

WISCONSIN ENERGY CORP  
Form 10-Q  
May 07, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2015

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (March 31, 2015):

Common Stock, \$.01 Par Value,

225,496,574 shares outstanding.

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WISCONSIN ENERGY CORPORATION

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FORM 10-Q REPORT FOR THE QUARTER ENDED MARCH 31, 2015

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DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

Primary Subsidiaries

We Power	W.E. Power, LLC
Wisconsin Electric	Wisconsin Electric Power Company
Wisconsin Gas	Wisconsin Gas LLC

Significant Assets

PIPP	Presque Isle Power Plant
VAPP	Valley Power Plant

Other Subsidiaries and Affiliates

ATC	American Transmission Company LLC
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Federal and State Regulatory Agencies

EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
MDEQ	Michigan Department of Environmental Quality
MPSC	Michigan Public Service Commission
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
WDNR	Wisconsin Department of Natural Resources

Environmental Terms

BTA	Best Technology Available
EM	Entrainment Mortality
IM	Impingement Mortality
NAAQS	National Ambient Air Quality Standards
SO <sub>2</sub>	Sulfur Dioxide
WPDES	Wisconsin Pollutant Discharge Elimination System

Other Terms and Abbreviations

Amended Agreement	Amended and Restated Settlement Agreement with the Attorney General of the State of Michigan, the Staff of the MPSC, and Tilden Mining Company and Empire Iron Mining Partnership
Compensation Committee	Compensation Committee of the Board of Directors
Exchange Act	Securities Exchange Act of 1934, as amended
FTRs	Financial Transmission Rights
HSR Act	Hart-Scott-Rodino Antitrust Improvements Act of 1976
Integrys	Integrys Energy Group, Inc.
Junior Notes	Wisconsin Energy's 2007 Series A Junior Subordinated Notes due 2067
Merger Agreement	Agreement and Plan of Merger, dated as of June 22, 2014, between Integrys and Wisconsin Energy Corporation
MISO	Midcontinent Independent System Operator, Inc.
MISO Energy Markets	MISO Energy and Operating Reserves Markets
OTC	Over-the-Counter

PTF

Power the Future

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DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

SSR	System Support Resource
Treasury Grant	Section 1603 Renewable Energy Treasury Grant
Measurements	
Btu	British Thermal Unit(s)
Dth	Dekatherm(s) (One Dth equals one million Btu)
MW	Megawatt(s) (One MW equals one million Watts)
MWh	Megawatt-hour(s)
Watt	A measure of power production or usage
Accounting Terms	
AFUDC	Allowance for Funds Used During Construction
OPEB	Other Post-Retirement Employee Benefits

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

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

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

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

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

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

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

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

Restrictions imposed by various financing arrangements and regulatory requirements on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances.

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

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

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

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

Inflation rates.

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

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

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

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

Changes in the creditworthiness of the counterparties with whom we have contractual arrangements, including participants in the energy trading markets and fuel suppliers and transporters.

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

The expected timing and likelihood of completion of the proposed acquisition of Integrys Energy Group, Inc. (Integrys), including the timing, receipt and terms and conditions of any required governmental and regulatory approvals of the proposed acquisition that could reduce anticipated benefits or cause the parties to abandon the acquisition, the ability to successfully integrate the businesses, the ability to secure necessary financing on favorable terms, and the risk that the credit ratings of the combined company or its subsidiaries may differ from what we expect.

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

The cyclical nature of property values that could affect our real estate investments.

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

Foreign governmental, economic, political and currency risks.

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Other business or investment considerations that may be disclosed from time to time in our Securities and Exchange Commission (SEC) filings or in other publicly disseminated written documents, including the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

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## INTRODUCTION

Wisconsin Energy Corporation (Wisconsin Energy) is a diversified holding company which conducts its operations primarily in two reportable segments: a utility energy segment and a non-utility energy segment. Unless qualified by their context when used in this document, the terms the Company, our, us or we refer to the holding company and all of its subsidiaries. Our primary subsidiaries are Wisconsin Electric Power Company (Wisconsin Electric), Wisconsin Gas LLC (Wisconsin Gas) and W.E. Power, LLC (We Power).

**Utility Energy Segment:** Our utility energy segment consists of: Wisconsin Electric, which serves electric customers in Wisconsin and the Upper Peninsula of Michigan, gas customers in Wisconsin and steam customers in metropolitan Milwaukee, Wisconsin; and Wisconsin Gas, which serves gas customers in Wisconsin. Wisconsin Electric and Wisconsin Gas operate under the trade name of "We Energies."

**Non-Utility Energy Segment:** Our non-utility energy segment consists primarily of We Power, which owns and leases to Wisconsin Electric the generating capacity included in our Power the Future (PTF) strategy. See Item 1. Business and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2014 Annual Report on Form 10-K for more information on PTF.

**Proposed Acquisition:** On June 22, 2014, we entered into an agreement to acquire Integrys. The proposed acquisition is scheduled to close by the end of this summer, and is subject to the receipt of various approvals. The combined company will serve approximately 1.6 million electric customers, 2.8 million gas customers, and own approximately 60% of ATC. For additional information on this acquisition, see Note 3 -- Proposed Acquisition in the Notes to Consolidated Condensed Financial Statements and Corporate Developments in Item 2 in this report.

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

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## PART I -- FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

WISCONSIN ENERGY CORPORATION  
CONSOLIDATED CONDENSED INCOME STATEMENTS  
(Unaudited)

	Three Months Ended March 31	
	2015	2014
	(Millions of Dollars, Except Per Share Amounts)	
Operating Revenues	\$1,387.9	\$1,695.0
Operating Expenses		
Fuel and purchased power	297.7	318.6
Cost of gas sold	316.2	591.5
Other operation and maintenance	280.7	275.4
Depreciation and amortization	105.1	100.6
Property and revenue taxes	31.9	30.6
Total Operating Expenses	1,031.6	1,316.7
Treasury Grant	2.5	3.5
Operating Income	358.8	381.8
Equity in Earnings of Transmission Affiliate	16.1	17.3
Other Income, net	3.0	1.1
Interest Expense, net	59.7	62.3
Income Before Income Taxes	318.2	337.9
Income Tax Expense	122.4	130.3
Net Income	\$195.8	\$207.6
Earnings Per Share		
Basic	\$0.87	\$0.92
Diluted	\$0.86	\$0.91
Weighted Average Common Shares Outstanding (Millions)		
Basic	225.5	225.8
Diluted	227.3	227.7
Dividends Per Share of Common Stock	\$0.4225	\$0.39

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



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WISCONSIN ENERGY CORPORATION  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(Unaudited)

	March 31, 2015 (Millions of Dollars)	December 31, 2014
<b>Assets</b>		
Property, Plant and Equipment		
In service	\$15,580.3	\$15,509.0
Accumulated depreciation	(4,560.8	) (4,485.1
	11,019.5	11,023.9
Construction work in progress	255.8	191.8
Leased facilities, net	40.7	42.0
Net Property, Plant and Equipment	11,316.0	11,257.7
Investments		
Equity investment in transmission affiliate	431.1	424.1
Other	33.0	32.8
Total Investments	464.1	456.9
Current Assets		
Cash and cash equivalents	65.2	61.9
Accounts receivable, net	437.3	352.1
Accrued revenues	221.6	291.3
Materials, supplies and inventories	289.7	400.6
Current deferred tax asset, net	170.3	242.7
Prepayments and other	142.3	186.8
Total Current Assets	1,326.4	1,535.4
Deferred Charges and Other Assets		
Regulatory assets	1,270.0	1,271.2
Goodwill	441.9	441.9
Other	317.2	200.3
Total Deferred Charges and Other Assets	2,029.1	1,913.4
Total Assets	\$15,135.6	\$15,163.4
<b>Capitalization and Liabilities</b>		
Capitalization		
Common equity	\$4,510.6	\$4,419.7
Preferred stock of subsidiary	30.4	30.4
Long-term debt	4,169.2	4,186.4
Total Capitalization	8,710.2	8,636.5
Current Liabilities		
Long-term debt due currently	426.8	424.1
Short-term debt	563.0	617.6
Accounts payable	291.9	363.3
Accrued payroll and benefits	58.8	95.1
Other	219.8	168.6
Total Current Liabilities	1,560.3	1,668.7
Deferred Credits and Other Liabilities		
Regulatory liabilities	820.3	830.6
Deferred income taxes - long-term	2,942.4	2,906.7

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Deferred revenue, net	604.7	614.1
Pension and other benefit obligations	203.5	203.8
Other	294.2	303.0
Total Deferred Credits and Other Liabilities	4,865.1	4,858.2
Total Capitalization and Liabilities	\$ 15,135.6	\$ 15,163.4

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

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WISCONSIN ENERGY CORPORATION  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Three Months Ended March 31	
	2015	2014
	(Millions of Dollars)	
Operating Activities		
Net income	\$ 195.8	\$ 207.6
Reconciliation to cash		
Depreciation and amortization	108.2	103.7
Deferred income taxes and investment tax credits, net	106.6	111.6
Contributions to qualified benefit plans	(100.0)	) —
Change in - Accounts receivable and accrued revenues	(28.0)	) (184.8)
Inventories	110.9	94.5
Other current assets	44.5	28.9
Accounts payable	(71.3)	) 94.7
Accrued income taxes, net	(6.5)	) 1.4
Other current liabilities	28.1	(33.5)
Other, net	(58.6)	) (39.0)
Cash Provided by Operating Activities	329.7	385.1
Investing Activities		
Capital expenditures	(149.5)	) (129.2)
Investment in transmission affiliate	(1.3)	) (3.9)
Other, net	(5.5)	) (6.0)
Cash Used in Investing Activities	(156.3)	) (139.1)
Financing Activities		
Exercise of stock options	8.4	15.2
Purchase of common stock	(23.4)	) (52.6)
Dividends paid on common stock	(95.3)	) (88.1)
Retirement of long-term debt	(9.3)	) (8.9)
Change in short-term debt	(54.6)	) (115.2)
Other, net	4.1	5.2
Cash Used in Financing Activities	(170.1)	) (244.4)
Change in Cash and Cash Equivalents	3.3	1.6
Cash and Cash Equivalents at Beginning of Period	61.9	26.0
Cash and Cash Equivalents at End of Period	\$ 65.2	\$ 27.6

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



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WISCONSIN ENERGY CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)

1 -- GENERAL INFORMATION

Our accompanying unaudited consolidated condensed financial statements should be read in conjunction with Item 8. Financial Statements and Supplementary Data, in our 2014 Annual Report on Form 10-K. In the opinion of management, we have included all adjustments, normal and recurring in nature, necessary for a fair presentation of the results of operations, cash flows and financial position in the accompanying income statements, statements of cash flows and balance sheets. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results which may be expected for the entire fiscal year 2015 because of seasonal and other factors.

2 -- NEW ACCOUNTING PRONOUNCEMENTS

Revenue Recognition: In May 2014, the Financial Accounting Standards Board and the International Accounting Standards Board issued their joint revenue recognition standard, Accounting Standards Update 2014-09, Revenue from Contracts with Customers. This guidance is effective for fiscal years and interim periods beginning after December 15, 2016, and can either be applied retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently assessing the effects this guidance may have on our consolidated financial statements.

3 -- PROPOSED ACQUISITION

On June 22, 2014, Wisconsin Energy and Integrys entered into an agreement and plan of merger (Merger Agreement) under which Wisconsin Energy will acquire Integrys. Integrys' shareholders will receive 1.128 shares of Wisconsin Energy common stock and \$18.58 in cash per Integrys share of common stock. We expect to finance the acquisition through the issuance of approximately 91 million shares of Wisconsin Energy common stock to Integrys shareholders and through the issuance of approximately \$1.5 billion of debt. We will also assume all of Integrys' outstanding debt. The combined company will be named WEC Energy Group, Inc. We anticipate closing the transaction by the end of this summer.

The acquisition is subject to several conditions, including, among others, approval of the shareholders of both Wisconsin Energy and Integrys, the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act), and the receipt of approvals from various government agencies, including the Federal Energy Regulatory Commission (FERC), Federal Communications Commission, Public Service Commission of Wisconsin (PSCW), Illinois Commerce Commission, Michigan Public Service Commission (MPSC) and Minnesota Public Utilities Commission.

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## 4 -- COMMON EQUITY

Stock Option Activity: The following table identifies non-qualified stock options granted by the Compensation Committee of the Board of Directors (Compensation Committee):

	2015	2014	
Non-qualified stock options granted year to date	516,475	899,500	
Estimated fair value per non-qualified stock option	\$5.29	\$4.18	
Assumptions used to value the options using a binomial option pricing model:			
Risk-free interest rate	0.1% - 2.1%	0.1% - 3.0%	
Dividend yield	3.7	% 3.8	%
Expected volatility	18.0	% 18.0	%
Expected forfeiture rate	2.0	% 2.0	%
Expected life (years)	5.8	5.8	

The risk-free interest rate is based on the U.S. Treasury interest rate whose term is consistent with the expected life of the stock options. Dividend yield, expected volatility, expected forfeiture rate and expected life assumptions are based on our historical experience.

The following is a summary of our stock option activity for the three months ended March 31, 2015:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (Millions)
Stock Options Outstanding as of January 1, 2015	6,770,194	\$29.99		
Granted	516,475	\$52.90		
Exercised	(359,120)	) \$23.52		
Outstanding as of March 31, 2015	6,927,549	\$32.04	5.9	\$121.0
Exercisable as of March 31, 2015	4,191,084	\$25.85	4.2	\$99.1

The intrinsic value of options exercised was \$10.6 million and \$15.3 million for the three months ended March 31, 2015 and 2014, respectively. Cash received from options exercised was \$8.4 million and \$15.2 million for the three months ended March 31, 2015 and 2014, respectively. The actual tax benefit realized for the tax deductions from option exercises for the same periods was \$4.2 million and \$6.1 million, respectively.

Stock options to purchase 516,475 shares of common stock with an exercise price of \$52.90 were outstanding during the first quarter of 2015, but were not included in the computation of diluted earnings per share because they were anti-dilutive.



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The following table summarizes information about stock options outstanding as of March 31, 2015:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number of Options	Weighted-Average Exercise Price	Remaining Contractual Life (Years)	Number of Options	Weighted-Average Exercise Price	Remaining Contractual Life (Years)
\$19.74 to \$21.11	1,404,666	\$20.97	3.5	1,404,666	\$20.97	3.5
\$23.88 to \$29.35	1,905,853	\$25.15	3.5	1,905,853	\$25.15	3.5
\$34.88 to \$52.90	3,617,030	\$39.96	8.1	880,565	\$35.15	6.9
	6,927,549	\$32.04	5.9	4,191,084	\$25.85	4.2

The following table summarizes information about our non-vested options during the three months ended March 31, 2015:

Non-Vested Stock Options	Number of Options	Weighted-Average Fair Value
Non-vested as of January 1, 2015	2,879,855	\$3.65
Granted	516,475	\$5.29
Vested	(659,865)	) \$3.34
Non-vested as of March 31, 2015	2,736,465	\$4.03

As of March 31, 2015, total compensation costs related to non-vested stock options not yet recognized was approximately \$4.0 million, which is expected to be recognized over the next 20 months on a weighted-average basis.

Restricted Shares: The following restricted stock activity occurred during the three months ended March 31, 2015:

Restricted Shares	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of January 1, 2015	155,479	
Granted	60,164	\$53.83
Released	(68,429)	) \$36.95
Outstanding as of March 31, 2015	147,214	

We record the market value of the restricted stock awards on the date of grant, and then we charge their value to expense over the vesting period of the awards. The intrinsic value of restricted stock vesting was \$3.7 million and \$2.7 million for the three months ended March 31, 2015, and 2014, respectively. The actual tax benefit realized for the tax deductions from released restricted shares was \$1.3 million and \$1.0 million for the three months ended March 31, 2015, and 2014, respectively.

As of March 31, 2015, total compensation cost related to restricted stock not yet recognized was approximately \$5.3 million, which is expected to be recognized over the next 26 months on a weighted-average basis.

Performance Units: In January 2015 and 2014, the Compensation Committee granted 195,365 and 233,735 performance units, respectively, to officers and other key employees under the Wisconsin Energy Performance Unit Plan. Performance units earned as of December 31, 2014 and 2013 vested and were settled during the first quarter of 2015 and 2014, and had a total intrinsic value of \$13.2 million and \$14.8 million, respectively. The actual tax benefit realized for the tax deductions from the settlement of performance units was approximately \$4.8 million and

\$5.3 million, respectively. As of March 31, 2015, total compensation cost related to performance units not yet recognized was approximately \$18.4 million, which is expected to be recognized over the next 25 months on a weighted-average basis.

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Restrictions: Wisconsin Energy's ability as a holding company to pay common dividends primarily depends on the availability of funds received from its non-utility subsidiary, We Power, and its utility subsidiaries. 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. In addition, under Wisconsin law, Wisconsin Electric and Wisconsin Gas are prohibited from loaning funds, either directly or indirectly, to Wisconsin Energy. See Note H -- Common Equity in our 2014 Annual Report on Form 10-K for additional information on these and other restrictions.

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

Share Repurchase Program: In December 2013, our Board of Directors authorized a share repurchase program for the purchase of up to \$300 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 the proposed acquisition of Integrys, the Board of Directors terminated this share repurchase program. In addition, we have instructed our independent agents to purchase shares on the open market to fulfill exercised stock options and restricted stock awards. The following table identifies shares purchased in the following periods:

	Three Months Ended March 31			
	2015		2014	
	Shares	Cost	Shares	Cost
	(In Millions)			
Under share repurchase program	—	\$—	0.4	\$18.6
To fulfill exercised stock options and restricted stock awards	0.4	23.4	0.8	34.0
Total	0.4	\$23.4	1.2	\$52.6

## 5 -- FAIR VALUE MEASUREMENTS

Fair value measurements require enhanced disclosures about assets and liabilities that are measured and reported at fair value and establish a hierarchical disclosure framework which prioritizes and ranks the level of observable inputs used in measuring fair value.

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We primarily apply the market approach for recurring fair value measurements and attempt to utilize the best available information. Accordingly, we also utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We are able to classify fair value balances based on the observability of those inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 -- Pricing inputs are unadjusted quoted prices 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. Instruments in this category consist of financial instruments such as exchange-traded derivatives, cash equivalents and restricted cash investments.

Level 2 -- Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Instruments in this category include non-exchange-traded derivatives such as Over-the-Counter (OTC) forwards and options.

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Level 3 -- Pricing inputs include significant inputs that are generally less observable from objective sources. The inputs in the determination of fair value require significant management judgment or estimation. At each balance sheet date, we perform an analysis of all instruments subject to fair value reporting and include in Level 3 all instruments whose fair value is based on significant unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the instrument.

The following tables summarize our financial assets and liabilities by level within the fair value hierarchy:

Recurring Fair Value Measures	As of March 31, 2015			
	Level 1	Level 2	Level 3	Total
	(Millions of Dollars)			
Assets:				
Derivatives	\$0.9	\$3.7	\$3.3	\$7.9
Total	\$0.9	\$3.7	\$3.3	\$7.9
Liabilities:				
Derivatives	\$7.1	\$4.4	\$—	\$11.5
Total	\$7.1	\$4.4	\$—	\$11.5

Recurring Fair Value Measures	As of December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(Millions of Dollars)			
Assets:				
Derivatives	\$1.1	\$7.2	\$7.0	\$15.3
Total	\$1.1	\$7.2	\$7.0	\$15.3
Liabilities:				
Derivatives	\$11.5	\$1.0	\$—	\$12.5
Total	\$11.5	\$1.0	\$—	\$12.5

Derivatives reflect positions we hold in exchange-traded derivative contracts and OTC derivative contracts. Exchange-traded derivative contracts, which include futures and exchange-traded options, are generally based on unadjusted quoted prices in active markets and are classified within Level 1. Some OTC derivative contracts are valued using broker or dealer quotations, or market transactions in either the listed or OTC markets utilizing a mid-market pricing convention (the mid-point between bid and ask prices), as appropriate. In such cases, these derivatives are classified within Level 2. Certain OTC derivatives may utilize models to measure fair value. Generally, we use a similar model to value similar instruments. Valuation models utilize various inputs which include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs (i.e., inputs derived principally from or corroborated by observable market data by correlation or other means). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain OTC derivatives are in less active markets with a lower availability of pricing information which might not be observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3.





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

	2015	2014
	(Millions of Dollars)	
Balance as of January 1	\$7.0	\$3.5
Realized and unrealized gains (losses)	—	—
Purchases	—	—
Issuances	—	—
Settlements	(3.7	) (1.8
Transfers in and/or out of Level 3	—	—
Balance as of March 31	\$3.3	\$1.7

Derivative instruments reflected in Level 3 of the hierarchy include Midcontinent Independent System Operator, Inc. (MISO) Financial Transmission Rights (FTRs) that are measured at fair value each reporting period using monthly or annual auction shadow prices from relevant auctions. Changes in fair value for Level 3 recurring items are recorded on our balance sheet. See Note 6 -- Derivative Instruments, for further information on the offset to regulatory assets and liabilities.

The carrying amount and estimated fair value of certain of our recorded financial instruments are as follows:

Financial Instruments	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions of Dollars)			
Preferred stock, no redemption required	\$30.4	\$28.0	\$30.4	\$27.1
Long-term debt, including current portion	\$4,543.1	\$5,157.8	\$4,552.4	\$5,126.0

The carrying value of net accounts receivable, accounts payable and short-term borrowings approximates fair value due to the short-term nature of these instruments. The fair value of our preferred stock is estimated based upon the quoted market value for the same or similar issues. The fair value of our long-term debt, including the current portion of long-term debt, but excluding capitalized leases and unamortized discount on debt, is estimated based upon quoted market value for the same or similar issues or upon the quoted market prices of U.S. Treasury issues having a similar term to maturity, adjusted for the issuing company's bond rating and the present value of future cash flows.

## 6 -- DERIVATIVE INSTRUMENTS

We utilize derivatives as part of our risk management program to manage the volatility and costs of purchased power, generation and natural gas purchases for the benefit of our customers and shareholders. Our approach is non-speculative and designed to mitigate risk and protect against price volatility. Regulated hedging programs require prior approval by the PSCW.

We record derivative instruments on the balance sheet as an asset or liability measured at its fair value, and 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, the PSCW allows the effects of the fair market value accounting to be offset to regulatory assets and liabilities. As of March 31, 2015, we recognized \$14.1 million in regulatory assets and

\$7.0 million in regulatory liabilities related to derivatives in comparison to \$14.7 million in regulatory assets and \$14.2 million in regulatory liabilities as of December 31, 2014.

We record our current derivative assets on the balance sheet in prepayments and other current assets and the current portion of the liabilities in other current liabilities. We had no long-term portion of derivative assets as of March 31, 2015, and the long-term portion of our derivative liabilities of \$0.6 million is recorded in other deferred

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credit and other liabilities as of March 31, 2015. Our Consolidated Condensed Balance Sheets as of March 31, 2015 and December 31, 2014 include:

	March 31, 2015		December 31, 2014	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
	(Millions of Dollars)			
Natural Gas	\$ 1.5	\$ 7.5	\$ 5.0	\$ 12.3
FTRs	3.3	—	7.0	—
Coal	3.1	4.0	3.3	0.2
Total	\$ 7.9	\$ 11.5	\$ 15.3	\$ 12.5

Our Consolidated Condensed Income Statements include gains (losses) on derivative instruments used in our risk management strategies under fuel and purchased power for those commodities supporting our electric operations and under cost of gas sold for the natural gas sold to our customers. Our estimated notional volumes and gains (losses) were as follows:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Volume	Gains (Losses)	Volume	Gains (Losses)
	(Millions of Dollars)			
Natural Gas	13.3 million Dth	\$(7.1	) 14.9 million Dth	\$ 7.6
Fuel Oil	0.9 million gallons	(0.1	) 2.0 million gallons	0.2
FTRs	6.2 million MWh	2.1	5.7 million MWh	7.0
Total		\$(5.1	)	\$ 14.8

As of March 31, 2015 and December 31, 2014, we posted collateral of \$9.4 million and \$11.2 million, respectively, in our margin accounts. These amounts are recorded on the balance sheets in other current assets.

The fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral are not offset against the fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. The table below shows derivative assets and derivative liabilities if derivative instruments by counterparty were presented net on the balance sheet as of March 31, 2015 and December 31, 2014.

	March 31, 2015		December 31, 2014	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
	(Millions of Dollars)			
Gross Amount Recognized on the Balance Sheet	\$ 7.9	\$ 11.5	\$ 15.3	\$ 12.5
Gross Amount Not Offset on Balance Sheet (a)	(0.9	) (7.1	) (0.4	) (11.5
Net Amount	\$ 7.0	\$ 4.4	\$ 14.9	\$ 1.0

(a) Gross Amount Not Offset on Balance Sheet includes cash collateral posted of \$6.3 million and \$10.3 million as of March 31, 2015 and December 31, 2014, respectively.



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## 7 -- BENEFITS

The components of our net periodic pension and Other Post-Retirement Employee Benefits (OPEB) costs for the three months ended March 31 were as follows:

Benefit Plan Cost Components	Pension Costs		OPEB Costs	
	2015	2014	2015	2014
	(Millions of Dollars)			
Net Periodic Benefit Cost				
Service cost	\$3.9	\$2.7	\$2.6	\$2.2
Interest cost	15.2	17.1	4.2	4.5
Expected return on plan assets	(25.8	) (24.7	) (5.9	) (5.9
Amortization of:				
Prior service cost (credit)	0.5	0.5	(0.3	) (0.5
Actuarial loss	11.6	9.1	0.5	0.2
Net Periodic Benefit Cost	\$5.4	\$4.7	\$1.1	\$0.5

We contributed \$100.0 million to our qualified pension plan during the first three months of 2015. No such contribution was made during the first three months of 2014.

Postemployment Benefits: Postemployment benefits provided to former or inactive employees are recognized when an event occurs. The estimated liability for such benefits was \$3.3 million as of both March 31, 2015 and December 31, 2014.

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## 8 -- SEGMENT INFORMATION

Summarized financial information concerning our reportable segments for the three months ended March 31, 2015 and 2014 is shown in the following table:

Three Months Ended	Reportable Segments		Corporate & Other (a)	Eliminations & Reconciling Items		Total Consolidated
	Energy Utility	Non-Utility				
(Millions of Dollars)						
March 31, 2015						
Operating Revenues (b)	\$1,376.9	\$109.7	\$0.3	\$(99.0)	)	\$1,387.9
Other Operation and Maintenance	\$369.1	\$1.1	\$9.4	\$(98.9)	)	\$280.7
Depreciation and Amortization	\$87.9	\$17.0	\$0.2	\$—	)	\$105.1
Operating Income (Loss)	\$276.5	\$91.6	\$(9.3)	)	\$—	\$358.8
Equity in Earnings of Unconsolidated Affiliates	\$16.1	\$—	\$—	\$—	)	\$16.1
Interest Expense, Net	\$31.7	\$15.9	\$12.2	\$(0.1)	)	\$59.7
Income Tax Expense (Benefit)	\$97.8	\$30.6	\$(6.0)	)	\$—	\$122.4
Net Income (Loss)	\$165.1	\$45.2	\$197.0	\$(211.5)	)	\$195.8
Capital Expenditures	\$144.2	\$4.0	\$1.3	\$—	)	\$149.5
March 31, 2014						
Operating Revenues (b)	\$1,682.1	\$108.3	\$0.3	\$(95.7)	)	\$1,695.0
Other Operation and Maintenance	\$367.6	\$1.2	\$1.2	\$(94.6)	)	\$275.4
Depreciation and Amortization	\$83.6	\$16.9	\$0.1	\$—	)	\$100.6
Operating Income (Loss)	\$292.7	\$90.2	\$(1.1)	)	\$—	\$381.8
Equity in Earnings of Unconsolidated Affiliates	\$17.3	\$—	\$—	\$—	)	\$17.3
Interest Expense, Net	\$34.0	\$16.3	\$12.2	\$(0.2)	)	\$62.3
Income Tax Expense (Benefit)	\$107.4	\$30.0	\$(7.1)	)	\$—	\$130.3
Net Income (Loss)	\$169.4	\$44.1	\$207.5	\$(213.4)	)	\$207.6
Capital Expenditures	\$120.7	\$5.1	\$3.4	\$—	)	\$129.2

(a) Corporate & Other includes all other non-utility activities, primarily non-utility real estate investment and development by Wispark LLC, as well as interest on corporate debt.

(b) An elimination for intersegment revenues is included in Operating Revenues. This elimination is primarily between We Power and Wisconsin Electric.

## 9 -- VARIABLE INTEREST ENTITIES

The primary beneficiary of a variable interest entity must consolidate the related assets and liabilities. Certain disclosures are required by sponsors, significant interest holders in variable interest entities and potential variable interest entities.

We assess our relationships with potential variable interest entities such as our coal suppliers, natural gas suppliers, coal and gas transporters, and other counterparties in power purchase agreements and joint ventures. In making this assessment, we consider the potential that our contracts or other arrangements provide subordinated financial support,

the potential for us to absorb losses or rights to residual returns of the entity, the ability to directly or indirectly make decisions about the entities' activities and other factors.

We have identified a purchased power agreement which represents a variable interest. This agreement is for 236 MW of firm capacity from a 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 7 years. We have examined the risks of the entity including operations and 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.

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We have approximately \$163.1 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 contracts considered variable interests for the three months ended March 31, 2015 and 2014 were \$13.5 million and \$13.4 million, respectively. Our maximum exposure to loss is limited to the capacity payments under the contract.

## 10 -- COMMITMENTS AND CONTINGENCIES

**Environmental Matters:** We periodically review our exposure for environmental remediation costs as evidence becomes available indicating that our liability has changed. Given current information, including the following, we believe that future costs in excess of the amounts accrued and/or disclosed on all presently known and quantifiable environmental contingencies will not be material to our financial position or results of operations.

We have a program of comprehensive environmental remediation planning for former manufactured gas plant sites and coal combustion product disposal sites. We perform ongoing assessments of manufactured gas plant sites and related disposal sites used by Wisconsin Electric and Wisconsin Gas, and coal combustion product disposal/landfill sites used by Wisconsin Electric. We are working with the Wisconsin Department of Natural Resources (WDNR) in our investigation and remediation planning. At this time, we cannot estimate future remediation costs associated with these sites beyond those described below.

**Manufactured Gas Plant Sites:** We have identified several sites at which Wisconsin Electric, Wisconsin Gas, or a predecessor company historically owned or operated a manufactured gas plant. These sites have been substantially remediated or are at various stages of investigation, monitoring and remediation. We have also identified other sites that may have been impacted by historical manufactured gas plant activities. Based upon on-going analysis, we estimate that the future costs for detailed site investigation and future remediation costs may range from \$15 million to \$47 million over the next ten years. This estimate is dependent upon several variables including, among other things, the extent of remediation, changes in technology and changes in regulation. As of March 31, 2015, we have established reserves of \$32.6 million related to future remediation costs.

Historically, the PSCW has allowed Wisconsin utilities, including Wisconsin Electric and Wisconsin Gas, to defer the costs spent on the remediation of manufactured gas plant sites, and has allowed for these costs to be recovered in rates over five years. Accordingly, we have recorded a regulatory asset for remediation costs.

**Divested Assets:** We provided customary indemnifications to Wisconsin Power and Light Company, a subsidiary of Alliant Energy Corp., in connection with the sale of our interest in Edgewater Generating Unit 5.

## 11 -- SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended March 31, 2015, we paid \$20.3 million in interest, net of amounts capitalized, and paid \$4.3 million in income taxes, net of refunds. During the three months ended March 31, 2014, we paid \$21.2 million in interest, net of amounts capitalized, and paid \$10.0 million in income taxes, net of refunds.

As of March 31, 2015 and 2014, the amount of accounts payable related to capital expenditures was \$1.6 million and \$2.4 million, respectively.

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During the three months ended March 31, 2015 and 2014, total amortization of deferred revenue was \$11.1 million and \$13.9 million, respectively.

During the three months ended March 31, 2015 and 2014, our equity in earnings from ATC was \$16.1 million and \$17.3 million, respectively. During the three months ended March 31, 2015 and 2014, distributions received from ATC were \$10.4 million and \$14.3 million, respectively.

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12 -- MICHIGAN SETTLEMENT

On March 12, 2015, we entered into an Amended and Restated Settlement Agreement (Amended Agreement) with the Attorney General of the State of Michigan, the Staff of the MPSC, and Tilden Mining Company and Empire Iron Mining Partnership to resolve all objections to our acquisition of Integrys these parties raised at the MPSC. The Amended Agreement supersedes and replaces the January 30, 2015 agreement between these parties and includes the following provisions:

The parties to the Amended Agreement agree that the proposed acquisition satisfies the applicable requirements under Michigan law and should be approved by the MPSC.

Wisconsin Electric will not enter into a System Support Resource (SSR) agreement for the operation of Presque Isle Power Plant (PIPP) so long as both mines, if operational, remain full requirements customers of Wisconsin Electric until the earlier of (i) the date a new, clean generation plant located in the Upper Peninsula of Michigan commences commercial operation or (ii) December 31, 2019. (The prior SSR agreement was terminated effective February 1, 2015 with the return of the mines as full requirements customers.)

Wisconsin Energy commits to invest, or to have, if formed, its future Michigan jurisdictional utility invest, in this plant subject to the issuance of a Certificate of Necessity from the MPSC.

In addition, on March 12, 2015, Wisconsin Electric entered into a special contract with each of the mines to provide full requirements electric service through December 31, 2019.

On April 23, 2015, the MPSC approved our acquisition of Integrys, the Amended Agreement and the special contracts with the two mines.

In January 2015, we announced that, as part of a long-term electric reliability solution for the Upper Peninsula of Michigan, we had entered into a non-binding term sheet to sell our Michigan electric distribution assets and PIPP to a third party; however, the third party was unsuccessful in its effort to complete key elements of the proposed transaction. As a result, we will not be selling our Michigan assets to the third party.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

CORPORATE DEVELOPMENTS

Proposed Acquisition: On June 22, 2014, we entered into the Merger Agreement under which we will acquire Integrys. Integrys' shareholders will receive 1.128 shares of Wisconsin Energy common stock and \$18.58 in cash per Integrys share of common stock. We expect to finance the acquisition through the issuance of approximately 91 million shares of Wisconsin Energy common stock to Integrys shareholders and through the issuance of approximately \$1.5 billion of debt. We will also assume all of Integrys' outstanding debt. The combined company will be named WEC Energy Group, Inc.

The acquisition is subject to several conditions, including, among others, approval of the shareholders of both Wisconsin Energy and Integrys, the expiration or termination of the waiting period under the HSR Act, and the receipt of approvals from various government agencies, including the FERC, Federal Communications Commission, PSCW, Illinois Commerce Commission, MPSC and Minnesota Public Utilities Commission. The status of these matters is as follows:

On August 6, 2014, we filed applications for approval with the PSCW, Illinois Commerce Commission, MPSC and Minnesota Public Utilities Commission.

On October 24, 2014, the United States Department of Justice closed its review of the transaction with no further action required. In addition, on the same day, the Federal Trade Commission granted early termination of the 30-day waiting period required by the HSR Act.

On November 21, 2014, the shareholders of Wisconsin Energy voted to approve the issuance of common stock as contemplated by the Merger Agreement, as well as to amend the restated articles of incorporation to change the name of Wisconsin Energy from Wisconsin Energy Corporation to WEC Energy Group, Inc. The shareholders of Integrys approved the adoption of the Merger Agreement at its shareholder meeting held on November 21, 2014.

On April 7, 2015, FERC issued an order approving the acquisition.

On April 13, 2015, the Federal Communications Commission approved the transfer of certain telecommunication licenses.

On April 23, 2015, the MPSC approved the acquisition.

On April 30, 2015, at its open meeting, the PSCW verbally approved the acquisition. We expect to receive a final written order by the end of May 2015.

We anticipate closing the transaction by the end of this summer.

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## RESULTS OF OPERATIONS -- THREE MONTHS ENDED MARCH 31, 2015

## CONSOLIDATED EARNINGS

The following table compares our operating income by business segment and our net income during the first quarter of 2015 with the first quarter of 2014, including favorable (better (B)) or unfavorable (worse (W)) variances:

	Three Months Ended March 31		
	2015	B (W)	2014
	(Millions of Dollars, Except Per Share Amounts)		
Utility Energy Segment	\$276.5	\$(16.2	) \$292.7
Non-Utility Energy Segment	91.6	1.4	90.2
Corporate and Other	(9.3	) (8.2	) (1.1
Total Operating Income (a)	358.8	(23.0	) 381.8
Equity in Earnings of Transmission Affiliate	16.1	(1.2	) 17.3
Other Income, net	3.0	1.9	1.1
Interest Expense, net	59.7	2.6	62.3
Income Before Income Taxes	318.2	(19.7	) 337.9
Income Tax Expense	122.4	7.9	130.3
Net Income	\$195.8	\$(11.8	) \$207.6
Diluted Earnings Per Share	\$0.86	\$(0.05	) \$0.91

(a) External costs related to the proposed acquisition of Integrys and the proposed sale of the Michigan assets reduced our earnings in the first quarter by \$0.04 per share.

## UTILITY ENERGY SEGMENT CONTRIBUTION TO OPERATING INCOME

Our utility energy segment contributed \$276.5 million of operating income during the first quarter of 2015, a decrease of \$16.2 million, or 5.5%, compared with the first quarter of 2014. The following table summarizes the operating income of this segment between the comparative quarters:

Utility Energy Segment	Three Months Ended March 31		
	2015	B (W)	2014
	(Millions of Dollars)		
Operating Revenues			
Electric	\$868.9	\$(16.9	) \$885.8
Gas	490.2	(287.8	) 778.0
Other	17.8	(0.5	) 18.3
Total Operating Revenues	1,376.9	(305.2	) 1,682.1
Operating Expenses			
Fuel and Purchased Power	297.9	22.0	319.9
Cost of Gas Sold	316.2	275.3	591.5
Other Operation and Maintenance	369.1	(1.5	) 367.6
Depreciation and Amortization	87.9	(4.3	) 83.6
Property and Revenue Taxes	31.8	(1.5	) 30.3
Total Operating Expenses	1,102.9	290.0	1,392.9

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Treasury Grant	2.5	(1.0	) 3.5
Operating Income	\$276.5	\$(16.2	) \$292.7

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## Electric Utility Revenues and Sales

The following table compares electric utility operating revenues and MWh sales by customer class during the first quarter of 2015 with the first quarter of 2014:

Electric Utility Operations	Three Months Ended March 31			MWh		
	2015 (Millions of Dollars)	B (W)	2014	2015 (Thousands)	B (W)	2014
Customer Class						
Residential	\$310.8	\$(8.4 )	\$319.2	2,008.3	(154.3 )	2,162.6
Small Commercial/Industrial	258.8	(1.2 )	260.0	2,225.2	(28.0 )	2,253.2
Large Commercial/Industrial	175.0	23.8	151.2	2,159.1	366.2	1,792.9
Other - Retail	6.0	(0.1 )	6.1	39.0	(0.4 )	39.4
Total Retail	750.6	14.1	736.5	6,431.6	183.5	6,248.1
Wholesale - Other	30.9	(9.9 )	40.8	420.0	(184.8 )	604.8
Resale - Utilities	62.4	(29.4 )	91.8	2,104.7	661.2	1,443.5
Other Operating Revenues	24.3	9.0	15.3	—	—	—
Total	868.2	(16.2 )	884.4	8,956.3	659.9	8,296.4
Electric Customer Choice (a)	0.7	(0.7 )	1.4	250.0	(351.2 )	601.2
Total, including electric customer choice	\$868.9	\$(16.9 )	\$885.8			
Weather -- Degree Days (b)						
Heating (3,277 Normal)				3,656	(377 )	4,033

(a) Represents distribution sales for customers who have purchased power from an alternative electric supplier in Michigan.

(b) As measured at Mitchell International Airport in Milwaukee, Wisconsin. Normal degree days are based upon a 20-year moving average.

Our electric utility operating revenues decreased by \$16.9 million, or 1.9%, when compared to the first quarter of 2014. The most significant factors that caused a change in revenues were:

**Weather** - We estimate that our retail revenues were reduced by approximately \$11.4 million because of weather.

While the first quarter of 2015 was 11.6% colder than normal, as measured by heating degree days, the first quarter of 2014 was 23.8% colder than normal.

**Return of the two iron ore mines** - On February 1, 2015, the two iron ore mines returned as retail customers. During 2014, these customers were served by an alternative electric supplier pursuant to the electric customer choice program in Michigan. The return of these customers increased retail revenues by approximately \$23.4 million. These revenues will not significantly impact earnings because, under an agreement with the PSCW, we are deferring the net revenues (revenues, less fuel and transmission costs) from these customers for the benefit of our Wisconsin retail electric customers.

**Resale Utilities** - These sales are also known as opportunity sales. The net margin (revenues less fuel costs) on these sales flow to the benefit of our retail electric customers. During the first quarter of 2014, the prices for electricity in the MISO Energy and Operating Reserves Markets (MISO Energy Markets) were unusually high because of the extreme cold weather and the high cost of natural gas. During 2015, these prices returned to more normal levels. The

revenue decrease associated with the decline in MISO Energy Market prices was partially offset by increased sales due to increased availability of our generating units.

Other Revenues - Other revenues increased by \$9.0 million primarily because of the escrow treatment of the SSR revenues in the most recent Wisconsin retail rate case. This is partially offset by the deferral of the net revenues from the mines as described above. We expect this trend to continue throughout 2015. For information on the escrow treatment of the SSR revenues allowed in the 2015 Wisconsin Rate Case, see Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters.



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## Fuel and Purchased Power

Our fuel and purchased power costs decreased by \$22.0 million, or 6.9%, when compared to the first quarter of 2014. This decrease was primarily caused by a decrease in natural gas prices as compared to the first quarter of 2014.

## Gas Utility Revenues, Gross Margin and Therm Deliveries

A comparison follows of gas utility operating revenues, gross margin and gas deliveries during the first quarter of 2015 with the first quarter of 2014. We believe gross margin is a better performance indicator than revenues because changes in the cost of gas sold flow through to revenue under gas cost recovery mechanisms. Between the comparative periods, total gas operating revenues decreased by \$287.8 million, or 37.0%. Cost of gas sold decreased by \$275.3 million, or 46.5%. Our average cost of gas per retail therm decreased 40.7% as compared to the first quarter of 2014.

	Three Months Ended March 31		
	2015	B (W)	2014
	(Millions of Dollars)		
Gas Operating Revenues	\$490.2	\$(287.8	) \$778.0
Cost of Gas Sold	316.2	275.3	591.5
Gross Margin	\$174.0	\$(12.5	) \$186.5

The following table compares gas utility gross margin and natural gas therm deliveries by customer class during the first quarter of 2015 with the first quarter of 2014:

Gas Utility Operations	Three Months Ended March 31			Therms		
	Gross Margin					
Customer Class	2015	B (W)	2014	2015	B (W)	2014
	(Millions of Dollars)			(Millions)		
Residential	\$113.4	\$(6.2	) \$119.6	427.2	(38.4	) 465.6
Commercial/Industrial	40.9	(7.1	) 48.0	239.6	(33.9	) 273.5
Interruptible	0.5	(0.2	) 0.7	6.1	(1.1	) 7.2
Total Retail	154.8	(13.5	) 168.3	672.9	(73.4	) 746.3
Transported Gas	17.3	1.1	16.2	372.2	59.9	312.3
Other Operating	1.9	(0.1	) 2.0	—	—	—
Total	\$174.0	\$(12.5	) \$186.5	1,045.1	(13.5	) 1,058.6
Weather -- Degree Days (a)						
Heating (3,277 Normal)				3,656	(377	) 4,033

(a) As measured at Mitchell International Airport in Milwaukee, Wisconsin. Normal degree days are based upon a 20-year moving average.

Our gas margin decreased by \$12.5 million, or approximately 6.7%, when compared to the first quarter of 2014, primarily because of the extremely cold winter weather experienced in 2014. As measured by heating degree days, the first quarter of 2015 was 11.6% colder than normal, while the same period in the prior year was 23.8% colder than normal. Transported gas therms increased primarily due to gas used in electric generation, which has a small impact

on margin.

Other Operation and Maintenance Expense

Our other operation and maintenance expense increased by \$1.5 million, or approximately 0.4%, when compared to the first quarter of 2014.

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## Depreciation and Amortization Expense

Our depreciation and amortization expense increased by \$4.3 million, or approximately 5.1%, when compared to the first quarter of 2014, primarily because of an overall increase in utility plant in service.

## Treasury Grant

During the first quarter of 2015, we recognized \$2.5 million of income related to a Section 1603 Renewable Energy Treasury Grant (Treasury Grant) associated with the completion of our biomass plant in November 2013, compared to \$3.5 million during the same period in 2014.

For additional information on the Treasury Grant, see Factors Affecting Results, Liquidity and Capital Resources -- Accounting Developments in Item 7 of our 2014 Form 10-K.

## NON-UTILITY ENERGY SEGMENT CONTRIBUTION TO OPERATING INCOME

Our non-utility energy segment consists primarily of our PTF units (Port Washington Generating Station Unit 1, Port Washington Generating Station Unit 2, Oak Creek expansion Unit 1 and Oak Creek expansion Unit 2).

This segment primarily reflects the lease revenues on these units as well as the depreciation expense. Operating and maintenance costs associated with the plants are the responsibility of Wisconsin Electric and are recorded in the utility energy segment.

	Three Months Ended March 31		
	2015	B (W)	2014
	(Millions of Dollars)		
Operating Revenues	\$109.7	\$1.4	\$108.3
Operation and Maintenance Expense	1.1	0.1	1.2
Depreciation Expense	17.0	(0.1	) 16.9
Operating Income	\$91.6	\$1.4	\$90.2

## CORPORATE AND OTHER CONTRIBUTION TO OPERATING INCOME

Corporate and other affiliates had an operating loss of \$9.3 million for the three months ended March 31, 2015 as compared to a loss of \$1.1 million for the same period in 2014. The increase in operating loss is primarily attributable to external costs related to the acquisition of Integrys and the proposed sale of our Michigan assets that we are no longer pursuing.

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## CONSOLIDATED OTHER INCOME, NET

	Three Months Ended March 31		2014
	2015	B (W)	
	(Millions of Dollars)		
AFUDC - Equity	\$1.7	\$0.7	\$1.0
Other, net	1.3	1.2	0.1
Other Income, net	\$3.0	\$1.9	\$1.1

Other income, net increased by \$1.9 million, when compared to the first quarter of 2014. The increase in AFUDC - Equity is primarily related to the conversion of Valley Power Plant (VAPP) to natural gas and construction on the western gas lateral.

## CONSOLIDATED INTEREST EXPENSE, NET

	Three Months Ended March 31		2014
	2015	B (W)	
	(Millions of Dollars)		
Gross Interest Costs	\$60.5	\$2.4	\$62.9
Less: Capitalized Interest	0.8	0.2	0.6
Interest Expense, net	\$59.7	\$2.6	\$62.3

Our net interest expense decreased by \$2.6 million, or approximately 4.2%, as compared to the first quarter of 2014, primarily due to lower debt levels and lower average interest rates on long-term debt.

## CONSOLIDATED INCOME TAX EXPENSE

For the first quarter of 2015, our effective tax rate applicable to continuing operations was 38.5% compared to 38.6% for the first quarter of 2014. For additional information, see Note G -- Income Taxes in our 2014 Annual Report on Form 10-K. We expect our 2015 annual effective tax rate to be between 37.0% and 38.0%.

## LIQUIDITY AND CAPITAL RESOURCES

## CASH FLOWS

The following summarizes our cash flows during the three months ended March 31:

	2015	2014	
	(Millions of Dollars)		
Cash Provided by (Used in)			
Operating Activities	\$329.7	\$385.1	
Investing Activities	\$(156.3)	\$(139.1)	)
Financing Activities	\$(170.1)	\$(244.4)	)

Operating Activities

Cash provided by operating activities was \$329.7 million for the first three months of 2015 and \$385.1 million for the same period in 2014. In January 2015, we contributed \$100 million to our qualified pension plan which reduced cash provided by operating activities. No such contributions were made during the first three months of 2014.

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During the first three months of 2015, we experienced lower natural gas prices which resulted in lower working capital requirements related to accounts receivable and accrued revenues, which increased cash provided by operating activities.

### Investing Activities

Cash used in investing activities totaled \$156.3 million for the first three months of 2015, which is a \$17.2 million increase from the same period in 2014. Our capital expenditures increased \$20.3 million over the same period last year, primarily because of increased expenditures related to the Western Gas Lateral and VAPP. For additional information on the Western Gas Lateral, see Utility Rates and Regulatory Matters.

### Financing Activities

Cash used in financing activities was \$170.1 million for the first three months of 2015, which is \$74.3 million lower than the same period in 2014. Cash used to purchase common stock was \$29.2 million lower, primarily because of the termination of the share repurchase program upon the announcement of our proposed acquisition of Integrys and lower exercises of stock options. In addition, we repaid \$60.6 million less short-term debt for the first three months of 2015 as compared to the same period in 2014 because of a decrease in cash provided by operating activities. Partially offsetting these decreases was a \$7.2 million increase in dividends paid on common stock during the first three months of 2015 as compared to the same period in 2014, as a result of an 8.3% increase in the quarterly common stock dividend.

## CAPITAL RESOURCES AND REQUIREMENTS

### Working Capital

As of March 31, 2015, our current liabilities exceeded our current assets by approximately \$233.9 million. We do not expect this to have any impact on our liquidity because we believe we have adequate back-up lines of credit in place for ongoing operations. We also have access to the capital markets to finance our construction program and to refinance current maturities of long-term debt if necessary. See Capital Requirements for our financing plan in connection with our acquisition of Integrys.

### 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.

For our existing business, 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.

Wisconsin Energy, Wisconsin Electric and Wisconsin Gas 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.

As of March 31, 2015, we had approximately \$1.2 billion of available, undrawn lines under our bank back-up credit facilities, and approximately \$563.0 million of commercial paper outstanding on a consolidated basis that was supported by the available lines of credit. During the first three months of 2015, our maximum commercial paper outstanding was \$720.0 million with a weighted-average interest rate of 0.20%.

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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. The following table summarizes such facilities as of March 31, 2015:

Company	Total Facility (Millions of Dollars)	Letters of Credit	Credit Available	Facility Expiration
Wisconsin Energy	\$400.0	\$—	\$400.0	December 2019
Wisconsin Electric	\$500.0	\$5.1	\$494.9	December 2019
Wisconsin Gas	\$350.0	\$—	\$350.0	December 2019

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

The following table shows our capitalization structure as of March 31, 2015, as well as an adjusted capitalization structure that we believe is consistent with the manner in which the rating agencies currently view Wisconsin Energy's 2007 Series A Junior Subordinated notes due 2067 (Junior Notes):

Capitalization Structure	Actual (Millions of Dollars)	Adjusted	
Common Equity	\$4,510.6	\$4,760.6	
Preferred Stock of Subsidiary	30.4	30.4	
Long-Term Debt (including current maturities)	4,596.0	4,346.0	
Short-Term Debt	563.0	563.0	
Total Capitalization	\$9,700.0	\$9,700.0	
Total Debt	\$5,159.0	\$4,909.0	
Ratio of Debt to Total Capitalization	53.2	% 50.6	%

Included in Long-Term Debt on our Consolidated Condensed Balance Sheet as of March 31, 2015 is \$500 million aggregate principal amount of the Junior Notes. The adjusted presentation attributes \$250 million of the Junior Notes to Common Equity and \$250 million to Long-Term Debt. We believe this presentation is consistent with the 50% or greater equity credit the majority of rating agencies currently attribute to the Junior Notes.

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 Wisconsin Energy's capitalization structure, including its total debt to total capitalization ratio, using the GAAP calculation as adjusted by the rating agency treatment of the 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.

Wisconsin Electric is the obligor under two series of tax exempt pollution control refunding bonds in outstanding principal amount of \$147 million. In August 2009, Wisconsin Electric terminated letters of credit that provided credit and liquidity support for the bonds, which resulted in a mandatory tender of the bonds. Wisconsin Electric issued commercial paper to fund the purchase of the bonds. As of March 31, 2015, the repurchased bonds were still outstanding, but were not reported as long-term debt because they are held by Wisconsin Electric. Depending on market conditions and other factors, Wisconsin Electric may change the method used to determine the interest rate on the bonds and have them remarketed to third parties.



Credit Rating Risk

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.

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On May 4, 2015, Moody's Investor Service announced that the ratings of Wisconsin Energy were placed on review for downgrade because of the impact on Wisconsin Energy's credit profile from the expected acquisition of Integrys.

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 agencies only. An explanation of the significance of these ratings may be obtained from each 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.

See Capital Resources and Requirements -- Credit Rating Risk in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2014 Annual Report on Form 10-K for additional information related to our credit rating risk.

### Capital Requirements

**Acquisition of Integrys:** On June 22, 2014, we entered into the Merger Agreement. We anticipate closing the transaction by the end of this summer. Under the terms of the Merger Agreement, for each share of Integrys common stock, Integrys shareholders will receive 1.128 shares of Wisconsin Energy common stock and \$18.58 in cash. We expect to finance the acquisition through the issuance of approximately 91 million shares of Wisconsin Energy common stock to Integrys shareholders and through the issuance of \$1.5 billion of debt.

Subsequent to March 31, 2015, we executed \$1.15 billion in notional value of 3, 5 and 10 year fixed-rate forward-starting interest rate swaps to hedge potential interest rate volatility prior to the anticipated issuance of the \$1.5 billion of debt in connection with the acquisition of Integrys.

We will also assume all of Integrys' outstanding debt and preferred stock, which had an estimated fair value of \$3.4 billion as of March 31, 2015.

**Capital Expenditures:** Capital requirements during the remainder of 2015 are expected to be principally for capital expenditures in our utility operations relating to our electric and gas distribution systems. We estimate that we will spend approximately \$830 million on consolidated capital expenditures for our existing business during 2015.

**Common Stock Matters:** On January 15, 2015, our Board of Directors increased our quarterly common stock dividend to \$0.4225 per share, up approximately 8.3%, from \$0.39 per share, effective with the first quarter 2015 dividend payment. This equates to an annual dividend of \$1.69 per share. The Board of Directors reaffirmed a policy that targets a dividend payout ratio that trends to 65-70% of earnings in 2017.

Upon consummation of the proposed acquisition of Integrys, we expect to increase the dividend 7-8% for our shareholders to reflect the dividend policy of the combined company. The projected payout target for the combined company in future years after closing the acquisition is 65-70% of earnings.

**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 which 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 effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our investors. For further information, see Note 9 -- Variable Interest Entities in the Notes to Consolidated Condensed Financial Statements in this report.

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Contractual Obligations/Commercial Commitments: Our total contractual obligations and other commercial commitments were approximately \$21.4 billion as of March 31, 2015 compared with \$21.6 billion as of December 31, 2014.

See Contractual Obligations/Commercial Commitments in Item 7 of our 2014 Annual Report on Form 10-K for additional information about our commitments.

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FACTORS AFFECTING RESULTS, LIQUIDITY AND CAPITAL RESOURCES

The following is a discussion of certain factors that may affect our results of operations, liquidity and capital resources. The following discussion should be read together with the information under the heading "Factors Affecting Results, Liquidity and Capital Resources" in Item 7 of our 2014 Annual Report on Form 10-K, which provides a more complete discussion of factors affecting us, including market risks and other significant risks, our PTF strategy, utility rates and regulatory matters, electric system reliability, environmental matters, legal matters, industry restructuring and competition and other matters.

UTILITY RATES AND REGULATORY MATTERS

2015 Wisconsin Rate Case: In May 2014, Wisconsin Electric and Wisconsin Gas applied to the PSCW for a biennial review of costs and rates. On December 23, 2014, the PSCW approved the following rate adjustments:

A net bill increase related to non-fuel costs for Wisconsin Electric's Wisconsin retail electric customers of approximately \$2.7 million (0.1%) in 2015. This amount reflects Wisconsin Electric's receipt of SSR payments from MISO that are higher than Wisconsin Electric 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 the Treasury Grant Wisconsin Electric received in connection with its biomass facility. This \$26.6 million is being returned to customers in the form of bill credits.

An electric rate increase for Wisconsin Electric's Wisconsin retail electric customers of \$26.6 million (0.9%) for 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. Wisconsin Electric will make an annual fuel cost filing, as required, for 2016.

A rate decrease of \$10.7 million (-2.4%) for Wisconsin Electric's natural gas customers in 2015, with no rate adjustment in 2016.

Rate increases of \$17.1 million (2.6%) in 2015 and \$21.4 million (3.2%) in 2016 for Wisconsin Gas' natural gas customers.

An increase of approximately \$0.5 million (2.0%) for Wisconsin Electric's Downtown Milwaukee (Valley) steam utility customers for 2015, with no rate adjustment in 2016.

An increase of \$1.2 million (7.3%) for Wisconsin Electric's Milwaukee County steam utility customers for 2015, with no rate adjustment in 2016.

These rate adjustments were effective January 1, 2015. The electric rates reflect an increased allocation to fixed charges from 7.8% to 13.6% of total electric revenue requirements to more closely reflect our cost structure. In addition, the authorized return on equity for Wisconsin Electric and Wisconsin Gas was set at 10.2% and 10.3%, respectively. The PSCW also authorized an increase in Wisconsin Gas' financial common equity component to an average of 49.5% compared to the current 47.5%, while Wisconsin Electric's equity component will remain the same.

The PSCW order also authorized escrow accounting for SSR revenues because of the uncertainty of the actual revenues Wisconsin Electric will receive under the PIPP SSR agreements. Under escrow accounting, Wisconsin Electric will record SSR revenues from MISO of \$90.7 million a year. If actual SSR payments from MISO exceed \$90.7 million a year, the difference will be 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 will be deferred and 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 the Company's specific rate design changes, including new charges for customer owned generation within its service territory. We believe the

appeal is without merit.

Western Gas Lateral: We are projecting the need for additional capacity for our natural gas distribution network in the western part of Wisconsin to address reliability and meet customer demand. We received PSCW approval to construct a new natural gas lateral on July 18, 2014. The anticipated cost of the initial phase of this project is approximately \$175 million to \$185 million, excluding AFUDC. We are targeting completion of this phase of the project in late 2015.

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See Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters in Item 7 of our 2014 Annual Report on Form 10-K for additional information regarding our utility rates and other regulatory matters.

## ELECTRIC TRANSMISSION AND ENERGY MARKETS

### Michigan Business

**Michigan Settlement:** On March 12, 2015, Wisconsin Energy and Wisconsin Electric entered into the Amended Agreement with the Attorney General of the State of Michigan, the Staff of the MPSC, and Tilden Mining Company and Empire Iron Mining Partnership to resolve all objections these parties raised at the MPSC to the acquisition of Integrys. The Amended Agreement includes the following provisions:

- The parties to the Amended Agreement agree that the Merger satisfies the applicable requirements under Michigan law and should be approved by the MPSC. Wisconsin Electric will not enter into a SSR agreement for the operation of PIPP so long as both mines, if operational, remain full requirements customers of Wisconsin Electric until the earlier of (i) the date a new, clean generation plant located in the Upper Peninsula of Michigan commences commercial operation or (ii) December 31, 2019. (The prior SSR agreement was terminated effective February 1, 2015 with the return of the mines as full requirements customers.) Wisconsin Energy commits to invest, or to have, if formed, its future Michigan jurisdictional utility invest, in the new plant and/or enter into an off-take agreement for some of the energy generated by the plant.

The Amended Agreement supersedes and replaces the settlement agreement entered into by the same parties on January 30, 2015. The other intervenors in the MPSC proceeding subsequently either joined the Amended Agreement or filed statements of non-objection.

In addition, on March 12, 2015, Wisconsin Electric entered into a special contract with each of the mines to provide full requirements electric service through December 31, 2019.

On April 23, 2015, the MPSC approved our acquisition of Integrys, the Amended Agreement and the special contracts with the two mines.

See Factors Affecting Results, Liquidity and Capital Resources - Industry Restructuring and Competition in Item 7 of our 2014 Form 10-K for additional information regarding the impact of industry restructuring in Michigan, as well as information regarding other restructuring matters and MISO.

## ENVIRONMENTAL MATTERS

### Air Quality

**Sulfur Dioxide Standard:** The United States Environmental Protection Agency (EPA) issued a new 1-Hour Sulfur Dioxide (SO<sub>2</sub>) National Ambient Air Quality Standard (NAAQS) that became effective in August 2010. This standard represents a significant change from the previous SO<sub>2</sub> standard, and NAAQS in general, since attainment designations were to be based primarily on modeling rather than monitoring. Typically, attainment designations are based on monitored data. In May 2014, the EPA issued the proposed Data Requirements Rule that would establish procedures and timelines for implementation of the standard. The proposed rule describes the EPA's plans for allowing the states

to use either monitoring or modeling to make designations.

We filed comments on the proposed rule with the EPA in July 2014, and proposed a special reliability exclusion for PIPP that would recognize our request to retire the facility, and would exclude it from further modeling or monitoring requirements and subsequent emission reductions. As proposed, the rule affords state agencies latitude in rule implementation. States would have the option of modeling or monitoring to show attainment (subject to EPA approval for this selection). If the state chooses modeling and the sources in an area do not make reductions by 2017, and as a consequence the area is classified as non-attainment, then they would have to make emission reductions by 2023. Alternatively, if a state opted out of modeling and instead chose monitoring, and subsequently monitored non-attainment, then it would face a 2026 compliance date. A non-attainment designation could have

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negative impacts for a localized geographic area, including permitting constraints for the subject source and for other new or existing sources in the area.

On March 2, 2015, a Federal Court in the Northern District of California entered a consent decree relating to the implementation of the revised 1-Hour SO<sub>2</sub> standard that Sierra Club and EPA had agreed upon in May 2014. This consent decree has 1-Hour SO<sub>2</sub> implementation dates that are sooner than the proposed Data Requirements Rule. The EPA has not yet indicated how, in light of this consent decree, the Data Requirements Rule will be finalized.

We believe our fleet (with the exception of PIPP) is well positioned to meet this regulation once it is finalized. If PIPP is still operating in the 2020-2022 timeframe, it may need additional SO<sub>2</sub> reductions or other operational limits in order to comply with the standard.

Water Quality

**Clean Water Act:** Section 316(b) of the Clean Water Act requires that the location, design, construction and capacity of cooling water intake structures reflect the Best Technology Available (BTA) for minimizing adverse environmental impacts. The EPA finalized rules for new facilities (Phase I) in 2001. The EPA issued a final Phase II rule that became effective on October 14, 2014. The new rule applies to all of our existing generating facilities with cooling water intake structures, except for the Oak Creek expansion units, which were permitted under the Phase I rules.

The new Phase II rule allows facility owners to select from seven options available to meet the impingement mortality (IM) reduction standard. BTA determinations will be made over the next several years by the WDNR and Michigan Department of Environmental Quality (MDEQ), subject to EPA oversight, when facility permits are reissued. Based upon our assessment, we believe that existing technologies at our generating facilities, except for VAPP, satisfy the IM BTA standard. During 2015 and 2016, we plan to install fish protection screens at VAPP that will meet the IM BTA standard.

The BTA determinations for entrainment mortality (EM) reduction will be made by the WDNR and MDEQ on a case-by-case basis. The new rule requires state permitting agencies to determine EM BTA 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 proposed intake modification at VAPP. BTA determinations for EM will be made in future permit reissuances for Port Washington Generating Station, Pleasant Prairie Power Plant, PIPP and Oak Creek Power Plant Units 5-8. We cannot yet determine what, if any, intake structure or operational modifications will be required to meet the new EM BTA requirements for these facilities.

The new rule allows the EM BTA requirements to be waived in cases of pending facility retirements. Based on recent discussions with the MDEQ, if we submit a signed certification with our next National Pollutant Discharge Elimination System permit application that PIPP will be retired no later than the end of the next permit cycle (assumed to be October 1, 2022), we do not anticipate that PIPP will need to comply with the new cooling water intake structure rule.

In November 2014, the WDNR reissued the Wisconsin Pollutant Discharge Elimination System (WPDES) permit for the Paris Generating Station. We believe that the WDNR imposed unreasonable permit conditions with respect to temperature monitoring, the control of water treatment additive and phosphorus discharges.

To address these permit conditions, we filed a petition for a contested case hearing with the WDNR in January 2015. On the same day, we also filed a request to be covered by the statewide phosphorus variance to address one of our concerns with the permit.



We have since reached an agreement with the WDNR with respect to the permit conditions for temperature monitoring and for restrictions related to the use of a water treatment additive. On March 31, 2015, the WDNR issued a final WPDES permit with agreed upon modifications.

We are continuing to work with the WDNR and Wisconsin Department of Justice with the goal of reaching a final resolution that allows us to maintain the ability to apply for and be covered by the statewide phosphorus variance.

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Land Quality

**New Coal Combustion Products Regulation:** On April 17, 2015, the Hazardous and Solid Waste Management System; Disposal of Coal Combustion Residuals From Electric Utilities final rule was entered into the Federal Register. The final rule regulates the disposal of coal combustion residuals as a non-hazardous waste. We do not believe the final rule will have a significant impact on our Company's financial position or operating results because we currently have a program of beneficial utilization for substantially all of our coal combustion products.

See Factors Affecting Results, Liquidity and Capital Resources -- Environmental Matters in Item 7 of our 2014 Annual Report on Form 10-K for additional information regarding environmental matters affecting our operations.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes related to market risk from the disclosures presented in our Annual Report on Form 10-K for the year ended December 31, 2014. For information concerning market risk exposures at Wisconsin Energy Corporation, see Item 7. 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, in Part II of our 2014 Annual Report on Form 10-K, as well as Note 5 -- Fair Value Measurements and Note 6 -- Derivative Instruments in the Notes to Consolidated Condensed Financial Statements in this report.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures:** Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon such evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective (i) in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and (ii) to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

**Internal Control Over Financial Reporting:** There has not been any change in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II -- OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The following should be read in conjunction with Item 3. Legal Proceedings in Part I of our 2014 Annual Report on Form 10-K.

In addition to those legal proceedings discussed in our reports to the SEC, we are currently, and from time to time, subject to claims and suits arising in the ordinary course of business. Although the results of these legal proceedings cannot be predicted with certainty, management believes, after consultation with legal counsel, that the ultimate resolution of these proceedings will not have a material effect on our financial statements.

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## UTILITY RATES AND REGULATORY MATTERS

See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters in Part I of this report for information concerning rate matters in the jurisdictions where Wisconsin Electric and Wisconsin Gas do business.

## OTHER MATTERS

**Litigation Relating to the Acquisition of Integrys:** Since the announcement of the proposed acquisition, Integrys and its board of directors, along with Wisconsin Energy, have been named as defendants in ten separate purported class action lawsuits filed in Brown County, Wisconsin (three of the cases -- Rubin v. Integrys, et al., Blachor v. Integrys, et al., and Albera v. Integrys, et al.), Milwaukee County, Wisconsin (two of the cases -- Amo v. Integrys, et al. and Inman v. Integrys, et al.), Cook County, Illinois (two of the cases - Taxman v. Integrys, et al. and Curley v. Integrys, et al.), and the federal court for the Northern District of Illinois (three of the cases - Steiner v. Integrys, et al., Tri-State Joint Fund v. Integrys, et al., and Collison v. Integrys, et al.). In the Tri-State Joint Fund case, Wisconsin Energy's CEO was also named as a defendant. The cases were brought on behalf of proposed classes consisting of shareholders of Integrys. The complaints allege, among other things, that the Integrys board members breached their fiduciary duties by failing to maximize the value to be received by Integrys' shareholders, that Wisconsin Energy aided and abetted the breaches of fiduciary duty, and that the joint proxy statement/prospectus contains material misstatements and omissions. The complaints seek, among other things, (a) to enjoin defendants from consummating the acquisition; (b) rescission of the Merger Agreement; and (c) to direct the defendants to exercise their fiduciary duties to obtain the highest value possible for the Integrys shareholders. The Brown County and Cook County cases have been dismissed in favor of the Milwaukee County actions. On November 12, 2014, the parties entered into a Memorandum of Understanding which provides the basis for a complete settlement of these actions. We anticipate that a Stipulation of Settlement will be presented to the Court for approval after the Merger closes.

## ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors presented in our Annual Report on Form 10-K for the year ended December 31, 2014. See Item 1A. Risk Factors in our 2014 Annual Report on Form 10-K for a discussion of certain risk factors applicable to us.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information regarding the purchases of our equity securities made by or on behalf of us or any affiliated purchaser (as defined in Exchange Act Rule 10b-18) during the three months ended March 31, 2015:

## ISSUER PURCHASES OF EQUITY SECURITIES

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (Millions of Dollars)
2015				

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January 1 - January 31 (a)	12,515	\$52.93	—	\$—
February 1 - February 28	—	\$—	—	\$—
March 1 - March 31	—	\$—	—	\$—
Total	12,515	\$52.93	—	

(a) All shares reported during January were surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock.

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ITEM 6. EXHIBITS

Exhibit No.

- 12 Statements re Computation of Ratios
  - 12.1 Statement of Computation of Ratio of Earnings to Fixed Charges.
- 31 Rule 13a-14(a) / 15d-14(a) Certifications
  - 31.1 Certification Pursuant to Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification Pursuant to Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Section 1350 Certifications
  - 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive Data File

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WISCONSIN ENERGY CORPORATION  
(Registrant)

/s/STEPHEN P. DICKSON

Stephen P. Dickson, Vice President and Controller, Principal  
Accounting Officer and duly authorized officer

Date: May 7, 2015

March 2015

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