, 2017. Included are shares owned by each individual’s spouse, minor children, or any other relative sharing the same residence, as well as shares held in a fiduciary capacity or held in WEC Energy Group’s Stock Plus Investment Plan and WEC Energy Group’s 401(k) plans. None of these persons beneficially owns more than 1% of the outstanding common stock.

Name	Shares Beneficially Owned ⁽¹⁾		
	Shares Owned ^{(2) (3) (4)}	Option Shares Exercisable Within 60 Days	Total
John F. Bergstrom	18,229	—	18,229
Barbara L. Bowles	25,789	—	25,789
William J. Brodsky	38,693	—	38,693
Albert J. Budney, Jr.	8,857	—	8,857
Patricia W. Chadwick	27,297	—	27,297
Curt S. Culver	6,711	—	6,711
Thomas J. Fischer	39,484	—	39,484
J. Kevin Fletcher	8,455	72,455	80,910
Robert M. Garvin	8,472	58,575	67,047
Paul W. Jones	7,165	—	7,165
J. Patrick Keyes	21,156	163,060	184,216
Gale E. Klappa	156,515	1,545,975	1,702,490
Henry W. Knueppel	13,986	—	13,986
Scott J. Lauber	15,132	28,960	44,092
Allen L. Leverett	81,514	443,665	525,179
Susan H. Martin	19,824	48,175	67,999
Ulice Payne, Jr.	29,972	—	29,972
Mary Ellen Stanek	9,312	—	9,312
All directors and executive officers as a group (24 persons)	590,761 ⁽⁵⁾	2,458,515	3,049,276 ⁽⁶⁾

- (1) Information on beneficially owned shares is based on data furnished by the specified persons and is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as required for purposes of this proxy statement. It is not necessarily to be construed as an admission of beneficial ownership for other purposes.
- (2) Certain directors, NEOs, and other executive officers also hold share units in the WEC Energy Group phantom common stock account under WEC Energy Group’s deferred compensation plans as indicated: Mr. Bergstrom (59,202), Ms. Bowles (772), Mr. Culver (83,396), Mr. Fischer (4,568), Mr. Garvin (6,642), Mr. Keyes (1,075), Mr. Lauber (1,010), Ms. Martin (819), Ms. Stanek (13,959), and all directors and executive officers as a group (197,967). Share units are intended to reflect the performance of WEC Energy Group common stock and are payable in cash. While these units do not represent a right to acquire WEC Energy Group common stock, have no voting rights, and are not included in the number of shares reflected in the “Shares Owned” column in the table above, the Company listed them in this footnote because they represent an additional economic interest of the directors, NEOs, and other executive officers that is tied to the performance of WEC Energy Group common stock.
- (3) Each individual has sole voting and investment power as to all shares listed for such individual, except the following individuals have shared voting and/or investment power (included in the table above) as indicated: Mr. Bergstrom (6,000), Mr. Brodsky (34,009), Mr. Budney (902), Mr. Fischer (30,773), Mr. Klappa (5,000), Mr. Knueppel (7,275), Mr. Leverett (49,607), Ms. Martin (4,996), Ms. Stanek (2,601), and all directors and executive officers as a group (141,163).
- (4) The directors and executive officers hold shares of restricted stock (included in the table above) over which the holders have sole voting but no investment power: Mr. Bergstrom (6,711), Ms. Bowles (6,711), Mr. Brodsky (4,684), Mr. Budney (4,684), Ms. Chadwick (6,711), Mr. Culver (6,711), Mr. Fischer (6,711), Mr. Fletcher (3,993), Mr. Garvin (5,250), Mr. Jones (4,684), Mr. Keyes (8,237), Mr. Klappa (7,219), Mr. Knueppel (6,711), Mr. Lauber (3,515), Mr. Leverett (28,928), Ms. Martin (6,511), Mr. Payne (6,711), Ms. Stanek (6,711), and all directors and executive officers as a group (142,776).
- (5) None of the shares beneficially owned by the directors, NEOs, or all directors and executive officers as a group are pledged as security.
- (6) Represents approximately 0.97% of total WEC Energy Group common stock outstanding on January 31, 2017.

Owners of More than 5%. The following table shows stockholders who reported beneficial ownership of more than 5% of WEC Energy Group common stock, based on the information they have reported. This information is based upon Schedule 13G filed with the SEC and reflects stock holdings as of December 31, 2016. These holdings have not been otherwise adjusted for stock activity that may have occurred since December 31, 2016, if any.

Name and Address	Voting Authority		Dispositive Authority		Total Shares Beneficially Owned	Percent of WEC Common Stock
	Sole	Shared	Sole	Shared		
The Vanguard Group, Inc. ⁽¹⁾ 100 Vanguard Blvd. Malvern, PA 19355	529,221	72,382	30,520,471	561,141	31,081,612	9.84%
BlackRock, Inc. ⁽¹⁾ 55 East 52nd Street New York, NY 10055	22,434,090	—	25,368,147	—	25,368,147	8.00%
State Street Corporation ⁽¹⁾ One Lincoln Street Boston, MA 02111	—	16,088,868	—	16,088,868	16,088,868	5.10%

⁽¹⁾ Filed on behalf of itself and certain of its subsidiaries.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, directors, and persons owning more than 10% of WEC Energy Group's common stock to file reports of ownership and changes in ownership of equity and derivative securities of WEC Energy Group with the SEC and the New York Stock Exchange. Specific due dates for those reports have been established by the SEC, and the Company is required to disclose in this proxy statement any failure to file by those dates during the 2016 fiscal year. To the Company's knowledge, based on information provided by the reporting persons, all applicable reporting requirements for fiscal year 2016 were complied with in a timely manner, except for one exercise of stock options on February 8, 2016 for Joan Shafer which, because of an administrative error, was inadvertently reported late.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Compensation Committee Interlocks and Insider Participation. None of the persons who served as members of the Compensation Committee during 2016 was an officer or employee of the Company during 2016 or at any time in the past nor had reportable transactions with the Company.

During 2016, none of our executive officers served as a member of the compensation committee or as a director of another entity, one of whose executive officers served on the Compensation Committee or as a director of the Company.

ELECTRONIC ACCESS TO ANNUAL MEETING INFORMATION

Why did I receive a separate Notice Regarding the Availability of Proxy Materials instead of printed Proxy Materials?

Pursuant to rules adopted by the Securities and Exchange Commission, we are providing access to our proxy materials over the Internet. Accordingly, we began mailing a separate Notice to stockholders on or about March 23, 2017 instead of a full set of our printed proxy materials. The Notice is not a proxy card and cannot be used to vote your shares. However, the Notice does include instructions on how to access our proxy materials online and vote your shares.

As more fully described in the Notice, registered stockholders may choose to access our proxy materials and vote online.

You may also request to receive a printed set by: (1) logging on to www.envisionreports.com/wec and following the applicable instructions, (2) calling 866-641-4276, or (3) sending an email requesting a paper copy of current meeting materials to investorvote@computershare.com with "Proxy Materials WEC Energy Group" in the subject line and your full name and address plus the number located in the shaded bar on the Notice.

If your shares are held by a broker, trustee, bank, or other nominee, please refer to the information provided by such record holder for instructions on how to access our proxy materials and vote.

What practices may stockholders follow that are friendly to the environment and help reduce printing and postage costs?

Stockholders may wish to participate in the following:

- **View the following documents online at www.envisionreports.com/wec:**
 - Notice of Annual Meeting;
 - Proxy Statement;
 - 2016 Annual Report; and
 - Form of Proxy.
- **Vote your proxy online or by telephone. (Page P-5)**
- **Choose to receive future Proxy Materials and Annual Reports electronically instead of receiving paper copies.**

If you are a registered stockholder and received a paper copy of our proxy materials or a paper notice this year, you may elect to receive access to future copies of these documents electronically by: (1) following the instructions when voting by Internet or by telephone, or (2) registering for our eDelivery paperless communication program. You will then be able to receive future proxy materials and other stockholder communications (e.g., investment plan statements, tax documents, and more) electronically until you change your election.

If your shares are held by a broker, trustee, bank or other nominee on your behalf, please refer to the information provided by such record holder for instructions on how to elect to receive access to our future proxy materials and annual reports online.

By delivering our proxy materials electronically, we can provide you with the information you need quickly, efficiently, and in a more cost-effective manner.

- **Choose our eDelivery paperless communication program for all your stockholder needs.**

Electronic distribution gives stockholders faster delivery of account documents and saves the Company and our stockholders the cost of printing and mailing these materials. eDelivery also provides you with fast and secure 24/7 online access to proxy materials, investment plan statements, tax documents, and more. You may access your registered stockholder account and sign up for eDelivery at www.computershare.com/investor.
- **Sign up for Householding.**

"Householding" is a delivery method that allows for only one paper copy of the Annual Report and Proxy Statement to be delivered to stockholders who reside at the same address, rather than receiving multiple copies of the same document.

If you are a registered stockholder and received multiple paper copies of the Annual Report and Proxy Statement, you may wish to contact the Company's transfer agent, Computershare, at 800-558-9663, to request householding, or you may provide written instructions to WEC Energy Group, c/o Computershare, PO Box 30170, College Station, TX 77842-3170. If you wish to receive separate copies of the Annual Report and Proxy Statement now or in the future, or to discontinue householding entirely, you may contact the Company's transfer agent using the contact information provided above. Upon request, the Company will promptly send a separate copy of the document. Whether or not a stockholder is householding, each stockholder will continue to receive a proxy card. If your shares are held through a bank, broker, or other holder of record, you may request householding by contacting the holder of record.

INFORMATION ABOUT THE ANNUAL MEETING

BUSINESS OF THE ANNUAL MEETING

On what proposals am I voting?

Proposal 1: Election of Thirteen Directors for Terms Expiring in 2018. The Board recommends a vote **FOR** each of the nominees. The thirteen individuals will be elected as directors if the number of votes cast in person or by proxy at the Meeting favoring such nominee's election exceeds the number of votes cast opposing that nominee's election. Presuming a quorum is present, shares not voted, whether by broker non-vote, abstention, or otherwise, have no effect on the outcome of this matter.

Proposal 2: Ratification of Deloitte & Touche LLP as Independent Auditors for 2017. The Board recommends a vote **FOR** this proposal. Ratification of the independent auditors requires the affirmative vote of a majority of the votes cast in person or by proxy at the Meeting. Presuming a quorum is present, shares not voted, whether by broker non-vote, abstention, or otherwise, have no effect on the outcome of this matter.

Proposal 3: Advisory Vote on Compensation of the Named Executive Officers, Commonly Referred to as a "Say-on-Pay" Vote. The Board recommends a vote **FOR** this proposal. Approval, on a non-binding, advisory basis, of the compensation of the NEOs requires the affirmative vote of a majority of the votes cast in person or by proxy at the Meeting. Presuming a quorum is present, shares not voted, whether by broker non-vote, abstention, or otherwise, have no effect on the outcome of this matter. Because your vote is advisory, it will not be binding on the Board or the Company. However, the Compensation Committee will review the voting results and take them into consideration.

Proposal 4: Advisory Vote to Establish the Frequency of "Say-on-Pay" Advisory Votes. The Board recommends a vote **FOR** the frequency of **EVERY YEAR** for future non-binding "say-on-pay" advisory votes. The frequency receiving the greatest number of votes - every year, every two years, or every three years - will be considered the frequency approved by stockholders. Because your vote is advisory, it will not be binding on the Board or the Company. The Compensation Committee will review the voting results and take them into consideration when making future decisions regarding the frequency of "say-on-pay" advisory votes on executive compensation.

The Company is not aware of any other matters that will be voted on. If a matter does properly come before the Meeting, the persons named as the proxies in the form of proxy will vote the proxy at their discretion.

VOTING INFORMATION

Who can vote?

Common stockholders as of the close of business on the Record Date, February 23, 2017, can vote. Each outstanding share of WEC Energy Group common stock is entitled to one vote upon each matter presented. A list of stockholders entitled to vote will be available for inspection by stockholders at WEC Energy Group's principal business office, 231 West Michigan Street, Milwaukee, Wisconsin 53203, prior to the Meeting. The list will also be available at the Meeting.

How do I vote?

There are several ways to vote:

- By Internet. The Company encourages you to vote this way.
- By toll-free, touch-tone telephone.
- By completing and mailing your proxy card.
- By written ballot at the Meeting.

If you wish to vote through the Internet or by telephone, please follow the instructions on your Notice Regarding the Availability of Proxy Materials ("Notice"), proxy card, or the information forwarded to you by your bank or broker, as applicable. The Internet and telephone voting facilities will close at 10:59 p.m., Central time, on Wednesday, May 3, 2017.

If you are a participant in WEC Energy Group's Stock Plus Investment Plan ("Stock Plus") or own shares through investments in the WEC Energy Group Common Stock ESOP Fund in any of WEC Energy Group's 401(k) plans (including plans for legacy Integrys employees that now include WEC Energy Group common stock), your proxy will serve

as voting instructions for your shares held in those plans. The administrator for Stock Plus and the trustee for WEC Energy Group's 401(k) plans will vote your shares as you direct. If a proxy is not returned for shares held in Stock Plus, the administrator will not vote those shares. If a proxy is not returned for shares held in WEC Energy Group's 401(k) plans, the trustee will vote those shares in the same proportion that all shares in the WEC Energy Group Common Stock ESOP Fund in each respective 401(k) plan, for which voting instructions have been received, are voted.

If you are a beneficial owner and your bank or broker holds your shares in its name, they are permitted to vote your shares in the ratification of the independent auditors even if the broker does not receive voting instructions from you. However, for matters considered non-routine, which includes proposals 1, 3, and 4, your broker or other record holder of your shares will not be permitted to vote your shares unless you provide voting instructions. If your shares are held in the name of a broker, bank or other holder of record, you are invited to attend the Meeting, but may not vote at the Meeting unless you have first obtained a legal proxy from your broker, bank, or other holder of record. You must bring the legal proxy to the Meeting in order to vote in person at the Meeting.

What does it mean if I get more than one proxy?

It means your shares are held in more than one stock account. **Please vote all proxies** to ensure all of your shares are counted.

What constitutes a quorum?

As of the February 23, 2017 Record Date, there were 315,580,224 shares of WEC Energy Group common stock outstanding. In order to conduct the Meeting, a majority of the outstanding shares entitled to vote must be represented in person or by proxy. This is known as a "quorum." Abstentions and shares which are the subject of broker non-votes will count toward establishing a quorum.

Can I change my vote?

You may change your vote or revoke your proxy at any time prior to the closing of the polls, by:

- entering a new vote by Internet or phone;
- returning a later-dated proxy card;
- voting in person at the Meeting; or
- notifying WEC Energy Group's Corporate Secretary by written revocation letter.

The Corporate Secretary is Susan H. Martin. Any revocation should be filed with her at WEC Energy Group's principal business office, 231 West Michigan Street, PO Box 1331, Milwaukee, Wisconsin 53201.

Attendance at the Meeting will not, in itself, constitute revocation of a proxy. All shares entitled to vote and represented by properly completed proxies timely received and not revoked will be voted as you direct. If no direction is given in a properly completed proxy, the proxy will be voted as the Board recommends.

Who conducts the proxy solicitation?

The Board is soliciting these proxies. WEC Energy Group will bear the cost of the solicitation of proxies. The Company contemplates that proxies will be solicited principally through the use of the mail, but employees of WEC Energy Group or our subsidiaries may solicit proxies by telephone, personally, or by other communications, without compensation apart from their normal salaries. WEC Energy Group has retained Morrow Sodali LLC to assist in the solicitation of proxies for a fee of \$21,000 plus reimbursement of expenses. WEC Energy Group will also reimburse brokers, banks, and other nominees for forwarding proxy materials to beneficial stockholders.

Who will count the votes?

Computershare, which will also serve as Inspector of Election, will tabulate the vote. Computershare is the Company's transfer agent.

Where can I find the voting results from the Meeting?

The Meeting voting results will be published in a Form 8-K, available no later than May 10, 2017, on the Company's Website, wecenergygroup.com, under the "Investors" section.

ANNUAL MEETING ATTENDANCE

How do I pre-register to attend the Annual Meeting?

The Meeting is open to all stockholders of WEC Energy Group. **You must pre-register to reserve an admission ticket** and then present your government-issued photo identification at the door in order to attend.

If you would like to attend, please contact Stockholder Services by email at wec.stockholder-services.contact@wecenergygroup.com or by telephone at 800-881-5882 to reserve an admission ticket. If you hold your shares in "street name" through an intermediary, such as a bank, brokerage firm, or other nominee, and you would like to attend the Meeting, please send us a written request for an admission ticket either by regular mail, fax, or email, along with proof of share ownership, such as a bank, or brokerage firm account statement, a copy of the voting instruction card provided by your broker, or a letter from the broker, trustee, bank or nominee holding your shares to: Stockholder Services, 231 West Michigan Street, PO Box 1331, Milwaukee, Wisconsin 53201; fax: 414-221-3888; or email: wec.stockholder-services.contact@wecenergygroup.com.

Requests to reserve admission tickets will be processed in the order in which they are received and must be received no later than five business days before the Meeting, or Friday, April 28, 2017. If we cannot confirm you are a registered stockholder or beneficial owner, we will contact you for further information.

Admission tickets will be available for pick-up at the Meeting. All Meeting attendees will be asked to present a government-issued photo identification card, such as your driver's license, state identification card or passport, before receiving an admission ticket. We will then verify your name against our stockholder list. If you own shares in the name of your broker, bank, or other nominee ("street name"), you should bring your proof of share ownership with you to the Meeting. If we cannot verify that you are a stockholder, you may not be admitted to the Meeting.

The Meeting will begin promptly at 10:00 a.m., Central time. Check-in will begin at 9:00 a.m. Please allow ample time for check-in procedures.

What attendance guidelines apply to the Annual Meeting?

If you plan to attend the Meeting, please review the following attendance Guidelines:

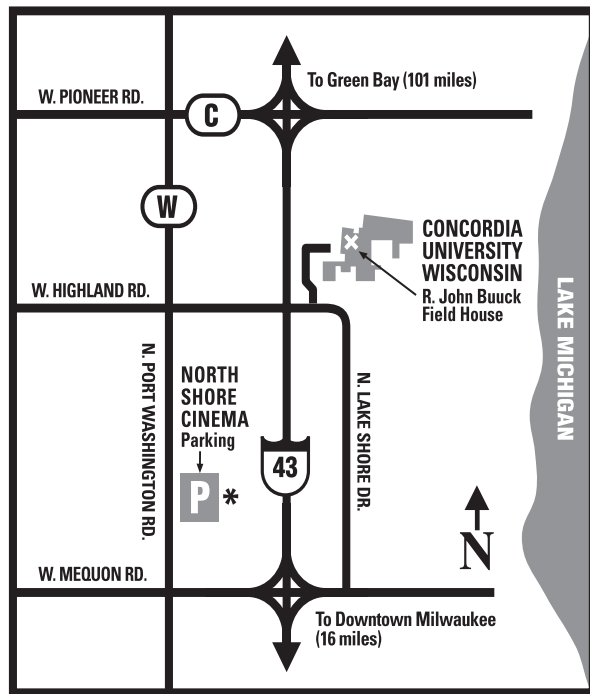
- **You must pre-register and reserve an admission ticket in order to attend.**
- To gain admittance to the Meeting, you will be asked to check in upon entry into the R. John Buuck Field House **and present government-issued photo identification**, such as a driver's license, state identification card, or passport. We will verify your name against our stockholder list and will then provide you with an admission ticket.
- The Company reserves the right to inspect all items, including handbags and briefcases, prior to admittance.
- The business of the Meeting will follow as set forth in the agenda, which you will receive upon check-in.
- Stockholder questions and comments related to the business of the Company will be addressed only during the question and answer portion of the agenda. If you wish to speak, please go to the nearest microphone and wait to be recognized by the Chairman or CEO before speaking. State your name before asking your question. Questions from the floor are limited to three minutes to provide an opportunity for as many stockholders as possible during the allotted time.
- The use of cameras, recording devices, and other electronic devices will not be permitted during the Meeting except by those employed by the Company to provide a record of the proceedings. Please silence all cell phones and other electronic devices.
- No firearms or weapons will be allowed in the Meeting facilities.
- No signs, banners, placards, handouts, and similar materials will be allowed on Meeting premises.

Attendees who fail to comply with these Guidelines risk expulsion from the Meeting. In the event of a disruption, the Chairman may immediately adjourn the Meeting and declare the polls open for such period of time as he may determine to receive votes by proxy or ballot on items of business properly brought before the Meeting.

Who do I contact if I have questions about the Annual Meeting?

If you need more information about the Meeting, call us at 800-881-5882, or write to Stockholder Services, 231 West Michigan Street, PO Box 1331, Milwaukee, Wisconsin 53201.

MAP TO THE ANNUAL MEETING



There is no parking at the Annual Meeting site. Please park at the North Shore Cinema only (11700 North Port Washington Road, Mequon, WI 53092). Shuttle buses will run from the parking site to the Annual Meeting site.

AVAILABILITY OF FORM 10-K

A copy (without exhibits) of WEC Energy Group's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the SEC, is available without charge to any stockholder of record or beneficial owner of WEC Energy Group common stock by writing to the Corporate Secretary, Susan H. Martin, at the Company's principal business office, 231 West Michigan Street, PO Box 1331, Milwaukee, Wisconsin 53201. The WEC Energy Group consolidated financial statements and certain other information found in the Form 10-K are provided in our 2016 Annual Financial Statements and Review of Operations. The Form 10-K, along with this proxy statement and all of WEC Energy Group's other filings with the SEC, is also available in the "Investors" section of the Company's Website at wecenergygroup.com.

APPENDIX A – EARNINGS PER SHARE GAAP RECONCILIATION

	<u>2016</u>	<u>2015</u>	<u>2014</u>
WEC Energy Group GAAP EPS	\$ 2.96	\$ 2.34	\$ 2.59
Acquisition costs (post-tax)	0.01	0.30	0.06
WEC Energy Group adjusted EPS	\$ 2.97	\$ 2.64	\$ 2.65

We have provided adjusted earnings per share (non-GAAP earnings) as a complement to, and not as an alternative to, reported earnings presented in accordance with GAAP. The adjusted earnings exclude costs related to the acquisition of Integrys, which we do not believe are indicative of the Company's ongoing operating performance. Therefore, we believe that the presentation of adjusted earnings per share is relevant and useful to investors. Management uses such measures internally to evaluate the Company's performance and manage our operations.

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Stockholder Information

ACCOUNT INFORMATION

- Visit www.computershare.com/investor. WEC Energy Group's transfer agent, Computershare, provides our registered stockholders with secure account access. Stockholders can view share balances, market value, tax documents and account statements; review answers to frequently asked questions; perform many transactions; and sign up for eDelivery, the paperless communication program from Computershare. eDelivery also provides electronic delivery of your annual meeting materials.
- Write to:
WEC Energy Group
c/o Computershare
P.O. Box 30170
College Station, TX 77842-3170
- If sending overnight correspondence, mail to:
WEC Energy Group
c/o Computershare
211 Quality Circle, Suite 210
College Station, TX 77845
- Call Computershare at **800-558-9663**. Service representatives are available from 7 a.m. to 7 p.m. Central time on business days. An automated voice-response system also provides information 24 hours a day, seven days a week.

Securities analysts and institutional investors may contact our Investor Relations Line at **414-221-2592**. Stockholders who hold WEC Energy Group stock in brokerage accounts should contact their brokerage firm for account information.

STOCK PURCHASE PLAN

WEC Energy Group's Stock Plus Investment Plan provides a convenient way to purchase our common stock and reinvest dividends. To review the Prospectus and enroll, go to wecenergygroup.com and select the Investors tab. You also may contact Computershare at **800-558-9663** to request an enrollment package. This is not an offer to sell, or a solicitation of an offer to buy, any securities. Any stock offering will be made only by Prospectus.

DIVIDENDS

Dividends, as declared by the board of directors, typically are payable on the first day of March, June, September and December. Stockholders may have their dividends deposited directly into their bank accounts. Please contact Computershare to request an authorization form.

INTERNET ACCESS HELPS REDUCE COSTS

You may access wecenergygroup.com for the latest information about the company. The site provides access to financial, corporate governance and other information, including Securities and Exchange Commission reports.

ANNUAL CERTIFICATIONS

WEC Energy Group has filed the required certifications of its Chief Executive Officer and Chief Financial Officer under the Sarbanes-Oxley Act regarding the quality of its public disclosures. These exhibits can be found in the company's Form 10-K for the year ended Dec. 31, 2016. The certification of WEC Energy Group's Chief Executive Officer regarding compliance with the New York Stock Exchange (NYSE) corporate governance listing standards will be filed with the NYSE following the 2017 Annual Meeting of Stockholders. Last year, we filed this certification on June 3, 2016.

CORPORATE RESPONSIBILITY

WEC Energy Group is committed to corporate responsibility and sustainable business practices — aligning our policies and practices with the needs of key stakeholders, and managing risk while accounting for the company's economic, environmental and social impacts. For additional information, visit www.wecenergygroup.com/csr.





231 W. MICHIGAN ST.
P.O. BOX 1331
MILWAUKEE, WI 53201
414-221-2345
wecenergygroup.com

INTEGRYS HOLDING, INC.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

INTEGRYS HOLDING, INC.
FINANCIAL STATEMENTS
For the Year Ended December 31, 2016
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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
IES	Integrys Energy Services, Inc.
Integrys	Integrys Holding, Inc. (previously known as Integrys Energy Group, Inc.)
ITF	Integrys Transportation Fuels, LLC
MERC	Minnesota Energy Resources Corporation
MGU	Michigan Gas Utilities Corporation
NSG	North Shore Gas Company
PDL	WPS Power Development LLC
PELLC	Peoples Energy, LLC
PGL	The Peoples Gas Light and Coke Company
UMERC	Upper Michigan Energy Resources Corporation
UPPCO	Upper Peninsula Power Company
WBS	WEC Business Services LLC
WEC Energy Group	WEC Energy Group, Inc. (previously known as Wisconsin Energy Corporation)
WE	Wisconsin Electric Power Company
WPS	Wisconsin Public Service Corporation
WRPC	Wisconsin River Power Company

Federal and State Regulatory Agencies

EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
ICC	Illinois Commerce Commission
MPSC	Michigan Public Service Commission
MPUC	Minnesota Public Utilities Commission
PSCW	Public Service Commission of Wisconsin
WDNR	Wisconsin Department of Natural Resources

Accounting Terms

AFUDC	Allowance for Funds Used During Construction
ARO	Asset Retirement Obligation
ASU	Accounting Standards Update
CWIP	Construction Work In Progress
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
LIFO	Last-In, First-Out
OPEB	Other Postretirement Employee Benefits

Environmental Terms

CAA	Clean Air Act
CO ₂	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
GHG	Greenhouse Gas
MATS	Mercury and Air Toxics Standards
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide
SO ₂	Sulfur Dioxide

Measurements

Dth	Dekatherm (One Dth equals one million Btu)
MW	Megawatt (One MW equals one million Watts)
MWh	Megawatt-hour

Other Terms and Abbreviations

AG	Attorney General
AIA	Affiliated Interest Agreement
ALJ	Administrative Law Judge
CNG	Compressed Natural Gas
Compensation Committee	Compensation Committee of the Board of Directors of WEC Energy Group, Inc.
D.C. Circuit Court of Appeals	United States Court of Appeals for the District of Columbia
FTRs	Financial Transmission Rights
Merger Agreement	Agreement and Plan of Merger, dated as of June 22, 2014, between Integrys Energy Group, Inc. and Wisconsin Energy Corporation
MISO	Midcontinent Independent System Operator, Inc.
MISO Energy Markets	MISO Energy and Operating Reserves Market
QIP	Qualifying Infrastructure Plant
ROE	Return on Equity
SMP	Gas System Modernization Program
Supreme Court	United States Supreme Court

FINANCIAL STATEMENTS AND NOTES

A. INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Integrys Holding, Inc.:

Milwaukee, Wisconsin

We have audited the accompanying consolidated financial statements of Integrys Holding, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets and consolidated statements of capitalization as of December 31, 2016 and 2015, and the related consolidated income statements, consolidated statements of comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Integrys Holding, Inc. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
March 17, 2017

INTEGRYS HOLDING, INC.

B. CONSOLIDATED INCOME STATEMENTS

Year Ended December 31 (in millions)	2016	2015	2014
Operating revenues	\$ 3,088.9	\$ 3,219.1	\$ 4,145.6
Operating expenses			
Cost of sales	1,080.7	1,300.3	2,130.5
Other operation and maintenance	1,156.9	1,064.6	1,225.6
Depreciation and amortization	283.5	292.5	290.6
Property and revenue taxes	71.8	72.9	67.7
Merger costs	—	86.9	10.4
Impairment losses	—	47.3	—
Gain on sale of UPPCO, net of transaction costs	—	—	(85.4)
Total operating expenses	2,592.9	2,864.5	3,639.4
Operating income	496.0	354.6	506.2
Equity in earnings of transmission affiliate	82.2	70.6	85.7
Other income, net	52.1	29.1	34.5
Interest expense	134.2	151.1	154.8
Other income (expense)	0.1	(51.4)	(34.6)
Income before income taxes	496.1	303.2	471.6
Income tax expense	196.7	132.0	193.4
Net income from continuing operations	299.4	171.2	278.2
Discontinued operations, net of tax	—	(0.8)	1.8
Net income	299.4	170.4	280.0
Preferred stock dividends of subsidiary	—	(2.7)	(3.1)
Net income attributed to common shareholder	\$ 299.4	\$ 167.7	\$ 276.9

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

INTEGRYS HOLDING, INC.

C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31 (in millions)	2016	2015	2014
Net income	\$ 299.4	\$ 170.4	\$ 280.0
Other comprehensive income (loss), net of tax			
Derivatives accounted for as cash flow hedges			
Reclassification of net losses (gains) to net income, net of tax of \$0.4, \$0.4, and \$1.2, respectively	0.6	0.7	(0.1)
Defined benefit plans			
Pension and OPEB adjustments arising during the period, net of tax of \$0.1, \$(2.6), and \$(3.0), respectively	0.2	(3.1)	(6.0)
Amortization of pension and OPEB costs included in net periodic benefit cost, net of tax of \$2.9, \$1.4, and \$0.8, respectively	4.3	1.6	1.7
Defined benefit plans, net	4.5	(1.5)	(4.3)
Other comprehensive income (loss), net of tax	5.1	(0.8)	(4.4)
Comprehensive income	304.5	169.6	275.6
Preferred stock dividends of subsidiary	—	(2.7)	(3.1)
Comprehensive income attributed to common shareholder	\$ 304.5	\$ 166.9	\$ 272.5

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

INTEGRYS HOLDING, INC.

D. CONSOLIDATED BALANCE SHEETS

At December 31 <i>(in millions, except share and per share data)</i>	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 12.0	\$ 19.4
Accounts receivable and unbilled revenues, net of reserves of \$47.6 and \$49.9, respectively	618.1	471.2
Receivables from related parties	14.0	2.8
Materials, supplies, and inventories	270.1	328.2
Assets held for sale	—	115.1
Prepaid taxes	51.7	122.2
Other	61.3	54.7
Current assets	1,027.2	1,113.6
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$3,315.5 and \$3,267.9, respectively	7,779.9	7,418.6
Regulatory assets	1,535.1	1,641.6
Equity investment in transmission affiliate	600.2	550.4
Goodwill	635.8	635.8
Other	250.6	218.2
Long-term assets	10,801.6	10,464.6
Total assets	\$ 11,828.8	\$ 11,578.2
Liabilities and Equity		
Current liabilities		
Short-term debt	\$ 228.0	\$ 305.5
Current portion of long-term debt	125.0	100.0
Accounts payable	482.1	469.4
Payables to related parties	48.3	18.8
Note payable to related party	42.0	95.1
Accrued taxes	64.7	50.0
Liabilities held for sale	—	30.0
Other	200.7	286.4
Current liabilities	1,190.8	1,355.2
Long-term liabilities		
Long-term debt	2,940.7	3,069.9
Deferred income taxes	1,948.0	1,664.9
Deferred investment tax credits	59.6	62.2
Regulatory liabilities	507.7	459.5
Environmental remediation liabilities	578.4	598.2
Pension and OPEB obligations	300.9	335.9
AROs	492.7	509.2
Other	181.6	192.9
Long-term liabilities	7,009.6	6,892.7
Commitments and contingencies (Note 19)		
Common stock – \$0.01 par value; 10,000 shares authorized, 1,020 and 1,000 shares issued and outstanding at December 31, 2016 and 2015, respectively	—	—
Additional paid in capital	2,685.3	2,691.7
Retained earnings	966.4	667.0
Accumulated other comprehensive loss	(23.3)	(28.4)
Total common shareholder's equity	3,628.4	3,330.3
Total liabilities and equity	\$ 11,828.8	\$ 11,578.2

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

INTEGRYS HOLDING, INC.

E. CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (in millions)	2016	2015	2014
Operating activities			
Net income	\$ 299.4	\$ 170.4	\$ 280.0
Reconciliation to cash provided by operating activities			
Depreciation and amortization	283.5	299.6	298.7
Deferred income taxes and investment tax credits, net	257.0	159.9	165.9
Contributions and payments related to pension and OPEB plans	(2.4)	(16.4)	(108.8)
Equity income in transmission affiliate, net of distributions	(26.0)	(6.9)	(11.3)
Impairment losses	—	47.3	—
Gain on sale of UPPCO	—	—	(86.5)
Change in –			
Accounts receivable and unbilled revenues	(124.3)	227.9	136.7
Materials, supplies, and inventories	58.9	(13.8)	(120.2)
Prepaid taxes	70.5	13.9	10.7
Other current assets	1.5	(17.2)	(26.5)
Accounts payable	(8.6)	(32.4)	13.2
Other current liabilities	3.5	29.4	18.4
Other, net	(8.7)	(57.8)	31.1
Net cash provided by operating activities	804.3	803.9	601.4
Investing activities			
Capital expenditures	(665.6)	(887.9)	(856.7)
Payments for assets received from WBS	(95.0)	—	—
Capital contributions to transmission affiliate	(23.9)	(6.8)	(17.0)
Proceeds from the sale of IES's retail energy business, net of cash divested	—	14.0	311.6
Proceeds from the sale of UPPCO, net of cash divested	—	—	336.5
Proceeds from the sale of assets and other businesses	99.7	72.9	23.0
Withdrawal of restricted cash from Rabbi trust for qualifying payments	26.6	15.5	—
Rabbi trust funding related to change in control	—	(14.3)	(115.5)
Short-term notes receivable from related parties, net	14.8	—	—
Cash proceeds from corporate owned life insurance policies	—	17.3	—
Other, net	5.0	(6.1)	(18.4)
Net cash used in investing activities	(638.4)	(795.4)	(336.5)
Financing activities			
Issuance of common stock to parent	66.4	—	—
Purchase of common stock	—	(23.9)	(143.5)
Dividends paid on common stock	—	(125.4)	(216.3)
Exercise of stock options	—	4.1	85.8
Redemption of WPS preferred stock	—	(52.7)	—
Retirement of long-term debt	(278.6)	(130.1)	(175.0)
Issuance of long-term debt	200.0	250.0	200.0
Repayment of loan	(28.6)	—	—
Change in short-term debt	(77.5)	(12.1)	(8.4)
Short-term notes payable to related parties, net	(53.1)	95.1	—
Other, net	(1.9)	(12.1)	(11.8)
Net cash used in financing activities	(173.3)	(7.1)	(269.2)
Net change in cash and cash equivalents	(7.4)	1.4	(4.3)
Cash and cash equivalents at beginning of year	19.4	18.0	22.3
Cash and cash equivalents at end of year	\$ 12.0	\$ 19.4	\$ 18.0

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

INTEGRYS HOLDING, INC.

F. CONSOLIDATED STATEMENTS OF EQUITY

<i>(in millions, except per share data)</i>	Shares in Deferred Compensation Trust	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre- hensive Income (Loss)	Total Common Share- holder's Equity	Preferred Stock of Subsidiary	Total Equity
Balance at December 31, 2013	\$ (23.0)	\$ 79.9	\$ 2,660.5	\$ 567.1	\$ (23.2)	\$ 3,261.3	\$ 51.1	\$ 3,312.4
Net income attributed to common shareholders	—	—	—	276.9	—	276.9	—	276.9
Other comprehensive loss	—	—	—	—	(4.4)	(4.4)	—	(4.4)
Issuance of common stock	—	0.1	2.3	—	—	2.4	—	2.4
Stock-based compensation	—	—	(20.9)	(0.8)	—	(21.7)	—	(21.7)
Dividends on common stock (dividends per common share of \$2.72)	—	—	—	(216.3)	—	(216.3)	—	(216.3)
Shares purchased for the deferred compensation trust	(0.6)	—	—	—	—	(0.6)	—	(0.6)
Other	2.7	—	0.3	(0.9)	—	2.1	—	2.1
Balance at December 31, 2014	\$ (20.9)	\$ 80.0	\$ 2,642.2	\$ 626.0	\$ (27.6)	\$ 3,299.7	\$ 51.1	\$ 3,350.8
Net income attributed to common shareholder	—	—	—	167.7	—	167.7	—	167.7
Other comprehensive loss	—	—	—	—	(0.8)	(0.8)	—	(0.8)
Stock-based compensation	—	—	(6.3)	(0.2)	—	(6.5)	—	(6.5)
Dividends on common stock (dividends per common share of \$1.58)	—	—	—	(125.4)	—	(125.4)	—	(125.4)
Redemption of WPS preferred stock	—	—	(1.6)	—	—	(1.6)	(51.1)	(52.7)
Other	20.9	(80.0)	57.4	(1.1)	—	(2.8)	—	(2.8)
Balance at December 31, 2015	\$ —	\$ —	\$ 2,691.7	\$ 667.0	\$ (28.4)	\$ 3,330.3	\$ —	\$ 3,330.3
Net income attributed to common shareholder	\$ —	\$ —	\$ —	\$ 299.4	\$ —	299.4	\$ —	299.4
Other comprehensive income	—	—	—	—	5.1	5.1	—	5.1
Issuance of common stock to parent	—	—	66.4	—	—	66.4	—	66.4
Non-cash equity transfer of our ownership in WBS to WEC Energy Group	—	—	(73.0)	—	—	(73.0)	—	(73.0)
Other	—	—	0.2	—	—	0.2	—	0.2
Balance at December 31, 2016	\$ —	\$ —	\$ 2,685.3	\$ 966.4	\$ (23.3)	\$ 3,628.4	\$ —	\$ 3,628.4

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

G. CONSOLIDATED STATEMENTS OF CAPITALIZATION

At December 31 (in millions)			2016	2015
Common equity (see accompanying statement)			\$ 3,628.4	\$ 3,330.3
Long-term debt	Interest Rate	Year Due		
WPS Notes (unsecured)	5.65%	2017	125.0	125.0
	1.65%	2018	250.0	250.0
	6.08%	2028	50.0	50.0
	5.55%	2036	125.0	125.0
	3.671%	2042	300.0	300.0
	4.752%	2044	450.0	450.0
PGL First and Refunding Mortgage Bonds (secured) ⁽¹⁾	2.21%	2016	—	50.0
	8.00%	2018	5.0	5.0
	4.63%	2019	75.0	75.0
	3.90%	2030	50.0	50.0
	1.875%	2033	50.0	50.0
	4.00%	2033	50.0	50.0
	4.30%	2035	—	50.0
	3.98%	2042	100.0	100.0
	3.96%	2043	220.0	220.0
	4.21%	2044	200.0	200.0
	3.65%	2046	50.0	—
	3.65%	2046	150.0	—
NSG First Mortgage Bonds (secured) ⁽²⁾	3.43%	2027	28.0	28.0
	3.96%	2043	54.0	54.0
IntegrYS Senior Notes (unsecured)	8.00%	2016	—	50.0
	4.17%	2020	250.0	250.0
IntegrYS Junior Notes (unsecured)	3.05%	2066	114.9	269.8
IntegrYS Junior Notes (unsecured)	6.00%	2073	400.0	400.0
Total			3,096.9	3,201.8
Unamortized debt issuance costs			(30.5)	(31.1)
Unamortized discount, net and other			(0.7)	(0.8)
Total long-term debt, including current portion			3,065.7	3,169.9
Current portion of long-term debt			(125.0)	(100.0)
Total long-term debt			2,940.7	3,069.9
Total long-term capitalization			\$ 6,569.1	\$ 6,400.2

⁽¹⁾ PGL's First Mortgage Bonds are subject to the terms and conditions of PGL's First Mortgage Indenture dated January 2, 1926, as supplemented. Under the terms of the Indenture, substantially all property owned by PGL is pledged as collateral for these outstanding debt securities.

PGL has used certain First Mortgage Bonds to secure tax exempt interest rates. The Illinois Finance Authority has issued Tax Exempt Bonds, and the proceeds from the sale of these bonds were loaned to PGL. In return, PGL issued equal principal amounts of certain collateralized First Mortgage Bonds.

⁽²⁾ NSG's First Mortgage Bonds are subject to the terms and conditions of NSG's First Mortgage Indenture dated April 1, 1955, as supplemented. Under the terms of the Indenture, substantially all property owned by NSG is pledged as collateral for these outstanding debt securities.

⁽³⁾ Variable interest rate reset quarterly. The rate was 3.05% as of December 31, 2016. Prior to December 1, 2016, the rate was fixed at 6.11% .

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

INTEGRYS HOLDING, INC.

H. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General Information—On June 29, 2015, Wisconsin Energy Corporation acquired our predecessor, Integrys Energy Group, Inc., which became a wholly owned subsidiary of Wisconsin Energy Corporation. Wisconsin Energy Corporation then changed its name to WEC Energy Group, Inc. In this report, when we refer to the "WEC Merger," we are referring to this acquisition. See Note 2, Merger, for more information.

As used in these notes, the term "financial statements" refers to the consolidated financial statements. This includes the consolidated income statements, consolidated statements of comprehensive income, consolidated balance sheets, consolidated statements of cash flows, consolidated statement of capitalization and consolidated statements of equity, unless otherwise noted. In this report, when we refer to "us," "we," "our," or "ours," we are referring to Integrys.

In December 2016, both the MPSC and the PSCW approved the operation of UMERC as a stand-alone utility owned by WEC Energy Group in the Upper Peninsula of Michigan, and it became operational effective January 1, 2017. This utility holds the electric and natural gas distribution assets previously held by WPS and WE located in the Upper Peninsula of Michigan. UMERC obtains its energy through the MISO Energy Markets and meets its obligations through power purchase agreements with WPS and WE.

Our financial statements include the accounts of Integrys, a diversified energy holding company, and the accounts of our subsidiaries in the following reportable segments:

- Wisconsin segment – Consists of WPS, which is engaged primarily in the generation of electricity and the distribution of electricity and natural gas in Wisconsin. WPS's electric and natural gas operations in the state of Michigan that were transferred to UMERC effective January 1, 2017 are also included in this segment .
- Illinois segment – Consists of PGL and NSG, which are engaged primarily in the distribution of natural gas in Illinois.
- Other states segment – Consists of MERC and MGU, which are engaged primarily in the distribution of natural gas in Minnesota and Michigan, respectively. UPPCO's electric operations in the state of Michigan prior to its sale in August 2014 are also included in this segment. See Note 3, Dispositions, for more information on the sale of UPPCO.
- Electric transmission segment – Consists of our approximate 34% ownership interest in ATC, a federally regulated electric transmission company.
- Corporate and other segment – Consists of the Integrys holding company, the PELLC holding company, WBS, PDL, and ITF. During 2016, we completed the sale of ITF and PDL sold its natural gas-fired cogeneration facility and its landfill gas facility. These PDL facilities were not significant to our operations. Effective January 1, 2016, we transferred our ownership in WBS to WEC Energy Group. This transaction was a non-cash equity transfer between entities under common control, and therefore, did not result in a gain or loss recognized. In addition, the discontinued operations of IES's retail energy business prior to its sale in November 2014 are also included in this segment. See Note 3, Dispositions, for more information on these sales.

Our financial statements also reflect our proportionate interests in certain jointly owned utility facilities. See Note 9, Jointly Owned Utility Facilities, for more information. The cost method of accounting is used for investments when we do not have significant influence over the operating and financial policies of the investee. Investments in companies not controlled by us, but over which we have significant influence regarding the operating and financial policies of the investee, are accounted for using the equity method. See Note 5, Investment in American Transmission Company, for more information.

We prepare our financial statements in conformity with GAAP. We make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

(b) Cash and Cash Equivalents—Cash and cash equivalents include marketable debt securities with an original maturity of three months or less.

(c) Revenues and Customer Receivables—We recognize revenues related to the sale of energy on the accrual basis and include estimated amounts for services provided but not yet billed to customers.

We present revenues net of pass-through taxes on the income statements.

Below is a summary of the significant mechanisms our utility subsidiaries had in place that allowed them to recover or refund changes in prudently incurred costs from rate case-approved amounts:

- Fuel and purchased power costs were recovered from customers on a one-for-one basis by our Wisconsin wholesale electric operations and our Michigan retail electric operations.
- Our retail electric rates in Wisconsin are established by the PSCW and include base amounts for fuel and purchased power costs. The electric fuel rules set by the PSCW allow us to defer, for subsequent rate recovery or refund, under or over-collections of actual fuel and purchased power costs that exceed a 2% price variance from the costs included in the rates charged to customers. WPS monitors the deferral of under-collected costs to ensure that it does not cause them to earn a greater ROE than authorized by the PSCW.
- The rates for all of our natural gas utilities included one-for-one recovery mechanisms for natural gas commodity costs. We defer any difference between actual natural gas costs incurred and costs recovered through rates as a current asset or liability. The deferred balance is returned to or recovered from customers at intervals throughout the year.
- The rates of PGL and NSG included riders for cost recovery of both environmental cleanup costs and energy conservation and management program costs.
- MERC's rates included a conservation improvement program rider for cost recovery of energy conservation and management program costs as well as a financial incentive for meeting energy savings goals.
- The rates of PGL and NSG included riders for cost recovery or refund of uncollectible expense based on the difference between actual uncollectible write-offs and the amounts recovered in rates.
- The rates of PGL, NSG, MERC, and MGU included decoupling mechanisms. These mechanisms differ by state and allow utilities to recover or refund differences between actual and authorized margins. MGU's decoupling mechanism was discontinued after December 31, 2015. See Note 22, Regulatory Environment, for more information.
- PGL's rates included a cost recovery mechanism for SMP costs.

Revenues are also impacted by other accounting policies related to PGL's natural gas hub and WPS's participation in the MISO Energy Markets. Amounts collected from PGL's wholesale customers that use the natural gas hub are credited to natural gas costs, resulting in a reduction to retail customers' charges for natural gas and services. WPS sells and purchases power in the MISO Energy Markets, which operate under both day-ahead and real-time markets. WPS records energy transactions in the MISO Energy Markets on a net basis for each hour. If WPS was a net seller in a particular hour, the net amount was reported as operating revenue. If WPS was a net purchaser in a particular hour, the net amount was recorded as cost of sales on our income statements.

We provide regulated electric and natural gas service to customers in northeastern Wisconsin and provided this service to customers in the Upper Peninsula of Michigan through December 31, 2016. See Note 4, Related Parties, for information regarding the transfer of our customers located in the Upper Peninsula of Michigan to UMERC effective January 1, 2017. We also provide regulated natural gas service to customers in Illinois, Minnesota, and Michigan. The geographic concentration of our customers did not contribute significantly to our overall exposure to credit risk. We periodically review customers' credit ratings, financial statements, and historical payment performance and require them to provide collateral or other security as needed. Credit risk exposure at PGL and NSG is mitigated by their recovery mechanisms for uncollectible expense discussed above. As a result, we did not have any significant concentrations of credit risk at December 31, 2016. In addition, there were no customers that accounted for more than 10% of our revenues for the year ended December 31, 2016.

(d) Materials, Supplies, and Inventories—Our inventory as of December 31 consisted of:

<i>(in millions)</i>	2016	2015
Natural gas in storage	\$ 149.1	\$ 190.9
Fossil fuel	66.7	76.3
Materials and supplies	54.3	61.0
Total	\$ 270.1	\$ 328.2

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. Inventories stated on a LIFO basis represented approximately 38% of total inventories at December 31, 2016, and 39% of total inventories at December 31, 2015. The estimated replacement cost of natural gas in inventory at December 31, 2016 and 2015, exceeded the LIFO cost by \$92.9 million and \$15.2 million, respectively. In calculating these replacement amounts, PGL and NSG used a Chicago city-gate natural gas price per Dth of \$3.63 at December 31, 2016, and \$2.48 at December 31, 2015.

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

(e) Investments Held in Rabbi Trust—We have investments that are held in a rabbi trust that is used to fund participants' benefits under our deferred compensation plan and certain non-qualified pension plans. All assets held within the rabbi trust are restricted as they can only be withdrawn from the trust to make qualifying benefit payments. The trust holds investments that are classified as trading securities for accounting purposes. As we do not intend to sell the investments in the near term, they are included in other long-term assets on our balance sheets. The net unrealized gains (losses) included in earnings related to the investments held at the end of the period were \$4.0 million, \$(0.4) million, and \$1.8 million for the years ended December 31, 2016, 2015, and 2014, respectively.

(f) Regulatory Assets and Liabilities—The economic effects of regulation can result in regulated companies recording costs and revenues that have been or are expected to be allowed in the rate-making process in a period different from the period in which the costs or revenues would be recognized by a nonregulated company. When this occurs, regulatory assets and regulatory liabilities are recorded on the balance sheet. Regulatory assets represent probable future revenues associated with certain costs or liabilities that have been deferred and are expected to be recovered through rates charged to customers. Regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts that are collected in rates for future costs. Recovery or refund of regulatory assets and liabilities is based on specific periods determined by the regulators or occurs over the normal operating period of the assets and liabilities to which they relate. If at any reporting date a previously recorded regulatory asset is no longer probable of recovery, the regulatory asset is reduced to the amount considered probable of recovery with the reduction charged to expense in the reporting period the determination is made. See Note 7, Regulatory Assets and Liabilities, for more information.

(g) Property, Plant, and Equipment—We record property, plant, and equipment at cost. Cost includes material, labor, overhead, and both debt and equity components of AFUDC. Additions to and significant replacements of property are charged to property, plant, and equipment at cost; minor items are charged to maintenance expense. The cost of depreciable utility property less salvage value is charged to accumulated depreciation when property is retired.

We record straight-line depreciation expense over the estimated useful life of utility property using depreciation rates approved by the applicable regulators. Annual utility composite depreciation rates are shown below:

Annual Utility Composite Depreciation Rates	2016	2015	2014
WPS	2.58%	2.60%	2.63%
PGL	3.31%	3.35%	3.20%
NSG	2.44%	2.45%	2.44%
MERC	2.53%	2.50%	2.49%
MGU	2.63%	2.65%	2.65%

We capitalize certain costs related to software developed or obtained for internal use and record these costs to amortization expense over the estimated useful life of the related software, which ranges from 3 to 15 years. If software is retired prior to being fully amortized, the difference is recorded as a loss on the income statement.

We receive grants related to certain renewable generation projects under federal and state grant programs. Our policy is to reduce the depreciable basis of the qualifying project by the grant received. We then reflect the benefit of the grant in income over the life of the related renewable generation project through a reduction in depreciation expense.

See Note 8, Property, Plant, and Equipment, for more information.

(h) Allowance for Funds Used During Construction—AFUDC is included in utility plant accounts and represents the cost of borrowed funds (AFUDC – Debt) used during plant construction, and a return on shareholders' capital (AFUDC – Equity) used for construction purposes. AFUDC – Debt is recorded as a reduction of interest expense, and AFUDC – Equity is recorded in other income, net.

The majority of AFUDC is recorded at WPS. Approximately 50% of WPS's retail jurisdictional CWIP expenditures are subject to the AFUDC calculation. For 2016, WPS's average AFUDC retail rate was 7.72%, and its average AFUDC wholesale rate was 3.00%. The other utilities did not record significant AFUDC for 2016, 2015, or 2014.

Total AFUDC was as follows for the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
AFUDC – Debt	\$ 8.1	\$ 7.1	\$ 5.2
AFUDC – Equity	19.5	17.7	12.5

(i) Asset Impairment—Goodwill and other intangible assets with indefinite lives are subject to an annual impairment test. Interim impairment tests are performed when impairment indicators are present. Intangible assets with definite lives are reviewed for impairment on a quarterly basis. Other long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

An impairment loss is recognized when the carrying amount of an asset is not recoverable and exceeds the fair value of the asset. The carrying amount of an asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. An impairment loss is measured as the excess of the carrying amount of the asset in comparison to the fair value of the asset.

Due to the WEC Merger, we changed the date of our annual goodwill impairment test during 2016 from April 1 to July 1. The carrying amount of the reporting unit's goodwill is considered not recoverable if the carrying amount of the reporting unit exceeds the reporting unit's fair value. An impairment loss is recorded for the excess of the carrying amount of the goodwill over its implied fair value. See Note 11, Goodwill and Other Intangible Assets, for more information.

The carrying amount of assets held for sale is not recoverable if the carrying amount exceeds the fair value less estimated costs to sell the asset. An impairment loss is recorded for the excess of the asset's carrying amount over the fair value less estimated costs to sell.

The carrying amounts of cost and equity method investments are assessed for impairment by comparing the fair values of these investments to their carrying amounts, if a fair value assessment was completed, or by reviewing for the presence of impairment indicators. If an impairment exists and it is determined to be other-than-temporary, a loss is recognized equal to the amount by which the carrying amount exceeds the investment's fair value.

(j) Emission Allowances—WPS accounts for emission allowances as inventory at average cost by vintage year. Charges to income result when allowances are used in operating WPS's generation plants. These charges are included in the costs subject to the fuel window rules. Gains on sales of allowances at WPS are returned to ratepayers.

(k) Asset Retirement Obligations—We recognize, at fair value, legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and normal operation of our assets. An ARO liability is recorded, when incurred, for these obligations as long as the fair value can be reasonably estimated, even if the timing or method of settling the obligation is unknown. The associated retirement costs are capitalized as part of the related long-lived asset and are depreciated over the useful life of the asset. The ARO liabilities are accreted to their present values each period using the credit-adjusted risk-free interest rates associated with the expected settlement dates of the AROs. These rates are determined when the obligations are incurred. Subsequent changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the associated retirement costs. For our

regulated entities, we recognize regulatory assets or liabilities for the timing differences between when we recover an ARO in rates and when we recognize the associated retirement costs. See Note 10, Asset Retirement Obligations, for more information.

(l) Environmental Remediation Costs—We are subject to federal and state environmental laws and regulations that in the future may require us to pay for environmental remediation at sites where we have been, or may be, identified as a potentially responsible party. Loss contingencies may exist for the remediation of hazardous substances at various potential sites, including coal combustion product landfill sites and manufactured gas plant sites. See Note 10, Asset Retirement Obligations, for more information regarding coal combustion product landfill sites and Note 19, Commitments and Contingencies, for more information regarding manufactured gas plant sites.

We record environmental remediation liabilities when site assessments indicate remediation is probable and we can reasonably estimate the loss or a range of losses. The estimate includes both our share of the liability and any additional amounts that will not be paid by other potentially responsible parties or the government. When possible, we estimate costs using site-specific information but also consider historical experience for costs incurred at similar sites. Remediation efforts for a particular site generally extend over a period of several years. During this period, the laws governing the remediation process may change, as well as site conditions, potentially affecting the cost of remediation.

Our utilities have received approval to defer certain environmental remediation costs, as well as estimated future costs, through a regulatory asset. The recovery of deferred costs is subject to the applicable state Commission's approval.

We review our estimated costs of remediation annually for our manufactured gas plant sites and coal combustion product landfill sites. We adjust the liabilities and related regulatory assets, as appropriate, to reflect the new cost estimates. Any material changes in cost estimates are adjusted throughout the year.

(m) Income Taxes—We and our subsidiaries are included within the consolidated United States income tax return filed by WEC Energy Group. We and our consolidated subsidiaries are a party to a tax allocation arrangement with WEC Energy Group and its consolidated subsidiaries.

Deferred income taxes have been recorded to recognize the expected future tax consequences of events that have been included in the financial statements by using currently enacted tax rates for the differences between the income tax basis of assets and liabilities and the basis reported in the financial statements. If we conclude that certain deferred tax assets are likely to expire before being realized, a valuation allowance would be established against those assets. GAAP requires that, if we conclude in a future period that it is more likely than not that some or all of the deferred tax assets would be realized before expiration, we reverse the related valuation allowance in that period. Any change to the allowance, as a result of a change in judgment about the realization of deferred tax assets, is reported in income tax expense. We defer certain adjustments made to income taxes that will impact future rates and record regulatory assets or liabilities related to these adjustments.

We use the deferral method of accounting for investment tax credits (ITCs). Under this method, we record the ITCs as deferred credits and amortize such credits as a reduction to the provision for income taxes over the life of the asset that generated the ITCs. ITCs that do not reduce income taxes payable for the current year are eligible for carryover and recognized as a deferred income tax asset.

We report interest and penalties accrued related to income taxes as a component of income tax expense in our income statements.

See Note 16, Income Taxes, for more information regarding accounting for income taxes.

(n) Guarantees—We follow the guidance of the Guarantees Topic of the FASB Accounting Standards Codification, which requires that the guarantor recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. See Note 17, Guarantees, for more information.

(o) Employee Benefits—The costs of pension and OPEB plans are expensed over the periods during which employees render service. These costs are allocated among WEC Energy Group's subsidiaries based on current employment status and actuarial calculations, as applicable. Our regulators allow recovery in rates for the utilities' net periodic benefit cost calculated under GAAP. See Note 18, Employee Benefits, for more information.

(p) Stock-Based Compensation—Prior to the WEC Merger, our employees were granted awards under our stock-based compensation plans. Pursuant to the Merger Agreement, immediately prior to completion of the merger, all of our outstanding stock-based

compensation awards became fully vested and were either paid to award recipients in cash, or the value of the awards was deferred into a deferred compensation plan. The additional expense recorded in 2015 associated with the accelerated vesting of these awards totaled \$22.7 million and is included in merger costs on the income statement. The total intrinsic value of awards that were settled in 2015 due to the WEC Merger was \$61.7 million. The actual tax benefit realized for the tax deductions from the settled awards was \$22.7 million. See Note 2, Merger, for more information regarding the merger.

In 2016, our employees were granted awards under WEC Energy Group's stock-based compensation plans. In accordance with the shareholder approved WEC Energy Group 1993 Omnibus Stock Incentive Plan, Amended and Restated Effective as of January 1, 2016, WEC Energy Group provides a long-term incentive through its equity interests to its non-employee directors, selected officers, and other key employees. The plan provides for the granting of stock options, restricted stock, performance shares, and other stock-based awards. Awards may be paid in WEC Energy Group common stock, cash, or a combination thereof. The number of shares of WEC Energy Group common stock authorized for issuance under the plan is 34.3 million.

Stock-based compensation expense is allocated to us based on the outstanding awards held by our employees and our allocation of labor costs. Awards classified as equity awards are measured based on their grant-date fair value. Awards classified as liability awards are recorded at fair value each reporting period based on an estimate of the final expected value of the awards.

Stock Options

Our employees are granted WEC Energy Group non-qualified stock options that vest on a cliff-basis after a three-year period. The exercise price of a stock option under the plan cannot be less than 100% of the fair market value of WEC Energy Group common stock on the grant date. Historically, all stock options have been granted with an exercise price equal to the fair market value of WEC Energy Group common stock on the date of grant. Options may not be exercised within 6 months of the grant date except in the event of a change in control. Options expire no later than 10 years from the date of grant.

WEC Energy Group stock options are classified as equity awards. The fair value of each stock option was calculated using a binomial option-pricing model. The following table shows the estimated fair value per stock option granted to our employees along with the weighted-average assumptions used in the valuation models:

	2016
Non-qualified stock options granted	52,305
Estimated fair value per non-qualified stock option	\$ 5.59
Risk-free interest rate	0.4% – 1.8%
Dividend yield	4.0%
Expected volatility	18.0%
Expected life (years)	7.4

The risk-free interest rate is based on the United States Treasury interest rate with a term consistent with the expected life of the stock options. The dividend yield was based on WEC Energy Group's current dividend rate and historical stock prices. Expected volatility and expected life assumptions were based on WEC Energy Group's historical experience.

Restricted Shares

WEC Energy Group restricted shares have a three-year vesting period, and generally, one-third of the award vests on each anniversary of the grant date. The restricted shares are classified as equity awards.

Performance Units

Officers and other key employees are granted performance units under the WEC Energy Group Performance Unit Plan. Under the plan, the ultimate number of units that will be awarded is dependent on WEC Energy Group's total shareholder return (stock price appreciation plus dividends) as compared to the total shareholder return of a peer group of companies over a three-year period, and beginning in 2017, other performance metrics as determined by the Compensation Committee. Participants may earn between 0% and 175% of the base performance unit award, as adjusted pursuant to the terms of the plan. All grants are settled in cash and are accounted for as liability awards accordingly. Stock-based compensation costs are recorded over the three-year performance period.

See Note 12, Common Equity, for more information on WEC Energy Group's stock-based compensation plans.

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

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

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

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

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

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

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

Derivatives were transferred between levels of the fair value hierarchy primarily due to observable pricing becoming available. We recognize transfers at their value as of the end of the reporting period.

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

See Note 20, Fair Value Measurements, for more information.

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

We record derivative instruments on our balance sheets as assets or liabilities 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.

We classify derivative assets and liabilities as current or long-term on our balance sheets based on the maturities of the underlying contracts. Realized gains and losses on derivative instruments are primarily recorded in cost of sales on our income statements. Cash flows from derivative activities are presented in the same category as the item being hedged within operating activities on our statements of cash flows.

Derivative accounting rules provide the option to present certain asset and liability derivative positions net on the balance sheets and to net the related cash collateral against these net derivative positions. We elected not to net these items. On our balance sheets, cash collateral provided to others is reflected in other current assets. See Note 21, Derivative Instruments, for more information.

(s) Customer Deposits and Credit Balances—When utility customers apply for new service, they may be required to provide a deposit for the service.

Utility customers can elect to be on a budget plan. Under this type of plan, a monthly installment amount is calculated based on estimated annual usage. During the year, the monthly installment amount is reviewed by comparing it to actual usage. If necessary, an adjustment is made to the monthly amount. Annually, the budget plan is reconciled to actual annual usage. Payments in excess of actual customer usage are recorded within current liabilities on our balance sheets.

(t) Subsequent Events—Subsequent events were evaluated for potential recognition or disclosure through March 17, 2017, which is the date the financial statements were available to be issued.

NOTE 2—MERGER

On June 29, 2015, the WEC Merger was completed and we became a wholly owned subsidiary of Wisconsin Energy Corporation. Wisconsin Energy Corporation then changed its name to WEC Energy Group, Inc. Our shareholders received 1.128 shares of Wisconsin Energy Corporation common stock and \$18.58 in cash for each share of our common stock. In addition, all of our unvested stock-based compensation awards became fully vested upon the close of the transaction. All outstanding awards were either paid out in cash to award recipients or the value of the awards was deferred into a deferred compensation plan. The total purchase price was approximately \$5.6 billion.

The merger was subject to the approvals of various government agencies, including the FERC, Federal Communications Commission, PSCW, ICC, MPSC, and MPUC. Approvals were obtained from all agencies subject to several conditions.

The PSCW order requires that any future electric generation projects affecting Wisconsin ratepayers submitted by WEC Energy Group or its subsidiaries will first consider the extent to which existing intercompany resources can meet energy and capacity needs. In September 2015, WPS and WE filed a joint integrated resource plan with the PSCW for their combined loads, which indicated that there is no need to proceed with the proposed construction of a new generating unit at the Fox Energy Center site at this time. WPS has been authorized to recover the costs it has recorded related to the proposed construction.

The ICC order includes a base rate freeze for PGL and NSG effective for two years after the close of the merger. This base rate freeze does not impact PGL's or NSG's ability to adjust rates through various riders or gas cost recovery mechanisms.

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

In connection with the merger, we recorded pre-tax merger costs of \$86.9 million and \$10.4 million during 2015 and 2014, respectively. Merger costs recorded during 2016 were not significant. Merger costs consisted of employee-related expenses, professional fees, and other miscellaneous costs. Included in the 2015 merger costs was \$43.2 million of expense related to the accelerated vesting of our outstanding stock-based compensation awards and change-in-control payments.

The 2015 merger costs also included \$18.4 million of severance expense that resulted from employee reductions related to the post-merger integration. Severance expense incurred during 2016 was not significant. The 2015 severance expense was recorded in the following segments:

<i>(in millions)</i>	Year ended December 31, 2015
Wisconsin	\$ 4.6
Illinois	0.9
Other states	0.1
Corporate and other	12.8
Total severance expense	\$ 18.4

Severance payments of \$2.6 million and \$15.7 million were made during 2016 and 2015, respectively. The severance accruals on our balance sheets were not significant at December 31, 2016 and 2015.

NOTE 3—DISPOSITIONS

Dispositions

Corporate and Other Segment – Sale of Integrys Transportation Fuels

In November 2015, we sold our 30% joint interest in AMP Trillium LLC. This transaction was not significant, and there was no gain or loss recorded on the sale. In addition, in the fourth quarter of 2015, we lowered the fair value of the remaining ITF assets to fair market value, less costs to sell. This pre-tax fair value adjustment of \$26.5 million (\$16.0 million after-tax) was recorded in impairment losses on the income statements.

In February 2016, we sold ITF, a provider of CNG fueling services and a single-source provider of CNG fueling facility design, construction, operation, and maintenance. There was no gain or loss recorded on the sale, as ITF's assets and liabilities were adjusted to fair value, less costs to sell in 2015. The sale of ITF met the criteria to qualify as held for sale at December 31, 2015, but did not meet the requirements to qualify as a discontinued operation. The results of operations of ITF remained in continuing operations through the sale date as the sale of ITF did not represent a shift in our corporate strategy and did not have a major effect on our operations and financial results. We recognized income before income taxes from ITF of \$5.8 million for the year ended December 31, 2016 and losses before income taxes from ITF of \$20.9 million and \$0.5 million for the years ended December 31, 2015, and 2014, respectively.

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

<i>(in millions)</i>	2015
Accounts receivable and unbilled revenues	\$ 29.2
Materials, supplies, and inventories	18.4
Other current assets	1.6
Property, plant, and equipment	51.4
Goodwill	3.8
Other long-term assets	10.7
Total assets	\$ 115.1
Accounts payable	\$ 12.6
Accrued payroll and benefits	2.4
Other current liabilities	5.5
Deferred income taxes	6.5
Deferred investment tax credits	1.2
Pension and OPEB obligations	1.2
Other long-term liabilities	0.6
Total liabilities	\$ 30.0

Corporate and Other Segment – Sale of Certain PDL Solar Power Generation Plants

In June 2015, we sold 48 solar power generation plants owned by PDL, including our ownership interest in INDU Solar Holdings, LLC, to TerraForm Power, Inc. (TerraForm) for \$47.8 million. These solar plants were located throughout Arizona, California, Connecticut, Massachusetts, New Jersey, and Pennsylvania. In 2015, we recorded a pre-tax gain on the sale of \$5.2 million, which included transaction costs of \$0.9 million. The results of operations of these solar 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. In connection with the sale, we entered into an asset management agreement with TerraForm related to the majority of the remaining solar assets owned by PDL. Under this agreement, TerraForm is contracted to perform the day-to-day management of these remaining solar assets. We recognized income before income taxes from these solar assets of approximately \$1 million and \$3 million for the period ended May 31, 2015, and the year ended December 31, 2014, respectively.

Corporate and Other Segment – Sale of WPS Westwood Generation, LLC (Westwood)

In November 2012, Sunbury Holdings, LLC, a subsidiary of IES, sold all of the membership interests of Westwood, a waste coal generation plant located in Pennsylvania. In addition to cash proceeds received, IES received a \$4.0 million note receivable from the buyer with a seven and one-half year term. In 2015, we evaluated the collectability of the note receivable and recorded an impairment loss of \$3.8 million, which was reported in impairment losses on the income statements.

Corporate and Other Segment – Sale of Compressed Natural Gas Fueling Stations

In November 2014, ITF sold eight CNG fueling stations to AMP Trillium LLC, a joint venture between ITF and AMP Americas LLC. At the time of sale, ITF owned 30% and AMP Americas LLC owned 70% of AMP Trillium LLC. The fair value of the CNG fueling stations was \$13.0 million. ITF received cash proceeds of \$7.2 million, a \$2.7 million note receivable from the buyer with a seven-year term, and a \$3.1 million equity interest in the joint venture to maintain its ownership interest. In 2014, we recorded a pre-tax gain of \$1.8 million (\$1.1 million after-tax) related to the sale of the CNG fueling stations and deferred a gain of \$0.8 million that was to be recognized over the lives of the stations sold. The subsequent sale of ITF's interest in the joint venture triggered the recognition of this deferred gain. The pre-tax gain was reported as a component of other operation and maintenance on the income statements. The results of operations of the CNG fueling stations 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.

Other States Segment – Sale of UPPCO

In August 2014, we sold all of the stock of UPPCO to Balfour Beatty Infrastructure Partners LP for \$336.5 million, which was net of cash divested of \$0.2 million. In 2014, we recorded a pre-tax gain of \$85.4 million (\$51.2 million after-tax) related to the sale of UPPCO, which was net of transaction costs of \$1.1 million. Following the sale, we provided certain administrative and operational services to UPPCO during a transition period of up to 30 months with a one month extension for a limited number of reporting functions and a one year extension for audit support. The sale of UPPCO met the criteria to qualify as held for sale but did not meet the requirements to qualify as a discontinued operation. The results of operations of UPPCO remained in continuing operations through the sale date due to WPS having significant continuing cash flows with UPPCO that continued after the sale related to certain power purchase transactions.

Corporate and Other Segment – Winnebago Energy Center

In May 2014, a fire significantly damaged the Winnebago Energy Center, a landfill-gas-to-electric facility that was owned by PDL. In the third quarter of 2014, we decided to abandon the facility and received proceeds of \$6.1 million for both insurance recovery for the damage caused by the fire and from the sale of miscellaneous parts. As a result, we recorded a pre-tax gain of \$5.0 million (\$3.0 million after-tax) in 2014. The results of operations of the Winnebago Energy Center 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.

Discontinued Operations

See Note 6, Supplemental Cash Flow Information, for cash flow information related to discontinued operations.

Corporate and Other Segment – Sale of IES Retail Energy Business

In November 2014, we sold IES's retail energy business to Exelon Generation Company, LLC (Exelon) for \$325.6 million, which was net of cash divested of \$7.6 million. We recorded a pre-tax loss on the sale of \$28.8 million (\$17.3 million after tax), which included transaction costs of \$4.5 million in 2014. Included in these costs was an immaterial amount related to severances. Included in the sale were commodity contracts that did not meet the GAAP definition of derivative instruments and, therefore, were not reflected on the balance sheets.

The retail energy business consisted of mostly financial assets and liabilities; therefore, it did not qualify as held for sale under the applicable accounting guidance. The sale of the retail energy business was the result of a previously announced shift in our corporate strategy to focus on the regulated businesses and had a major effect on our operations and financial results. Therefore, its results of operations were classified as discontinued operations beginning in the fourth quarter of 2014.

The following table shows the components of discontinued operations related to the sale of the IES retail energy business recorded on the income statements:

<i>(in millions)</i>	2015	2014
Operating revenues	\$ —	\$ 2,587.1
Cost of sales	—	(2,444.7)
Other operation and maintenance	(1.2)	(91.5)
Depreciation and amortization	—	(2.7)
Property and revenue taxes	(0.2)	(4.9)
Goodwill impairment loss	—	(6.7)
Loss on sale of IES retail energy business	—	(28.8)
Other income, net	0.1	0.6
Interest expense	—	(0.7)
Income before taxes	(1.3)	7.7
Income tax expense (benefit)	0.5	(7.3) *
Discontinued operations, net of tax	\$ (0.8)	\$ 0.4

* See Note 16, Income Taxes, for more information.

The June 2014 announcement of the potential sale triggered an interim goodwill impairment test. Based on the results of the interim goodwill impairment analysis, IES recorded a non-cash goodwill impairment loss in the second quarter of 2014. This goodwill impairment loss was a result of the offers received for IES's retail energy business.

Corporate and Other Segment – Sale of WPS Beaver Falls Generation, LLC (Beaver Falls) and WPS Syracuse Generation, LLC (Syracuse)

In March 2013, WPS Empire State, Inc. sold all of the membership interests of Beaver Falls and Syracuse, both of which owned natural gas-fired generation plants located in the state of New York. The sale agreement included a potential annual payment to us for a four-year period following the sale based on a certain level of earnings achieved by the buyer (an earn-out). In September 2014, we entered into an agreement to receive \$2.0 million in settlement of this earn-out agreement, which is presented in other operation and maintenance in the table below.

The following table shows the components of discontinued operations related to Beaver Falls and Syracuse recorded on the income statements:

<i>(in millions)</i>	2014
Other operation and maintenance	\$ 2.0
Income before taxes	2.0
Income tax expense	(0.8)
Discontinued operations, net of tax	\$ 1.2

Corporate and Other Segment – Uncertain Tax Positions

In 2014, we recorded a \$0.7 million after-tax gain at the corporate and other segment when we remeasured an uncertain tax position included in liability for unrecognized tax benefits due to a lapse in the statute of limitations.

NOTE 4—RELATED PARTIES

We and our subsidiaries routinely enter into transactions with related parties, including WEC Energy Group, its subsidiaries, ATC, and other affiliated entities.

We provide and receive services, property, and other items of value to and from our parent, WEC Energy Group, and other subsidiaries of WEC Energy Group. Following the WEC Merger on June 29, 2015, Integrys Business Support, LLC (IBS) changed its name to WBS, and a new AIA (Non-WBS AIA) went into effect. The new Non-WBS AIA included the former Wisconsin Energy Corporation and its subsidiaries. It governed the provision and receipt of services by WEC Energy Group's subsidiaries, except that WBS continued to provide services to us and our subsidiaries only under the existing WBS AIAs. WBS provided services to WEC

Energy Group and the former Wisconsin Energy Corporation subsidiaries under interim WBS AIAs. The Non-WBS AIA included no other significant changes from the prior Non-IBS AIA. The PSCW and all other relevant state commissions approved the Non-WBS AIA or granted appropriate waivers related to the Non-WBS AIA.

Services under the Non-WBS AIA were subject to various pricing methodologies. All services provided by any regulated subsidiary to another regulated subsidiary were priced at cost. All services provided by any regulated subsidiary to any nonregulated subsidiary were priced at the greater of cost or fair market value. All services provided by any nonregulated subsidiary to any regulated subsidiary were priced at the lesser of cost or fair market value. All services provided by any regulated or nonregulated subsidiary to WBS were priced at cost.

WBS provided several categories of services (including financial, human resource, and administrative services) to us pursuant to the WBS AIAs, which were approved, or from which we were granted appropriate waivers, by the appropriate regulators, including the PSCW. As required by FERC regulations for centralized service companies, WBS renders services at cost. The PSCW must be notified prior to making changes to the services offered under and the allocation methods specified in the WBS AIAs. Other modifications or amendments to the WBS AIAs would require PSCW approval. Recovery of allocated costs is addressed in our rate cases.

On April 1, 2016, we, along with WEC Energy Group and other affiliates, filed a new agreement for approval with the PSCW and all other relevant state commissions. The PSCW approved the new agreement in August 2016. We later received approval from the two other states reviewing the agreement, and the new agreement took effect January 1, 2017. The new agreement replaces the previous agreements. The pricing methodology and services under this new agreement are substantially identical to those under the agreements being replaced. In February 2017, a request was filed with the PSCW for modifications to the new AIA to incorporate WEC Energy Group's acquisition of a natural gas storage facility in Michigan. For more information on the natural gas storage facility acquisition, see below.

Effective January 1, 2016, we transferred our ownership in WBS to WEC Energy Group. This transaction was a \$73.0 million non-cash equity transfer between entities under common control, and therefore, did not result in a gain or loss recognized.

We provide services to and receive services from ATC for its transmission facilities under several agreements approved by the PSCW. Services are billed to ATC under these agreements at our fully allocated cost. See Note 5, Investment in American Transmission Company, for more information.

We provide services to WRPC under an operating agreement approved by the PSCW. We are also party to a service agreement with WRPC under which either party may be a service provider. Services are billed to and from WRPC under these agreements at a fully allocated cost.

<i>(in millions)</i>	2016	2015	2014
Transactions with WE ⁽¹⁾			
Billings from WE to WPS	\$ 9.0	\$ 13.4	\$ —
Billings to WE from WPS	4.2	4.9	—
Transactions with WBS ⁽¹⁾			
Billings from WBS ⁽²⁾	377.0	—	—
Billings to WBS ⁽³⁾	24.8	—	—
Transactions with equity-method investees			
Purchases of energy from WRPC	3.7	3.8	3.7
Charges to WRPC for operations	0.7	1.1	1.4

⁽¹⁾ Includes amounts billed for services, pass through costs, and other items in accordance with the approved AIAs discussed above.

⁽²⁾ Includes \$31.2 million for the transfer of certain benefit-related liabilities to WBS and \$95.0 million for the transfer of certain software assets to us for the year ended December 31, 2016.

⁽³⁾ Includes \$7.6 million for the transfer of certain software assets to WBS for the year ended December 31, 2016.

We manage our liquidity in part by maintaining adequate financing commitments with related parties. We have the ability to borrow up to \$400.0 million from our parent, WEC Energy Group. At December 31, 2016 and 2015, our short-term note payable balance with WEC Energy Group was \$42.0 million and \$95.1 million, respectively.

Upper Michigan Energy Resources Corporation

In December 2016, both the MPSC and the PSCW approved the operation of UMERC as a stand-alone utility in the Upper Peninsula of Michigan. UMERC, a subsidiary of WEC Energy Group, became operational effective January 1, 2017, and WPS transferred customers and property, plant, and equipment as of that date. WPS transferred approximately 9,000 retail electric customers and 5,300 natural gas customers to UMERC, along with approximately 600 miles of electric distribution lines and approximately 100 miles of natural gas distribution mains. WPS also transferred related electric distribution substations in the Upper Peninsula of Michigan and all property rights for the distribution assets to UMERC. The estimated net book value of the property, plant, and equipment transferred to UMERC from WPS as of January 1, 2017, was \$19 million. This transaction was a non-cash equity transfer between entities under common control, and therefore, did not result in a gain or loss recognized.

UMERC obtains its energy through the MISO Energy Markets and meets its market obligations through power purchase agreements with WPS and WE. The new utility has also proposed a long-term generation solution for electric reliability in the region.

Parent Company's Acquisition of a Natural Gas Storage Facility in Michigan

In January 2017, WEC Energy Group signed an agreement for the acquisition of a natural gas storage facility in Michigan that would provide for some of WPS's storage needs for its natural gas utility operations. WPS plans to enter into a long-term service agreement to take the allocated storage, subject to PSCW approval and closing of the acquisition. PSCW approval and closing of this transaction are expected to occur by the third quarter of 2017.

NOTE 5—INVESTMENT IN AMERICAN TRANSMISSION COMPANY

Our electric transmission segment consists of WPS Investments, LLC's ownership interest in ATC, which was approximately 34% at December 31, 2016. ATC is a for-profit, transmission-only company regulated by the FERC and certain state regulatory commissions. We have one representative on ATC's ten-member board of directors. Each member of the board has only one vote. Due to voting requirements, no individual board member has more than 10% of the voting control. The following table shows changes to our investment in ATC during the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
Balance at beginning of period	\$ 550.4	\$ 536.7	\$ 508.4
Add: Earnings from equity method investment	82.2	70.6	85.7
Add: Capital contributions	23.9	6.8	17.0
Less: Distributions received	56.2	63.7	74.4
Less: Other	0.1	—	—
Balance at end of period	\$ 600.2	\$ 550.4	\$ 536.7

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

The following table summarizes our significant related party transactions with ATC during the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
Charges to ATC for services and construction	\$ 8.6	\$ 10.3	\$ 9.9
Charges from ATC for network transmission services	109.4	101.3	103.8

As of December 31, 2016 and 2015, our balance sheets included the following receivables and payables related to ATC:

<i>(in millions)</i>	2016	2015
Accounts receivable		
Services provided to ATC	\$ 1.1	\$ 0.5
Accounts payable		
Services received from ATC	8.8	8.5

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

<i>(in millions)</i>	2016	2015	2014
Income statement data			
Revenues	\$ 650.8	\$ 615.8	\$ 635.0
Operating expenses	322.5	319.3	307.4
Other expense	95.5	96.1	88.9
Net income	\$ 232.8	\$ 200.4	\$ 238.7

<i>(in millions)</i>	December 31, 2016	December 31, 2015
Balance sheet data		
Current assets	\$ 75.8	\$ 80.5
Noncurrent assets	4,312.9	3,948.3
Total assets	\$ 4,388.7	\$ 4,028.8
Current liabilities	\$ 495.1	\$ 330.3
Long-term debt	1,865.3	1,790.7
Other noncurrent liabilities	271.5	245.0
Shareholders' equity	1,756.8	1,662.8
Total liabilities and shareholders' equity	\$ 4,388.7	\$ 4,028.8

NOTE 6—SUPPLEMENTAL CASH FLOW INFORMATION

<i>(in millions)</i>	2016	2015	2014
Cash (paid) for interest, net of amount capitalized	\$ (137.5)	\$ (150.0)	\$ (146.8)
Cash received (paid) for income taxes, net	149.6	42.5	(6.3)
Significant non-cash transactions:			
Accounts payable related to construction costs	161.0	165.4	180.5
Non-cash equity transfer of our ownership in WBS to WEC Energy Group	73.0	—	—
Restricted cash used to purchase investments held in the rabbi trust	59.2	70.0	—
Note receivable received related to the sale of AMP Trillium*	—	12.0	—
Capital assets received related to the sale of AMP Trillium*	—	6.3	—
ITF fueling station sale financed with note receivable	—	2.8	—
Purchase of a natural gas distribution business in Minnesota financed with note payable	—	2.6	—
Accounts receivable converted to notes receivable related to sales of ITF fueling stations constructed on behalf of others	—	—	10.9
Portion of ITF fueling station sale financed with note receivable *	—	—	2.7
Equity interest in joint venture received for a portion of the ITF fueling station sale *	—	—	3.1
Equity issued for employee stock ownership plan	—	—	1.7

* ITF owned a 30% interest in AMP. See Note 3, Dispositions, for more information on the sale of ITF.

At December 31, 2016 and 2015, restricted cash of \$33.6 million and \$118.4 million, respectively, was recorded within other long-term assets on our balance sheets. The majority of this amount was held in the rabbi trust and represents a portion of the required funding for the rabbi trust that was triggered by the announcement of the WEC Merger. Withdrawals of restricted cash from the rabbi trust for qualifying payments are shown as an investing activity on the statements of cash flows. Decreases in restricted cash due to the purchase of restricted investments held in the rabbi trust are reflected as non-cash transactions on the statements of cash flows and are included in the table above. See Note 2, Merger, for more information about the WEC Merger.

Discontinued Operations

Significant non-cash transactions and other information related to discontinued operations for the sale of IES's retail energy business are disclosed below.

<i>(in millions)</i>	2014
Operating activities	
Depreciation and amortization expense	\$ 2.7
Net unrealized gains on energy contracts	(22.7)
Deferred income taxes and investment tax credits	36.1
Remeasurement of uncertain tax positions included in our liability for unrecognized tax benefits	(0.7)
Loss on sale of IES's retail energy business *	24.3
Other	33.4
Investing activities	
Capital expenditures	(0.8)

* See Note 3, Dispositions, for more information.

NOTE 7—REGULATORY ASSETS AND LIABILITIES

The following regulatory assets were reflected on our balance sheets as of December 31:

<i>(in millions)</i>	2016	2015	See Note
Regulatory assets ^{(1) (2)}			
Environmental remediation costs ⁽³⁾	\$ 633.2	\$ 654.0	19
Unrecognized pension and OPEB costs ⁽⁴⁾	532.4	588.2	18
AROs	139.5	136.7	10
Income tax related items ⁽⁵⁾	75.0	63.8	
Termination of a tolling agreement with Fox Energy Company LLC ⁽⁶⁾	33.7	39.1	
Crane Creek production tax credits ⁽⁷⁾	29.6	30.9	
Uncollectible expense ⁽⁸⁾	25.6	23.1	1(c)
Energy costs recoverable through rate adjustments ⁽⁹⁾	22.9	20.9	
Derivatives	16.9	40.4	1(r)
De Pere Energy Center ⁽¹⁰⁾	16.7	19.0	
Unamortized loss on reacquired debt ⁽¹¹⁾	15.5	15.7	
Other	44.4	46.9	
Total regulatory assets	\$ 1,585.4	\$ 1,678.7	
Balance Sheet Presentation			
Current assets ⁽¹²⁾	\$ 50.3	\$ 37.1	
Regulatory assets	1,535.1	1,641.6	
Total regulatory assets	\$ 1,585.4	\$ 1,678.7	

⁽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 the table.

⁽²⁾ As of December 31, 2016, we had \$18.8 million of regulatory assets not earning a return. The regulatory assets not earning a return relate to certain environmental remediation costs, the recovery of which depends on the timing of the actual expenditures. The other regulatory assets in the table either earn a return or the cash has not yet been expended, in which case the assets are offset by liabilities.

⁽³⁾ As of December 31, 2016, we had not yet made cash expenditures for \$578.4 million of these environmental remediation costs.

⁽⁴⁾ Represents the unrecognized future pension and OPEB costs resulting from actuarial gains and losses on defined benefit and OPEB plans. We are authorized recovery of this regulatory asset over the average remaining service life of each plan.

⁽⁵⁾ Represents adjustments related to deferred income taxes, which are recovered in rates as the temporary differences that generated the income tax benefit reverse.

- (6) Represents an early termination fee of a tolling agreement WPS had with the Fox Energy Center. Prior to the purchase of the Fox Energy Center in 2013, WPS supplied natural gas for the facility and purchased capacity and the associated energy output under the tolling agreement. WPS is authorized recovery of this asset over a nine-year period that began on January 1, 2014.
- (7) In 2012, WPS elected to claim and subsequently received a Section 1603 Grant for the Crane Creek wind project in lieu of the production tax credit. As a result, WPS reversed previously recorded production tax credits. WPS also reduced the depreciable basis of the qualifying facility by the amount of the grant proceeds, which will result in a reduction of depreciation and amortization expense over a 12-year period. WPS recorded a regulatory asset for the deferral of previously recorded production tax credits and is authorized recovery of this net regulatory asset through 2039.
- (8) Represents amounts recoverable from customers related to uncollectible expense riders at NSG and PGL. These riders allow NSG and PGL to recover or refund the difference between actual uncollectible write-offs and the amounts recovered in rates.
- (9) Represents energy costs that will be recovered from customers in the future.
- (10) Prior to WPS purchasing the De Pere Energy Center in 2002, WPS had a long-term power purchase contract with them that was accounted for as a capital lease. As a result of the purchase, the capital lease obligation was reversed, and the difference between the capital lease asset and the purchase price was recorded as a regulatory asset. WPS is authorized recovery of this regulatory asset through 2023.
- (11) Amounts are recovered over the term of the replacement debt for NSG and PGL as authorized by the ICC.
- (12) Short-term regulatory assets are included in accounts receivable and unbilled revenues on our balance sheets.

The following regulatory liabilities were reflected on our balance sheets as of December 31:

<i>(in millions)</i>	2016	2015	See Note
Regulatory liabilities			
Removal costs ⁽¹⁾	\$ 372.1	\$ 350.1	
Unrecognized pension and OPEB costs ⁽²⁾	58.6	26.3	18
Derivatives	25.9	8.7	1(r)
Energy costs refundable through rate adjustments ⁽³⁾	20.1	59.6	
Uncollectible expense ⁽⁴⁾	13.8	11.5	1(c)
Energy efficiency programs ⁽⁵⁾	12.8	11.2	
Crane Creek depreciation deferral ⁽⁶⁾	8.0	8.3	
Other	7.4	17.6	
Total regulatory liabilities	\$ 518.7	\$ 493.3	
Balance sheet presentation			
Other current liabilities	\$ 11.0	\$ 33.8	
Regulatory liabilities	507.7	459.5	
Total regulatory liabilities	\$ 518.7	\$ 493.3	

- (1) Represents amounts collected from customers to cover the cost of future removal of property, plant, and equipment.
- (2) Represents the unrecognized future pension and OPEB costs resulting from actuarial gains and losses on defined benefit and OPEB plans. We will amortize this regulatory liability into net periodic benefit cost over the average remaining service life of each plan.
- (3) Represents energy costs that will be refunded to customers in the future.
- (4) Represents amounts refundable to customers related to uncollectible expense riders at NSG and PGL. These riders allow NSG and PGL to recover or refund the difference between actual uncollectible write-offs and the amounts recovered in rates.
- (5) Represents amounts refundable to customers related to programs at the utilities designed to meet energy efficiency standards.
- (6) Represents the book depreciation taken on the Crane Creek wind project prior to WPS's election to claim a Section 1603 Grant for the project in lieu of the production tax credit. See more information in the regulatory assets section above.

NOTE 8—PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following utility, non-utility, and other assets at December 31:

<i>(in millions)</i>	2016	2015
Electric utility property, plant, and equipment	\$ 4,277.7	\$ 3,722.8
Natural gas utility property, plant, and equipment	6,549.6	6,184.0
Total utility property, plant, and equipment	10,827.3	9,906.8
Less: Accumulated depreciation	3,300.5	3,216.7
Net	7,526.8	6,690.1
CWIP	180.9	485.9
Net utility property, plant, and equipment	7,707.7	7,176.0
Non-utility and other property, plant, and equipment	87.1	186.2
Less: Accumulated depreciation	15.0	51.2
Net *	72.1	135.0
CWIP	0.1	107.6
Net non-utility and other property, plant, and equipment	72.2	242.6
Total property, plant, and equipment	\$ 7,779.9	\$ 7,418.6

* In 2015, impairments of \$12.1 million were recorded to net non-utility plant and other property, plant, and equipment. These impairment losses are included in impairment losses on our income statements.

We evaluate property, plant, and equipment for impairment whenever indicators of impairment exist.

On January 1, 2017, WPS transferred approximately 600 miles of electric distribution lines and approximately 100 miles of natural gas distribution mains to UMER. WPS also transferred related electric distribution substations in the Upper Peninsula of Michigan. The estimated net book value of the property, plant, and equipment we transferred to UMER was \$19 million. See Note 4, Related Parties, for more information.

NOTE 9—JOINTLY OWNED UTILITY FACILITIES

WPS holds a joint ownership interest in certain electric generating facilities. WPS is entitled to its share of generating capability and output of each facility equal to its respective ownership interest. WPS also pays its ownership share of additional construction costs, fuel inventory purchases, and operating expenses, unless specific agreements have been executed to limit its maximum exposure to additional costs. WPS records its proportionate share of significant jointly owned electric generating facilities as property, plant, and equipment on the balance sheets.

Information related to jointly owned facilities at December 31, 2016 was as follows:

<i>(in millions, except for percentages and MWs)</i>	Weston Unit 4	Columbia Energy Center Units 1 and 2 ⁽²⁾	Edgewater Unit 4
Ownership	70.0%	31.8%	31.8%
WPS's share of rated capacity (MWs) ⁽¹⁾	373.5	334.4	98.0
In-service date	2008	1975 and 1978	1969
Property, plant, and equipment	\$ 596.3	\$ 417.9	\$ 45.8
Accumulated depreciation	\$ (170.3)	\$ (128.3)	\$ (31.7)
CWIP	\$ 0.2	\$ 41.2	\$ 0.1

⁽¹⁾ Based on expected capacity ratings for summer 2017. The summer period is the most relevant for capacity planning purposes. This is a result of continually reaching demand peaks in the summer months, primarily due to air conditioning demand.

⁽²⁾ Columbia Energy Center (Columbia) is jointly owned by Wisconsin Power and Light (WPL), Madison Gas and Electric (MGE), and WPS. In October 2016, WPL received an order from the PSCW approving amendments to the Columbia joint operating agreement between the parties allowing WPS and MGE to forgo certain capital expenditures at Columbia. As a result, WPL will incur these capital expenditures in exchange for a proportional increase in its ownership share of Columbia. Based upon the additional capital expenditures WPL expects to incur through June 1, 2020, WPS's ownership interest would decrease to 27.5%.

WPS's proportionate share of direct expenses for the joint operation of these plants is recorded in operating expenses in the income statements. WPS has supplied its own financing for all jointly owned projects. See Note 19, Commitments and Contingencies, for more information related to the requirement to refuel, repower, or retire Edgewater Unit 4.

NOTE 10—ASSET RETIREMENT OBLIGATIONS

Our utilities have recorded AROs primarily for the removal of natural gas distribution mains and service pipes (including asbestos and polychlorinated biphenyls [PCBs]); asbestos abatement at certain generation facilities, office buildings, and service centers; the dismantling of wind generation projects; the disposal of PCB-contaminated transformers; the closure of fly-ash landfills at certain generation facilities; and the removal of above ground storage tanks. Regulatory assets and liabilities are established by our utilities to record the differences between ongoing expense recognition under the ARO accounting rules and the rate-making practices for retirement costs authorized by the applicable regulators. AROs have also been recorded by PDL for the removal of solar equipment components.

The following table shows changes to our AROs during the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
Balance as of January 1	\$ 509.2	\$ 479.1	\$ 489.9
Accretion	25.1	23.9	24.6
Additions and revisions to estimated cash flows	—	19.6 ⁽¹⁾	(17.6) ⁽²⁾
Liabilities settled	(41.6)	(13.4)	(17.8)
Balance as of December 31	\$ 492.7	\$ 509.2	\$ 479.1

⁽¹⁾ During 2015, an ARO of \$9.0 million was recorded for the Hazardous and Solid Waste Management System; Disposal of Coal Combustion Residuals from Electric Utilities rule passed by the EPA in April 2015. In addition, our AROs increased \$8.2 million in 2015 due to revisions made to estimated cash flows for changes in the weighted average cost to retire natural gas distribution pipe at PGL and NSG. We also revised the AROs recorded for WPS's fly-ash landfills during 2015 due to changes in estimated removal costs and settlement dates.

⁽²⁾ During 2014, we revised the AROs recorded for our natural gas distribution pipes at PGL primarily due to changes in the weighted average cost to retire pipe.

NOTE 11—GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired. The following table shows changes to our goodwill balances by segment during the years ended December 31, 2016 and 2015:

<i>(in millions)</i>	Wisconsin		Illinois		Other States		Corporate and Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Balance as of January 1										
Gross goodwill	\$ 36.4	\$ 36.4	\$ 630.1	\$ 630.1	\$ 267.0	\$ 267.0	\$ —	\$ 19.6	\$ 933.5	\$ 953.1
Accumulated impairment losses	—	—	(192.8)	(192.8)	(104.9)	(104.9)	—	—	(297.7)	(297.7)
Net goodwill as of January 1	36.4	36.4	437.3	437.3	162.1	162.1	—	19.6	635.8	655.4
ITF goodwill reclassified to held for sale *	—	—	—	—	—	—	—	(19.6)	—	(19.6)
Balance as of December 31										
Gross goodwill	36.4	36.4	630.1	630.1	267.0	267.0	—	—	933.5	933.5
Accumulated impairment losses	—	—	(192.8)	(192.8)	(104.9)	(104.9)	—	—	(297.7)	(297.7)
Net goodwill as of December 31	\$ 36.4	\$ 36.4	\$ 437.3	\$ 437.3	\$ 162.1	\$ 162.1	\$ —	\$ —	\$ 635.8	\$ 635.8

* We reclassified ITF's goodwill to assets held for sale during the third quarter of 2015. Due to the offers received for ITF, we recorded a non-cash goodwill impairment loss related to ITF of \$15.8 million during the fourth quarter of 2015. See Note 3, Dispositions, for more information.

Due to the WEC Merger, we changed the date of our annual goodwill impairment test during 2016 from April 1 to July 1. Since no more than 12 months is allowed to elapse between impairment tests, we performed a step zero qualitative impairment test as of April 1, 2016, and a quantitative impairment test as of July 1, 2016. No impairments resulted from these tests.

The identifiable intangible assets other than goodwill listed below are classified as other long-term assets on our balance sheets.

<i>(in millions)</i>	December 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets ⁽¹⁾⁽²⁾	\$ 16.0	\$ (11.1)	\$ 4.9	\$ 16.0	\$ (7.8)	\$ 8.2
Unamortized intangible assets ⁽³⁾	5.7	—	5.7	5.7	—	5.7
Total intangible assets	\$ 21.7	\$ (11.1)	\$ 10.6	\$ 21.7	\$ (7.8)	\$ 13.9

⁽¹⁾ Primarily relates to contractual service agreements that provide for major maintenance and protection against unforeseen maintenance costs related to the combustion turbine generators at WPS's Fox Energy Center. The remaining weighted-average amortization period for our amortized intangible assets at December 31, 2016, was approximately three years.

⁽²⁾ During the second quarter of 2015, an impairment loss of \$4.9 million was recorded related to the net carrying amount of PDL's amortized intangible assets. This loss is included in impairment losses on our income statements.

⁽³⁾ Consists primarily of a trade name.

NOTE 12—COMMON EQUITY

Stock-Based Compensation

The following table summarizes our pre-tax stock-based compensation expense and the related tax benefit for the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
WEC Energy Group stock options	\$ 1.4	\$ —	\$ —
WEC Energy Group restricted shares	3.4	—	—
WEC Energy Group performance units	4.0	—	—
IntegrYS stock options	—	—	2.7
IntegrYS performance stock rights	—	3.3	16.8
IntegrYS restricted share units	—	8.2	9.9
IntegrYS non-employee director deferred stock units	—	0.9	0.8
Stock-based compensation expense	\$ 8.8	\$ 12.4	\$ 30.2
Related tax benefit	\$ 3.5	\$ 5.0	\$ 12.1

Stock-based compensation costs capitalized during 2016, 2015, and 2014 were not significant.

Stock Options

The following is a summary of our employees' WEC Energy Group stock option activity during 2016:

Stock Options	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2016	—	\$ —		
Granted	52,305	\$ 55.36		
Forfeited	(5,675)	\$ 55.36		
Outstanding as of December 31, 2016	46,630	\$ 55.36	9.1	\$ 0.1
Exercisable as of December 31, 2016	3,825	\$ 55.36	9.1	\$ —

The aggregate intrinsic value of outstanding and exercisable options in the above table represents the total pre-tax intrinsic value that would have been received by the option holders had they exercised all of their options on December 31, 2016. This is calculated as the difference between WEC Energy Group's closing stock price on December 31, 2016, and the option exercise price, multiplied by the number of in-the-money stock options.

As of December 31, 2016, our estimated unrecognized compensation cost related to unvested WEC Energy Group stock options was not significant.

During the first quarter of 2017, the Compensation Committee awarded 46,450 non-qualified WEC Energy Group stock options with an exercise price of \$58.31 and a weighted-average grant date fair value of \$7.44 per option to certain of our officers and other key employees under its normal schedule of awarding long-term incentive compensation.

Restricted Shares

The following is a summary of our employees' WEC Energy Group restricted stock activity during 2016:

Restricted Shares	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of January 1, 2016	—	\$ —
Granted	28,845	\$ 55.48
Forfeited	(7,422)	\$ 55.48
Outstanding as of December 31, 2016	21,423	\$ 55.48

As of December 31, 2016, we expect to recognize approximately \$2.5 million of unrecognized compensation cost related to WEC Energy Group restricted stock over the next 2.0 years on a weighted-average basis.

During the first quarter of 2017, the Compensation Committee awarded 4,605 WEC Energy Group restricted shares to our officers and other key employees under its normal schedule of awarding long-term incentive compensation. The grant date fair value of these awards was \$58.10 per share.

Performance Units

In 2016, the Compensation Committee awarded 19,710 WEC Energy Group performance units to our officers and other key employees under the WEC Energy Group Performance Unit Plan.

As of December 31, 2016, we expect to recognize approximately \$4.4 million of unrecognized compensation cost related to WEC Energy Group performance units over the next 1.4 years on a weighted-average basis.

In January 2017, the Compensation Committee awarded 19,990 WEC Energy Group performance units to our officers and other key employees under its normal schedule of awarding long-term incentive compensation.

Restrictions

Our ability to transfer funds to WEC Energy Group in the form of cash dividends, loans, or advances, primarily depends on the availability of funds from our utility subsidiaries. Various laws, regulations, and financial covenants impose restrictions on the ability of certain of our utility subsidiaries to transfer funds to us in the form of dividends. All of our utility subsidiaries, with the exception of MGU, are prohibited from loaning funds to us, either directly or indirectly.

In accordance with WPS's most recent rate order, WPS may not pay common dividends above the test year forecasted amounts reflected in its rate case, if it would cause its average common equity ratio, on a financial basis, to fall below its authorized level of 51%. A return of capital in excess of the test year amount can be paid by WPS at the end of the year provided that its average common equity ratio does not fall below the authorized level.

NSG's long-term debt obligations contain provisions and covenants restricting the payment of cash dividends and the purchase or redemption of its capital stock.

See Note 14, Short-Term Debt and Lines of Credit, for discussion of certain financial covenants related to the short-term debt obligations of our subsidiaries.

As of December 31, 2016, total restricted net assets of consolidated subsidiaries were \$2,140.3 million. Our equity in undistributed earnings of 50% or less owned investees accounted for by the equity method was \$187.6 million at December 31, 2016.

We have the option to defer interest payments on our junior subordinated notes, from time to time, for one or more periods of up to ten consecutive years per period. During any period in which we defer interest payments, we may not declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment on, any of our capital stock.

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

NOTE 13—PREFERRED STOCK

The following table shows our subsidiaries' authorized shares of preferred stock at December 31, 2016 and 2015. There were no shares outstanding.

	Shares Authorized
WPS	
\$100 par value, Preferred Stock	1,000,000
PGL	
\$100 par value, Cumulative Preferred Stock	430,000
NSG	
\$100 par value, Cumulative Preferred Stock	160,000

NOTE 14—SHORT-TERM DEBT AND LINES OF CREDIT

The following table shows our short-term borrowings and their corresponding weighted-average interest rates as of December 31:

<i>(in millions, except percentages)</i>	2016	2015
Commercial paper		
Amount outstanding at December 31	\$ 228.0	\$ 305.5
Average interest rate on amounts outstanding at December 31	1.03%	0.66%
Short-term notes payable to WEC Energy Group		
Amount outstanding at December 31	42.0	95.1
Average interest rate on amount outstanding at December 31	1.05%	0.81%

Our average amount of commercial paper borrowings based on daily outstanding balances during 2016, was \$229.3 million with a weighted-average interest rate during the period of 0.62%. Our average amount of short-term notes payable to WEC Energy Group based on daily outstanding balances during 2016, was \$37.5 million with a weighted-average interest rate during the period of 0.83%.

As of December 31, 2016, we had approximately \$730.0 million of available capacity under our bank back-up credit facility and our intercompany short-term debt facility with WEC Energy Group. As of December 31, 2016, we had \$228.0 million of commercial paper outstanding that was supported by the credit facilities and \$42.0 million of borrowings under our intercompany loan facility with WEC Energy Group.

WPS and PGL have entered into bank back-up credit facilities to maintain short-term credit liquidity which, among other terms, requires them to maintain, subject to certain exclusions, a minimum total funded debt to capitalization ratio of less than 65%. As of December 31, 2016, all companies were in compliance with their respective financial covenants.

The information in the table below relates to our revolving credit facilities used to support our commercial paper borrowing program, including remaining available capacity under these facilities as of December 31:

<i>(in millions)</i>	Maturity	2016
Revolving credit facility (WPS)	December 2020	\$ 250.0
Revolving credit facility (PGL)	December 2020	350.0
Revolving short-term notes payable to WEC Energy Group		400.0
Total short-term credit capacity		\$ 1,000.0
Less:		
Commercial paper outstanding		\$ 228.0
Short-term notes payable to WEC Energy Group		42.0
Available capacity under existing credit agreements		\$ 730.0

The WPS and PGL facilities have renewal provisions for two one-year extensions, subject to lender approval.

The bank back-up credit facilities contain customary covenants, including certain limitations on the respective companies' ability to sell assets. The credit facilities also contain customary events of default, including payment defaults, material inaccuracy of representations and warranties, covenant defaults, bankruptcy proceedings, certain judgments, Employee Retirement Income Security Act of 1974 defaults, and change of control.

NOTE 15—LONG-TERM DEBT

In June 2016, our \$50.0 million of 8.00% unsecured senior notes matured and were repaid with short-term borrowings from WEC Energy Group, which were funded by commercial paper issued by WEC Energy Group.

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

The Peoples Gas Light and Coke Company

In December 2016, PGL issued \$150.0 million of 3.65% Series DDD Bonds due December 15, 2046. The net proceeds were used for general corporate purposes, including capital expenditures and the refinancing of short-term debt.

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

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

Bonds and Notes

The following table shows the future maturities of our long-term debt outstanding as of December 31, 2016:

<i>(in millions)</i>	Payments
2017	\$ 125.0
2018	255.0
2019	75.0
2020	250.0
2021	—
Thereafter	2,391.9
Total	\$ 3,096.9

We amortize debt premiums, discounts, and debt issuance costs over the life of the debt and we include the costs in interest expense.

Effective August 2023, our \$400.0 million of 2013 6.00% Junior Subordinated Notes due 2073 will bear interest at the three-month LIBOR plus 322 basis points and will reset quarterly.

Our long-term debt obligations, and those of certain of our subsidiaries, contain covenants related to payment of principal and interest when due and various financial reporting obligations. Failure to comply with these covenants could result in an event of default, which could result in the acceleration of outstanding debt obligations.

NOTE 16—INCOME TAXES

Income Tax Expense

The following table is a summary of income tax expense for each of the years ended December 31:

<i>(in millions)</i>	2016	2015	2014
Current tax (benefit) expense	\$ (60.3)	\$ (27.9)	\$ 44.1
Deferred income taxes, net	260.8	161.4	141.3
Investment tax credit, net	(3.8)	(1.5)	8.0
Total income tax expense related to continuing operations	196.7	132.0	193.4
Total income tax (benefit) expense related to discontinued operations	—	(0.5)	7.2
Total	\$ 196.7	\$ 131.5	\$ 200.6

Statutory Rate Reconciliation

The income tax expense for each of the years ended December 31 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:

<i>(in millions)</i>	2016		2015		2014	
	Amount	Effective Tax Rate	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Expected tax at statutory federal tax rates	\$ 173.6	35.0 %	\$ 106.1	35.0 %	\$ 165.0	35.0 %
State income taxes net of federal tax benefit	23.2	4.7 %	18.1	6.0 %	35.5 *	7.5 %*
Valuation allowance change	(2.1)	(0.4)%	16.9	5.5 %	(4.9)	(1.0)%
AFUDC – Equity	(6.8)	(1.4)%	(6.1)	(2.0)%	(3.6)	(0.8)%
Other, net	8.8	1.7 %	(3.0)	(1.0)%	1.4	0.3 %
Total income tax expense	\$ 196.7	39.6 %	\$ 132.0	43.5 %	\$ 193.4	41.0 %

* Includes the impact of a \$13.0 million expense caused by the remeasurement of deferred taxes related to the sale of IES's retail energy business.

Deferred Income Tax Assets and Liabilities

The components of deferred income taxes as of December 31 are as follows:

<i>(in millions)</i>	2016	2015
Deferred income tax assets		
Future tax benefits	\$ 171.8	\$ 175.7
Other	56.8	36.0
Total deferred income tax assets	228.6	211.7
Valuation allowance	(15.0)	(17.1)
Net deferred income tax assets	\$ 213.6	\$ 194.6
Deferred income tax liabilities		
Plant-related	\$ 1,978.0	\$ 1,702.1
Regulatory deferrals	95.3	97.6
Employee benefits and compensation	60.6	28.4
Other	27.7	37.9
Total deferred income tax liabilities	2,161.6	1,866.0
Deferred income tax liabilities, net	\$ 1,948.0	\$ 1,671.4
Balance sheet presentation		
Deferred income tax liabilities – included in liabilities held for sale	\$ —	\$ 6.5
Deferred income tax liabilities, net	1,948.0	1,664.9
Total deferred income tax liabilities, net	\$ 1,948.0	\$ 1,671.4

Consistent with rate-making treatment, deferred taxes in the table above are offset for temporary differences that have related regulatory assets and liabilities.

The components of net deferred tax assets associated with federal and state tax benefit carryforwards as of December 31, 2016 and 2015 are summarized in the tables below:

2016 <i>(in millions)</i>	Gross Value	Deferred Tax Effect	Valuation Allowance	Earliest Year of Expiration
Future tax benefits as of December 31, 2016				
Federal net operating loss	\$ 74.2	\$ 26.0	\$ —	2035
Federal foreign tax credit	—	13.5	(13.5)	2017
Other federal tax credit	—	112.4	—	2025
Charitable contribution	3.8	1.5	(1.5)	2016
State net operating loss	270.3	13.6	—	2025
State tax credit	—	4.8	—	2016
Balance as of December 31, 2016	\$ 348.3	\$ 171.8	\$ (15.0)	

2015 <i>(in millions)</i>	Gross Value	Deferred Tax Effect	Valuation Allowance	Earliest Year of Expiration
Future tax benefits as of December 31, 2015				
Federal net operating loss	\$ 92.0	\$ 32.2	\$ —	2031
Federal foreign tax credit	—	15.2	(15.2)	2017
Other federal tax credit	—	113.5	—	2025
Charitable contribution	4.7	1.9	(1.9)	2016
State net operating loss	172.3	8.6	—	2024
State tax credit	—	4.3	—	2016
Balance as of December 31, 2015	\$ 269.0	\$ 175.7	\$ (17.1)	

Valuation allowances of \$15.0 million have been established for certain tax benefit carryforwards based on our projected ability to realize such benefits by offsetting future tax liabilities. This is primarily the result of the extension of bonus depreciation. Realization is dependent on generating sufficient tax liabilities prior to expiration of the tax benefit carryforwards.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

<i>(in millions)</i>	2016	2015
Balance at January 1	\$ 3.4	\$ 3.3
Increase related to tax positions taken in prior years	6.5	0.3
Decrease related to tax positions taken in prior years	(0.1)	—
Increase related to tax positions taken in current year	0.8	0.5
Decrease related to settlements	—	(0.7)
Decrease related to lapse of statutes	(1.8)	—
Balance at December 31	\$ 8.8	\$ 3.4

We had accrued interest of \$0.1 million and no accrued penalties related to unrecognized tax benefits at December 31, 2016. We had accrued interest of \$0.1 million and accrued penalties of \$0.1 million related to unrecognized tax benefits at December 31, 2015.

Our effective tax rate could be affected by recognition of \$7.8 million of unrecognized tax benefits related to continuing operations in periods after December 31, 2016.

Our subsidiaries file income tax returns in the United States federal jurisdiction and in various state and local jurisdictions as part of WEC Energy Group's filings.

With a few exceptions, we are no longer subject to federal income tax examinations by the United States Internal Revenue Service for years prior to 2013.

We file state tax returns based on income in our major state operating jurisdictions of Wisconsin, Illinois, Michigan, and Minnesota. We also file tax returns in other state and local jurisdictions with varying statutes of limitations. With a few exceptions, we are no longer subject to state and local tax examinations for years prior to 2011. As of December 31, 2016, we were subject to examination by state or local tax authorities for the 2011 through 2016 tax years in our major state operating jurisdictions as follows:

Jurisdiction	Year
Federal	2013-2016
Illinois	2013-2016
Michigan	2012-2016
Minnesota	2014-2016
Wisconsin	2011-2016

Within the next 12 months, we do not expect to significantly change the amount of unrecognized tax benefits.

NOTE 17—GUARANTEES

The following table shows our outstanding guarantees:

<i>(in millions)</i>	Total Amounts Committed at December 31, 2016	Expiration		
		Less Than 1 Year	1 to 3 Years	Over 3 Years
Guarantees supporting commodity transactions of subsidiaries ⁽¹⁾	\$ 150.6	\$ 71.6	\$ 5.0	\$ 74.0
Standby letters of credit ⁽²⁾	10.3	9.9	0.4	—
Other guarantees ⁽³⁾	29.0	—	6.8	22.2
Total guarantees	\$ 189.9	\$ 81.5	\$ 12.2	\$ 96.2

⁽¹⁾ Consists of (a) \$5.0 million and \$10.0 million to support the business operations of WBS and PDL, respectively; and (b) \$101.2 million and \$34.4 million related to natural gas supply at MERC and MGU, respectively. These amounts are not reflected on our balance sheets.

- (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) Consists of (a) \$19.0 million to support PDL's future payment obligations related to its distributed solar generation projects, of which \$6.6 million is covered by a reciprocal guarantee from a third party that is not reflected on our balance sheets and (b) \$10.0 million related to the sale of a nonregulated retail marketing business previously owned by us, of which an insignificant liability was recorded.

NOTE 18—EMPLOYEE BENEFITS

Pension and Other Postretirement Employee Benefits

Through December 31, 2016, we maintained a noncontributory, qualified pension plan sponsored by WBS that covered the majority of our employees. Effective January 1, 2017, that plan was split into six separate plans. While the split did not impact our pension benefit obligation, federal regulations required a different allocation of assets among the new plans. We maintain several unfunded non-qualified retirement plans and our subsidiaries maintain noncontributory, qualified pension plans.

In addition, we and our subsidiaries offer multiple OPEB plans to employees. The benefits for a portion of these plans are funded through irrevocable trusts, as allowed for income tax purposes. WEC Energy Group also offers medical, dental, and life insurance benefits to active employees and their dependents. We expense the costs of these benefits as incurred.

The defined benefit pension plans are closed to all new hires. In addition, the service accruals for the defined benefit pension plans were frozen for non-union employees as of January 1, 2013. These employees receive an annual company contribution to their 401(k) savings plan, which is calculated based on age, wages, and full years of vesting service as of December 31 each year. In March 2014, we remeasured the obligations of certain OPEB plans as a result of a plan design change to move participants age 65 and older to a Medicare Advantage plan starting January 1, 2015.

We use a year-end measurement date to measure the funded status of all of our pension and OPEB plans. Due to the regulated nature of our business, we have concluded that substantially all of the unrecognized costs resulting from the recognition of the funded status of our pension and OPEB plans qualify as a regulatory asset.

The following tables provide a reconciliation of the changes in our plans' benefit obligations and fair value of assets:

<i>(in millions)</i>	Pension Costs		OPEB Costs	
	2016	2015	2016	2015
Change in benefit obligation				
Obligation at January 1	\$ 1,602.7	\$ 1,705.7	\$ 458.6	\$ 520.0
Service cost	27.9	29.4	15.8	22.4
Interest cost	54.5	67.4	18.8	20.8
Transfer to affiliates *	(301.2)	—	(28.4)	—
Plan amendments	—	—	(18.9)	—
Actuarial loss (gain)	27.9	(51.1)	(21.4)	(85.6)
Participant contributions	—	—	6.0	6.6
Benefit payments	(114.2)	(148.9)	(22.1)	(25.3)
Plan curtailment	—	0.2	—	(0.3)
Obligation at December 31	\$ 1,297.6	\$ 1,602.7	\$ 408.4	\$ 458.6
Change in fair value of plan assets				
Fair value at January 1	\$ 1,304.6	\$ 1,495.6	\$ 428.3	\$ 447.7
Actual return on plan assets	82.8	(49.8)	27.5	(9.4)
Employer contributions	2.3	7.7	0.1	8.7
Transfer to affiliates *	(258.3)	—	(20.2)	—
Participant contributions	—	—	6.0	6.6
Benefit payments	(114.2)	(148.9)	(22.1)	(25.3)
Fair value at December 31	\$ 1,017.2	\$ 1,304.6	\$ 419.6	\$ 428.3
Funded status at December 31	\$ (280.4)	\$ (298.1)	\$ 11.2	\$ (30.3)

* Benefit obligations and plan assets were moved along with our employees who were transferred to/from affiliated entities. Effective January 1, 2016, we transferred our ownership in WBS to WEC Energy Group. The benefit obligations and plan assets related to WBS employees were also transferred at that time. See Note 4, Related Parties, for more information.

The amounts recognized on our balance sheets at December 31 related to the funded status of the benefit plans were as follows:

<i>(in millions)</i>	Pension Costs		OPEB Costs	
	2016	2015	2016	2015
Other long-term assets	\$ —	\$ —	\$ 31.7	\$ 8.7
Liabilities held for sale	—	0.8	—	0.4
Pension and OPEB obligations	280.4	297.3	20.5	38.6
Total net assets (liabilities)	\$ (280.4)	\$ (298.1)	\$ 11.2	\$ (30.3)

The accumulated benefit obligation for the defined benefit pension plans was \$1,181.2 million and \$1,456.8 million at December 31, 2016 and 2015, respectively.

The following table shows information for pension plans with an accumulated benefit obligation in excess of plan assets. Amounts presented are as of December 31:

<i>(in millions)</i>	2016	2015
Projected benefit obligation	\$ 1,297.6	\$ 1,602.7
Accumulated benefit obligation	1,181.2	1,456.8
Fair value of plan assets	1,017.2	1,304.6

The following table shows the amounts that have not yet been recognized in our net periodic benefit cost as of December 31:

<i>(in millions)</i>	Pension Costs		OPEB Costs	
	2016	2015	2016	2015
Accumulated other comprehensive loss (pre-tax) ⁽¹⁾				
Net actuarial loss (gain)	\$ 37.1	\$ 44.3	\$ (1.6)	\$ (1.3)
Prior service credits	—	—	(0.1)	(0.1)
Total	\$ 37.1	\$ 44.3	\$ (1.7)	\$ (1.4)
Net regulatory assets (liabilities) ⁽²⁾				
Net actuarial loss	\$ 547.5	\$ 596.6	\$ 1.4	\$ 28.0
Prior service costs (credits)	10.5	12.2	(85.6)	(74.9)
Total	\$ 558.0	\$ 608.8	\$ (84.2)	\$ (46.9)

⁽¹⁾ Amounts related to the nonregulated entities are included in accumulated other comprehensive loss.

⁽²⁾ Amounts related to the utilities and WBS are recorded as net regulatory assets or liabilities.

The following table shows the estimated amounts that will be amortized into net periodic benefit cost during 2017:

<i>(in millions)</i>	Pension Costs	OPEB Costs
Net actuarial loss	\$ 45.3	\$ 3.4
Prior service costs (credits)	1.7	(9.9)
Total 2017 – estimated amortization	\$ 47.0	\$ (6.5)

The components of net periodic benefit cost for the years ended December 31 are as follows:

<i>(in millions)</i>	Pension Costs			OPEB Costs		
	2016	2015	2014	2016	2015	2014
Service cost	\$ 27.9	\$ 29.4	\$ 24.8	\$ 15.8	\$ 22.4	\$ 21.0
Interest cost	54.4	67.4	76.2	18.8	20.8	23.5
Expected return on plan assets	(75.2)	(105.4)	(112.4)	(28.8)	(31.7)	(33.0)
Loss on plan settlement	9.9	1.2	0.9	—	—	—
Plan curtailment	—	(0.3)	—	—	—	—
Amortization of prior service cost (credit)	1.7	2.0	0.6	(8.1)	(10.3)	(9.4)
Amortization of net actuarial loss	46.7	50.2	33.3	5.6	8.9	3.2
Net periodic benefit cost	\$ 65.4	\$ 44.5	\$ 23.4	\$ 3.3	\$ 10.1	\$ 5.3

The weighted-average assumptions used to determine the benefit obligations for the plans were as follows for the years ended December 31:

	Pension		OPEB	
	2016	2015	2016	2015
Discount rate	4.19%	4.47%	4.09%	4.33%
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Assumed medical cost trend rate	N/A	N/A	7.00%	7.50%
Ultimate trend rate	N/A	N/A	5.00%	5.00%
Year ultimate trend rate is reached	N/A	N/A	2021	2021

The weighted-average assumptions used to determine the net periodic benefit cost for the plans were as follows for the years ended December 31:

	Pension Costs		
	2016	2015	2014
Discount rate	4.26%	4.08%	4.92%
Expected return on assets	7.25%	7.75%	8.00%
Rate of compensation increase	4.00%	4.23%	4.23%

	OPEB Costs		
	2016	2015	2014
Discount rate	4.34%	4.00%	4.65%
Expected return on assets	7.25%	7.75%	8.00%
Assumed medical cost trend rate (Pre 65/Post 65)	7.50%	6.00%	6.50%
Ultimate trend rate	5.00%	5.00%	5.00%
Year ultimate trend rate is reached	2021	2023	2019

WEC Energy Group consults with its investment advisors on an annual basis to help forecast expected long-term returns on plan assets by reviewing historical returns as well as calculating expected total trust returns using the weighted-average of long-term market returns for each of the major target asset categories utilized in the fund. For 2017, the expected return on assets assumption for the pension and OPEB plans is 7.25%.

Plan Assets

Current pension trust assets and amounts which are expected to be contributed to the trusts in the future are expected to be adequate to meet pension payment obligations to current and future retirees.

The Investment Trust Policy Committee oversees investment matters related to all of our funded benefit plans. The Committee works with external actuaries and investment consultants on an on-going basis to establish and monitor investment strategies and target asset allocations. Forecasted cash flows for plan liabilities are regularly updated based on annual valuation results. Target allocations are determined utilizing projected benefit payments and risk analyses of appropriate investments. They are intended to reduce risk, provide long-term financial stability for the plans and maintain funded levels which meet long-term plan obligations while preserving sufficient liquidity for near-term benefit payments.

Our pension trust target asset allocation is 60% equity securities and 40% fixed income securities. Our two largest OPEB trusts have target asset allocations of 50% equity investments and 50% fixed income, and 45% equity investments and 55% fixed income, respectively. Equity securities primarily include investments in large-cap, mid-cap, and small-cap companies primarily located in the United States. Fixed income securities include corporate bonds of companies from diversified industries, mortgage and other asset backed securities, commercial paper, and United States Treasuries.

Pension and OPEB plan investments are recorded at fair value. See Note 1(q), Fair Value Measurements, for more information regarding the fair value hierarchy and the classification of fair value measurements based on the types of inputs used. Following our adoption of ASU 2015-07 on January 1, 2016, the assets that are not subject to leveling are investments that are valued using the net asset value per share (or its equivalent) practical expedient. We have applied this approach retrospectively to the 2015 table for comparability.

The following tables provide the fair values of our investments by asset class:

<i>(in millions)</i>	December 31, 2016							
	Pension Plan Assets				OPEB Assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Cash and cash equivalents	\$ 1.8	\$ 26.5	\$ —	\$ 28.3	\$ 18.7	\$ 0.7	\$ —	\$ 19.4
Equity securities:								
United States Equity	131.1	0.1	—	131.2	14.4	—	—	14.4
International Equity	25.0	0.5	—	25.5	0.8	0.2	—	1.0
Fixed income securities: *								
United States Bonds	—	209.4	0.6	210.0	—	59.3	—	59.3
International Bonds	—	27.8	—	27.8	—	3.4	—	3.4
	157.9	264.3	0.6	422.8	33.9	63.6	—	97.5
Investments measured at net asset value				594.4				322.1
Total	\$ 157.9	\$ 264.3	\$ 0.6	\$ 1,017.2	\$ 33.9	\$ 63.6	\$ —	\$ 419.6

* This category represents investment grade bonds of United States and foreign issuers denominated in United States dollars from diverse industries.

<i>(in millions)</i>	December 31, 2015							
	Pension Plan Assets				OPEB Plan Assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Cash and cash equivalents	\$ —	\$ 29.6	\$ —	\$ 29.6	\$ 6.9	\$ 1.0	\$ —	\$ 7.9
Equity securities:								
United States Equity	34.0	3.5	—	37.5	7.0	0.1	—	7.1
International Equity	72.1	—	—	72.1	18.8	—	—	18.8
Fixed income securities: *								
United States Bonds	11.4	169.7	—	181.1	0.4	5.8	—	6.2
International Bonds	—	40.1	—	40.1	—	1.4	—	1.4
	117.5	242.9	—	360.4	33.1	8.3	—	41.4
Investments measured at net asset value				944.2				386.9
Total	\$ 117.5	\$ 242.9	\$ —	\$ 1,304.6	\$ 33.1	\$ 8.3	\$ —	\$ 428.3

* This category represents investment grade bonds of United States and foreign issuers denominated in United States dollars from diverse industries.

The following table sets forth a reconciliation of changes in the fair value of pension plan assets categorized as Level 3 in the fair value hierarchy during 2016. There was no level 3 activity in 2015.

<i>(in millions)</i>	United States Bonds
Beginning balance at January 1, 2016	\$ —
Purchases	0.6
Ending balance at December 31, 2016	\$ 0.6

Cash Flows

In January 2017, we contributed \$68.0 million to the pension plans and expect to contribute an additional \$0.7 million in 2017, dependent on various factors affecting us, including our liquidity position and possible tax law changes. We do not expect to contribute to the OPEB plans in 2017.

The following table shows the payments, reflecting expected future service, that we expect to make for pension and OPEB:

<i>(in millions)</i>	Pension	OPEB
2017	\$ 81.0	\$ 20.2
2018	83.0	22.3
2019	96.9	23.9
2020	104.7	24.6
2021	105.1	26.1
2022 through 2026	466.0	144.8

Savings Plans

WEC Energy Group sponsors a 401(k) savings plan which allows substantially all of our full-time employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan-specified guidelines. A percentage of employee contributions are matched by us through a contribution into the employee's savings plan account, up to certain limits. Certain employees participate in a defined contribution pension plan, in which amounts are contributed to an employee's savings plan account based on the employee's wages, age, and years of service. Our share of the total costs incurred under all of these plans was \$19.0 million in 2016, \$33.8 million in 2015, and \$35.0 million in 2014.

NOTE 19—COMMITMENTS AND CONTINGENCIES

We and our subsidiaries have significant commitments and contingencies arising from our operations, including those related to unconditional purchase obligations, operating leases, environmental matters, and enforcement and litigation matters.

Unconditional Purchase Obligations

We routinely enter into long-term purchase and sale commitments for various quantities and lengths of time. Our natural gas utilities have obligations to distribute and sell natural gas to their customers, and our electric utility has obligations to distribute and sell electricity to its customers. The utilities expect to recover costs related to these obligations in future customer rates.

The following table shows our minimum future commitments related to these purchase obligations as of December 31, 2016, including those of our subsidiaries.

<i>(in millions)</i>	Date Contracts Extend Through	Total Amounts Committed	Payments Due By Period					Later Years
			2017	2018	2019	2020	2021	
Electric utility:								
Purchased power	2027	\$ 622.7	\$ 85.8	\$ 54.7	\$ 57.7	\$ 60.1	\$ 58.7	\$ 305.7
Coal supply and transportation	2019	141.9	85.8	42.8	13.3	—	—	—
Natural gas utility supply and transportation	2028	613.7	187.8	149.5	117.6	73.5	27.6	57.7
Total		\$ 1,378.3	\$ 359.4	\$ 247.0	\$ 188.6	\$ 133.6	\$ 86.3	\$ 363.4

Operating Leases

We lease property, plant, and equipment under various terms. The operating leases generally require us to pay property taxes, insurance premiums, and maintenance costs associated with the leased property. Many of our leases contain one of the following options upon the end of the lease term: (a) purchase the property at the current fair market value, or (b) exercise a renewal option, as set forth in the lease agreement.

Rental expense attributable to operating leases was \$2.4 million, \$10.8 million, and \$14.7 million in 2016, 2015, and 2014, respectively.

Future minimum payments under noncancelable operating leases are payable as follows:

Year Ending December 31	Payments (in millions)
2017	\$ 5.5
2018	5.5
2019	4.5
2020	4.0
2021	4.1
Later years	38.4
Total	\$ 62.0

Environmental Matters

Consistent with other companies in the energy industry, we face significant ongoing environmental compliance and remediation obligations related to current and past operations. Specific environmental issues affecting us include, but are not limited to, current and future regulation of air emissions such as SO₂, NO_x, fine particulates, mercury, and GHGs; water discharges; disposal of coal combustion products such as fly ash; and remediation of impacted properties, including former manufactured gas plant sites.

We have continued to pursue a proactive strategy to manage our environmental compliance obligations, including:

- the development of additional sources of renewable electric energy supply;
- the addition of improvements for water quality matters such as treatment technologies to meet regulatory discharge limits and improvements to our cooling water intake systems;
- the addition of emission control equipment to existing facilities to comply with ambient air quality standards and federal clean air rules;
- the protection of wetlands and waterways, threatened and endangered species, and cultural resources associated with utility construction projects;
- the retirement of old coal-fired power plants and conversion to modern, efficient, natural gas generation and super-critical pulverized coal generation;
- the beneficial use of ash and other products from coal-fired units; and
- the remediation of former manufactured gas plant sites.

Air Quality

Cross-State Air Pollution Rule

In July 2011, the EPA issued the CSAPR, which replaced a previous rule, the Clean Air Interstate Rule. The purpose of the CSAPR was to limit the interstate transport of NO_x and SO₂ that contribute to fine particulate matter and ozone nonattainment in downwind states through a proposed allowance allocation and trading plan. After several lawsuits and related appeals, in October 2014, the D.C. Circuit Court of Appeals issued a decision that allowed the EPA to begin implementing CSAPR on January 1, 2015. The emissions budgets of Phase I of the rule applied in 2015 and 2016, while the Phase II emissions budgets discussed below apply to 2017 and beyond.

In December 2015, the EPA published its proposed update to the CSAPR for the 2008 ozone NAAQS and issued the final rule in September 2016. Starting in 2017, this rule requires reductions in the ozone season (May 1 through September 30) NO_x emissions

from power plants in 23 states in the eastern United States, including Wisconsin. The EPA updated Phase II CSAPR NO_x ozone season budgets for electric generating units in the affected states. In the final rule, the EPA significantly increased the NO_x ozone season budget from the proposed rule for Wisconsin starting in 2017. We believe we are well positioned to meet the rule requirements and do not expect to incur significant costs to comply with this rule.

Sulfur Dioxide National Ambient Air Quality Standards

The EPA issued a revised 1-Hour SO₂ NAAQS that became effective in August 2010. The EPA issued a final rule in August 2015 describing the implementation requirements and established a compliance timeline for the revised standard. The final rule affords state agencies some latitude in rule implementation. A nonattainment designation could have negative impacts for a localized geographic area, including additional permitting requirements for new or existing sources in the area.

In June 2016, we provided modeling to the WDNR that shows the area around the Weston Power Plant to be in compliance. Based upon the submittal, the WDNR provided final modeling to the EPA demonstrating the area around the Weston Power Plant to be in compliance. We expect that the EPA will consider the WDNR's recommendation and finalize its recommended designation in August 2017, for finalization by the end of 2017.

We believe our fleet overall is well positioned to meet the new regulation and do not expect to incur significant costs to comply with this regulation.

8-Hour Ozone National Ambient Air Quality Standards

The EPA completed its review of the 2008 8-hour ozone standard in November 2014, and announced a proposal to tighten (lower) the NAAQS. In October 2015, the EPA released the final rule, which lowered the limit for ground-level ozone. This is expected to cause nonattainment designations for some counties in Wisconsin with potential future impacts for our fossil-fueled power plant fleet. For nonattainment areas, the state of Wisconsin will have to develop a state implementation plan to bring the areas back into attainment. We will be required to comply with this state implementation plan no earlier than 2020 and are in the process of reviewing and determining potential impacts resulting from this rule. We believe we are well positioned to meet the rule requirements and do not expect to incur significant costs to comply with this rule.

Mercury and Other Hazardous Air Pollutants

In December 2011, the EPA issued the final MATS rule, which imposes stringent limitations on emissions of mercury and other hazardous air pollutants from coal and oil-fired electric generating units beginning in April 2015. In addition, Wisconsin has state mercury rules that require a 90% reduction of mercury; however, these rules are not in effect as long as MATS is in place. In June 2015, the Supreme Court ruled on a challenge to the MATS rule and remanded the case back to the D.C. Circuit Court of Appeals, ruling that the EPA failed to appropriately consider the cost of the regulation. The MATS rule remains in effect until the D.C. Circuit Court of Appeals takes action on the EPA's April 2016 updated cost evaluation.

We believe that our fleet is well positioned to comply with the final MATS rule and do not expect to incur any significant additional costs to comply with this regulation. Construction and testing of the ReACT™ multi-pollutant control system at Weston Unit 3 is complete, and the unit is currently in compliance with both MATS and our Consent Decree emission requirements.

Climate Change

In 2015, the EPA issued the Clean Power Plan, a final rule regulating GHG emissions from existing generating units, a proposed federal plan and model trading rules as alternatives or guides to state compliance plans, and final performance standards for modified and reconstructed generating units and new fossil-fueled power plants. In October 2015, following publication of the final rule for existing fossil-fueled generating units, numerous states (including Wisconsin), trade associations, and private parties filed lawsuits challenging the final rule, including a request to stay the implementation of the final rule pending the outcome of these legal challenges. The D.C. Circuit Court of Appeals denied the stay request, but in February 2016, the Supreme Court stayed the effectiveness of the Clean Power Plan until disposition of the litigation in the D.C. Circuit Court of Appeals and to the extent that further appellate review is sought, at the Supreme Court. In addition, in February 2016, the Governor of Wisconsin issued Executive Order 186, which prohibits state agencies, departments, boards, commissions, or other state entities from developing or promoting the development of a state plan. The D.C. Circuit Court of Appeals heard the case in September 2016.

The final rule for existing fossil-fueled generating units seeks to achieve state-specific GHG emission reduction goals by 2030, and would have required states to submit plans by September 2016. The goal of the final rule is to reduce nationwide GHG emissions by 32% from 2005 levels. The rule is seeking GHG emission reductions in Wisconsin of 41% below 2012 levels by 2030. Interim goals starting in 2022 would require states to achieve about two-thirds of the 2030 required reduction. The building blocks used by the EPA to determine each state's emission reduction requirements include a combination of improving power plant efficiency, increasing reliance on combined cycle natural gas units, and adding new renewable energy resources. We continue to evaluate possible reduction opportunities and actions that preserve fuel diversity, lower costs for our customers, and contribute towards long-term GHG reductions, given the uncertain future of the Clean Power Plan and current fuel and technology markets. Our evaluation to date indicates that the Clean Power Plan, as well as current fuel markets and advances in technology, are not expected to result in significant additional compliance costs, including capital expenditures, but could impact how we operate our existing fossil-fueled power plants.

However, the timelines for the 2022 through 2029 interim goals and the 2030 final goal for states, as well as all other aspects of the rule, likely will be changed due to the stay and subsequent legal proceedings. With the new Federal Executive Administration as of January 2017, the Clean Power Plan, or its successor, could be significantly changed from the final rule of October 2015. Notwithstanding the potential changes to the Clean Power Plan, addressing climate change is an integral component of our strategic planning process. We continue to reshape our portfolio of electric generation facilities with investments that will improve our environmental performance, including reduced GHG intensity of our operating fleet. As the regulation of GHG emissions takes shape, our plan is to work with our industry partners, environmental groups, and the State of Wisconsin, with a goal of reducing CO₂ emissions by approximately 40% below 2005 levels by 2030. We continue to evaluate numerous options in order to meet our CO₂ reduction goal, such as increased utilization of existing natural gas combined cycle units, co-firing or switching to natural gas in existing coal-fired units, reduced operation or retirement of existing coal-fired units, addition of new renewable energy resources (wind, solar), and consideration of supply and demand-side energy efficiency and distributed generation.

Draft Federal Plan and Model Trading Rules (Model Rules) were also published in October 2015 for use in developing state plans or for use in states where a plan is not submitted or approved. In December 2015, the state of Wisconsin submitted petitions for reconsideration of the EPA's final standards for existing, as well as for new, modified, and reconstructed generating units. A petition for reconsideration of the EPA's final standards for existing generating units was also submitted jointly by the Wisconsin utilities. Among other things, the petitions narrowly asked the EPA to consider revising the state goal for existing units to reflect the 2013 retirement of the Kewaunee Power Station, which could lower the state's CO₂ equivalent reduction goal by about 10%. In May 2016, the EPA denied the state of Wisconsin's petition for reconsideration related to new, modified, and reconstructed generating units. The EPA has not issued decisions yet regarding the above referenced petitions for reconsideration of the final EPA standards for existing generating units. In December 2016, the EPA withdrew the draft Model Rules and accompanying draft documents from the review process and made working drafts available to the public. They are not final documents, are not signed by the Administrator, and will not be published in the Federal Register. The EPA's docket will remain open, with the potential for completing the agency's work on these materials and finalizing them at a later date.

We are required to report our CO₂ equivalent emissions from our electric generating facilities under the EPA Greenhouse Gases Reporting Program. For 2015, we reported aggregated CO₂ equivalent emissions of approximately 5.7 million metric tonnes to the EPA. Based upon our preliminary analysis of the data, we estimate that we will report CO₂ equivalent emissions of approximately 5.7 million metric tonnes to the EPA for 2016. The level of CO₂ and other GHG emissions vary from year to year and are dependent on the level of electric generation and mix of fuel sources, which is determined primarily by demand, the availability of the generating units, the unit cost of fuel consumed, and how our units are dispatched by MISO.

We are also required to report CO₂ equivalent amounts related to the natural gas that our natural gas utilities distribute and sell. For 2015, we reported aggregated CO₂ equivalent emissions of approximately 17.8 million metric tonnes to the EPA. Based upon our preliminary analysis of the data, we estimate that we will report CO₂ equivalent emissions of approximately 17.5 million metric tonnes to the EPA for 2016.

Water Quality

Clean Water Act Cooling Water Intake Structure Rule

In August 2014, the EPA issued a final regulation under Section 316(b) of the Clean Water Act, which requires that the location, design, construction, and capacity of cooling water intake structures at existing power plants reflect the Best Technology Available (BTA) for minimizing adverse environmental impacts from both impingement (entrapping organisms on water intake screens) and

entrainment (drawing organisms into water intake). The rule became effective in October 2014, and applies to all of our existing generating facilities with cooling water intake structures.

Facility owners must select from seven compliance options available to meet the impingement mortality (IM) reduction standard. The rule requires state permitting agencies to make BTA determinations, subject to EPA oversight, for IM reduction over the next several years as facility permits are reissued. Based on our assessment, we believe that existing technologies at our generating facilities, except for Pulliam Units 7 and 8 and Weston Unit 2, satisfy the IM BTA requirements. We plan to evaluate the available IM options for Pulliam Units 7 and 8. We also expect that limited studies will be required to support the future WDNR BTA determinations for Weston Unit 2. Based on preliminary discussions with the WDNR, we anticipate that the WDNR will not require physical modifications to the Weston Unit 2 intake structure to meet the IM BTA requirements based on low capacity use of the unit.

BTA determinations must also be made by the WDNR to address entrainment mortality (EM) reduction on a site-specific basis taking into consideration several factors. BTA determinations for EM will be made in future permit reissuances for Pulliam Units 7 and 8 and Weston Units 2 through 4.

During 2017 and 2018, we will continue to complete studies and evaluate options to address the EM BTA requirements at our plants. With the exception of Weston Units 3 and 4 (which have existing cooling towers that meet EM BTA requirements), we cannot yet determine what, if any, intake structure or operational modifications will be required to meet the new EM BTA requirements at our facilities. We also expect that limited studies to support WDNR BTA determinations will be conducted at the Weston facility. Based on preliminary discussions with the WDNR, we anticipate that the WDNR will not require physical modifications to the Weston Unit 2 intake structure to meet the EM BTA requirements based on low capacity use of the unit. Entrainment studies are currently being conducted at Pulliam Units 7 and 8.

We believe our fleet overall is well positioned to meet the new regulation and do not expect to incur significant costs to comply with this regulation.

Steam Electric Effluent Guidelines

The EPA's final steam electric effluent guidelines rule took effect in January 2016 and applies to discharges of wastewater from our power plant processes in Wisconsin. This rule is being litigated in the United States Court of Appeals for the Fifth Circuit and may result in changes to the discharge requirements. The WDNR will continue to modify the state rules as necessary and incorporate the new requirements into our facility permits, which are renewed every five years. We expect the new requirements to be phased in between 2018 and 2023 as our permits are renewed. Our power plant facilities already have advanced wastewater treatment technologies installed that meet many of the discharge limits established by this rule. However, these standards will require additional wastewater treatment retrofits as well as installation of other equipment to minimize process water use. The final rule phases in new or more stringent requirements related to limits of arsenic, mercury, selenium, and nitrogen in wastewater discharged from wet scrubber systems. The rule also requires dry fly ash handling, which is already in place at all of our power plants. Dry bottom ash transport systems are required by the new rule, and modifications will be required at Pulliam Units 7 and 8 and Weston Unit 3. We are beginning preliminary engineering for compliance with the rule and estimate a total cost range of \$25 million to \$35 million for these bottom ash transport systems.

Land Quality

Manufactured Gas Plant Remediation

We have identified sites at which our utilities or a predecessor company owned or operated a manufactured gas plant or stored manufactured gas. We have also identified other sites that may have been impacted by historical manufactured gas plant activities. Our natural gas utilities are responsible for the environmental remediation of these sites, some of which are in the EPA Superfund Alternative Approach Program. We are also working with various state jurisdictions in our investigation and remediation planning. These sites are at various stages of investigation, monitoring, remediation, and closure.

In addition, we are coordinating the investigation and cleanup of some of these sites subject to the jurisdiction of the EPA under what is called a "multisite" program. This program involves prioritizing the work to be done at the sites, preparation and approval of documents common to all of the sites, and use of a consistent approach in selecting remedies. At this time, we cannot estimate future remediation costs associated with these sites beyond those described below.

The future costs for detailed site investigation, future remediation, and monitoring are dependent upon several variables including, among other things, the extent of remediation, changes in technology, and changes in regulation. Historically, our regulators have allowed us to recover incurred costs, net of insurance recoveries and recoveries from potentially responsible parties, associated with the remediation of manufactured gas plant sites. Accordingly, we have established regulatory assets for costs associated with these sites.

We have established the following regulatory assets and reserves related to manufactured gas plant sites as of December 31:

<i>(in millions)</i>	2016	2015
Regulatory assets	\$ 633.2	\$ 654.0
Reserves for future remediation	578.2	598.0

Renewables, Efficiency, and Conservation

Wisconsin Legislation

In 2005, Wisconsin enacted Act 141, which established a goal that 10% of all electricity consumed in Wisconsin be generated by renewable resources by December 31, 2015. WPS achieved a renewable energy percentage of 9.74% and met its compliance requirements by constructing various wind parks and by also relying on renewable energy purchases. We continue to review our renewable energy portfolios and acquire cost-effective renewables as needed to meet our requirements on an ongoing basis. The PSCW administers the renewable program related to Act 141, and we fund the program, along with other utilities, based on 1.2% of our annual operating revenues.

Michigan Legislation

In 2008, Michigan enacted Act 295, which required 10% of the state's energy to come from renewables by 2015 and energy optimization (efficiency) targets up to 1% annually by 2015. In December 2016, Michigan revised this legislation with Act 342, which requires additional renewable energy requirements beyond 2015. We were in compliance with these requirements as of December 31, 2016.

Enforcement and Litigation Matters

We and our subsidiaries are involved in legal and administrative proceedings before various courts and agencies with respect to matters arising in the ordinary course of business. Although we are unable to predict the outcome of these matters, management believes that appropriate reserves have been established and that final settlement of these actions will not have a material effect on our financial condition or results of operations.

Weston Title V Air Permit

In May 2014, the WDNR issued a NOV alleging that we failed to maintain a minimum sorbent feed rate prior to the Continuous Emissions Monitoring System certification and included an issue related to reporting NOx emissions from the Weston Unit 4 auxiliary boiler. In June 2015, the WDNR issued a NOV alleging that we failed to comply with mercury reporting requirements related to challenged matters in the 2013 Weston Title V permit. In June 2016, the WDNR issued a letter closing both the May 2014 and June 2015 NOVs with no further action.

Consent Decrees

Wisconsin Public Service Corporation Consent Decree – Weston and Pulliam

In November 2009, the EPA issued a NOV to WPS, which alleged violations of the CAA's New Source Review requirements relating to certain projects completed at the Weston and Pulliam plants from 1994 to 2009. WPS entered into a Consent Decree with the EPA resolving this NOV. This Consent Decree was entered by the United States District Court for the Eastern District of Wisconsin in March 2013.

The final Consent Decree includes:

- the installation of emission control technology, including ReACT™ on Weston 3,
- changed operating conditions (including refueling, repowering, and/or retirement of units),
- limitations on plant emissions,
- beneficial environmental projects totaling \$6.0 million, and
- a civil penalty of \$1.2 million.

The Consent Decree also contains requirements to refuel, repower, and/or retire certain Weston and Pulliam units. Effective June 1, 2015, WPS retired Weston Unit 1 and Pulliam Units 5 and 6. In March 2016, WPS submitted a proposed revision to the EPA to update requirements reflecting the conversion of Weston Unit 2 from coal to natural gas fuel, and also proposed revisions to the list of beneficial environmental projects required by the Consent Decree. These proposed revisions were approved by the EPA in May 2016. The revisions to the environmental projects are not expected to materially impact the overall costs noted above.

WPS received approval from the PSCW in its 2015 rate order to defer and amortize the undepreciated book value of the retired plant related to Weston Unit 1 and Pulliam Units 5 and 6 starting June 1, 2015, and concluding by 2023. Therefore, in June 2015, WPS recorded a regulatory asset of \$11.5 million for the undepreciated book value. In addition, WPS received approval from the PSCW in its rate orders to recover prudently incurred costs as a result of complying with the terms of the Consent Decree, with the exception of the civil penalty.

Also, in May 2010, WPS received from the Sierra Club a Notice of Intent to file a civil lawsuit based on allegations that WPS violated the CAA at the Weston and Pulliam plants. WPS entered into a Standstill Agreement with the Sierra Club by which the parties agreed to negotiate as part of the EPA NOV process, rather than litigate. The Standstill Agreement ended in October 2012, but no further action has been taken by the Sierra Club as of December 31, 2016. It is unknown whether the Sierra Club will take further action in the future.

Joint Ownership Power Plants Consent Decree – Columbia and Edgewater

In December 2009, the EPA issued a NOV to Wisconsin Power and Light, the operator of the Columbia and Edgewater plants, and the other joint owners of these plants, including Madison Gas and Electric, WE (former co-owner of an Edgewater unit), and WPS. The NOV alleged violations of the CAA's New Source Review requirements related to certain projects completed at those plants. WPS, along with Wisconsin Power and Light, Madison Gas and Electric, and WE entered into a Consent Decree with the EPA resolving this NOV. This Consent Decree was entered by the United States District Court for the Western District of Wisconsin in June 2013.

The final Consent Decree includes:

- the installation of emission control technology, including scrubbers at the Columbia plant,
- changed operating conditions (including refueling, repowering, and/or retirement of units),
- limitations on plant emissions,
- beneficial environmental projects, with WPS's portion totaling \$1.3 million, and
- WPS's portion of a civil penalty and legal fees totaling \$0.4 million.

The Consent Decree contains a requirement to, among other things, refuel, repower, or retire Edgewater Unit 4, of which WPS is a joint owner, by no later than December 31, 2018. In the first quarter of 2015, management of the joint owners recommended that Edgewater Unit 4 be retired in December 2018. However, a final decision on how to address the requirement for this unit has not yet been made by the joint owners, as early retirement is contingent on various operational and market factors, and other alternatives to retirement are still available.

NOTE 20—FAIR VALUE MEASUREMENTS

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:

<i>(in millions)</i>	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative assets				
Natural gas contracts	\$ 2.3	\$ 22.4	\$ —	\$ 24.7
FTRs	—	—	2.0	2.0
Coal contracts	—	0.1	—	0.1
Total derivative assets	\$ 2.3	\$ 22.5	\$ 2.0	\$ 26.8
Investments held in rabbi trust	\$ 103.9	\$ —	\$ —	\$ 103.9
Liabilities				
Derivative liabilities				
Natural gas contracts	\$ —	\$ 0.2	\$ —	\$ 0.2
Coal contracts	—	1.4	—	1.4
Total derivative liabilities	\$ —	\$ 1.6	\$ —	\$ 1.6

<i>(in millions)</i>	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative assets				
Natural gas contracts	\$ 0.5	\$ 1.2	\$ —	\$ 1.7
FTRs	—	—	2.0	2.0
Total derivative assets	\$ 0.5	\$ 1.2	\$ 2.0	\$ 3.7
Investments held in rabbi trust	\$ 39.8	\$ —	\$ —	\$ 39.8
Liabilities				
Derivative liabilities				
Natural gas contracts	\$ 2.8	\$ 24.7	\$ —	\$ 27.5
Petroleum products contracts	0.5	—	—	0.5
Coal contracts	—	4.7	—	4.7
Total derivative liabilities	\$ 3.3	\$ 29.4	\$ —	\$ 32.7

The derivative assets and liabilities listed in the tables above include options, swaps, futures, physical commodity contracts, and other instruments used to manage market risks related to changes in commodity prices. They also include FTRs, which are used to manage electric transmission congestion costs in the MISO Energy Markets. See Note 21, Derivative Instruments, for more information.

The following table summarizes the changes to derivatives classified as Level 3 in the fair value hierarchy at December 31:

<i>(in millions)</i>	2016	2015	2014
Balance at the beginning of the period	\$ 2.0	\$ (6.9)	\$ (1.3)
Realized and unrealized losses	(0.2)	(10.7)	(7.6)
Purchases	7.1	9.8	4.3
Sales	(0.2)	(0.1)	—
Settlements	(6.7)	5.2	(3.5)
Transfers out of Level 3	—	4.7	1.2
Balance at the end of the period	\$ 2.0	\$ 2.0	\$ (6.9)

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

Fair Value of Financial Instruments

The following table shows the financial instruments included on our balance sheets that are not recorded at fair value at December 31:

<i>(in millions)</i>	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion	\$ 3,065.7	\$ 3,164.7	\$ 3,169.9	\$ 3,233.1

NOTE 21—DERIVATIVE INSTRUMENTS

The following table shows our derivative assets and derivative liabilities:

<i>(in millions)</i>	December 31, 2016		December 31, 2015	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Other current				
Natural gas contracts	\$ 22.3	\$ 0.2	\$ 1.2	\$ 25.6
Petroleum products contracts	—	—	—	0.5
FTRs	2.0	—	2.0	—
Coal contracts	—	0.9	—	3.3
Total other current	\$ 24.3	\$ 1.1	\$ 3.2	\$ 29.4
Other long-term				
Natural gas contracts	\$ 2.4	\$ —	\$ 0.5	\$ 1.9
Coal contracts	0.1	0.5	—	1.4
Total other long-term	\$ 2.5	\$ 0.5	\$ 0.5	\$ 3.3
Total	\$ 26.8	\$ 1.6	\$ 3.7	\$ 32.7

Our estimated notional sales volumes and realized gains (losses) were as follows for the years ended:

<i>(in millions)</i>	December 31, 2016		December 31, 2015		December 31, 2014	
	Volume	Gains (Losses)	Volume	Gains (Losses)	Volume	Gains (Losses)
Natural gas contracts	92.9 Dth	\$ (37.7)	85.2 Dth	\$ (55.0)	76.9 Dth	\$ 8.0
Petroleum products contracts	4.4 gallons	(0.6)	7.9 gallons	(3.4)	7.3 gallons	(0.5)
FTRs	8.4 MWh	6.0	9.0 MWh	3.3	8.7 MWh	3.2
Total		\$ (32.3)		\$ (55.1)		\$ 10.7

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

<i>(in millions)</i>	December 31, 2016		December 31, 2015	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Gross amount recognized on the balance sheet	\$ 26.8	\$ 1.6	\$ 3.7	\$ 32.7
Gross amount not offset on the balance sheet *	(0.2)	(0.2)	(1.7)	(4.5)
Net amount	\$ 26.6	\$ 1.4	\$ 2.0	\$ 28.2

* Includes cash collateral posted of \$2.8 million as of December 31, 2015. There was no cash collateral included at December 31, 2016.

As of December 31, 2016 and 2015, we had posted cash collateral of \$16.4 million and \$21.8 million, respectively, in our margin accounts. Certain of our derivative and non-derivative commodity instruments contain provisions that could require "adequate assurance" in the event of a material change in our creditworthiness, or the posting of additional collateral for instruments in net liability positions, if triggered by a decrease in credit ratings. The aggregate fair value of all derivative instruments with specific credit

risk-related contingent features that were in a net liability position at December 31, 2016 and 2015, was \$0.2 million and \$23.8 million, respectively. At December 31, 2016 and 2015, we had not posted any cash 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, 2016, we would not have been required to post any collateral. At December 31, 2015, we would have been required to post collateral of \$18.0 million.

NOTE 22—REGULATORY ENVIRONMENT

Wisconsin Public Service Corporation

2016 Wisconsin Rate Order

In April 2015, WPS initiated a rate proceeding with the PSCW. In December 2015, the PSCW issued a final written order for WPS, effective January 1, 2016. The order, which reflects a 10.0% ROE and a common equity component average of 51.0%, authorized a net retail electric rate decrease of \$7.9 million (-0.8%) and a net retail natural gas rate decrease of \$6.2 million (-2.1%). The decrease in retail electric rates was due to lower monitored fuel costs in 2016 compared to 2015. Absent the adjustment for electric fuel costs, WPS would have realized an electric rate increase. Based on the order, the PSCW allowed WPS to escrow ATC and MISO network transmission expenses through 2016. In addition, future system support resource payments will continue to be escrowed until a future rate proceeding. The order directed WPS to defer as a regulatory asset or liability the differences between actual transmission expenses and those included in rates. In addition, the PSCW approved a deferral for ReACT™, which required WPS to defer the revenue requirement of ReACT™ costs above the authorized \$275.0 million level through 2016. Fuel costs will continue to be monitored using a 2% tolerance window.

In March 2016, WPS requested extensions from the PSCW through 2017 for the deferral of the revenue requirement of ReACT™ costs above the authorized \$275.0 million level as well as escrow accounting of ATC and MISO network transmission expenses. In April 2016, WPS also requested to extend through 2017 the previously approved deferral of the revenue requirement difference between the Real Time Market Pricing and the standard tariffed rates for any of WPS's current large commercial and industrial customers who entered into a service agreement with WPS under Real Time Market Pricing prior to April 15, 2016. These requests were approved by the PSCW in June 2016. The amounts deferred related to these items as of December 31, 2016, were not material.

2015 Wisconsin Rate Order

In April 2014, WPS initiated a rate proceeding with the PSCW. In December 2014, the PSCW issued a final written order for WPS, effective January 1, 2015. It authorized a net retail electric rate increase of \$24.6 million and a net retail natural gas rate decrease of \$15.4 million, reflecting a 10.20% ROE. The order authorized a common equity component average of 50.28%. The PSCW approved a change in rate design for WPS, which includes higher fixed charges to better match the related fixed costs of providing service. In addition, the order continued to exclude a decoupling mechanism that was terminated beginning January 1, 2014.

The primary driver of the increase in retail electric rates was higher costs of fuel for electric generation of approximately \$42 million. In addition, 2015 rates included approximately \$9 million of lower refunds to customers related to decoupling over-collections. In 2015 rates, WPS refunded approximately \$4 million to customers related to 2013 decoupling over-collections compared with refunding approximately \$13 million to customers in 2014 rates related to 2012 decoupling over-collections. Absent these adjustments for electric fuel costs and decoupling refunds, WPS would have realized an electric rate decrease. In addition, WPS received approval from the PSCW to defer and amortize the undepreciated book value associated with Pulliam Units 5 and 6 and Weston Unit 1 starting with the actual retirement date, June 1, 2015, and concluding by 2023. See Note 19, Commitments and Contingencies, for more information. The PSCW allowed WPS to escrow ATC and MISO network transmission expenses for 2015 and 2016. As a result, WPS deferred as a regulatory asset the difference between actual transmission expenses and those included in rates until a future rate proceeding. Finally, the PSCW ordered that 2015 fuel costs should continue to be monitored using a 2% tolerance window.

The retail natural gas rate decrease was driven by the approximate \$16 million year-over-year negative impact of decoupling refunds to and collections from customers. In 2015 rates, WPS refunded approximately \$8 million to customers related to 2013 decoupling over-collections compared with recovering approximately \$8 million from customers in 2014 rates related to 2012 decoupling under-collections. Absent the adjustment for decoupling refunds to and collections from customers, WPS would have realized a retail natural gas rate increase.

2014 Wisconsin Rate Order

In March 2013, WPS initiated a rate proceeding with the PSCW. In December 2013, the PSCW issued a final written order for WPS, effective January 1, 2014. It authorized a net retail electric rate decrease of \$12.8 million and a net retail natural gas rate increase of \$4.0 million, reflecting a 10.20% ROE. The order also included a common equity component average of 50.14%. The retail electric rate impact consisted of a rate increase, including recovery of the difference between a 2012 fuel refund and a 2013 rate increase, entirely offset by a portion of estimated fuel cost over-collections from customers in 2013. Retail electric rates were further decreased by 2012 decoupling over-collections to be returned to customers in 2014. The retail natural gas rate impact consisted of a rate decrease, which was more than offset by the positive impact of 2012 decoupling under-collections of approximately \$8 million to be recovered from customers in 2014. Both the retail electric and retail natural gas rate changes included the recovery of pension and other employee benefit increases that were deferred in WPS's 2013 rate case. The PSCW also authorized the recovery of prudently incurred 2014 environmental mitigation project costs related to compliance with a Consent Decree signed in January 2013 for the Pulliam and Weston sites. See Note 19, Commitments and Contingencies, for more information. Additionally, the order required WPS to terminate its decoupling mechanism, beginning January 1, 2014.

2015 Michigan Rate Order

In October 2014, WPS initiated a rate proceeding with the MPSC. In April 2015, the MPSC issued a final written order for WPS, effective April 24, 2015, approving a settlement agreement. The order authorized a retail electric rate increase of \$4.0 million to be implemented over three years to recover costs for the 2013 acquisition of the Fox Energy Center as well as other capital investments associated with the Crane Creek wind farm and environmental upgrades at generation plants. The rates reflected a 10.2% ROE and a common equity component average of 50.48%. The increase reflected the continued deferral of costs associated with the Fox Energy Center until the second anniversary of the order. The increase also reflected the deferral of Weston Unit 3 ReACT™ environmental project costs. On the second anniversary of the order, WPS will discontinue the deferral of Fox Energy Center costs and will begin amortizing this deferral along with the deferral associated with the termination of a tolling agreement related to the Fox Energy Center. WPS also received approval from the MPSC to defer and amortize the undepreciated book value of the retired plant associated with Pulliam Units 5 and 6 and Weston Unit 1 starting with the actual retirement date, June 1, 2015, and concluding by 2023. As a result of the formation of UMER, WPS transferred the deferrals mentioned above, as well as its customers and property, plant, and equipment located in the Upper Peninsula of Michigan to the new utility, effective January 1, 2017. Therefore, the terms and conditions of this rate order are now applicable to UMER. UMER will not seek an increase to legacy WPS retail electric base rates that would become effective prior to January 1, 2018.

The Peoples Gas Light and Coke Company and North Shore Gas Company

Base Rate Freeze

In June 2015, the ICC approved the WEC Merger subject to the condition that PGL and NSG will not seek increases of their base rates that would become effective earlier than two years after the close of the merger.

Illinois Investigations

In March 2015, the ICC opened a docket, naming PGL as respondent, to investigate the veracity of certain allegations included in anonymous letters that the ICC staff received regarding PGL's SMP. This matter is still pending.

In November 2015, the ICC initiated an investigation into whether we, PGL, or WEC Energy Group knowingly misled or withheld material information from the ICC at its open meeting on May 20, 2015. The investigation relates to the ICC Staff's presentation of independent audit findings reached for PGL's SMP. The Illinois AG conducted an inquiry into this matter, as well as the veracity of certain allegations included in anonymous letters that the ICC staff received regarding PGL's SMP. In May 2016, PGL entered into settlement agreements that fully resolved and settled all contested issues with the ICC, the Illinois AG, and the Citizens Utility Board regarding the ICC's investigation of the May 20, 2015, open meeting and all pending Illinois AG inquiries. As part of the settlements, PGL agreed to make payments totaling \$18.5 million, the majority of which consisted of credits to customers, voluntary contributions to certain public utility funds, and low-income customer funds.

In December 2015, the ICC ordered a series of stakeholder workshops to evaluate the SMP. This ICC action did not impact our ongoing work to modernize and maintain the safety of our natural gas distribution system, but it instead provided the ICC with an opportunity to analyze long-term elements of the program through the stakeholder workshops. The workshops commenced in

January 2016 and were completed in March 2016. The ICC staff submitted a report on the workshop process in May 2016. In July 2016, the ICC initiated a proceeding before an ALJ to take evidence for purposes of determining, among other things, the planning, reporting, and monitoring of the program, including what the target end date for the program should be. On March 1, 2017, the ICC issued an order directing additional hearings be held before the ALJ on certain issues to further develop the evidentiary record in this case. This proceeding is still expected to result in a final order by the ICC in 2017. We are currently unable to determine what, if any, long-term impact there will be on PGL's SMP.

2015 Illinois Rate Order

In February 2014, PGL and NSG initiated a rate proceeding with the ICC. In January 2015, the ICC issued a final written order for PGL and NSG, effective January 28, 2015. The order authorized a retail natural gas rate increase of \$74.8 million for PGL and \$3.7 million for NSG. In February 2015, the ICC issued an amendatory order that revised the increases to \$71.1 million for PGL and \$3.5 million for NSG, effective February 26, 2015, to reflect the extension of bonus depreciation in 2014. The rates for PGL reflected a 9.05% ROE and a common equity component average of 50.33%. The rates for NSG reflected a 9.05% ROE and a common equity component average of 50.48%. The rate order allowed PGL and NSG to continue the use of their decoupling mechanisms and uncollectible expense true-up mechanisms. In addition, PGL recovers a return on certain investments and depreciation expense through the QIP rider, and accordingly, such costs are not subject to PGL's rate order.

Qualifying Infrastructure Plant Rider

In July 2013, Illinois Public Act 98-0057, The Natural Gas Consumer, Safety & Reliability Act, became law. The Act gives PGL a cost recovery mechanism for prudently incurred costs to upgrade Illinois natural gas infrastructure that are collected through a surcharge on customer bills. This Act eliminated a requirement for PGL and NSG to file biennial rate proceedings under existing Illinois coal-to-gas legislation. In September 2013, PGL filed with the ICC requesting the proposed rider, which was approved in January 2014 and became effective as of January 1, 2014.

PGL's QIP rider is subject to an annual reconciliation whereby costs are reviewed for accuracy and prudence. No schedule has been set for the 2015 reconciliation. The ALJ has placed the 2014 reconciliation on stay, pending resolution of several open matters related to PGL's SMP. Although schedules have not been set for the reconciliations, discovery has continued for both the 2014 and 2015 reconciliations. As of December 31, 2016, there can be no assurance that all costs incurred under the QIP rider will be recoverable.

2013 Illinois Rate Order

In July 2012, PGL and NSG initiated a rate proceeding with the ICC. In June 2013, the ICC issued a final written order, effective June 27, 2013. The order authorized a retail natural gas rate increase of \$57.2 million for PGL and \$6.6 million for NSG. The rates for PGL reflected a 9.28% ROE and a common equity component average of 50.43%. The rates for NSG reflected a 9.28% ROE and a common equity component average of 50.32%. The rate order also allowed PGL and NSG to continue the use of their decoupling mechanisms.

In August 2013, the ICC granted certain rehearing requests on tax-related issues filed by PGL, NSG, and other intervenors. PGL and NSG asked for a correction of the revenue requirement for deferred tax assets related to tax net operating losses (NOLs) incurred in 2012 and 2013. In the ICC's order, these deferred tax assets were included in rate base, but computational errors were made. Other intervenors requested the exclusion from rate base of the deferred tax asset related to the 2012 tax NOL. The tax NOLs in question resulted from PGL and NSG claiming accelerated depreciation deductions in 2012 and 2013. In December 2013, the ICC evaluated and approved a correction of the computational errors and rejected the intervenors' proposed exclusion of the 2012 tax NOL. Customer rates were increased by \$2.6 million for PGL and \$0.1 million for NSG for the impact of this correction, effective January 1, 2014.

Minnesota Energy Resources Corporation

2016 Minnesota Rate Order

In September 2015, MERC initiated a rate proceeding with the MPUC. In October 2016, the MPUC issued a final written order for MERC, effective March 1, 2017. The order authorized a retail natural gas rate increase of \$6.8 million (3.0%). The rates reflect a 9.11% ROE and a common equity component average of 50.32%. The order approved MERC's request to continue the use of its currently

authorized decoupling mechanism for another three years. The final approved rate increase was lower than the interim rates collected from customers during 2016. Therefore, as of December 31, 2016, we estimated that \$3.0 million will be refunded to MERC's customers in May 2017.

2015 Minnesota Rate Order

In September 2013, MERC initiated a rate proceeding with the MPUC. In October 2014, the MPUC issued a final written order for MERC, effective April 1, 2015. The order authorized a retail natural gas rate increase of \$7.6 million (2.9%). The rates reflected a 9.35% ROE and a common equity component average of 50.31%. The order approved a deferral of customer billing system costs, for which recovery will be requested in MERC's 2016 rate case. A decoupling mechanism with a 10% cap remained in effect for MERC's residential and small commercial and industrial customers. The final approved rate increase was lower than the interim rates collected from customers during 2014. Therefore, MERC refunded \$4.7 million to customers in 2015.

Michigan Gas Utilities Corporation

2016 Michigan Rate Order

In June 2015, MGU initiated a rate proceeding with the MPSC. In December 2015, the MPSC issued a final written order, effective January 1, 2016, approving a settlement agreement for MGU. The order authorized a retail natural gas rate increase of \$3.4 million (2.4%). The rates reflect a 9.9% ROE and a common equity component average of 52.0%. Based on the settlement agreement, MGU discontinued the use of its decoupling mechanism after December 31, 2015. In addition, since bonus depreciation was in effect in 2016, MGU established a regulatory liability for the resulting cost savings and must refund the liability in its next general rate case.

2014 Michigan Rate Order

In June 2013, MGU initiated a rate proceeding with the MPSC. In November 2013, the MPSC issued a final written order for MGU, effective January 1, 2014. The order authorized a retail natural gas rate increase of \$4.5 million (3.5%). The rates reflected a 10.25% ROE and a common equity component average of 48.62%. In addition, the order required MGU to terminate its decoupling mechanism after December 31, 2013, and replace it with a new decoupling mechanism based on total margins, beginning January 1, 2015. The decoupling mechanism did not cover variations in volumes due to actual weather being different from rate case-assumed weather. The rate order also terminated MGU's uncollectible expense true-up mechanism after December 31, 2013.

Upper Michigan Energy Resources Corporation

In December 2016, both the MPSC and the PSCW approved the operation of UMER as a stand-alone utility in the Upper Peninsula of Michigan and it became operational effective January 1, 2017. This utility holds the electric and natural gas distribution assets previously held by WE and WPS located in the Upper Peninsula of Michigan. See Note 4, Related Parties, for more information.

NOTE 23—ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table shows the changes, net of tax, to our accumulated other comprehensive loss:

<i>(in millions)</i>	Cash Flow Hedges	Defined Benefit Plans	Accumulated Other Comprehensive Loss
Balance at December 31, 2013	\$ (3.1)	\$ (20.1)	\$ (23.2)
Other comprehensive loss before reclassifications	—	(6.0)	(6.0)
Amounts reclassified out of accumulated other comprehensive loss	(0.1)	1.7	1.6
Net 2014 other comprehensive loss	(0.1)	(4.3)	(4.4)
Balance at December 31, 2014	(3.2)	(24.4)	(27.6)
Other comprehensive loss before reclassifications	—	(3.1)	(3.1)
Amounts reclassified out of accumulated other comprehensive loss	0.7	1.6	2.3
Net 2015 other comprehensive income (loss)	0.7	(1.5)	(0.8)
Balance at December 31, 2015	(2.5)	(25.9)	(28.4)
Other comprehensive income before reclassifications	—	0.2	0.2
Amounts reclassified out of accumulated other comprehensive loss	0.6	4.3	4.9
Net 2016 other comprehensive income	0.6	4.5	5.1
Balance at December 31, 2016	\$ (1.9)	\$ (21.4)	\$ (23.3)

NOTE 24—OTHER INCOME, NET

Total other income, net was as follows at December 31:

<i>(in millions)</i>	2016	2015	2014
Gain on repurchase of notes	\$ 25.7	\$ —	\$ —
Equity portion of AFUDC	19.5	17.7	12.5
Gains (losses) on exchange-traded funds	5.1	(3.3)	2.9
Key executive life insurance income for retired employees	1.2	2.8	2.9
Federal excise tax credit	1.1	7.3	4.4
Earnings from equity method investments, excluding ATC	0.9	0.3	2.6
Gain on sale of land at the holding company	—	—	3.5
Other, net	(1.4)	4.3	5.7
Total other income, net	\$ 52.1	\$ 29.1	\$ 34.5

NOTE 25—SEGMENT INFORMATION

At December 31, 2016, we reported five segments, which are described below.

- The Wisconsin segment includes the electric and natural gas utility and non-utility operations of WPS. Through December 31, 2016, the Wisconsin segment included WPS's electric and natural gas operations in the Upper Peninsula of Michigan. Effective January 1, 2017, WPS transferred its customers and electric and natural gas distribution assets located in the Upper Peninsula of Michigan to UMER. See Note 4, Related Parties, for more information on UMER.
- The Illinois segment includes the natural gas utility and non-utility operations of PGL and NSG.
- The other states segment includes the natural gas utility and non-utility operations of MERC and MGU, as well as the operations of UPPCO prior to its sale to Balfour Beatty Infrastructure Partners LP in August 2014. See Note 3, Dispositions, for more information on the sale of UPPCO.
- The electric transmission investment segment includes our approximate 34% ownership interest in ATC, a for-profit, electric transmission company regulated by the FERC and certain state regulatory commissions.
- The corporate and other segment includes the operations of the Integrys holding company, the PELLC holding company, WBS, PDL, and ITF, as well as the discontinued operations of IES prior to its sale in November 2014. Effective January 1, 2016, we transferred our ownership in WBS to WEC Energy Group. See Note 4, Related Parties, for more information. The sale of ITF was also completed in the first quarter of 2016. See Note 3, Dispositions, for more information on the sales of IES and ITF.

All of our operations and assets are located within the United States. The following tables show summarized financial information related to our reportable segments for the years ended December 31, 2016, 2015, and 2014.

2016 (in millions)	Regulated Operations							
	Wisconsin	Illinois	Other States	Electric Transmission Investment	Total Regulated Operations	Corporate and Other	Reconciling Eliminations	Integrus Holding Consolidated
External revenues	\$ 1,448.2	\$1,242.2	\$ 376.6	\$ —	\$ 3,067.0	\$ 21.9	\$ —	\$ 3,088.9
Other operation and maintenance	493.2	530.6	113.9	—	1,137.7	19.2	—	1,156.9
Depreciation and amortization	124.1	134.0	21.1	—	279.2	4.3	—	283.5
Operating income (loss)	263.5	194.1	46.2	—	503.8	(7.8)	—	496.0
Equity in earnings of transmission affiliate	—	—	—	82.2	82.2	—	—	82.2
Interest expense	48.1	38.9	8.5	—	95.5	46.7	(8.0)	134.2
Capital expenditures	311.2	293.2	59.5	—	663.9	1.7	—	665.6
Total assets	4,639.4	5,392.7	966.2	600.2	11,598.5	464.1	(233.8)	11,828.8

2015 (in millions)	Regulated Operations							
	Wisconsin	Illinois	Other States	Electric Transmission Investment	Total Regulated Operations	Corporate and Other	Reconciling Eliminations	Integrus Holding Consolidated
External revenues	\$ 1,483.3	\$1,253.6	\$ 399.6	\$ —	\$ 3,136.5	\$ 82.6	\$ —	\$ 3,219.1
Other operation and maintenance	488.7	465.1	105.9	—	1,059.7	4.9	—	1,064.6
Depreciation and amortization	121.0	125.8	19.5	—	266.3	26.2	—	292.5
Merger costs	5.2	6.3	0.1	—	11.6	75.3	—	86.9
Impairment losses	—	—	—	—	—	47.3	—	47.3
Operating income (loss)	227.5	209.6	40.4	—	477.5	(122.9)	—	354.6
Equity in earnings of transmission affiliate	—	—	—	70.6	70.6	—	—	70.6
Interest expense	58.3	38.8	10.1	—	107.2	53.4	(9.5)	151.1
Capital expenditures	371.0	368.3	53.0	—	792.3	95.6	—	887.9
Total assets	4,439.9	5,169.6	897.4	550.4	11,057.3	932.7	(411.8)	11,578.2

2014 (in millions)	Regulated Operations							
	Wisconsin	Illinois	Other States	Electric Transmission Investment	Total Regulated Operations	Corporate and Other	Reconciling Eliminations	Integrus Holding Consolidated
External revenues	\$ 1,668.4	\$1,764.8	\$ 617.4	\$ —	\$ 4,050.6	\$ 95.0	\$ —	\$ 4,145.6
Other operation and maintenance	499.8	565.5	150.7	—	1,216.0	9.5	0.1	1,225.6
Depreciation and amortization	116.8	114.8	23.7	—	255.3	35.3	—	290.6
Merger costs	—	—	—	—	—	10.4	—	10.4
Gain on sale of UPPCO, net of transaction costs	—	—	(85.4)	—	(85.4)	—	—	(85.4)
Operating income (loss)	257.6	123.6	146.8	—	528.0	(21.8)	—	506.2
Equity in earnings of transmission affiliate	—	—	—	85.7	85.7	—	—	85.7
Interest expense	57.4	34.5	12.0	—	103.9	63.2	(12.3)	154.8
Capital expenditures	322.0	355.3	57.8	—	735.1	121.6	—	856.7
Total assets	4,205.2	5,055.3	880.8	536.7	10,678.0	993.0	(473.0)	11,198.0

NOTE 26—NEW ACCOUNTING PRONOUNCEMENTS

Revenue Recognition

In May 2014, the FASB and the International Accounting Standards Board issued their joint revenue recognition standard, ASU 2014-09, Revenue from Contracts with Customers. Several amendments were issued subsequent to the standard to clarify the guidance. The core principle of the guidance is to recognize revenue in an amount that an entity is entitled to receive in exchange for goods and services. The guidance also requires additional disclosures about the nature, amount, timing, and uncertainty of revenues and the related cash flows arising from contracts with customers.

We intend to adopt this standard for interim and annual periods beginning January 1, 2018, as required, and plan to use the modified retrospective method of adoption. This method will result in a cumulative-effect adjustment that will be recorded on the balance sheet as of the beginning of 2018, as if the standard had always been in effect. Disclosures in 2018 will include a reconciliation of results under the new revenue guidance compared with what would have been reported in 2018 under the old revenue recognition guidance in order to help facilitate comparability with the prior periods.

We are currently reviewing our contracts with customers and related financial disclosures to evaluate the impact of the amended guidance on our existing revenue recognition policies and procedures. We consider tariff sales at our regulated utilities, excluding the revenue component related to alternative revenue programs, to be in the scope of the new standard. We have evaluated the nature of these revenues and do not expect that there will be a significant shift in the timing or pattern of revenue recognition for such sales. However, in our evaluation, we are also monitoring unresolved implementation issues for our industry, including the impacts of the new guidance on our ability to recognize revenue for certain contracts where collectability is uncertain and the accounting for contributions in aid of construction (CIAC). We currently account for CIAC funds received from customers and/or developers outside of revenue, as a reduction to property, plant, and equipment. The final resolution of these issues could impact our current accounting policies and revenue recognition.

Classification and Measurement of Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Classification and Measurement of Financial Assets and Liabilities. This guidance is effective for fiscal years and interim periods beginning after December 15, 2017, and will be recorded with a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year in which the guidance is effective. This guidance requires equity investments, including other ownership interests such as partnerships, unincorporated joint ventures, and limited liability companies, to be measured at fair value with changes in fair value recognized in net income. It also simplifies the impairment assessment of equity investments without readily determinable fair values and amends certain disclosure requirements associated with the fair value of financial instruments. This ASU does not apply to investments accounted for under the equity method of accounting. We are currently assessing the effects this guidance may have on our financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and will be applied using a modified retrospective approach. The main provision of this ASU is that lessees will be required to recognize lease assets and lease liabilities for most leases, including those classified as operating leases under GAAP. We are currently assessing the effects this guidance may have on our financial statements.

Stock-Based Compensation

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Under this ASU, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement, the tax effects of exercised or vested awards are treated as discrete items in the reporting period in which they occur, and excess tax benefits are recognized in the current period regardless of whether the benefit reduces taxes payable. On the cash flow statement, excess tax benefits are classified along with other income tax cash flows as an operating activity, and cash paid by an employer when directly withholding shares for tax purposes is classified as a financing activity. We adopted this guidance effective January 1, 2017, and do not expect it to impact our financial statements.

Financial Instruments Credit Losses

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. This ASU introduces a new impairment model known as the current expected credit loss model. The ASU requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. Previously, recognition of the full amount of credit losses was generally delayed until the loss was probable of occurring. We are currently assessing the effects this guidance may have on our financial statements.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and will be applied using a retrospective transition method. There are eight main provisions of this ASU for which current GAAP either is unclear or does not include specific guidance. We are currently assessing the effects this guidance may have on our financial statements.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, Restricted Cash. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Under this ASU, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-the period and end-of-the period total amounts shown on the statements of cash flows. We do not believe the adoption of this guidance will have a significant impact on our financial statements.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Under this ASU, an employer is required to disaggregate the service cost component from the other components of the net benefit cost. The amendments provide explicit guidance on how to present the service cost component and the other components of the net benefit cost in the income statement and allow only the service cost component of the net benefit cost to be eligible for capitalization. The amendments should be applied retrospectively for the presentation of the service cost component and the other components of the net benefit cost in the income statement, and prospectively for the capitalization of the service cost component in assets. We are currently assessing the effects this guidance may have on our financial statements.