

WEC ENERGY GROUP, INC.  
Form 10-K  
February 26, 2019

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission Registrant; State of Incorporation; IRS Employer  
File Number Address; and Telephone Number Identification No.

001-09057 WEC ENERGY GROUP, INC. 39-1391525  
(A Wisconsin Corporation)  
231 West Michigan Street  
P. O. Box 1331  
Milwaukee, WI 53201  
414-221-2345

Securities registered pursuant to Section 12(b) of the Act:  
Title of Each Class Name of Each Exchange on Which Registered  
Common Stock, \$.01 Par Value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Edgar Filing: WEC ENERGY GROUP, INC. - Form 10-K

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 every Interactive Data File required to be submitted 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 such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the common stock of WEC Energy Group, Inc. held by non-affiliates was \$20.4 billion based upon the reported closing price of such securities as of June 30, 2018.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date (January 31, 2019):

Common Stock, \$.01 par value, 315,455,323 shares outstanding

Documents incorporated by reference:

Portions of WEC Energy Group, Inc.'s Definitive Proxy Statement on Schedule 14A for its Annual Meeting of Shareholders, to be held on May 2, 2019, are incorporated by reference into Part III hereof.



Table of Contents

WEC ENERGY GROUP, INC.  
ANNUAL REPORT ON FORM 10-K  
For the Year Ended December 31, 2018  
TABLE OF CONTENTS

	Page
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION</u>	1
<u>PART I</u>	3
<u>ITEM 1. BUSINESS</u>	3
<u>A. INTRODUCTION</u>	3
<u>B. UTILITY ENERGY OPERATIONS</u>	3
<u>C. NON-UTILITY OPERATIONS</u>	18
<u>D. REGULATION</u>	19
<u>E. ENVIRONMENTAL COMPLIANCE</u>	22
<u>F. EMPLOYEES</u>	23
<u>ITEM 1A. RISK FACTORS</u>	24
<u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u>	34
<u>ITEM 2. PROPERTIES</u>	35
<u>ITEM 3. LEGAL PROCEEDINGS</u>	37
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	38
<u>EXECUTIVE OFFICERS OF THE REGISTRANT</u>	39
<u>PART II</u>	41
<u>MARKET FOR REGISTRANT'S COMMON EQUITY,</u>	
<u>ITEM 5. RELATED STOCKHOLDER MATTERS AND ISSUER</u>	41
<u>PURCHASES OF EQUITY SECURITIES</u>	
<u>ITEM 6. SELECTED FINANCIAL DATA</u>	41
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF</u>	
<u>ITEM 7. FINANCIAL CONDITION AND RESULTS OF</u>	42
<u>OPERATIONS</u>	
<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES</u>	
<u>ITEM 7A. ABOUT MARKET RISK</u>	73
<u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY</u>	74
<u>DATA</u>	
<u>A. Reports of Independent Registered Public Accounting Firm</u>	74
<u>B. Consolidated Income Statements</u>	76
<u>C. Consolidated Statements of Comprehensive Income</u>	77
<u>D. Consolidated Balance Sheets</u>	78
<u>E. Consolidated Statements of Cash Flows</u>	79
<u>F. Consolidated Statements of Equity</u>	80
<u>G. Consolidated Statements of Capitalization</u>	81
<u>H. Notes to Consolidated Financial Statements</u>	83
<u>Note 1 Summary of Significant Accounting Policies</u>	83
<u>Note 2 Acquisitions</u>	93
<u>Note 3 Dispositions</u>	95
<u>Note 4 Operating Revenues</u>	95
<u>Note 5 Regulatory Assets and Liabilities</u>	98
<u>Note 6 Property, Plant, and Equipment</u>	100
<u>Note 7 Jointly Owned Utility Facilities</u>	101
<u>Note 8 Asset Retirement Obligations</u>	102

Edgar Filing: WEC ENERGY GROUP, INC. - Form 10-K

<u>Note 9 Goodwill</u>	<u>103</u>
<u>Note 10 Common Equity</u>	<u>103</u>
<u>Note 11 Preferred Stock</u>	<u>106</u>
<u>Note 12 Short-Term Debt and Lines of Credit</u>	<u>106</u>
<u>Note 13 Long-Term Debt and Capital Lease Obligations</u>	<u>107</u>
<u>Note 14 Income Taxes</u>	<u>110</u>
<u>Note 15 Fair Value Measurements</u>	<u>113</u>
<u>Note 16 Derivative Instruments</u>	<u>114</u>
<u>Note 17 Guarantees</u>	<u>116</u>

2018 Form 10-K i WEC Energy Group, Inc.

---

Table of Contents

<u>Note 18 Employee Benefits</u>	<u>116</u>
<u>Note 19 Investment in Transmission Affiliates</u>	<u>122</u>
<u>Note 20 Segment Information</u>	<u>123</u>
<u>Note 21 Variable Interest Entities</u>	<u>125</u>
<u>Note 22 Commitments and Contingencies</u>	<u>126</u>
<u>Note 23 Supplemental Cash Flow Information</u>	<u>131</u>
<u>Note 24 Regulatory Environment</u>	<u>133</u>
<u>Note 25 Other Income, Net</u>	<u>137</u>
<u>Note 26 Quarterly Financial Information (Unaudited)</u>	<u>137</u>
<u>Note 27 New Accounting Pronouncements</u>	<u>137</u>
<u>CHANGES IN AND DISAGREEMENTS WITH</u>	
<u>ITEM 9. ACCOUNTANTS ON ACCOUNTING AND FINANCIAL</u>	<u>139</u>
<u>DISCLOSURE</u>	
<u>ITEM 9A. CONTROLS AND PROCEDURES</u>	<u>139</u>
<u>ITEM 9B. OTHER INFORMATION</u>	<u>139</u>
<u>PART III</u>	<u>140</u>
<u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND</u>	<u>140</u>
<u>CORPORATE GOVERNANCE OF THE REGISTRANT</u>	
<u>ITEM 11. EXECUTIVE COMPENSATION</u>	<u>140</u>
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL</u>	
<u>ITEM 12. OWNERS AND MANAGEMENT AND RELATED</u>	<u>140</u>
<u>STOCKHOLDER MATTERS</u>	
<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED</u>	<u>141</u>
<u>TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	
<u>ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	<u>141</u>
<u>PART IV</u>	<u>142</u>
<u>ITEM 15. EXHIBITS AND FINANCIAL STATEMENT</u>	<u>142</u>
<u>SCHEDULES</u>	
<u>ITEM 16. FORM 10-K SUMMARY</u>	<u>147</u>
<u>SCHEDULE I — CONDENSED PARENT COMPANY FINANCIAL</u>	<u>148</u>
<u>STATEMENTS</u>	
<u>A. Income Statements</u>	<u>148</u>
<u>B. Statements of Comprehensive Income</u>	<u>149</u>
<u>C. Balance Sheets</u>	<u>150</u>
<u>D. Statements of Cash Flows</u>	<u>151</u>
<u>E. Notes to Parent Company Financial Statements</u>	<u>152</u>
<u>SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS</u>	<u>154</u>
<u>SIGNATURES</u>	<u>155</u>

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

The abbreviations and terms set forth below are used throughout this report and have the meanings assigned to them below:

Subsidiaries and Affiliates

ATC	American Transmission Company LLC
ATC Holdco	ATC Holdco, LLC
ATC Holding	ATC Holding LLC
Bishop Hill III	Bishop Hill Energy III LLC
Bluewater	Bluewater Natural Gas Holding, LLC
Bluewater Gas Storage	Bluewater Gas Storage, LLC
Bostco	Bostco LLC
Coyote Ridge	Coyote Ridge Wind, LLC
Integrys	Integrys Holding, Inc.
ITF	Integrys Transportation Fuels, LLC
MERC	Minnesota Energy Resources Corporation
MGU	Michigan Gas Utilities Corporation
NSG	North Shore Gas Company
PDL	WPS Power Development, LLC
PELLC	Peoples Energy, LLC
PGL	The Peoples Gas Light and Coke Company
UMERC	Upper Michigan Energy Resources Corporation
Upstream	Upstream Wind Energy LLC
WBS	WEC Business Services LLC
WE	Wisconsin Electric Power Company
We Power	W.E. Power, LLC
WEC Energy Group	WEC Energy Group, Inc.
WECC	Wisconsin Energy Capital Corporation
WG	Wisconsin Gas LLC
Wispark	Wispark LLC
Wisvest	Wisvest LLC
WPS	Wisconsin Public Service Corporation
WRPC	Wisconsin River Power Company

Federal and State Regulatory Agencies

EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
ICC	Illinois Commerce Commission
IRS	United States Internal Revenue Service
MDEQ	Michigan Department of Environmental Quality
MPSC	Michigan Public Service Commission
MPUC	Minnesota Public Utilities Commission
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
WDNR	Wisconsin Department of Natural Resources

2018 Form 10-K iii WEC Energy Group, Inc.

---



Table of Contents

Accounting Terms

AFUDC	Allowance for Funds Used During Construction
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CWIP	Construction Work in Progress
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
LIFO	Last-In, First-Out
OPEB	Other Postretirement Employee Benefits

Environmental Terms

ACE	Affordable Clean Energy
Act 141	2005 Wisconsin Act 141
CAA	Clean Air Act
CO <sub>2</sub>	Carbon Dioxide
CPP	Clean Power Plan
GHG	Greenhouse Gas
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO <sub>x</sub>	Nitrogen Oxide
SO <sub>2</sub>	Sulfur Dioxide
WPDES	Wisconsin Pollutant Discharge Elimination System

Measurements

Dth	Dekatherm
MDth	One thousand Dekatherms
MW	Megawatt
MWh	Megawatt-hour

Other Terms and Abbreviations

2006 Junior Notes	Integrys's 2006 Junior Subordinated Notes Due 2066
2007 Junior Notes	WEC Energy Group, Inc.'s 2007 Junior Subordinated Notes Due 2067
ALJ	Administrative Law Judge
ARR	Auction Revenue Right
CNG	Compressed Natural Gas
Compensation Committee	Compensation Committee of the Board of Directors
DATC	Duke-American Transmission Company
D.C. Circuit Court of Appeals	United States Court of Appeals for the District of Columbia Circuit
ERGS	Elm Road Generating Station
ER 1	Elm Road Generating Station Unit 1
ER 2	Elm Road Generating Station Unit 2
Exchange Act	Securities Exchange Act of 1934, as amended
FTR	Financial Transmission Right
GCRM	Gas Cost Recovery Mechanism
LMP	Locational Marginal Price
MCPP	Milwaukee County Power Plant
MISO	Midcontinent Independent System Operator, Inc.
MISO Energy Markets	MISO Energy and Operating Reserves Market

Edgar Filing: WEC ENERGY GROUP, INC. - Form 10-K

NYMEX

New York Mercantile Exchange

OCP

Oak Creek Power Plant

OC 5

Oak Creek Power Plant Unit 5

2018 Form 10-K iv WEC Energy Group, Inc.

---

Table of Contents

OC 6	Oak Creek Power Plant Unit 6
OC 7	Oak Creek Power Plant Unit 7
OC 8	Oak Creek Power Plant Unit 8
Omnibus Stock Incentive Plan	WEC Energy Group 1993 Omnibus Stock Incentive Plan, Amended and Restated Effective as of January 1, 2016
PIPP	Presque Isle Power Plant
Point Beach	Point Beach Nuclear Power Plant
PWGS	Port Washington Generating Station
PWGS 1	Port Washington Generating Station Unit 1
PWGS 2	Port Washington Generating Station Unit 2
QIP	Qualifying Infrastructure Plant
ROE	Return on Equity
RTO	Regional Transmission Organization
SMP	Natural Gas System Modernization Program
SMRP	System Modernization and Reliability Project
SSR	System Support Resource
Supreme Court	United States Supreme Court
Tax Legislation	Tax Cuts and Jobs Act of 2017
Tilden	Tilden Mining Company
VAPP	Valley Power Plant
VITA	Variable Income Tax Adjustment Rider

2018 Form 10-K v WEC Energy Group, Inc.

---

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

In this report, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. These statements are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements may be identified by reference to a future period or periods or by the use of terms such as "anticipates," "believes," "could," "estimates," "expects," "forecasts," "goals," "guidance," "intends," "may," "objectives," "plans," "possible," "potential," "projects," "seeks," "should," "targets," "will," or variations of these terms.

Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding earnings, completion of capital projects, sales and customer growth, rate actions and related filings with regulatory authorities, environmental and other regulations and associated compliance costs, legal proceedings, dividend payout ratios, effective tax rates, pension and OPEB plans, fuel costs, sources of electric energy supply, coal and natural gas deliveries, remediation costs, environmental matters, liquidity and capital resources, and other matters.

Forward-looking statements are subject to a number of risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in the statements. These risks and uncertainties include those described in Item 1A. Risk Factors and those identified below:

Factors affecting utility operations such as catastrophic weather-related damage, environmental incidents, unplanned facility outages and repairs and maintenance, and electric transmission or natural gas pipeline system constraints;

Factors affecting the demand for electricity and natural gas, including political developments, unusual weather, changes in economic conditions, customer growth and declines, commodity prices, energy conservation efforts, and continued adoption of distributed generation by customers;

The timing, resolution, and impact of rate cases and negotiations, including recovery of deferred and current costs and the ability to earn a reasonable return on investment, and other regulatory decisions impacting our regulated operations;

The ability to obtain and retain customers, including wholesale customers, due to increased competition in our electric and natural gas markets from retail choice and alternative electric suppliers, and continued industry consolidation;

The timely completion of capital projects within budgets, as well as the recovery of the related costs through rates;

The impact of federal, state, and local legislative and/or regulatory changes, including changes in rate-setting policies or procedures, deregulation and restructuring of the electric and/or natural gas utility industries, transmission or distribution system operation, the approval process for new construction, reliability standards, pipeline integrity and safety standards, allocation of energy assistance, energy efficiency mandates, and tax laws that affect our ability to use production tax credits and investment tax credits;

The remaining uncertainty surrounding the Tax Legislation enacted in December 2017, including implementing regulations and IRS interpretations, the amount to be returned to our ratepayers, and any further impact on our and our subsidiaries' credit ratings;

Federal and state legislative and regulatory changes relating to the environment, including climate change and other environmental regulations impacting generation facilities and renewable energy standards, the enforcement of these

laws and regulations, changes in the interpretation of regulations or permit conditions by regulatory agencies, and the recovery of associated remediation and compliance costs;

• Factors affecting the implementation of our generation reshaping plan, including related regulatory decisions, the cost of materials, supplies, and labor, and the feasibility of competing projects;

• Increased pressure on us by investors and other stakeholder groups to take more aggressive action to reduce future GHG emissions in order to limit future global temperature increases;

The risks associated with changing commodity prices, particularly natural gas and electricity, and the availability of sources of fossil fuel, natural gas, purchased power, materials needed to operate environmental controls at our electric generating facilities,

2018 Form 10-K 1 WEC Energy Group, Inc.

---

Table of Contents

or water supply due to high demand, shortages, transportation problems, nonperformance by electric energy or natural gas suppliers under existing power purchase or natural gas supply contracts, or other developments;

Changes in credit ratings, interest rates, and our ability to access the capital markets, caused by volatility in the global credit markets, our capitalization structure, and market perceptions of the utility industry, us, or any of our subsidiaries;

Costs and effects of litigation, administrative proceedings, investigations, settlements, claims, and inquiries;

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, that could prevent us from paying our common stock dividends, taxes, and other expenses, and meeting our debt obligations;

The risk of financial loss, including increases in bad debt expense, associated with the inability of our customers, counterparties, and affiliates to meet their obligations;

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 direct or indirect effect on our business resulting from terrorist attacks and cyber security intrusions, as well as the threat of such incidents, including the failure to maintain the security of personally identifiable information, the associated costs to protect our utility assets, technology systems, and personal information, and the costs to notify affected persons to mitigate their information security concerns and to comply with state notification laws;

The financial performance of ATC and its corresponding contribution to our earnings, as well as the ability of ATC and DATC to obtain the required approvals for their transmission projects;

The investment performance of our employee benefit plan assets, as well as unanticipated changes in related actuarial assumptions, which could impact future funding requirements;

- Factors affecting the employee workforce, including loss of key personnel, internal restructuring, work stoppages, and collective bargaining agreements and negotiations with union employees;
- Advances in technology, and related legislation or regulation supporting the use of that technology, that result in competitive disadvantages and create the potential for impairment of existing assets;

The risk associated with the values of goodwill and other intangible assets and their possible impairment;

Potential business strategies to acquire and dispose of assets or businesses, which cannot be assured to be completed timely or within budgets, and legislative or regulatory restrictions or caps on non-utility acquisitions, investments or projects, including the State of Wisconsin's public utility holding company law;

The timing and outcome of any audits, disputes, and other proceedings related to taxes;

The ability to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act, while both integrating and continuing to consolidate our enterprise systems;

The effect of accounting pronouncements issued periodically by standard-setting bodies; and

Other considerations disclosed elsewhere herein and in other reports we file with the SEC or in other publicly disseminated written documents.

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.

2018 Form 10-K 2 WEC Energy Group, Inc.

---

Table of Contents

PART I

ITEM 1. BUSINESS

A. INTRODUCTION

In this report, when we refer to "WEC Energy Group," "the Company," "us," "we," "our," or "ours," we are referring to WEC Energy Group, Inc. and all of its subsidiaries. The term "utility" refers to the regulated activities of the electric and natural gas utility companies, while the term "non-utility" refers to the activities of the electric and natural gas companies that are not regulated, as well as We Power and Bluewater. The term "nonregulated" refers to activities at Bishop Hill III, Coyote Ridge, WEC Energy Group holding company, the Integrys holding company, the PELLC holding company, Wispark, Bostco, Wisvest, WECC, WBS, PDL, and ITF. References to "Notes" are to the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

For more information about our business operations, see Note 20, Segment Information, and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations.

WEC Energy Group, Inc.

We were incorporated in the state of Wisconsin in 1981 and became a diversified holding company in 1986. We maintain our principal executive offices in Milwaukee, Wisconsin. On June 29, 2015, we acquired 100% of the outstanding common shares of Integrys and changed our name to WEC Energy Group, Inc. Our wholly owned subsidiaries provide regulated natural gas and electricity, as well as nonregulated renewable energy. Another subsidiary, ITF, provided CNG products and services prior to its sale in the first quarter of 2016. See Note 3, Dispositions, for more information on this sale. We have an approximately 60% equity interest in ATC (an electric transmission company operating in Illinois, Michigan, Minnesota, and Wisconsin). At December 31, 2018, we had six reportable segments, which are discussed below. For additional information about our reportable segments, see Note 20, Segment Information.

Available Information

Our annual and periodic filings with the SEC are available, free of charge, on our website, [www.wecenergygroup.com](http://www.wecenergygroup.com), as soon as reasonably practicable after they are filed with or furnished to the SEC. You may also obtain materials we filed with or furnished to the SEC on their website at [www.sec.gov](http://www.sec.gov).

B. UTILITY ENERGY OPERATIONS

Wisconsin Segment

The Wisconsin segment includes the electric and natural gas utility operations of WE, WG, WPS, and UMERC, which includes WE's former electric operations and WPS's former electric and natural gas operations in the state of Michigan that were transferred to UMERC effective January 1, 2017.

In December 2016, both the MPSC and the PSCW approved the operation of UMERC as a stand-alone utility in the Upper Peninsula of Michigan. See Note 24, Regulatory Environment, for more information. UMERC became operational effective January 1, 2017, and WE and WPS transferred customers and property, plant, and equipment as of that date. WE transferred approximately 27,500 retail electric customers and 50 electric distribution-only customers to UMERC, along with approximately 2,500 miles of electric distribution lines. WPS transferred approximately 9,000 retail electric customers and 5,300 natural gas customers to UMERC, along with approximately 600 miles of electric



distribution lines and approximately 100 miles of natural gas distribution mains. WE and WPS also transferred related electric distribution substations in the Upper Peninsula of Michigan and all property rights for the distribution assets to UMERG. The book value of net assets, including the related deferred income tax liabilities, transferred to UMERG from WE and WPS as of January 1, 2017, was \$61.1 million and \$20.6 million, respectively. This transaction was a non-cash equity transfer recorded to additional paid in capital between entities under common control, and therefore, did not result in the recognition of a gain or loss.

2018 Form 10-K 3 WEC Energy Group, Inc.

---

Table of Contents

## Electric Utility Operations

For the periods presented in this Annual Report on Form 10-K, our electric utility operations included operations of WE and WPS for all periods, and operations for UMERC beginning January 1, 2017, due to the transfer of customers and assets located in the Upper Peninsula of Michigan from WE and WPS.

WE, which is the largest electric utility in the state of Wisconsin, generates and distributes electric energy to customers located in southeastern Wisconsin (including the metropolitan Milwaukee area), east central Wisconsin, and northern Wisconsin, and serves an iron ore mine customer, Tilden, in the Upper Peninsula of Michigan. This customer will become a customer of UMERC once the new generation solution in the Upper Peninsula of Michigan begins commercial operation, which is expected to occur during the second quarter of 2019.

WPS generates and distributes electric energy to customers located in northeastern and central Wisconsin.

UMERC distributes electric energy to customers located in the Upper Peninsula of Michigan. UMERC currently meets its market obligations through power purchase agreements with WE and WPS. UMERC will begin to generate electricity when its new generation solution in the Upper Peninsula of Michigan begins commercial operation. For more information on UMERC's new generation solution, see the discussion below under the heading "Natural Gas-Fired Generation."

## Operating Revenues

The following table shows electric utility operating revenues, including steam operations. For information about our operating revenues disaggregated by customer class for the year ended December 31, 2018, see Note 4, Operating Revenues. For more information about our significant accounting policies related to the recognition of revenues, see Note 1(d), Operating Revenues.

(in millions)	Year Ended	
	December 31	
	2017	2016
Operating revenues		
Residential	\$1,581.5	\$1,620.7
Small commercial and industrial <sup>(1)</sup>	1,400.9	1,418.1
Large commercial and industrial <sup>(1)</sup>	913.7	949.5
Other	30.5	29.8
Retail <sup>(1)</sup>	3,926.6	4,018.1
Wholesale	233.4	231.2
Resale	270.6	247.1
Steam	23.3	27.2
Other operating revenues <sup>(2)</sup>	105.1	104.5
Total operating revenues <sup>(1)</sup>	\$4,559.0	\$4,628.1

<sup>(1)</sup> Includes distribution sales for customers who have purchased power from an alternative electric supplier in Michigan.

<sup>(2)</sup> Includes SSR revenues, amounts collected from (refunded to) customers for certain fuel and purchased power costs that exceed a 2% price variance from costs included in rates, and other revenues, partially offset by revenues from Tilden that are being deferred until a future rate proceeding. For more information, see the discussion below under the heading "Large Electric Retail Customers."

## Electric Sales

Our electric energy deliveries included supply and distribution sales to retail and wholesale customers and distribution sales to those customers who switched to an alternative electric supplier. In 2018, retail electric revenues accounted for 90.0% of total electric operating revenues, while wholesale and resale electric revenues accounted for 9.1% of total electric operating revenues. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Wisconsin Segment Contribution to Operating Income for information on MWh sales by customer class.

Our electric utilities are authorized to provide retail electric service in designated territories in the state of Wisconsin, as established by indeterminate permits and boundary agreements with other utilities, and in certain territories in the state of Michigan pursuant to franchises granted by municipalities.

2018 Form 10-K 4WEC Energy Group, Inc.

---

Table of Contents

Our electric utilities buy and sell wholesale electric power by participating in the MISO Energy Markets. The cost of our individual generation offered into the MISO Energy Markets compared to our competitors affects how often our generating units are dispatched and whether we buy or sell power, based on our customers' needs. For more information, see D. Regulation.

## Steam Sales

WE has a steam utility that generates, distributes, and sells steam supplied by VAPP to customers in metropolitan Milwaukee, Wisconsin. Steam is used by customers for processing, space heating, domestic hot water, and humidification. Annual sales of steam fluctuate from year to year based on system growth and variations in weather conditions. In April 2016, we sold the MCPP steam generation and distribution assets, located in Wauwatosa, Wisconsin. MCPP primarily provided steam to the Milwaukee Regional Medical Center hospitals and other campus buildings. See Note 3, Dispositions, for more information.

## Electric Sales Forecast

Our service territories experienced growth in weather-normalized retail electric sales in 2018 due to customer growth. We currently forecast retail electric sales volumes and the associated peak demand, excluding the Tilden mine located in the Upper Peninsula of Michigan, to grow between flat and 0.5% over the next five years, assuming normal weather.

## Customers

(in thousands)	Year Ended December		
	2018	2017	2016
Electric customers – end of year			
Residential	1,441.3	1,431.4	1,421.7
Small commercial and industrial	173.2	172.2	171.1
Large commercial and industrial	0.9	0.9	0.9
Other	2.7	2.6	2.6
Total electric customers – end of year	1,618.1	1,607.1	1,596.3
Steam customers – end of year	0.4	0.4	0.4

## Large Electric Retail Customers

We provide electric utility service to a diversified base of customers in industries such as paper, metals and other manufacturing, governmental, food products, municipalities, cooperatives, and marketers, health services, retail, mining, and education.

In February 2015, Tilden, along with another affiliated iron ore mine located in the Upper Peninsula of Michigan, returned as customers after choosing an alternative electric supplier in September 2013. For more information on alternative electric suppliers, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results, Liquidity, and Capital Resources – Competitive Markets. WE entered into a contract with each of the mines to provide full requirements electric service through December 31, 2019. Since 2015, we have been deferring, and expect to continue to defer, the revenues less costs of sales from the mine sales and will apply these amounts for the benefit of Wisconsin retail electric customers in a future rate proceeding, as ordered by the PSCW.

In 2016, one of the iron ore mines closed, and the related contract for full requirements electric service was terminated. In August 2016, we entered into a new agreement with Tilden under which it will purchase electric power from UMEREC for 20 years for the remaining mine, contingent upon UMEREC's construction of natural gas-fired generation in the Upper Peninsula of Michigan. Tilden will continue to receive full requirements electric service from WE under the existing contract until UMEREC's generation solution in the Upper Peninsula of Michigan begins commercial operation, which is expected to occur during the second quarter of 2019. See Note 24, Regulatory Environment, for more information, as well as the discussion under the heading "Natural Gas-Fired Generation" below.

2018 Form 10-K 5 WEC Energy Group, Inc.

---

Table of Contents

## Wholesale Customers

We provide wholesale electric service to various customers, including electric cooperatives, municipal joint action agencies, other investor-owned utilities, municipal utilities, and energy marketers. Wholesale sales accounted for 7.7%, 7.6%, and 7.4% of total electric energy sales volumes during 2018, 2017, and 2016, respectively. Wholesale revenues accounted for 4.8%, 5.1%, and 5.0% of total electric operating revenues during 2018, 2017, and 2016, respectively.

## Resale

The majority of our sales for resale are sold into an energy market operated by MISO at market rates based on availability of our generation and market demand. Resale sales accounted for 12.8%, 18.2%, and 17.5% of total electric energy sales volumes during 2018, 2017, and 2016, respectively. Resale revenues accounted for 4.3%, 5.9%, and 5.3% of total electric operating revenues during 2018, 2017, and 2016, respectively. Retail fuel costs are reduced by the amount that revenue exceeds the costs of sales derived from these opportunity sales.

## Electric Generation and Supply Mix

Our electric supply strategy is to provide our customers with energy from plants using a diverse fuel mix that is expected to maintain a stable, reliable, and affordable supply of electricity. Through our participation in the MISO Energy Markets, we supply a significant amount of electricity to our customers from power plants that we own. We supplement our internally generated power supply with long-term power purchase agreements, including the Point Beach power purchase agreement discussed under the heading "Power Purchase Commitments," and through spot purchases in the MISO Energy Markets. We also sell excess capacity into the MISO Energy Markets when it is economical, which reduces net fuel costs by offsetting costs of purchased power.

Our rated capacity by fuel type as of December 31 is shown below. For more information on our electric generation facilities, see Item 2. Properties.

	Rated Capacity in MW <sup>(1)</sup>		
	2018	2017	2016
Coal	3,518	4,935	4,933
Natural gas:			
Combined cycle	1,799	1,753	1,697
Steam turbine <sup>(2)</sup>	347	314	320
Natural gas/oil peaking units <sup>(3)</sup>	1,444	1,458	1,413
Renewables <sup>(4)</sup>	220	273	273
Total rated capacity	7,328	8,733	8,636

<sup>(1)</sup> Rated capacity is the net power output under average operating conditions with equipment in an average state of repair as of a given month in a given year. We have summer peaking electric utilities, and amounts are primarily based on expected capacity ratings for the following summer. The values were established by tests and may change slightly from year to year.

<sup>(2)</sup> The natural gas steam turbine represents the rated capacity associated with VAPP as well as Weston Unit 2.

<sup>(3)</sup> Certain dual-fueled facilities generally burn oil only if natural gas is not available due to constraints on the natural gas pipeline and/or at the local natural gas distribution company that delivers natural gas to the plants.

(4) Includes hydroelectric, biomass, and wind generation.

2018 Form 10-K 6WEC Energy Group, Inc.

---

Table of Contents

The table below indicates our sources of electric energy supply as a percentage of sales for the three years ended December 31, as well as estimates for 2019:

	Estimate	Actual			
	2019	2018	2017	2016	
Company-owned generation units:					
Coal *	35.9 %	44.7%	48.5%	45.7%	
Natural gas:					
Combined cycle	23.9 %	19.7%	16.5%	18.2%	
Steam turbine	0.8 %	0.6 %	0.8 %	0.9 %	
Natural gas/oil peaking units	1.1 %	1.7 %	1.1 %	1.1 %	
Renewables	4.2 %	4.1 %	4.1 %	3.9 %	
Total company-owned generation units	65.9 %	70.8%	71.0%	69.8%	
Power purchase contracts:					
Nuclear	19.0 %	18.6%	17.7%	17.5%	
Natural gas	3.0 %				