ICC Docket No. 14-0496
Joint Applicants' Response to
Staff Data Requests MGM 1.01-1.18
Dated: September 18, 2014

REQUEST NO. MGM 1.04:

What is/will be the amount of debt at the WEC level before and after merger?

RESPONSE:

As of December 31, 2013, the Wisconsin Energy holding company had $817 million of debt outstanding.

As of December 31, 2015, the WEC Energy Group holding company is projected to have $2,314 million of debt outstanding.

As of December 31, 2015, the combination of debt outstanding at the holding company level for both holding companies – WEC Energy Group holding company level and the Integrys holding company level combined – is projected to be $3,485 million.

REQUEST NO. MGM 1.15:

Please provide all credit rating reports for WEC, NSG and PGL published by S&P, Moody's, or Fitch Ratings since the announcement of the proposed merger.

RESPONSE:

S&P and Moody's summary write ups regarding the acquisition are attached as:

JA MGM 1.15 Attach 01 - Moodys_06-23-14
JA MGM 1.15 Attach 02 – S-P_06-23-14
JA MGM 1.15 Attach 03 - Fitch_06-24-14

The Integrys system companies are not rated by Fitch.

No new reports for WEC, NSG and PGL have been issued since the announcement.

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes WEC's rating outlook to negative following acquisition announcement; places Integrys on review for upgrade after revealing plans to divest its retail business

Global Credit Research - 23 Jun 2014

Approximately $10.6 billion of rated debt affected

New York, June 23, 2014 -- Moody's Investors Service, ("Moody's") changed the rating outlook to negative from stable of Wisconsin Energy Corporation (WEC; A2 Issuer and senior unsecured rating, A3 junior subordinated and Prime-1 Commercial paper rating). This rating action follows today's announcement that WEC has entered a definitive agreement to acquire Integrys Energy Group Inc. (Integrys; Baa1 senior unsecured, Baa2 junior subordinated, Prime-2 Commercial paper rating) for $9.1 billion, which includes the assumption of approximately $3.3 million of existing debt.

Concurrently, Moody's put the long-term ratings of Integrys under review for upgrade after the company's disclosure that it is in the process of disposing its unregulated retail operations. The review for upgrade will be concluded shortly, and will focus on the divestiture of the retail operations.

In addition, Moody's also affirmed the ratings of all of the subsidiaries of both WEC and Integrys (listed below). The rating outlooks for these utility subsidiaries are stable.

The transaction is subject to shareholder votes for both companies, the Federal Energy Regulatory Commission, and the state regulatory authorities in Wisconsin, Illinois, Michigan and Minnesota. The transaction is expected to close in approximately 12 months. If completed WEC intends to fund the $5.8 billion equity purchase using a combination of WEC common stock and cash. To fund the portion of the cash consideration(excluding related costs), WEC intends to use around $1.5 billion in proceeds raised in connection with the issuance of long-term and short-term indebtedness under its Commercial Paper Program.

RATINGS RATIONALE

"Upon the completion of the transaction, WEC will benefit from the larger size and the complementary nature of the operations of the combined group in Wisconsin as well as from a more diversified footprint in operational and geographical reach" said Moody's Vice President Natividad Martel. "The latter factors Integrys' multi-state operations and its significant natural gas distribution operations in Illinois via Peoples Gas Light and Coke Company and North Shore Gas Company". The transaction will further enhance WEC's underlying cash flow stability provided by the regulated utility subsidiaries that we believe operate in credit supportive regulatory environments. The combined group's increased ownership in American Transmission Company LLC (ATC; A1 stable) to 60.2% is another credit positive. Moody's also notes WEC's intention to terminate its current share repurchase program, and that its target dividend payout ratio will range between 65% and 70% which compares well with its peers.

The change in WEC's rating outlook to negative from stable considers that should the transaction close WEC's credit profile will deteriorate as it acquires a company with a weaker credit profile in a leveraged transaction. The negative outlook reflects the increase in WEC's holding company debt compared to the consolidated indebtedness which will hover around 20% for a sustained period of time. It further considers the introduction of integration risk given WEC's limited acquisition experience and lack of track-record in operating under the Illinois regulatory environment. WEC's negative outlook considers the expected deterioration in WEC's consolidated key credit metrics. Specifically, over the next three years, the ratio of cash flow from operations before working capital adjustments (CFO pre-W/C) to debt and Retained Cash Flow (RCF) to debt is expected to fall below 19% and 15%, respectively. These metrics are more commensurate with the upper-range of the Baa-rating category according to the guidelines provided for standard business risk under the updated Regulated Electric and Gas Utility Methodology, published in December 2013. However, over the longer-term horizon, Moody's expects these financial ratios will start improving such that they score well within the lower-range of the A-rating category and that the combined group will begin to report positive free cash flows, another credit positive.

"The review for upgrade of Integrys' ratings largely reflects the company's plans to completely exit its retail energy

services business by divesting this segment" said Lesley Ritter, a Moody's Analyst. "The lower business risk that will result from the elimination of the retail business is the impetus for bringing the ratings of Integrys' one notch closer to its utility subsidiaries. Moody's will focus the review for upgrade on the divestiture of Integrys Energy Services."

Still, the amount of holding company debt compared to Integrys' consolidated indebtedness will remain significant (hovering around 30%). The parent level debt-holders' structural subordination drives the notching relationship between Integrys and its largest subsidiary, Wisconsin Public Service Corporation (WSP; A1 senior unsecured). Moody's also expects that should the transaction close, Integrys will be able to implement a less aggressive dividend policy such that its dividend payout ratio going forward will remain below 70% in the wake of the group's substantial capital expenditure program.

Moody's understands that WEC intends to maintain all the existing bank back-up credit facilities in place. These include those at both holding companies as well as the main subsidiaries which will continue to have access to their own separate facilities. These several facilities are scheduled to expire in 2017 and 2019.

A downgrade of WEC's senior unsecured rating to A3 would also result in a downgrade of its Commercial Paper rating to Prime-2 from Prime-1.

Given WEC's negative outlook limited prospects exist for a upgrade of its ratings.

In light of Intergrys' review for upgrade the likelihood of a rating downgrade is low.

The following debt ratings are affirmed:

Wisconsin Energy Corporation

LT Issuer Rating A2

Senior Unsecured A2

Junior Subordinate A3

Senior Unsec. Shelf (P)A2

Junior Subord. Shelf (P)A3

Pref. Stock Shelf (P)A3

Commercial Paper P-1

Outlook Changed to negative

Wisconsin Energy Capital Corporation

Senior Unsecured A2

Senior Unsecured MTN (P)A2

Outlook Changed to negative

WEC Capital Trust II

Pref. Stock Shelf (P)A3

Outlook Changed to negative

The following ratings have been affirmed:

Wisconsin Electric Power Company

LT Issuer Rating A1

Senior Unsecured A1

Senior Unsec. Shelf (P)A1

Pref. Stock A3

Commercial Paper P-1

Outlook Stable

Wisconsin Gas LLC

Senior Unsecured A1

Commercial Paper P-1

Outlook Stable

Elm Road Generating Station Supercritical

Senior Unsecured (Domestic) A1

Outlook Stable

On Review for Upgrade:

Integrys Energy Group, Inc.

Senior Unsecured Baa1

Jr Subordinate Baa2

Senior Unsecured Shelf (P)Baa1

Subordinate Shelf (P)Baa2

Jr. Subordinate Shelf (P)Baa2

The following ratings have been affirmed:

Commercial Paper at Prime-2

Wisconsin Public Service Corporation

Issuer Rating A1

First Mortgage Bonds Aa2

Senior Secured Aa2

Pref. Stock A3

Senior Secured Shelf (P)Aa2

Pref. Shelf (P)A3

Commercial Paper at P-1

Outlook Stable

Peoples Gas Light and Coke Company

Issuer Rating A2

Senior Secured/First Mortgage Bonds Aa3

Senior Secured MTN (P)Aa3

Commercial Paper P-1

Outlook Stable

North Shore Gas Company

Issuer Rating A2

Senior Secured MTN (P)Aa3

Outlook Stable

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Headquartered in Milwaukee, Wisconsin Energy Corporation (WEC) is a diversified energy holding company that conducts operations in an energy segment and, to a much lesser extent, a non-energy segment that primarily invests in real estate. The energy segment includes Wisconsin Electric Power Company (WEPCO) and Wisconsin Gas LLC (Wisconsin Gas). WEC estimates that around 90% and 5% of the group's consolidated revenues are subject to the purview of the Wisconsin and Michigan Public Service Commission (PSCW and MPSC), respectively, while the Federal Energy Regulatory Commission (FERC) oversees the balance. In addition, the group has around 6GW installed capacity, including the four units (2,320 MW) designed, built and financed (the cash costs of this multi-year program aggregated around $2.7 billion) by We Power LLC (We Power: not rated) as part of WEC's Power The Future (PTF) strategy that started in 2000. This program includes two 615MW supercritical pulverized coal-fired generation units located at the Oak Creek facility (OC1 and OC2 in operations since early 2010 and 2011, respectively). WEC indirectly holds its approximately 83% undivided ownership interest in the OC units (equal to 1,057MW) via its other publicly rated subsidiary, Elm Road Generating Station Supercritical, LLC (ERGSS).

Headquartered in Chicago, Illinois, Integrys Energy Group, Inc. (Integrys, Baa1 senior unsecured, stable outlook) is a diversified energy holding company operating in both the regulated (approx. 96% of 2013 operating income) and unregulated (approx. 4% of 2013 operating income) space. As mentioned earlier Integrys currently owns six regulated utilities: Wisconsin Public Service Corporation (WPS), The Peoples Gas, Light and Coke Company (PGL), North Shore Gas Company (NSG), Minnesota Energy Resources Corporation (MERC, not rated), Michigan Gas Utilities Corporation (MGU, not rated) and Upper Peninsula Power Corporation (UPPCO, not rated) albeit it announced its sale in January. In September 2013, MERC entered into an agreement to purchase Alliant Energy Corporation's (A3 senior unsecured) Southeastern Minnesota natural gas distribution business for $11 million. The transaction is expected to close in late 2014. Integrys' largest utility subsidiaries are WPS, a vertically integrated electric utility headquartered in Green Bay, Wisconsin, (50% of consolidated regulated rate base) and PGL, a local gas distribution company (LDC) that operates in and around Chicago (30% of consolidated regulated rate base).

Integrys' sizeable non-regulated retail energy business is largely focused on marketing natural gas and electricity to commercial, industrial and residential customers primarily in the northeastern quadrant of the U.S. We estimate Integrys' non-regulated energy marketing business accounts for 10-15% of consolidated operating income.

Integrys and WEC (via WEPCO and ATC Holdings) also hold a 34% and 26.2% ownership-stake, respectively, in the American Transmission Company LLC (ATC, A1 senior unsecured).

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Research Update:

Wisconsin Energy And Integrys Ratings Affirmed On Announced Merger; Certain Outlooks Revised To Negative From Stable

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Research Update:

Wisconsin Energy And Integrys Ratings Affirmed On Announced Merger; Certain Outlooks Revised To Negative From Stable

Overview

- Wisconsin Energy Corp. (WEC) is acquiring Integrys Energy Group Inc. for $9.1 billion.
- We are affirming the ratings on utility holding company WEC and its subsidiaries Wisconsin Electric Power Co. (WEPCO) and Wisconsin Gas LLC (WG). We have also affirmed the ratings on utility holding company Integrys and its subsidiaries Wisconsin Public Service Corp. (WPS), Peoples Gas Light & Coke Co. (PGL&C), and North Shore Gas Co. (NSG).
- We believe that WEC's acquisition of Integrys will enhance the company's position within the "excellent" business risk profile category.
- Although WEC's financial measures will weaken somewhat, we believe that the overall financial risk profile will remain within the "significant" financial risk profile category.
- We have revised the credit outlooks on WEC, Integrys, PGL&C, and NSG to negative from stable.
- The outlooks on WEPCO, WG, and WPS remain stable, reflecting sufficient regulatory insulation, their stand-alone credit profiles, which would be unaffected by the transaction, and our expectations that ratings on parent WEC are unlikely to be lowered more than a one-notch.

Rating Action

On June 23, 2014, Standard & Poor's Ratings Services affirmed its ratings on WEC and WEPCO, including their 'A-' issuer credit ratings. We also affirmed the ratings on WG, including its 'A' issuer credit rating. We also affirmed the 'A-2' short-term/commercial paper ratings on WEC and WEPCO and the 'A-1' short-term/commercial paper rating on WG.

At the same time, we affirmed our ratings on Integrys, WPS, PGL&C, and NSG, including their 'A-' issuer credit ratings. We also affirmed the 'A-2' short-term/commercial paper ratings on Integrys, WPS, and PGL&C.

Standard & Poor's revised its credit outlook on WEC to negative from stable. We also revised our credit outlook on Integrys, PGL&C, and NSG to negative from stable. The outlooks on WEC's subsidiaries WEPCO and WG and Integrys' subsidiary WPS remain stable because the transaction does not affect their stand-alone credit profiles and because of sufficient regulatory insulation.

Rationale

The negative outlook on WEC, Integrys, PGL&C, and NSG reflects the potential negative effect on WEC's consolidated financial measures of the company's announced $9.1 billion acquisition of Integrys. We expect that the incremental debt associated with this transaction will weaken WEC's financial measures. Therefore, we believe that the company's consolidated financial risk profile could fall toward the lower end of our "significant" financial risk profile category, leaving little room for underperformance relative to our forecast. A one-notch downgrade would be warranted if the adjusted funds from operations (FFO)/total debt ratio failed to improve in line with our expectations, and remained below 15% on a sustained basis.

On June 23, 2014, WEC entered into an agreement to acquire Integrys for $9.1 billion, which includes the assumption of about $3.3 billion of Integrys' debt. From a qualitative standpoint, the acquisition will strengthen WEC's position within the "excellent" business risk profile category because it enhances scale, scope, operational, geographical, and regulatory diversity. We view the addition of more gas distribution and transmission operations favorably because we regard those businesses as having somewhat lower risk than the vertically integrated electric operations. Because we consider the unregulated businesses as having significantly higher business risk than the regulated utility operations due to competitive pressures and greater variability in cash flow generation, the company's commitment to sell or wind down Integrys' energy supply business and limit growth in the solar business so that 99% of the company's EBITDA is regulated also supports the "excellent" business risk profile.

Our excellent business risk profile assessment incorporates "very low" country risk (U.S.) and our view of the regulated utility sector as having a "very low" industry risk profile that reflects the essential nature of the utility services provided, has material barriers to entry, and essentially operates as a monopoly insulated from market challenges. The utility industry generally exhibits substantial stability in terms of usage and consumption, even after accounting for energy conservation efforts and the economy. The business risk profile is also characterized by strong overall profitability, efficient operations, and above-average scale, scope, and diversification with a very large customer base in multiple states. Importantly, we recognize that WEC has effectively managed regulatory risk in Wisconsin and Michigan, state jurisdictions that we view as "strong," and we expect that management will continue to do so, especially in the more challenging Illinois regulatory jurisdiction, which we assess in the bottom half of the "strong/adequate" category.

Due to WEC's plans to fund the transaction with a combination of debt and common stock, we believe that the company's financial measures could fall to the weaker end of our "significant" financial risk profile category based on our medial volatility table, leaving little cushion for underperformance relative to our forecast. In that regard, adjusted FFO to total debt might

weaken to below 15% and debt to EBITDA could increase to above 4x for several years following the acquisition.

WEC aims to complete the transaction in mid-2015, subject to certain closing conditions, including approvals from shareholders, state regulators in Wisconsin, Illinois, Michigan, and Minnesota, the Federal Energy Regulatory Commission, and the Federal Communications Commission, as well as the expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act.

Liquidity

WEC and Integrys have "adequate" liquidity to cover their needs over the next 12 months. We expect that the companies' sources of liquidity will exceed uses by 1.1x or greater, the minimum threshold for an adequate designation under our criteria, and that the company will also meet our other criteria for such a designation.

WEC

Principal Liquidity Sources

- Credit availability of $1.25 billion over the next 12 months.
- FFO of about $1 billion over the next 12 months.

Principal Liquidity Uses

- No remaining debt maturities in 2014 and about $400 million in 2015.
- Capital spending of about $780 million over the next 12 months.
- Dividends of roughly $370 million over the next 12 months.

Integrys

Principal Liquidity Sources

- Credit availability of at least $825 million over the next 12 months.
- FFO of about $850 million over the next 12 months.

Principal Liquidity Uses

- Debt maturities of $125 million in 2015.
- Capital spending of about $1 billion over the next 12 months.
- Dividends of roughly $220 million over the next 12 months.

We would expect that the combined company would have "adequate" liquidity to cover its needs in the 12 months following consummation of the transaction.

Recovery analysis

- We assign recovery ratings to first mortgage bonds (FMB) issued by U.S. utilities, which can result in issue ratings being notched above a utility's Issuer Credit Rating (ICR) depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria.
- The recovery methodology is supported by the ample historical record of

100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a utility's ICR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio. We do not notch FMB ratings for companies with ICRs in the 'AA' category.
- The FMBs of WPS and PGL&C benefit from a first-priority lien on substantially all of the respective utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports recovery ratings of '1+' and issue ratings one notch above the ICR.

Group Influence

We consider that there are sufficient measures in place that provide insulation to the Wisconsin utilities that limits the free flow of cash. Most of these provisions are afforded by Wisconsin law and include separateness provisions, dividend restrictions, debt preapprovals, and oversight of the proceeds, and a cap on investments in nonutility assets. In addition, the Wisconsin utilities are further protected given consistent and active regulatory oversight by the Wisconsin Public Service Commission over its operations.

The group credit profile (GCP) of WEC is 'a-' and its issuer credit rating is 'A-'. Under our group rating methodology, we consider subsidiaries WEPCO and WG as integral to the company's long-term strategy and, as such, are highly unlikely to be sold and have a strong commitment from senior management, and therefore we designate them as core entities.

Although there is sufficient regulatory insulation in place, WEPCO's stand-alone financial measures fall within the significant financial risk category under our medial volatility table and therefore do not support credit uplift from the GCP.

WG's stand-alone financial measures reflect an "intermediate" financial risk profile, and support a rating that is one notch higher than the GCP.

Regarding Integrys, its GCP is also 'a-' and its issuer credit rating is 'A-'. We view PGL&C, WPS, and NSG as core subsidiaries of Integrys. We expect to view Integrys, PGL&G, WPS, and NSG as core subsidiaries of WEC when the transaction closes.

Because there are no meaningful regulatory mechanisms in Illinois or other structural barriers that restrict access by Integrys to the assets and cash flow of PGL&C and NSG, the ICRs on PGL&C and NSG are aligned with that of the parent. We would also expect that, post-acquisition, Integrys', PGL&C's, and

NSG's ICRs would also be aligned with that of new parent WEC. In these cases, the businesses and financial risk profiles of the two utilities also result in stand-alone credit profiles of 'a-', which is the same as the GCP.

Although there is sufficient regulatory insulation in Wisconsin to prevent the free flow of cash from WPS to Integrys and, post-acquisition, its stand-alone financial measures fall within the "significant" financial risk category and therefore do not support credit uplift from the GCP.

Outlook

The negative outlook on WEC, Integrys, PGL&C and NSG reflects consolidated financial measures that are toward the lower end of our "significant" financial risk profile category, leaving little room for underperformance relative to our forecast. A one-notch downgrade would be warranted if the adjusted FFO/total debt ratio failed to improve in line with our expectations, and remained below 15% on a sustained basis.

We could revise the outlook to stable if financial measures were to improve following the acquisition so that measures were restored to the middle range of the "significant" financial risk profile category.

Ratings stability for WEPCO, WG, and WPS reflects sufficient regulatory insulation and their stand-alone credit profiles, which would be unaffected by the transaction.

Related Criteria And Research

- General Criteria: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use of CreditWatch And Outlooks, Sept. 14, 2009
- Notching of U.S. Investment Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed; Outlook Revised

	To	From
Wisconsin Energy Corp.		
Wisconsin Energy Capital Corp.		
Corp credit rating	A-/Negative/A-2	A-/Stable/A-2
Integrys Energy Group Inc.		
Corp credit rating	A-/Negative/A-2	A-/Stable/A-2
Peoples Gas Light & Coke Co.		
Corp credit rating	A-/Negative/A-2	A-/Stable/A-2
North Shore Gas Co.		
Corp credit rating	A-/Negative/--	A-/Stable/--

Ratings Affirmed

Wisconsin Electric Power Co.	
Corp credit rating	A-/Stable/A-2
Wisconsin Gas LLC	
Corp credit rating	A/Stable/A-1
Wisconsin Public Service Corp.	
Corp credit rating	A-/Stable/A-2

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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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REQUEST NO. MGM 2.02:

Is it the Joint Applicants' position that "the greater size and access to capital markets of WEC Energy Group" (Ex. 5.0, p. 12) will enable it to raise common equity at a lower cost than Integrys can today?

RESPONSE:

As indicated on page 2 of Mr. Lauber's Supplemental Direct Testimony, the Joint Applicants do not expect any changes in the Gas Companies' overall cost of capital immeditately or shortly after the Reorganization closes. The Joint Applicants have committed that any future reductions in the Gas Companies' overall cost of capital as a result of the greater size and access to capital markets of WEC Energy Group will be recognized and flowed through to customers in the rates set for the Companies when they file rate cases.

As explained on pages 11-12 of Mr. Lauber's Supplemental Direct Testimony, the financial markets are fluid and a company's overall cost of capital is driven by a variety of factors including company-specific, competition for capital, and macro-economic conditions. In particular, the cost of common equity is a market-based concept. As such, it is not possible to speculate as to what the cost of common equity might be at some future date. While the Joint Applicants expect future benefits in the overall cost of capital for the Gas Companies, those benefits are not guaranteed, and they would be relative to what might have occurred absent the Reorganization.