WEC Energy Group, Inc.

Full Rating Report

Ratings

Long-Term IDR	BBB+
Short-Term IDR and CP	F2
Senior Unsecured	BBB+
Junior Subordinated Notes	BBB–

IDR – Issuer Default Rating.

Rating Outlook

Long-Term IDR	Stable

Financial Data

WEC Energy Group, Inc.

($ Mil.)	LTM 2Q15	2014
Adjusted Revenue	4,653	5,014
Operating EBITDAR	1,433	1,521
CFFO	1,193	1,197
Total Adjusted Debt	9,438	4,993
Total Capitalization	18,521	9,678
Capex/ Depreciation (%)	1.9	1.8
FFO Fixed-Charge Coverage (x)	5.2	6.0
FFO-Adjusted Leverage (x)	7.3	3.4
Total Adjusted Debt/EBITDAR (x)	6.6	3.3

Related Research

U.S. Integrated Electric Utilities Handbook (A Detailed Review of Integrated Electric Utilities) (August 2015)

Wisconsin Energy Corp. - Ratings Navigator (February 2015)

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Key Rating Drivers

Regulatory Diversification: Integrys Holding Inc.'s (Integrys) five regulated electric and natural gas utility businesses increase WEC Energy Group, Inc.'s (WEC) regulatory scale and provide further diversity to consolidated earnings and cash flows. The utilities operate in the relatively supportive regulatory jurisdictions of Wisconsin, Illinois, Michigan, Minnesota and the Federal Energy Regulatory Commission (FERC) via its ownership in American Transmission Co. (ATC, A). Wisconsin represents an estimated 70% of the combined company's rate base.

Balanced Regulatory Compacts: Fitch Ratings views the Wisconsin regulatory compact as generally supportive of utility credit quality, as evidenced by the relatively favorable rate decisions Wisconsin utilities received in their most recent rate cases, including authorized ROEs above national medians. Gas utilities in Illinois benefit from constructive tariff mechanisms, including a purchased gas adjustment, decoupling and riders for bad debt expense; manufactured gas plant remediation costs; and a main replacement program in Chicago.

Merger Concessions: Key provisions include implementation of a two-year base rate freeze effective at merger closing at The Peoples Gas Light & Coke Co. (Peoples Gas) and a commitment by the utility to invest at least $1 billion in capex over 2015–2017. North Shore Gas Co. (North Shore Gas) is required to spend a minimum of $43 million on capex through 2017. Wisconsin Electric Power Co. (WEPCO) and Wisconsin Public Service Corp. (WPS) filed a joint integrated resource plan to evaluate the need for new generation capacity.

High Parent Leverage: Combined parent-level debt represents 30% of WEC's consolidated debt. About 20% of parent debt is related to WEC. Fitch estimates Integrys' stand-alone parent-level debt represents about 30% of Integrys' consolidated debt at June 30, 2015. Fitch would view active deleveraging efforts over the forecast period as supportive of credit quality.

Manageable Capex: Management plans to spend approximately $1.3 billion–$1.4 billion annually. Capex is expected to be split evenly between WEC and Integrys. Capital investments associated with WEC's 60% ownership of ATC are projected to total $818 million over 2015–2017, further supporting rate base growth.

Adequate Credit Metrics: Fitch projects consolidated FFO-adjusted leverage to approximate 5.0x in 2016 and improve to about 4.4x by 2018. FFO fixed-charge coverage is projected to range between 4.3x and 4.6x over 2016–2019. The LTM credit metrics do not reflect WEC's current financial profile due to the timing of the acquisition.

Rating Sensitivities

Positive Rating Action: Deleveraging efforts resulting in the FFO-adjusted leverage ratio improving to near 4x would likely trigger a positive rating action.

Negative Rating Action: Unfavorable regulatory developments or FFO-adjusted leverage between 5.00x and 5.25x on a sustained basis would have a negative effect on ratings. A more aggressive financial management policy leading to incremental parent leverage would also trigger negative rating actions.

Financial Overview

Liquidity and Debt Structure

WEC and its subsidiaries had approximately $214.4 million of cash and cash equivalents, and approximately $2.3 billion of unused committed credit arrangements with banks at June 30, 2015. The unused credit capacity is allocated to provide liquidity support to the group's CP programs. Approximately $826.3 million of CP borrowings were outstanding at June 30, 2015.

Each entity within the combined group has access to its own unsecured credit facility, with the exception of smaller entities North Shore Gas, Michigan Gas Utilities (MGU) and Minnesota Energy Resources, who meet their short-term liquidity needs through intercompany borrowings with the parent company. North Shore Gas can borrow up to $50 million with Integrys and up to $50 million with sister affiliate Peoples Gas. Peoples Gas can borrow up to $150 million from Integrys and up to $50 million from North Shore Gas.

Financial covenants include maintaining a debt-to-total capitalization ratio no greater than 65% for WEPCO, Wisconsin Gas LLC (WI Gas), Integrys, WPS and Peoples Gas. WEC must maintain a debt-to-total capitalization ratio no greater than 70%. All entities were in compliance with the covenants at June 30, 2015. WPS cannot pay a common dividend more than 103% of the prior year's dividend. All subsidiaries, with the exception of MGU, are prohibited from lending funds to WEC or Integrys.

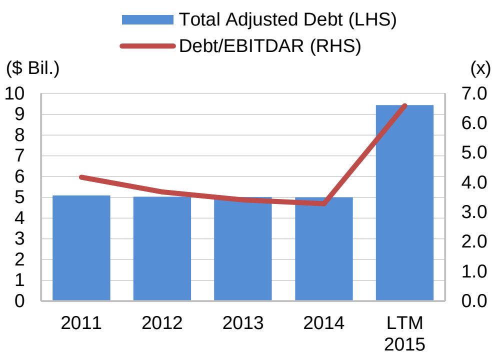
Debt Maturities and Liquidity

($ Mil., As of June 30, 2015)

2015	512
2016	77
2017	153
2018	584
Thereafter	7,757
Cash and Cash Equivalents	214
Undrawn Committed Facilities	2,281

Source: Company data, Fitch.

Total Debt and Leverage



Source: Company data, Fitch.

Cash Flow Analysis

Management plans on spending approximately $1.3 billion–$1.4 billion annually and expects capex to be split evenly between WEC and Integrys. Capital investments associated with WEC's 60% ownership of ATC are projected to total $818 million over 2015–2017, further supporting rate base growth. Utility capital investments will primarily be earmarked toward environmental upgrades, and enhancement of distribution networks and gas pipeline replacements. Fitch expects the utilities to finance capex in a conservative manner, using a target mix consistent with their respective authorized regulatory capital structures.

Key projects include the West Central gas expansion at WI Gas, with an estimated cost of $135 million and completion date in fourth-quarter 2015; conversion of the Valley power plant

Related Criteria

Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (August 2015)

Parent and Subsidiary Rating Linkage (August 2015)

Recovery Ratings and Notching Criteria for Utilities (March 2015)

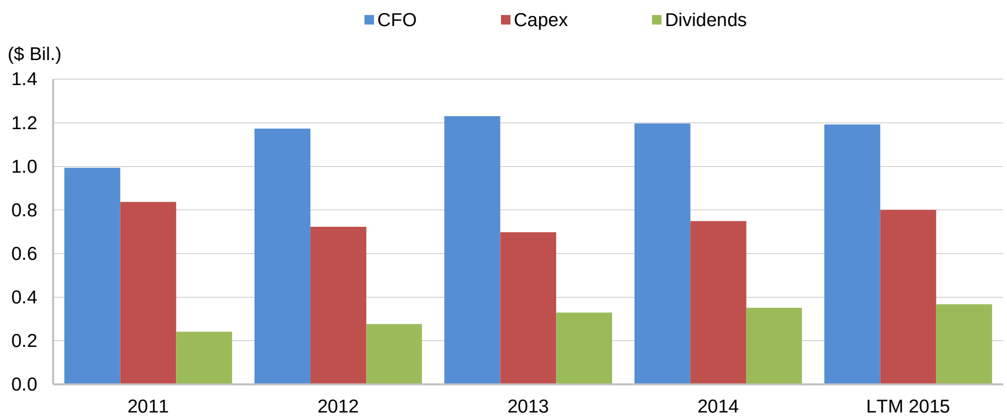
Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014) from coal to natural gas, with an estimated cost of $65 million and completion in late 2015; and fuel flexibility at Oak Creek units, a $79 million investment. Key Integrys subsidiary projects include upgrading aging infrastructure at WPS, a $220 million investment from 2014 to 2018, and the accelerated main replacement program at Peoples Gas, a $250 million average annual investment.

WEC's cash flow position is relatively strong. WEC has been FCF positive over the last three years, which is atypical in the utility industry. Historical cash flows have benefited from bonus depreciation and the existence of net operating losses that materially reduce payment of cash taxes.

As bonus depreciation sunsets in 2015, the benefits of base rate increases at the Wisconsin utilities and riders for investments at Peoples Gas should continue to support stable earnings and cash flows in the forecast years, in Fitch's view.

Management targets a dividend payout ratio between 65% and 70%, in line with the industry average. WEC has raised its dividend in the first half of 2015 by 17.3% and targets dividend growth in line with earnings growth in 2016, at approximately 6%–8%. Fitch believes WEC's dividend strategy is manageable within the existing financial profile.

CFO and Cash Use



Source: Company data, Fitch.

Peer and Sector Analysis

Peer Group

Issuer	Country
A–	
OGE Energy Corp.	U.S.
BBB+	
Ameren Corp.	U.S.
Xcel Energy Inc.	U.S.

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Aug. 17, 2015	BBB+	Stable
June 2, 2015	BBB+	Stable
June 24, 2014	A–	RWN
April 7, 2014	A–	Stable
June 14, 2013	A–	Stable
June 20, 2012	A–	Stable
June 23, 2011	A–	Stable
June 21, 2010	A–	Stable
June 8, 2009	A–	Negative
April 30, 2008	A–	Stable
June 15, 2006	A–	Negative
Dec. 6, 2005	A–	Stable
Oct. 15, 2003	A–	Stable
July 18, 2002	A	Stable
March 13, 2001	A+	Negative
April 26, 2000	A+	—

LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
RWN – Rating Watch Negative.
Source: Fitch.

Peer Group Analysis

($ Mil.)	WEC Energy Group, Inc.	OGE Energy Corp.	Ameren Corp.	Xcel Energy Inc.
As of	6/30/15	6/30/15	6/30/15	6/30/15
IDR	BBB+	A–	BBB+	BBB+
Rating Outlook	Stable	Stable	Stable	RWN
Fundamental Ratios (x)				
Operating EBITDAR/(Gross Interest Expense + Rents)	5.83	5.72	5.11	4.75
FFO Fixed-Charge Coverage (x)	5.24	6.08	5.99	5.80
Total Adjusted Debt/Operating EBITDAR	6.59	3.54	3.57	4.50
FFO/Total Adjusted Debt (%)	13.7	30.0	32.8	27.1
FFO-Adjusted Leverage (x)	7.32	3.33	3.05	3.69
Common Dividend Payout (%)	70.0	45.9	65.9	64.0
Internal Cash/Capex (%)	103.3	141.3	72.0	83.3
Capex/Depreciation (%)	191.4	167.5	227.6	291.7
ROE (%)	8.2	13.2	9.0	9.1
Financial Information				
Revenue	4,653	2,519	5,997	11,276
Revenue Growth (%)	(7.4)	(7.9)	0.4	(1.4)
EBITDA	1,433	1,020	1,953	2,898
Operating EBITDA Margin (%)	27.4	41.5	31.2	27.8
FCF	26	206	(499)	(577)
Total Adjusted Debt with Equity Credit	9,438	3,646	7,118	13,235
Cash and Cash Equivalents	214	—	2	136
FFO	1,043	915	1,941	2,970
Capex	(800)	(499)	(1,762)	(3,109)

IDR – Issuer Default Rating. RWN – Rating Watch Negative.
Source: Company data, Fitch.

Key Rating Issues

High Parent Leverage

Combined parent-level debt represents 30% of WEC's consolidated debt. About 20% of parent debt is related to WEC. Management has indicated it intends to reduce parent debt over time, but has not established specific targets. Fitch would view active deleveraging efforts over the forecast period as supportive of credit quality.

Regulatory Diversification

The addition of Integrys' five low-risk regulated electric and natural gas utility businesses increases regulatory scale and provides further diversity to consolidated earnings and cash flows. The utilities operate in the relatively supportive regulatory jurisdictions of Wisconsin, Illinois, Michigan, Minnesota and FERC via its ownership in ATC. Management estimates Wisconsin represents approximately 70% of the combined company's rate base, with FERC and IL contributing about 14% and 13% of projected rate base, respectively. The smaller Michigan and Minnesota utilities are projected to represent a modest 4% of total rate base.

The ownership of gas local distribution companies (LDCs) in Illinois, and on a smaller scale in Michigan and Minnesota, provides cash flow stability and earnings growth through committed investments in gas infrastructure upgrades over the next several years. Management estimates the proportion of gas utility in the earnings mix will grow to 23% from 17% pre-merger.

WEC's ownership of ATC will increase to approximately 60% from 26% with the acquisition of Integrys. Accordingly, management expects investments in transmission rate base to continue to grow over the next few years, despite the anticipated reduction in allowed ROEs for Midcontinent Independent System Operator transmission owners as a result of complaint cases currently pending before the FERC.

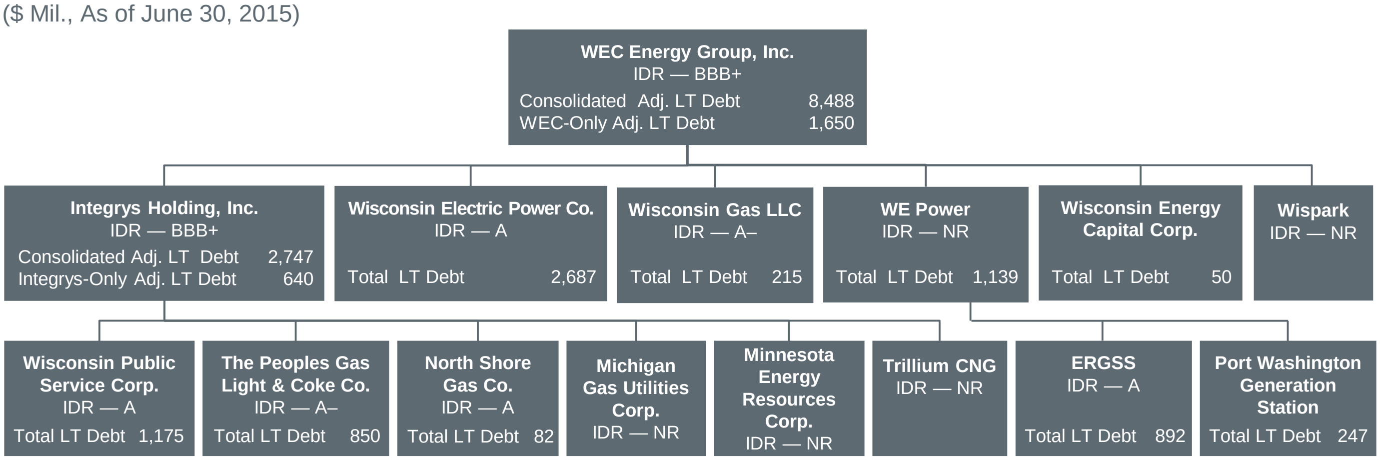
Peoples Gas AMRP

Although the merger concessions in Illinois are considered manageable, the Illinois Commerce Commission (ICC) investigation into Peoples Gas' alleged mismanagement of its accelerated main replacement program (AMRP) made the merger approval process more contentious than what WEC experienced in other jurisdictions. Several parties, including the Illinois Attorney General, requested the implementation of a five-year rate freeze and a three-month extension of the scheduled ICC decision to review whistleblower letters that alleged serious misconduct on the part of Peoples Gas.

The ICC subsequently denied the parties' requests. As a first line of action, WEC parted ways with the existing project managers following an audit that revealed material cost overruns. WEC publicly stated it is confident it can effectively manage the project. The commission investigation remains ongoing. Fitch's projections do not reflect any potential fines that could result from the investigation.

Organizational Structure

Organizational and Debt Structure — WEC Energy Group, Inc.
($ Mil., As of June 30, 2015)



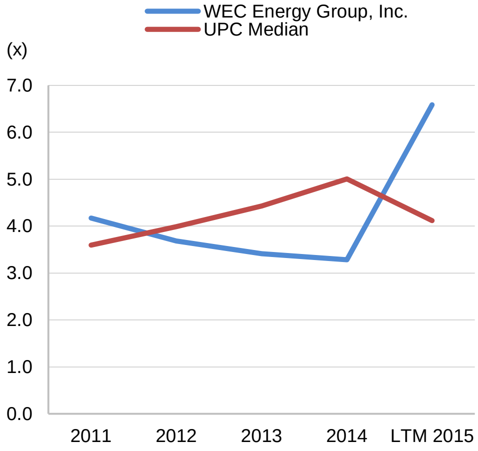
IDR – Issuer Default Rating. LT – Long-term. NR – Not rated.
Source: Company reports, Fitch analysis.

Key Metrics

Definitions

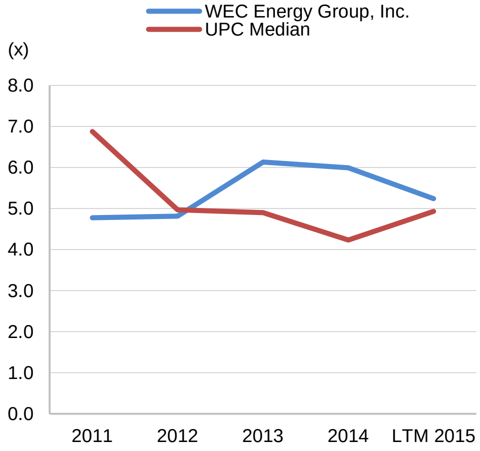
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO-Adjusted Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

Total Adjusted Debt/Operating EBITDAR



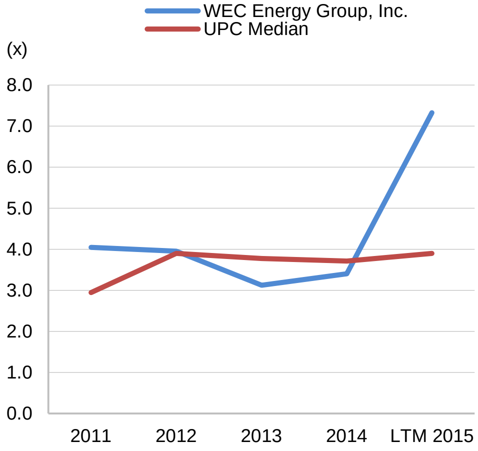
UPC – Utility parent company.
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



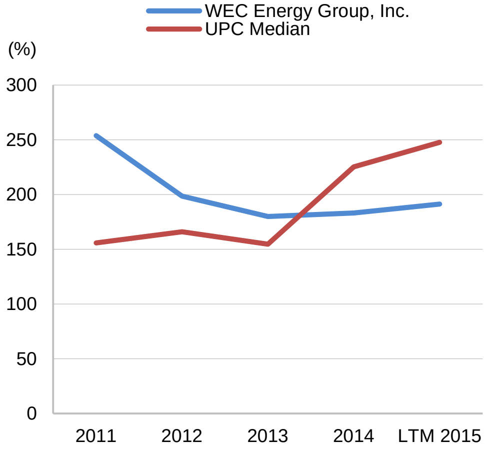
UPC – Utility parent company.
Source: Company data, Fitch.

FFO-Adjusted Leverage



UPC – Utility parent company.
Source: Company data, Fitch.

Capex/Depreciation



UPC – Utility parent company.
Source: Company data, Fitch.

Company Profile

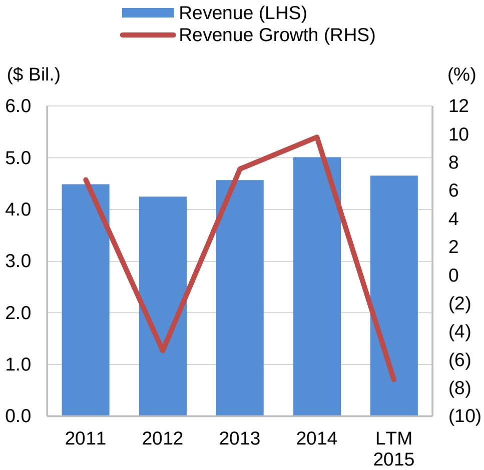
WEC is the utility parent holding company of legacy subsidiaries WEPCO and WI Gas, which serve electric and gas customers in Wisconsin, while WEPCO also provides electric service in parts of Michigan's sparsely populated Upper Peninsula. The two utilities serve about 1.1 million electric and 1.1 million gas customers.

WEC acquired Integrys and subsidiaries in June 2015, and with it, added five regulated utilities that operate in Wisconsin, Illinois, Minnesota and Michigan to its portfolio. WEC also increased its ownership of ATC to 60% from 26% when combining Integrys' existing ownership of the transmission company. On a combined basis, WEC now has 1.6 million electric customers, 2.8 million gas customers and $16.4 billion of rate base, compared with $10.3 billion stand-alone. Wisconsin represents an estimated 70% of the combined company's rate base, with FERC and Illinois contributing about 14% and 13%, respectively.

The acquisition of four gas distribution companies increases the earnings contribution of gas utilities to 23% from the previous 17%. The remaining portion of consolidated earnings consists of 66% electric generation and distribution, and 11% electric transmission via ATC. Integrys also owns modest unregulated businesses in renewables (solar) and Trillium CNG, a leading provider of compressed natural gas (CNG) fueling services. Ownership of the unregulated businesses is not a credit concern for Integrys given Trillium CNG is projected to contribute less than 5% of Integrys' total revenue and no net income over 2015–2016.

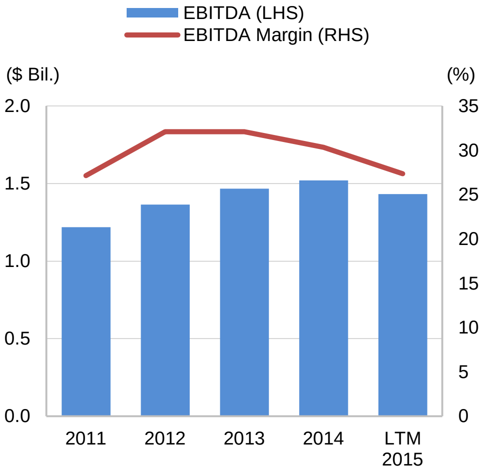
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — WEC Energy Group, Inc.

($ Mil., As of June 30, 2015; IDR: BBB+/Rating Outlook Stable)	2011	2012	2013	2014	LTM 6/30/15
Fundamental Ratios					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	4.6	5.2	5.6	6.2	5.8
FFO Fixed-Charge Coverage (x)	4.8	4.8	6.1	6.0	5.2
Total Adjusted Debt/Operating EBITDAR (x)	4.2	3.7	3.4	3.3	6.6
FFO/Total Adjusted Debt (%)	24.7	25.3	32.0	29.4	13.7
FFO-Adjusted Leverage (x)	4.0	4.0	3.1	3.4	7.3
Common Dividend Payout (%)	46.0	50.5	57.0	59.9	70.0
Internal Cash/Capex (%)	89.8	124.2	129.1	112.8	103.3
Capex/Depreciation (%)	253.6	198.6	179.9	183.1	191.4
ROE (%)	13.5	13.5	13.8	13.6	8.2
Profitability					
Revenues	4,487	4,247	4,567	5,014	4,653
Revenue Growth (%)	6.8	(5.3)	7.5	9.8	(7.4)
Net Revenues	2,588	2,602	2,740	2,755	2,757
Operating and Maintenance Expense	1,256	1,117	1,156	1,112	1,199
Operating EBITDA	1,218	1,364	1,467	1,521	1,433
Operating EBITDAR	1,218	1,364	1,467	1,521	1,433
Depreciation and Amortization Expense	330	364	388	409	418
Operating EBIT	888	1,000	1,079	1,112	1,015
Gross Interest Expense	263	264	261	245	246
Net Income for Common	526	546	577	588	524
Operating Maintenance Expense % of Net Revenues	48.5	42.9	42.2	40.4	43.5
Operating EBIT % of Net Revenues	34.3	38.4	39.4	40.4	36.8
Cash Flow					
Cash Flow from Operations	994	1,174	1,230	1,197	1,193
Change in Working Capital	1	168	(109)	(26)	150
Funds from Operations	993	1,006	1,339	1,223	1,043
Dividends	(242)	(276)	(329)	(352)	(367)
Capex	(837)	(723)	(698)	(749)	(800)
FCF	**(85)**	**175**	**203**	**96**	**26**
Net Other Investment Cash Flow	(97)	(16)	(50)	(22)	(8)
Net Change in Debt	265	(43)	(3)	6	1,526
Net Equity Proceeds	(140)	(104)	(175)	(73)	(53)
Capital Structure					
Short-Term Debt	670	395	537	618	826
Total Long-Term Debt	4,412	4,631	4,470	4,375	8,612
Total Debt with Equity Credit	**5,082**	**5,026**	**5,007**	**4,993**	**9,438**
Total Adjusted Debt with Equity Credit	5,082	5,026	5,007	4,993	9,438
Total Hybrid Equity and Minority Interest	265	265	265	265	626
Total Common Shareholders' Equity	3,963	4,135	4,233	4,420	8,457
Total Capital	**9,310**	**9,426**	**9,505**	**9,678**	**18,521**
Total Debt/Total Capital (%)	54.6	53.3	52.7	51.6	51.0
Total Hybrid Equity and Minority Interest/Total Capital (%)	2.8	2.8	2.8	2.7	3.4
Common Equity/Total Capital (%)	42.6	43.9	44.5	45.7	45.7

IDR – Issuer Default Rating.
Source: Company data, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.