

FITCH PLACES WEC'S RATINGS ON NEGATIVE WATCH FOLLOWING ACQUISITION ANNOUNCEMENT

Fitch Ratings-New York-24 June 2014: Fitch Ratings has placed the 'A-' Long-term Issuer Default Rating (IDR) and individual security ratings of Wisconsin Energy Corp. (WEC) on Rating Watch Negative. The actions follow yesterday's announcement by WEC to acquire Integrys Energy Group, Inc. (Integrys) (not rated by Fitch) for a total consideration of \$9.1 billion including \$3.3 billion of assumed debt. Fitch estimates the purchase price to equate 8.9x Integrys' 2013 EBITDA.

Fitch has affirmed WEC's Short-term IDR at 'F2'.

Fitch has also placed the ratings of Wisconsin Energy Capital Corp. (WECC) on Rating Watch Negative. WECC's debt obligations are supported by an agreement with WEC. As such, WECC's ratings reflect the credit profile of WEC.

As part of the acquisition, Integrys shareholders will receive a combination of stock (1.128 shares of WEC stock) and cash (\$18.58 per share) totaling \$5.8 billion. Fitch expects WEC to issue approximately \$1.5 billion in new debt to cover the cash portion of the acquisition. The ratings of subsidiaries, Wisconsin Electric Power Co. (WEPCO), Wisconsin Gas LLC (WI Gas), and Elm Road Generating Station Supercritical LLC, are unaffected by this transaction. Management has no plan to issue debt at WEPCO or WI Gas to support financing of the transaction. Regulatory restrictions regarding upstream dividend distributions to WEC provide some level of credit protection and mitigate contagion risk to the utilities from higher leverage at the parent.

Upon completion of the transaction, the combined company will be named WEC Energy Group, Inc. Integrys will become a second-tier holding company of WEC and will remain as the direct parent of its existing operating subsidiaries. In January 2014, Integrys entered into an agreement to sell its subsidiary Upper Peninsula Power Company (UPPCO), a Michigan regulated electric utility, for \$298.8 million. The transaction is expected to close later in 2014. Integrys is also in the late stage of a competitive process to divest its unregulated retail supply business and expects a close by year end 2014.

KEY RATING DRIVERS

Increasing Leverage: The proposed acquisition results in a meaningful increase in consolidated leverage compared to WEC's current and projected pre-acquisition financial position. This is primarily driven by the combination of \$1.5 billion of acquisition debt to be issued by WEC and a delay in management's previous plan to reduce existing parent debt. Fitch estimates WEC's pro-forma holdco debt to increase to approximately 30% of total consolidated debt from 16% pre-acquisition. Management has indicated they intend on reducing parent debt over time but has not established specific targets.

Jump in Dividend: Fitch's concerns also relate to the aggressive dividend policy adopted by management with a projected increase in dividend per share post-closing of the transaction and continuation of a 65% to 70% dividend payout target on a higher base. At year-end 2013, WEC's dividend payout ratio was 57%. Fitch expects WEC to utilize its existing positive cash flow position and additional available cash stemming from the termination of its \$300 million share repurchase program to support the dividend growth.

Credit Metrics: Fitch expects leverage metrics of the combined entities to be weak for the current rating category and significantly weaker than WEC's stand-alone credit profile. Fitch forecasts pro-forma FFO lease-adjusted leverage in the first full year of operation to approximate 4.7x and Adjusted Debt/EBITDAR near 4.4x. WEC's stand-alone FFO lease-adjusted leverage is projected to be closer to 4x and adjusted debt/EBITDAR closer to 3.5x.

Regulatory Diversification: Completion of the proposed acquisition will further diversify consolidated earnings and cash flows, with the addition of Integrys' five low-risk regulated electric and natural gas utility businesses that operate in the relatively supportive regulatory jurisdictions of Wisconsin, Michigan, Minnesota and Illinois. Integrys also has 34% ownership in Federal Energy Regulatory Commission (FERC) regulated American Transmission Co. (ATC, 'A' IDR). With the acquisition of Integrys, WEC's ownership of ATC will increase to approximately 60%, from 26%. Accordingly, management expects transmission investments to be a significant driver of rate base growth over the next few years. ATC's ratings are not affected by this transaction.

Regulatory Concessions: Regulatory approvals are required in the four state jurisdictions of Wisconsin, Michigan, Illinois and Minnesota. Fitch would expect pressure on WEC's ratings, and possibly on subsidiaries' ratings, in the event that significant ratepayer benefits or multi-year rate freezes are imposed as a condition to approve the acquisition. The acquisition also requires approval from the Department of Justice (DOJ), the FERC, and the Federal Communications Commission (FCC). WEC expects to close the transaction in the summer of 2015.

RATING SENSITIVITIES

Factors that could lead to a positive rating action:

Given WEC's projected incremental leverage and pending acquisition of Integrys, a positive rating action is unlikely in the near to intermediate term.

Factors that could lead to a negative rating action:

If, after completion of the Integrys acquisition, FFO Lease-adjusted leverage is greater than 4.25x on a forward basis, a one- notch downgrade is likely.

Unfavorable regulatory developments, including significant ratepayer concessions or rate freezes required as a condition to approve the acquisition, that would pressure earnings and cash flow could lead to a negative rating action at WEC.

More aggressive financial management policies that result in higher parent-level leverage could also lead to negative rating actions.

Fitch has placed the following ratings on Rating Watch Negative:

WEC

- Long-term IDR 'A-';
- Senior unsecured debt at 'A-';
- Junior subordinated debentures at 'BBB'.

WECC

- Long-term IDR at 'A-';
- Senior unsecured debt at 'A-'.

Fitch has affirmed the following ratings:

WEC

- Short-term IDR and CP at 'F2'.

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Applicable Criteria and Related Research:

- 'Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage' (May 28, 2014);
- 'Rating U.S. Utilities, Power and Gas Companies' (March 11, 2014).

Applicable Criteria and Related Research:

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors)

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=735155

Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

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