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CREDIT OPINION
1 August 2016

Update

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RATINGS

WEC Energy Group, Inc.

Domicile	United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Analyst Contacts

Natividad Martel, CFA 212-553-4561
VP-Senior Analyst
natividad.martel@moodys.com

Lesley Ritter 212-553-1607
Analyst
lesley.ritter@moodys.com

Michael G. Haggarty 212-553-7172
Associate Managing Director
michael.haggarty@moodys.com

WEC Energy Group, Inc.

Regulated Utility Holding Company

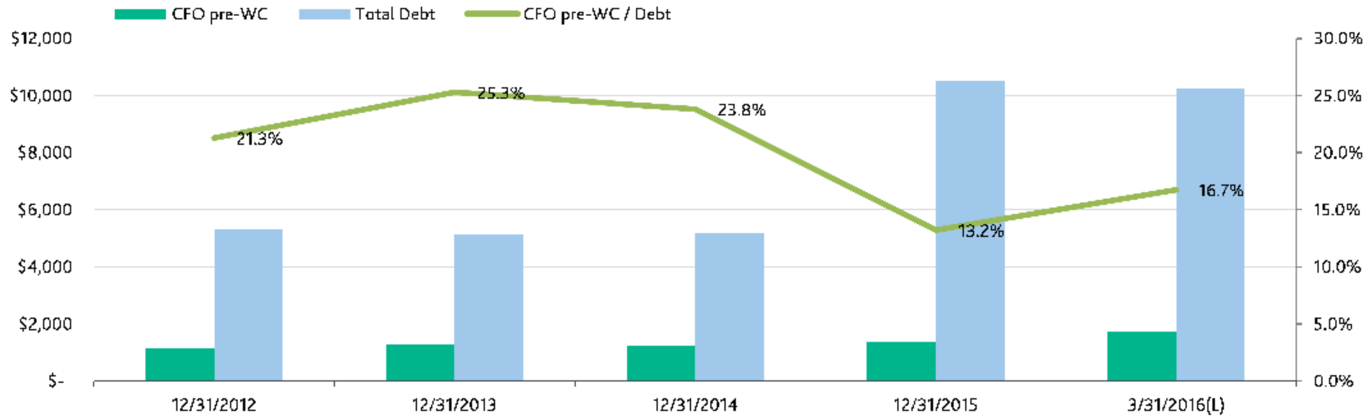
Summary Rating Rationale

The A3 senior unsecured rating of WEC Energy Group (WEC) reflects the group's diversified sources of cash flows from owning directly or indirectly eight regulated utilities following the completion of the acquisition of Integrys Holdings Inc (A3 stable) in June 2015. The rating factors in the group's minimal non-utility activities as well as our view that these utility subsidiaries operate in credit supportive jurisdictions and benefit from constructive relationships with their respective regulatory bodies.

These subsidiaries consist of the vertically integrated utilities Wisconsin Electric Power Company (WEPCO; A1 negative) and Wisconsin Public Service Corporation (WPS; Issuer rating: A1 negative) as well as the natural gas distribution companies (LDC): Wisconsin Gas Company (WG; A1 negative), The Peoples Gas, Light and Coke Company (PGL, A2 stable), North Shore Gas Company (NSG; A2 stable), Minnesota Energy Resources Corporation (MERC; unrated), and Michigan Gas Utilities Corporation (MGU, unrated). The A3 rating further captures some limited additional benefits from the indirect 60% economic interest (34% voting rights) in American Transmission Company (ATC; A1 Issuer Rating stable). The rating also reflects WEC's 83% undivided ownership interests, via Elm Road Generating Station Supercritical, LLC (ERGSS; A1 negative), in Unit 1 and Unit 2 at the Elm Road Generating Station that consist of two 615 MW supercritical pulverized units at the Oak Creek coal electric generating station. These were part of WEC's Power The Future strategy to design, build and finance four units aggregating 2,320 MW. In addition to the Oak Creek Units 1 and 2, the PTF facilities also included two 545MW combined cycle natural gas units located at the Port Washington Generating Station (PWGS Units 1 and 2). All four PTF facilities have been leased to WEPCO.

The rating of WEC also reflects the high level of debt at both the parent company as well as the intermediate holding company, Integrys. It also considers the structural subordination of this indebtedness to the debt at their operating utility subsidiaries. The rating assumes that the group will continue pursuing prudent financial policies including a target dividend payout ratio ranging between 65% and 70%. The rating is tempered by our expectation that consolidated key credit metrics will remain weak for the A rating category largely due to the increased indebtedness from funding the group's material investments along with some delays in the cash recovery of certain costs and investments of the Wisconsin utilities, despite the cash benefits from the continuation of tax savings associated with bonus depreciation and group wide cost saving initiatives.

Exhibit 1
Historical CFO Pre-WC, Total Debt, and CFO Pre-WC to Debt
$ in millions



Source: Moody's Investors Service

Credit Strengths

» Utility subsidiaries operate in credit supportive regulatory environments

» Limited unregulated operations of diverse group of electric and natural gas utilities

Credit Challenges

» High level of holding company debt

» Consolidated credit metrics are weak for the rating but compare well with other A3 rated parent companies of utility subsidiaries in the US

Rating Outlook

The stable outlook reflects our expectation that the regulatory environments under which WEC's utility subsidiaries operate will remain credit supportive and their relationship with the regulators will remain constructive. The stable outlook captures our expectation that consolidated key credit metrics will remain weak for the A rating category but will compare well with other A3 rated parent holding companies of utility subsidiaries in the US. Importantly, the outlook assumes that the outstanding indebtedness at the parent companies will progressively decline as a percentage of the consolidated debt. This is premised on the expectation that the holding company will repay its indebtedness as it becomes due along with the expectation that the group's new indebtedness going forward will largely occur at the utility subsidiary level to finance their capital requirements.

Factors that Could Lead to an Upgrade

Limited prospects exist for a rating upgrade of WEC given the negative outlook at WEPCO, Wisconsin Gas and WPS as well as our expectation that the key credit metrics will remain weak for the A-rating category. Over the longer term, positive momentum could be triggered if its key subsidiaries remain rated A1 as well as if there is an improvement in key credit metrics such that they are better positioned for the rating. Specifically, if its CFO pre-W/C to debt exceeds 25% on a sustainable basis.

Factors that Could Lead to a Downgrade

The ratings could be downgraded if we perceive a deterioration in the credit supportiveness of the regulatory environments under which the utility subsidiaries operate and/or if there is a further increase in the holding company debt. Moreover, a downgrade is likely to be triggered if the group's consolidated key credit metrics fall below the current anticipated levels. Specifically, if its CFO pre-W/C to debt stays below 18% on a sustained basis.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

WEC Energy Group, Inc.

	3/31/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	5.7x	5.2x	6.3x	6.3x	5.3x
CFO pre-WC / Debt	16.7%	13.2%	23.8%	25.3%	21.3%
CFO pre-WC – Dividends / Debt	11.5%	8.8%	16.9%	18.7%	15.9%
Debt / Capitalization	42.5%	43.6%	41.7%	42.3%	45.3%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Investors Service

Detailed Rating Considerations

DIVERSE AND OVERALL SUPPORTIVE REGULATORY JURISDICTIONS

The rating considers that the acquisition of Integrys increased the group's presence in Wisconsin, which as illustrated below accounts for almost 84% of the group's rate base (excluding the ATC) and to a lesser degree in Michigan. Importantly, it also expanded its footprint to Illinois and to Minnesota albeit the operations in the latter are small (almost 2% of their total rate base). The more diversified asset base and sources of cash flow from regulated utilities is a credit positive. WEC's rating also acknowledges some operational diversification benefits resulting from the Wisconsin utilities largely electric services business while the rest of the subsidiaries have natural gas operations.

WEC's rating also acknowledges the utilities' constructive relationship with their States' regulators, particularly in Wisconsin. That said, the rating captures the challenging political environment in Illinois. However, we acknowledge that changes in the management of PGL's interactions with the local stakeholders and in the implementation of the Advanced Main Replacement Program (AMRP) have helped to improve PGL's relationship with the local authorities, a credit positive.

Exhibit 3

Breakdown of WEC's consolidated Rate Base

Breakdown of WEC's consolidated Rate Base

	State	US$ bill	%
WEPCO	Wis/Mi	6.0	35.5%
Power the Future/We Power	Wisconsin	2.8	16.5%
WPSC	Wis/Mi	2.8	16.2%
PGL	Illinois	1.8	10.6%
Wisconsin Gas	Wisconsin	1.1	6.6%
MN Energy Res	Minnesota	0.2	1.4%
NSG	Illinois	0.2	1.2%
Michigan Gas Utilities	Michigan	0.2	1.2%
Subtotal (excluding ATC)		**15.2**	**89.2%**
ATC		1.8	10.8%
Total rate base year-end 2015		**17.0**	**100%**

Source: WEC Energy Group, Inc.

The rating of WEC factors in our view that all its utility subsidiaries operate in overall credit supportive regulatory environments. This view considers that the LDC subsidiaries' cash flows benefit from supportive rate constructs. These include decoupling mechanisms that insulate their cash flows from declining usage as well as the Qualifying Infrastructure Plant (QIP) Rider that allows PGL timely cash recovery of its sizeable investments associated with the AMRP-program. These positives are balanced against below industry average allowed and earned returns on equity at PGL and NSG, and the two year rate freeze imposed last year on these subsidiaries for the approval of the WEC acquisition.

We also consider the credit constructiveness of the regulatory environments in Wisconsin and Michigan where there has been a long track record of consistency as well as predictable regulatory decisions with very limited, if any, instances of political interference. We acknowledge that the Wisconsin subsidiaries benefit from certain credit positive regulatory features used in setting rates that compare well with other US jurisdictions. However, we also believe that cash recovery of costs is subject to fewer automatic mechanisms, reducing the timeliness of recovery compared to other US jurisdictions. We believe that this along with the utilities' and the Wisconsin regulator's use of certain regulatory liabilities to better manage the impact of authorized rate increases on customer bills diminishes the utility's cash flows visibility and contributes to the three utilities recording key credit metrics that are weak for their current A1 rating category.

WEC's rating also considers the terms underlying the lease payments made by WEPCO (recovered in electric retail customers' rates) to We Power in connection with the four PTF's facilities to be credit supportive. These lease payments were sized to provide to We Power capital cost recovery of its investments over the lease terms including a 12.7% after tax RoE and assuming an equity ratio of 53% (PWGS) and 55% (OC units), respectively. Statutory protection from a regulatory reversal is also provided under the 2011 Wisconsin Act 16 - that prevents future regulators from terminating or modifying the terms of the approved lease structures, another credit positive that helps We Power rank as one of WEC's main sources of cash flows.

The rating incorporates limited uplift from the group's exposure to the Federal Energy Regulatory Commission's (FERC) jurisdiction. We believe FERC's rate-making construct is supportive in providing for transparent and stable cost recovery. ATC's rates are set off of a formulaic forward-looking cost of service model that adjusts for changes in network load impacting demand which ensures its ability to earn the allowed ROE and enhances the stability and predictability of its transmission operating cash flow. These positives help to offset the impact of the likely reduction of ATC's RoE following the Administrative Law Judge's recent recommendation of a 9.70% base RoE in connection with the MISO Transmission complaint filed by a group of industrial customers in November 2013.

LIMITED UNREGULATED OPERATIONS

WEC's exposure to unregulated operations remains modest given Integry's proactive disposal of its unregulated operations since the acquisition was announced in 2014. This included its retail electric and natural gas marketing business in November 2014, a credit positive. In our analysis we limit this exposure to the real estate activities consolidated by WEPCO (around $30 million recorded net assets), which we understand does not require any capital contributions or liquidity support. Integrys' legacy unregulated activities largely consists of: (i) a 50% interest in Wisconsin River Power Company which sells the output of its two hydroelectric plants as well as an oil-fired combustion turbine to WPS and Wisconsin Power & Light Company and (ii) WPS Power Development LLC's (PDL; income before taxes year-end 2015: $1 million) natural gas-fired cogeneration facility in Wisconsin and portfolio of distributed renewable projects that has been reduced following the sale of 48 solar projects last year. We understand that these are largely self-sufficient. At the end of March 2016, WEC disclosed that the group's guarantees provided to support PDL's operations aggregated $30 million (excluding $6.6 million third party reciprocal guarantees) which we consider modest.

MATERIAL CAPITAL EXPENDITURES

In contrast to Moody's previous expectations, we do not anticipate that WEC will be able to record positive free cash flow over the medium term because the group's investments will remain elevated during the 2016-2020 period when compared to the $7.6 billion invested between 2012-2015 (including Integrys' pre-acquisition capital outlays).

WEC's management plans to update the group's planned capex later this year. The latest publicly available 2016-2020 budget as of July 2016 has plans to invest $8.2 billion. We note that a material portion (around 56%) has been earmarked for the group's natural gas operations: (i) approximately $2 billion in Wisconsin (around 24% of WEC's total budget), (ii) $2.2 billion (27%) in Illinois which includes PGL's material capital outlay and $369 million (4.5%) in the Michigan and Minnesota subsidiaries. WEC also plans to invest approximately $6 billion (almost 70% of the total) in Wisconsin between 2016-2020. WEC does not provide details of the breakdown of the allocation between the three utilities other than that around $2.2 billion will be invested in the upgrade the electric distribution systems and $1.5 billion in the generation fleet. WEC's assumes limited risk of disallowances given that the investments are largely pre-approved. It also assumes an overall timely recovery albeit subject to biennial general rate cases in Wisconsin but aided in the case of PGL by the QIP-Rider mentioned earlier.

HIGH PARENT COMPANY DEBT EXPECTED TO DECLINE OVER TIME

The rating of WEC considers the structurally subordinated position of its parent level debt vis-a-vis the debt outstanding at its utility subsidiaries, as well as its reliance on those subsidiaries' dividends to service its debt. We anticipate that the Wisconsin subsidiaries, subject to their respective regulatory limits (regulatory approval is required if the utilities' average equity levels dropped below a certain total capitalization) and including We Power, will remain WEC's main source of cash flow. In the case of WPS, the distributions flow through its intermediate holding company, Integrys.

Exhibit 4

Development of Parent Companies' Long Term Debt (including Integrys' debt) vs Consolidated Debt after the acquisition of Integrys

WEC Indebtedness pre-hybrid debt adjustments	2013	2014	2015	1Q2016
Total consolidated WEC's LTD	**4,705**	**4,595**	**9,282**	**9,108**
WEC's sr Notes (incl WECC (*))	250	250	1,450	1,450
WEC's jr Notes	500	500	500	500
WEC - Subtotal	***750***	***750***	***1,950***	***1,950***
% of WEC's ONLY holdco debt vs consolidated LTD	**15.9%**	**16.3%**	**21.0%**	**21.4%**
Integrys' sr Notes	-	-	300	250
Integrys' jr Notes	-	-	670	515
Total LTD outstanding at holding companies	***750***	***750***	***2,920***	***2,715***
% of both holdco debt vs consolidated LTD	**n.a.**	**n.a.**	**31.5%**	**29.8%**

After hybrid debt adjustment (25% equity treatment)	2013	2014	2015	1Q2016
WEC's consolidated LTD	4,580	4,470	8,989	8,854
WEC's holdco only LTD	625	625	1,825	1,825
% of WEC's ONLY holdco debt vs consolidated LTD	**13.6%**	**14.0%**	**20.3%**	**20.6%**
Total both holdco's LTD after Integrys' acquisition	-	-	**2,627**	**2,461**
% both holdco outstanding debt vs consolidated LTD	**n.a.**	**n.a.**	**29.2%**	**27.8%**

* *WEC agreed in a Support Agreement with WECC to make sufficient contributions to WECC to permit this subsidiary to service its debt obligations as they become due* (currently only $50 million Notes due in 2028).
Source: WEC Energy Group, Inc.

WEC discloses that in 2015 it received $240 million of dividends from WEPCO (2014: $390 million), $262.8 million from We Power (2014: $297 million), $30 million from Wisconsin Gas (2014: $33 million) and $6 million from ATC Holding LLC (unrated). In 2015, Integrys received dividends of $259 million of which WPS' cash distributions were $115 million and the balance largely came from non-regulated subsidiaries and ATC via WPS Investments, LLC (unrated; in 2015: $63.7 million). We anticipate that PGL's ability (dividends in 2015: $0) to make material dividend distributions will remain limited going forward due to its significant investment program. We also expect ATC's upstreams dividends to WEC (through WEPCO as well as ATC Holding LLC) and to Integrys (through WPS Investments LLC) to remain comparable to the historical levels.

The table below illustrates the materiality of the holding company long-term debt relative to the long-term debt outstanding at the subsidiaries. We calculate that at year-end 2015, holding company debt represented around 31.5% (when combining WEC and Integrys' debt) or 29% after considering Moody's 25% equity treatment for leverage calculation purposes to the three series of junior Notes (two of them at Integrys). The ratio has declined slightly following some reduction in Integry's holding company debt earlier this year but it remains high.

Importantly, WEC's A3 rating and stable outlook assumes that this outstanding debt at the holding companies will further decline as a percentage of the consolidated debt to around 25% over the next 18 months. We expect this will result from a combination of repayments of outstanding holding company debt as it becomes due along with the expectation that the group's new debt going forward will largely occur at the utility subsidiary level to finance their capital requirements.

WEAK CONSOLIDATED CREDIT METRICS BUT COMPARABLE TO OTHER A-RATED UTILITY HOLDING COMPANIES

WEC's consolidated key credit metrics at year-end 2015 depicted in the table above reflect only A half year of Integrys' operations. However, even after considering a full year of operations the CFO pre-W/C to debt and Retained Cash Flow (RCF) to debt would hover around 20% and 15%, respectively, which are weak for an A rating category according to the guidelines provided for standard business risk under our Regulated Electric and Gas Utilities rating methodology.

The deterioration in the consolidated key credit metrics last year largely resulted from the hike in consolidated indebtedness driven by $1.5 billion of acquisition debt (including three series of long-term notes: $1.2 billion and borrowings under the commercial paper program) as well as the debt to finance the group's investments along with the debt adjustments related to pension obligations, particularly for Integrys' obligations.

Going forward, consolidated key credit metrics will largely depend on successful implementation of group-wide cost saving initiatives as well as the impact on the Wisconsin utility subsidiaries' CFO pre-W/C, particularly as WEPCO and Wisconsin Gas are staying out of the current general rate case cycle. That said, the group anticipates to further benefit from tax savings associated with bonus depreciation which it estimates could aggregate $1 billion in the 2016-2020 period. Also the repayment of the acquisition debt, for example the $300 million Notes due in 2018, should help WEC further record key credit metrics that compare well with other A3 rated parent companies of fully regulated utilities in the US.

Liquidity Analysis

WEC's short term Prime-2 rating reflects an adequate liquidity profile. Pending release of the financial statements as of June 30, 2016, the group's borrowings under the commercial paper program aggregated $927.8 billion (March 2016: $896.4 billion; year-end 2015: $1.1 billion).

We calculate that as of March 31, 2016, WEC's CP balance still hovered around $310 million while the subsidiaries had borrowed the remainder under their respective CP programs (WEPCO: $209 million; Wisconsin Gas: $272 million; WPS: $100 million and PGL: $123 million).

In December 2015, WEC, WEPCO and Wisconsin Gas amended their separate bank credit facilities backing-up their CP programs, extending their expiration to December 2020 while also increasing the size of WEC's facility to $1,050 billion. This includes two lines (i) for L/Cs up to $100 million (none outstanding at the end of March) and (ii) a $400 million credit line for Integrys. WPS and PGL terminated their respective bank credit facilities at the end of last year, replacing them with two new bank credit facilities. Borrowings under these facilities are not subject to conditionality. The only financial covenant is a debt to capitalization ratio of 70% at WEC and 65% at the subsidiaries. We expect that WEC and its subsidiaries will continue to comfortably comply with this covenant.

WEC's next debt maturity is $300 million of notes due in 2018 (mentioned earlier) followed by $400 million due in 2020. The subsidiaries' next debt maturities are WPS' $125 million of notes due in 2017.

As mentioned earlier, we do not believe that WEC will be able to record positive free cash flow over the medium term. For the balance of 2016 and going forward, we expect that the group will continue funding capital requirements including dividends (2015: $455 million; considering only half-year of Integrys) and capex (2016: $1.6 billion) with internally generated cash flows (both groups full year in 2015: $1.9 billion) and long-term debt issuances. We also expect that WEC will continue to use borrowings under its CP program to bridge any funding requirements until those borrowings are replaced with long-term issuances. The group has disclosed that it plans to make a modest $23.8 million contribution to the group's pension plan this year.

Other Considerations

Moody's evaluates WEC's financial performance relative to the Regulated Electric and Gas Utilities rating methodology published in December 2013. As depicted in the grid below, the company's indicated rating under this methodology based on historical as well as projected average key credit metrics is A3 and Baa1, the same and one notch below its currently assigned rating of A3.

Rating Methodology and Scorecard Factors

Exhibit 5

Rating Factors				
WEC Energy Group, Inc.				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 3/31/2016		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6x	A	5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	21%	Baa	19% - 22%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	15%	Baa	13% - 17%	Baa
d) Debt / Capitalization (3 Year Avg)	42%	A	40% - 45%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching	-1	-1	-1	-1
a) Indicated Rating from Grid		A3		Baa1
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2016(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Profile

Headquartered in Milwaukee, Wisconsin Energy Group (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. It holds directly or indirectly via the holding company Integrys Holding, Inc (A3 stable) ownership-stakes in several subsidiaries. These include Wisconsin Electric Power Company (WEPCO; A1 negative), Wisconsin Public Service Corporation (WPS, A1 negative), Wisconsin Gas LLC (Wisconsin Gas; A1 negative), Peoples Gas, Light and Coke Company (PGL, A2 stable), North Shore Gas Company (, A2 stable), Minnesota Energy Resources Corporation (unrated), and Michigan Gas Utilities Corporation (unrated). As explained earlier Elm Road Generating Station Supercritical, LLC (ERGSS; A1 negative) is another subsidiary of WEC.

Ratings

Exhibit 6

Category	Moody's Rating
WEC ENERGY GROUP, INC.	
Outlook	Stable
Issuer Rating	A3
Senior Unsecured	A3
Jr Subordinate	Baa1
INTEGRYS HOLDING, INC.	
Outlook	Stable
Issuer Rating	A3
Commercial Paper	P-2
WISCONSIN ELECTRIC POWER COMPANY	
Outlook	Negative
Issuer Rating	A1
Senior Unsecured	A1
Pref. Stock	A3
Commercial Paper	P-1
WISCONSIN PUBLIC SERVICE CORPORATION	
Outlook	Negative
Issuer Rating	A1
First Mortgage Bonds	A1
Senior Secured	A1
Senior Unsecured	A1
Pref. Shelf	(P)A3
Commercial Paper	P-1
ELM ROAD GENERATING STATION SUPERCRITICAL	
Outlook	Negative
Senior Unsecured	A1
INTEGRYS ENERGY GROUP, INC.	
Outlook	No Outlook
Senior Unsecured	A3
Jr Subordinate	Baa1
WISCONSIN GAS LLC	
Outlook	Negative
Senior Unsecured	A1
Commercial Paper	P-1
WISCONSIN ENERGY CAPITAL CORPORATION	
Outlook	Stable
Bkd Senior Unsecured	A3
PEOPLES GAS LIGHT AND COKE COMPANY	
Outlook	Stable
Issuer Rating	A2
First Mortgage Bonds	Aa3
Senior Secured MTN	(P)Aa3
Commercial Paper	P-1
NORTH SHORE GAS COMPANY	
Outlook	Stable
Issuer Rating	A2
Senior Secured MTN	(P)Aa3

Source: Moody's Investors Service

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