

WISCONSIN ENERGY CORP  
Form 10-Q  
August 01, 2014

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 June 30, 2014

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 (June 30, 2014):

Common Stock, \$.01 Par Value,

225,518,628 shares outstanding.

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WISCONSIN ENERGY CORPORATION

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FORM 10-Q REPORT FOR THE QUARTER ENDED JUNE 30, 2014

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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

OC 1	Oak Creek expansion Unit 1
OC 2	Oak Creek expansion Unit 2
PIPP	Presque Isle Power Plant
PSGS	Paris Generating Station
PWGS 1	Port Washington Generating Station Unit 1
PWGS 2	Port Washington Generating Station Unit 2
VAPP	Valley Power Plant

Other Subsidiaries and Affiliates

ATC	American Transmission Company LLC
ERGSS	Elm Road Generating Station Supercritical, LLC
WECC	Wisconsin Energy Capital Corporation

Federal and State Regulatory Agencies

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

Environmental Terms

BART	Best Available Retrofit Technology
BTA	Best Technology Available
CAIR	Clean Air Interstate Rule
CSAPR	Cross-State Air Pollution Rule
EM	Entrainment Mortality
GHG	Greenhouse Gas
IM	Impingement Mortality
MATS	Mercury and Air Toxics Standards
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO <sub>x</sub>	Nitrogen Oxide
PSD	Prevention of Significant Deterioration
SIP	State Implementation Plan
SO <sub>2</sub>	Sulfur Dioxide

Other Terms and Abbreviations

ARRs

Auction Revenue Rights

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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:

Bechtel	Bechtel Power Corporation
Compensation Committee	Compensation Committee of the Board of Directors
Exchange Act	Securities Exchange Act of 1934, as amended
FTRs	Financial Transmission Rights
GCRM	Gas Cost Recovery Mechanism
HSR	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
LMP	Locational Marginal Price
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 Market
Moody's	Moody's Investors Service
OTC	Over-the-Counter
PTF	Power the Future
S&P	Standard and Poor's Ratings Services
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
GAAP	Generally Accepted Accounting Principles
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 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, 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" 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 or terrorism-related damage; cyber security threats and disruptions to our technology network; 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, and our ability to design and implement an appropriate rate structure to mitigate these impacts.

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

• Our ability to continue to mitigate the impact of Michigan customers switching to an alternative electric supplier.

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

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



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

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 may become, or are, subject; changes in allocation of energy assistance, including state public benefits funds; changes in the application or enforcement 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.

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 shareholder, 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.

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, 2013 as updated in Item 1A. Risk Factors in Part II of this report.

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 new 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 2013 Annual Report on Form 10-K for more information on PTF.

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 (GAAP) pursuant to these rules and regulations. This Form 10-Q, including the financial statements contained herein, should be read in conjunction with our 2013 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 June 30		Six Months Ended June 30	
	2014	2013	2014	2013
	(Millions of Dollars, Except Per Share Amounts)			
Operating Revenues	\$1,043.7	\$1,012.3	\$2,738.7	\$2,287.5
Operating Expenses				
Fuel and purchased power	292.5	276.1	611.1	547.1
Cost of gas sold	125.9	115.2	717.4	385.3
Other operation and maintenance	256.0	265.4	531.4	553.5
Depreciation and amortization	101.4	96.7	202.0	192.2
Property and revenue taxes	30.3	29.4	60.9	58.9
Total Operating Expenses	806.1	782.8	2,122.8	1,737.0
Treasury Grant	3.1	—	6.6	—
Operating Income	240.7	229.5	622.5	550.5
Equity in Earnings of Transmission Affiliate	17.5	17.3	34.8	33.9
Other Income, net	8.1	5.8	9.2	10.2
Interest Expense, net	59.0	63.3	121.3	128.3
Income Before Income Taxes	207.3	189.3	545.2	466.3
Income Tax Expense	74.3	70.3	204.6	170.7
Net Income	\$133.0	\$119.0	\$340.6	\$295.6
Earnings Per Share				
Basic	\$0.59	\$0.52	\$1.51	\$1.29
Diluted	\$0.58	\$0.52	\$1.50	\$1.28
Weighted Average Common Shares Outstanding (Millions)				
Basic	225.5	228.4	225.6	228.6
Diluted	227.6	230.5	227.7	230.8
Dividends Per Share of Common Stock	\$0.39	\$0.34	\$0.78	\$0.68

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)

	June 30, 2014 (Millions of Dollars)	December 31, 2013
Assets		
Property, Plant and Equipment		
In service	\$ 15,179.5	\$ 14,966.3
Accumulated depreciation	(4,384.4	) (4,257.1
	10,795.1	10,709.2
Construction work in progress	183.9	149.6
Leased facilities, net	45.0	47.8
Net Property, Plant and Equipment	11,024.0	10,906.6
Investments		
Equity investment in transmission affiliate	416.8	402.7
Other	35.3	36.1
Total Investments	452.1	438.8
Current Assets		
Cash and cash equivalents	33.4	26.0
Accounts receivable, net	404.9	406.0
Accrued revenues	174.8	321.1
Materials, supplies and inventories	304.3	329.4
Current deferred tax asset, net	199.3	310.0
Prepayments and other	168.8	158.6
Total Current Assets	1,285.5	1,551.1
Deferred Charges and Other Assets		
Regulatory assets	1,094.9	1,108.5
Goodwill	441.9	441.9
Other	321.4	322.5
Total Deferred Charges and Other Assets	1,858.2	1,872.9
Total Assets	\$ 14,619.8	\$ 14,769.4
Capitalization and Liabilities		
Capitalization		
Common equity	\$ 4,367.1	\$ 4,233.0
Preferred stock of subsidiary	30.4	30.4
Long-term debt	4,587.5	4,363.2
Total Capitalization	8,985.0	8,626.6
Current Liabilities		
Long-term debt due currently	45.1	342.2
Short-term debt	410.1	537.4
Accounts payable	288.5	342.6
Accrued payroll and benefits	70.4	96.9
Other	166.7	177.3
Total Current Liabilities	980.8	1,496.4
Deferred Credits and Other Liabilities		
Regulatory liabilities	854.9	879.1
Deferred income taxes - long-term	2,714.6	2,634.0

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Deferred revenue, net	639.7	664.2
Pension and other benefit obligations	169.3	173.2
Other	275.5	295.9
Total Deferred Credits and Other Liabilities	4,654.0	4,646.4
Total Capitalization and Liabilities	\$14,619.8	\$14,769.4

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)

	Six Months Ended June 30	
	2014	2013
	(Millions of Dollars)	
Operating Activities		
Net income	\$340.6	\$295.6
Reconciliation to cash		
Depreciation and amortization	206.5	197.7
Deferred income taxes and investment tax credits, net	188.0	143.1
Change in - Accounts receivable and accrued revenues	132.0	49.3
Inventories	25.1	42.8
Other current assets	11.8	13.8
Accounts payable	(52.6)	) (86.6)
Accrued income taxes, net	(10.6)	) 16.2
Other current liabilities	(21.6)	) (2.9)
Other, net	(97.9)	) 12.5
Cash Provided by Operating Activities	721.3	681.5
Investing Activities		
Capital expenditures	(305.5)	) (307.3)
Investment in transmission affiliate	(7.9)	) (5.2)
Other, net	0.5	) (24.1)
Cash Used in Investing Activities	(312.9)	) (336.6)
Financing Activities		
Exercise of stock options	17.6	40.7
Purchase of common stock	(57.3)	) (135.7)
Dividends paid on common stock	(176.0)	) (155.6)
Issuance of long-term debt	250.0	250.0
Retirement of long-term debt	(311.1)	) (310.5)
Change in short-term debt	(127.3)	) (58.7)
Other, net	3.1	10.3
Cash Used in Financing Activities	(401.0)	) (359.5)
Change in Cash and Cash Equivalents	7.4	) (14.6)
Cash and Cash Equivalents at Beginning of Period	26.0	35.6
Cash and Cash Equivalents at End of Period	\$33.4	\$21.0

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 2013 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 and six months ended June 30, 2014 are not necessarily indicative of the results which may be expected for the entire fiscal year 2014 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 (ASU) 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 -- 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 (Acquisition). Integrys' shareholders will receive 1.128 shares of Wisconsin Energy common stock and \$18.58 in cash per Integrys share of common stock, with the total consideration valued at approximately \$5.8 billion, based upon the value of our common stock as of June 30, 2014. 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 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 and Minnesota Public Utilities Commission. The cash consideration will be financed through the issuance of approximately \$1.5 billion of debt at the holding company level. We anticipate the transaction closing in the second half of 2015.

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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):

	2014	2013	
Non-qualified stock options granted year to date	899,500	1,418,560	
Estimated fair value per non-qualified stock option	\$4.18	\$3.45	
Assumptions used to value the options using a binomial option pricing model:			
Risk-free interest rate	0.1% - 3.0%	0.1% - 1.9%	
Dividend yield	3.8	% 3.7	%
Expected volatility	18.0	% 18.0	%
Expected forfeiture rate	2.0	% 2.0	%
Expected life (years)	5.8	5.9	

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 and six months ended June 30, 2014:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (Millions)
Stock Options				
Outstanding as of April 1, 2014	8,276,994	\$28.82		
Granted	—	\$—		
Exercised	(96,791	) \$24.07		
Forfeited	(10,810	) \$37.94		
Outstanding as of June 30, 2014	8,169,393	\$28.87		
Outstanding as of January 1, 2014	8,089,710	\$26.84		
Granted	899,500	\$41.03		
Exercised	(802,622	) \$21.89		
Forfeited	(17,195	) \$36.73		
Outstanding as of June 30, 2014	8,169,393	\$28.87	5.6	\$147.5
Exercisable as of June 30, 2014	5,253,148	\$23.82	3.9	\$121.3

The intrinsic value of options exercised was \$2.2 million and \$17.5 million for the three and six months ended June 30, 2014, and \$11.6 million and \$36.0 million for the same periods in 2013, respectively. Cash received from options exercised was \$17.6 million and \$40.7 million for the six months ended June 30, 2014 and 2013, respectively. The actual tax benefit realized for the tax deductions from option exercises for the same periods was \$7.0 million and \$14.4 million, respectively.

All outstanding stock options to purchase shares of common stock were included in the computation of diluted earnings per share during the second quarter of 2014.

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The following table summarizes information about stock options outstanding as of June 30, 2014:

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)
\$17.10 to \$21.11	1,682,973	\$20.67	3.8	1,682,973	\$20.67	3.8
\$23.88 to \$29.35	3,356,060	\$24.66	3.7	3,356,060	\$24.66	3.7
\$34.88 to \$41.03	3,130,360	\$37.78	8.5	214,115	\$35.50	7.7
	8,169,393	\$28.87	5.6	5,253,148	\$23.82	3.9

The following table summarizes information about our non-vested options during the three and six months ended June 30, 2014:

	Number of Options	Weighted-Average Fair Value
Non-Vested Stock Options		
Non-vested as of April 1, 2014	2,939,015	\$3.65
Granted	—	\$—
Vested	(11,960)	) \$3.65
Forfeited	(10,810)	) \$3.65
Non-vested as of June 30, 2014	2,916,245	\$3.65
Non-vested as of January 1, 2014	2,380,790	\$3.38
Granted	899,500	\$4.18
Vested	(346,850)	) \$3.22
Forfeited	(17,195)	) \$3.56
Non-vested as of June 30, 2014	2,916,245	\$3.65

As of June 30, 2014, total compensation costs related to non-vested stock options not yet recognized was approximately \$3.9 million, which is expected to be recognized over the next 19 months on a weighted-average basis.

Restricted Shares: The following restricted stock activity occurred during the three and six months ended June 30, 2014:

	Number of Shares	Weighted-Average Grant Date Fair Value
Restricted Shares		
Outstanding as of April 1, 2014	157,595	
Granted	—	\$—
Released	—	\$—
Forfeited	(827)	) \$38.83
Outstanding as of June 30, 2014	156,768	
Outstanding as of January 1, 2014	150,698	
Granted	71,504	\$40.96
Released	(63,509)	) \$33.02
Forfeited	(1,925)	) \$38.38
Outstanding as of June 30, 2014	156,768	

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 zero and

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\$2.7 million for the three and six months ended June 30, 2014, and \$0.8 million and \$4.0 million for the same periods in 2013, respectively. The actual tax benefit realized for the tax deductions from released restricted shares was zero and \$1.0 million for the three and six months ended June 30, 2014, and \$0.2 million and \$1.3 million for the same periods in 2013, respectively.

As of June 30, 2014, total compensation cost related to restricted stock not yet recognized was approximately \$4.1 million, which is expected to be recognized over the next 24 months on a weighted-average basis.

**Performance Units:** In January 2014 and 2013, the Compensation Committee granted 233,735 and 239,120 performance units, respectively, to officers and other key employees under the Wisconsin Energy Performance Unit Plan. Performance units earned as of December 31, 2013 and 2012 vested and were settled during the first quarter of 2014 and 2013, and had a total intrinsic value of \$14.8 million and \$19.3 million, respectively. The actual tax benefit realized for the tax deductions from the settlement of performance units was approximately \$5.3 million and \$7.0 million, respectively. As of June 30, 2014, total compensation cost related to performance units not yet recognized was approximately \$12.8 million, which is expected to be recognized over the next 25 months on a weighted-average basis.

**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 2013 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 Acquisition, the Board of Directors terminated this share repurchase program. The previous share repurchase program authorized by our Board of Directors expired at the end of 2013. For the six months ended June 30, 2014, we repurchased \$18.6 million of our common stock pursuant to the recently terminated program at an average cost of \$43.66 per share. All of these shares were purchased during the first quarter of 2014. 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:

	Six Months Ended June 30			
	2014		2013	
	Shares	Cost	Shares	Cost
	(In Millions)			
Under share repurchase programs	0.4	\$18.6	1.3	\$54.7
To fulfill exercised stock options and restricted stock awards	0.9	38.7	2.0	81.0
Total	1.3	\$57.3	3.3	\$135.7

## 5 -- LONG-TERM DEBT

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In May 2014, Wisconsin Electric issued \$250 million of 4.25% Debentures due June 1, 2044. The debentures were issued under an existing shelf registration statement filed with the SEC in November 2013. The net proceeds were used to repay short-term debt and for general corporate purposes.

On April 1, 2014, Wisconsin Electric used short-term borrowings to retire \$300 million of long-term debt that matured.

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In June 2013, Wisconsin Electric issued \$250 million of 1.70% Debentures due June 15, 2018. The debentures were issued under an existing shelf registration statement filed with the SEC in February 2011. The net proceeds were used to repay short-term debt and for other corporate purposes.

On May 15, 2013, Wisconsin Electric used short-term borrowings to retire \$300 million of long-term debt that matured.

## 6 -- 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.

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 June 30, 2014			Total
	Level 1	Level 2	Level 3	



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(Millions of Dollars)

Assets:				
Derivatives	\$2.2	\$6.6	\$14.1	\$22.9
Total	\$2.2	\$6.6	\$14.1	\$22.9
Liabilities:				
Derivatives	\$—	\$0.2	\$—	\$0.2
Total	\$—	\$0.2	\$—	\$0.2

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Recurring Fair Value Measures	As of December 31, 2013			
	Level 1 (Millions of Dollars)	Level 2	Level 3	Total
Assets:				
Derivatives	\$5.7	\$2.6	\$3.5	\$11.8
Total	\$5.7	\$2.6	\$3.5	\$11.8
Liabilities:				
Derivatives	\$—	\$0.3	\$—	\$0.3
Total	\$—	\$0.3	\$—	\$0.3

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.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
	(Millions of Dollars)			
Beginning Balance	\$1.7	\$1.6	\$3.5	\$4.7
Realized and unrealized gains (losses)	—	—	—	—
Purchases	15.6	10.6	15.6	10.6
Issuances	—	—	—	—
Settlements	(3.2	) (3.0	) (5.0	) (6.1
Transfers in and/or out of Level 3	—	—	—	—
Balance as of June 30	\$14.1	\$9.2	\$14.1	\$9.2
Change in unrealized gains (losses) relating to instruments still held as of June 30	\$—	\$—	\$—	\$—

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 7 -- Derivative Instruments, for further information on the offset to regulatory assets and liabilities.



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

Financial Instruments	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions of Dollars)			
Preferred stock, no redemption required	\$30.4	\$25.8	\$30.4	\$26.0
Long-term debt, including current portion	\$4,565.6	\$4,995.4	\$4,626.7	\$4,911.8

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.

## 7 -- 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 June 30, 2014, we recognized \$1.3 million in regulatory assets and \$21.5 million in regulatory liabilities related to derivatives in comparison to \$0.3 million in regulatory assets and \$9.6 million in regulatory liabilities as of December 31, 2013.

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. As of June 30, 2014, none of our derivative assets or derivative liabilities were considered long-term. Our Consolidated Condensed Balance Sheets as of June 30, 2014 and December 31, 2013 include:

	June 30, 2014		December 31, 2013	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
	(Millions of Dollars)			
Natural Gas	\$7.4	\$—	\$5.6	\$0.1
Fuel Oil	0.2	—	0.6	—
FTRs	14.1	—	3.5	—
Coal	1.2	0.2	2.1	0.2
Total	\$22.9	\$0.2	\$11.8	\$0.3



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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 June 30, 2014		Three Months Ended June 30, 2013	
	Volume	Gains (Losses) (Millions of Dollars)	Volume	Gains (Losses) (Millions of Dollars)
Natural Gas	9.9 million Dth	\$2.5	11.3 million Dth	\$1.9
Fuel Oil	2.4 million gallons	0.4	2.2 million gallons	0.1
FTRs	7.4 million MWh	2.6	6.5 million MWh	4.7
Total		\$5.5		\$6.7
	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
	Volume	Gains (Losses) (Millions of Dollars)	Volume	Gains (Losses) (Millions of Dollars)
Natural Gas	24.8 million Dth	\$10.1	30.1 million Dth	\$(4.6)
Fuel Oil	4.4 million gallons	0.6	3.7 million gallons	0.2
FTRs	13.1 million MWh	9.6	12.3 million MWh	5.6
Total		\$20.3		\$1.2

As of June 30, 2014 and December 31, 2013, we posted collateral of \$0.2 million and zero, 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 June 30, 2014 and December 31, 2013.

	June 30, 2014		December 31, 2013	
	Derivative Asset (Millions of Dollars)	Derivative Liability	Derivative Asset	Derivative Liability
Gross Amount Recognized on the Balance Sheet	\$22.9	\$0.2	\$11.8	\$0.3
Gross Amount Not Offset on Balance Sheet (a)	—	—	—	—
Net Amount	\$22.9	\$0.2	\$11.8	\$0.3

(a) Gross Amount Not Offset on Balance Sheet includes no cash collateral posted as of June 30, 2014 and December 31, 2013.

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## 8 -- BENEFITS

The components of our net periodic pension and Other Post-Retirement Employee Benefits (OPEB) costs for the three and six months ended June 30 were as follows:

Benefit Plan Cost Components	Pension Costs		Six Months Ended June 30	
	Three Months Ended June 30 2014	2013	2014	2013
	(Millions of Dollars)			
Net Periodic Benefit Cost				
Service cost	\$2.3	\$3.1	\$5.0	\$7.3
Interest cost	17.0	15.1	34.1	30.2
Expected return on plan assets	(24.6	) (23.9	) (49.3	) (47.9
Amortization of:				
Prior service cost	0.5	0.6	1.0	1.2
Actuarial loss	9.3	13.6	18.4	27.2
Net Periodic Benefit Cost	\$4.5	\$8.5	\$9.2	\$18.0
	OPEB Costs		Six Months Ended June 30	
	Three Months Ended June 30		2014	2013
Benefit Plan Cost Components	2014	2013	2014	2013
	(Millions of Dollars)			
Net Periodic Benefit Cost				
Service cost	\$2.1	\$2.3	\$4.3	\$5.0
Interest cost	4.4	3.9	8.9	7.8
Expected return on plan assets	(6.0	) (5.3	) (11.9	) (10.6
Amortization of:				
Transition obligation	—	—	—	—
Prior service (credit)	(0.4	) (0.5	) (0.9	) (1.0
Actuarial loss	0.4	0.9	0.6	1.8
Net Periodic Benefit Cost	\$0.5	\$1.3	\$1.0	\$3.0

We made no contributions to our qualified benefit plans during the first six months of 2014 and 2013. Future contributions to the plans will be dependent upon many factors, including the performance of existing plan assets and long-term discount rates.

Postemployment Benefits: Postemployment benefits provided to former or inactive employees are recognized when an event occurs. The estimated liability for such benefits was \$4.2 million as of both June 30, 2014 and December 31, 2013.

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## 9 -- SEGMENT INFORMATION

Summarized financial information concerning our reportable segments for the three and six months ended June 30, 2014 and 2013 is shown in the following table:

Three Months Ended	Reportable Segments		Corporate & Other (a)	Eliminations		Total Consolidated
	Energy Utility	Non-Utility		& Reconciling Items		
(Millions of Dollars)						
June 30, 2014						
Operating Revenues (b)	\$1,029.8	\$113.4	\$0.3	\$(99.8	)	\$1,043.7
Other Operation and Maintenance	\$343.6	\$5.0	\$6.1	\$(98.7	)	\$256.0
Depreciation and Amortization	\$84.3	\$16.7	\$0.4	\$—		\$101.4
Operating Income (Loss)	\$155.2	\$91.7	\$(6.2	)	\$—	\$240.7
Equity in Earnings of Unconsolidated Affiliates	\$17.5	\$—	\$—	\$—		\$17.5
Interest Expense, Net	\$30.7	\$16.2	\$12.2	\$(0.1	)	\$59.0
Income Tax Expense (Benefit)	\$51.4	\$30.2	\$(7.3	)	\$—	\$74.3
Net Income (Loss)	\$96.3	\$45.4	\$132.9	\$(141.6	)	\$133.0
Capital Expenditures	\$172.6	\$4.6	\$(0.9	)	\$—	\$176.3
June 30, 2013						
Operating Revenues (b)	\$998.0	\$113.3	\$0.3	\$(99.3	)	\$1,012.3
Other Operation and Maintenance	\$357.6	\$4.9	\$1.2	\$(98.3	)	\$265.4
Depreciation and Amortization	\$79.7	\$16.8	\$0.2	\$—		\$96.7
Operating Income (Loss)	\$138.9	\$91.6	\$(1.0	)	\$—	\$229.5
Equity in Earnings of Unconsolidated Affiliates	\$17.3	\$—	\$(0.1	)	\$—	\$17.2
Interest Expense, Net	\$34.2	\$16.5	\$12.6	\$—		\$63.3
Income Tax Expense (Benefit)	\$46.4	\$30.1	\$(6.2	)	\$—	\$70.3
Net Income (Loss)	\$80.6	\$45.2	\$118.9	\$(125.7	)	\$119.0
Capital Expenditures	\$167.2	\$5.0	\$1.5	\$—		\$173.7

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Six Months Ended	Reportable Segments		Corporate & Other (a)	Eliminations & Reconciling Items	Total Consolidated
	Energy Utility	Non-Utility			
(Millions of Dollars)					
June 30, 2014					
Operating Revenues (b)	\$2,711.9	\$221.7	\$0.6	\$(195.5)	) \$2,738.7
Other Operation and Maintenance	\$711.2	\$6.2	\$7.3	\$(193.3)	) \$531.4
Depreciation and Amortization	\$167.9	\$33.6	\$0.5	\$—	\$202.0
Operating Income (Loss)	\$447.9	\$181.9	\$(7.3)	) \$—	\$622.5
Equity in Earnings of Unconsolidated Affiliates	\$34.8	\$—	\$—	\$—	\$34.8
Interest Expense, Net	\$64.7	\$32.5	\$24.4	\$(0.3)	) \$121.3
Income Tax Expense (Benefit)	\$158.8	\$60.2	\$(14.4)	) \$—	\$204.6
Net Income (Loss)	\$265.7	\$89.5	\$340.4	\$(355.0)	) \$340.6
Capital Expenditures	\$293.3	\$9.7	\$2.5	\$—	\$305.5
June 30, 2013					
Operating Revenues (b)	\$2,259.5	\$223.1	\$0.6	\$(195.7)	) \$2,287.5
Other Operation and Maintenance	\$738.2	\$6.4	\$2.2	\$(193.3)	) \$553.5
Depreciation and Amortization	\$158.3	\$33.5	\$0.4	\$—	\$192.2
Operating Income (Loss)	\$369.5	\$183.2	\$(2.2)	) \$—	\$550.5
Equity in Earnings of Unconsolidated Affiliates	\$33.9	\$—	\$—	\$—	\$33.9
Interest Expense, Net	\$70.1	\$33.0	\$25.4	\$(0.2)	) \$128.3
Income Tax Expense (Benefit)	\$123.8	\$60.6	\$(13.7)	) \$—	\$170.7
Net Income (Loss)	\$218.6	\$89.8	\$295.5	\$(308.3)	) \$295.6
Capital Expenditures	\$298.1	\$7.1	\$2.1	\$—	\$307.3

(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.

## 10 -- 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 eight 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.

We have approximately \$194.9 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 six months ended June 30, 2014 and 2013

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were \$26.7 million and \$25.2 million, respectively. Our maximum exposure to loss is limited to the capacity payments under the contract.

## 11 -- 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 \$19 million to \$56 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 June 30, 2014, we have established reserves of \$36.9 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:** Pursuant to the sale of the Point Beach Nuclear Power Plant, we agreed to indemnification provisions customary to transactions involving the sale of nuclear assets. We also 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.

## 12 -- SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended June 30, 2014, we paid \$122.4 million in interest, net of amounts capitalized, and paid \$17.6 million in income taxes, net of refunds. During the six months ended June 30, 2013, we paid \$127.9 million in interest, net of amounts capitalized, and received \$7.6 million in net refunds from income taxes.

As of June 30, 2014 and 2013, the amount of accounts payable related to capital expenditures was \$3.2 million and \$10.2 million, respectively.

During the six months ended June 30, 2014 and 2013, total amortization of deferred revenue was \$27.8 million and \$28.8 million, respectively.

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During the six months ended June 30, 2014 and 2013, our equity in earnings from ATC was \$34.8 million and \$33.9 million, respectively. During the six months ended June 30, 2014 and 2013, distributions received from ATC were \$28.5 million and \$26.8 million, respectively.

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

## RESULTS OF OPERATIONS -- THREE MONTHS ENDED JUNE 30, 2014

## CONSOLIDATED EARNINGS

The following table compares our operating income by business segment and our net income during the second quarter of 2014 with the second quarter of 2013, including favorable (better (B)) or unfavorable (worse (W)) variances:

	Three Months Ended June 30		
	2014	B (W)	2013
	(Millions of Dollars, Except Per Share Amounts)		
Utility Energy Segment	\$ 155.2	\$ 16.3	\$ 138.9
Non-Utility Energy Segment	91.7	0.1	91.6
Corporate and Other	(6.2	) (5.2	) (1.0
Total Operating Income	240.7	11.2	229.5
Equity in Earnings of Transmission Affiliate	17.5	0.2	17.3
Other Income, net	8.1	2.3	5.8
Interest Expense, net	59.0	4.3	63.3
Income Before Income Taxes	207.3	18.0	189.3
Income Tax Expense	74.3	(4.0	) 70.3
Net Income	\$ 133.0	\$ 14.0	\$ 119.0
Diluted Earnings Per Share	\$ 0.58	\$ 0.06	\$ 0.52

## UTILITY ENERGY SEGMENT CONTRIBUTION TO OPERATING INCOME

Our utility energy segment contributed \$155.2 million of operating income during the second quarter of 2014, an increase of \$16.3 million, or 11.7%, compared with the second quarter of 2013. The following table summarizes the operating income of this segment between the comparative quarters:

	Three Months Ended June 30		
	2014	B (W)	2013
	(Millions of Dollars)		
Utility Energy Segment			
Operating Revenues			
Electric	\$ 813.7	\$ 20.5	\$ 793.2
Gas	207.8	10.8	197.0
Other	8.3	0.5	7.8
Total Operating Revenues	1,029.8	31.8	998.0
Operating Expenses			
Fuel and Purchased Power	293.7	(16.3	) 277.4
Cost of Gas Sold	125.9	(10.7	) 115.2
Other Operation and Maintenance	343.6	14.0	357.6