WISCONSIN GAS LLC

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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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	
Bluewater	Bluewater Natural Gas Holding, LLC
Integrys	Integrys Holding, Inc.
WBS	WEC Business Services LLC
WE	Wisconsin Electric Power Company
WEC Energy Group	WEC Energy Group, Inc.
WPS	Wisconsin Public Service Corporation

Federal and State Regulatory Agencies	
EPA	United States Environmental Protection Agency
PSCW	Public Service Commission of Wisconsin

Accounting Terms	
AFUDC	Allowance for Funds Used During Construction
ASU	Accounting Standards Update
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
OPEB	Other Postretirement Employee Benefits

Environmental Terms	
CO_2	Carbon Dioxide

Measurements	
Dth	Dekatherm

Other Terms and Abbreviations	
AIA	Affiliated Interest Agreement
ROE	Return on Equity
Tax Legislation	Tax Cuts and Jobs Act of 2017

FINANCIAL STATEMENTS AND NOTES

A. INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Member of Wisconsin Gas LLC:

Milwaukee, Wisconsin

We have audited the accompanying financial statements of Wisconsin Gas LLC (the "Company"), which comprise the balance sheets and statements of capitalization as of December 31, 2018 and 2017, and the related income statements, statements of changes in member's equity, and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wisconsin Gas LLC as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
March 26, 2019

WISCONSIN GAS LLC

B. INCOME STATEMENTS

Year Ended December 31 *(in millions)*	2018	2017
Operating revenues	**$ 649.6**	$ 614.3
Operating expenses		
Cost of natural gas sold	**353.1**	316.4
Other operation and maintenance	**115.1**	114.2
Depreciation and amortization	**51.8**	48.6
Property and revenue taxes	**6.8**	6.2
Total operating expenses	**526.8**	485.4
Operating income	**122.8**	128.9
Other income, net	**1.9**	6.9
Interest expense	**24.8**	21.9
Other expense	**(22.9)**	(15.0)
Income before income taxes	**99.9**	113.9
Income tax expense	**24.8**	60.7
Net income	**$ 75.1**	$ 53.2

The accompanying Notes to Financial Statements are an integral part of these financial statements.

WISCONSIN GAS LLC

C. BALANCE SHEETS

At December 31 *(in millions)*	2018	2017
Assets		
Current assets		
Cash and cash equivalents	**$ 0.5**	$ 1.8
Accounts receivable and unbilled revenues, net of reserves of $18.3 and $18.4, respectively	**125.6**	132.6
Accounts receivable from related parties	**72.4**	0.8
Materials, supplies, and inventory:		
Natural gas in storage	**56.8**	45.2
Materials and supplies	**4.8**	4.9
Other	**10.3**	11.0
Current assets	**270.4**	196.3
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of $740.6 and $722.1, respectively	**1,683.2**	1,550.8
Regulatory assets	**250.7**	206.1
Prepaid pension and OPEB costs	**169.0**	162.3
Goodwill	**95.9**	95.9
Other	**14.3**	18.7
Long-term assets	**2,213.1**	2,033.8
Total assets	**$ 2,483.5**	$ 2,230.1
Liabilities and Member's Equity		
Current liabilities		
Short-term debt	**$ 277.3**	$ 205.9
Accounts payable	**55.7**	41.4
Accounts payable to related parties	**69.7**	6.3
Customer credit balances	**12.1**	12.9
Amounts refundable to customers	**9.8**	16.4
Other	**15.0**	24.7
Current liabilities	**439.6**	307.6
Long-term liabilities		
Long-term debt	**486.3**	486.0
Regulatory liabilities	**402.5**	383.0
Deferred income taxes	**203.2**	192.6
Environmental remediation liabilities	**77.7**	41.2
Other	**29.9**	27.5
Long-term liabilities	**1,199.6**	1,130.3
Commitments and contingencies (Note 13)		
Member's equity	**844.3**	792.2
Total liabilities and member's equity	**$ 2,483.5**	$ 2,230.1

The accompanying Notes to Financial Statements are an integral part of these financial statements.

WISCONSIN GAS LLC

D. STATEMENTS OF CASH FLOWS

Year Ended December 31 *(in millions)*	2018	2017
Operating activities		
Net income	**$ 75.1**	$ 53.2
Reconciliation to cash provided by operating activities		
Depreciation and amortization	**51.8**	48.6
Deferred income taxes, net	**15.3**	40.8
Contributions and payments related to pension and OPEB plans	**(3.2)**	(2.7)
Change in –		
Accounts receivable and unbilled revenues	**(64.6)**	(12.4)
Materials, supplies, and inventories	**(11.5)**	(3.5)
Prepaid taxes	**(0.5)**	4.5
Other current assets	**0.9**	(3.3)
Accounts payable	**74.4**	4.7
Amounts refundable to customers	**(6.3)**	4.1
Accrued taxes	**(9.4)**	11.7
Other current liabilities	**(1.0)**	(0.3)
Other, net	**0.3**	(1.8)
Net cash provided by operating activities	**121.3**	143.6
Investing activities		
Capital expenditures	**(159.8)**	(154.3)
Payments for assets transferred from affiliates	**(15.6)**	—
Proceeds on cash surrender value of life insurance	**4.3**	—
Other, net	**0.1**	(1.3)
Net cash used in investing activities	**(171.0)**	(155.6)
Financing activities		
Change in short-term debt	**71.4**	54.4
Equity contribution from parent	**27.0**	—
Payment of distributions to parent	**(50.0)**	(45.0)
Net cash provided by financing activities	**48.4**	9.4
Net change in cash and cash equivalents	**(1.3)**	(2.6)
Cash and cash equivalents at beginning of year	**1.8**	4.4
Cash and cash equivalents at end of year	**$ 0.5**	$ 1.8

The accompanying Notes to Financial Statements are an integral part of these financial statements.

WISCONSIN GAS LLC

E. STATEMENTS OF CHANGES IN MEMBER'S EQUITY

(in millions)	2018	2017
Member's Equity at January 1	**$ 792.2**	$ 783.9
Net income	**75.1**	53.2
Equity contribution from parent	**27.0**	—
Payment of distributions to parent	**(50.0)**	(45.0)
Other	—	0.1
Member's Equity at December 31	**$ 844.3**	$ 792.2

The accompanying Notes to Financial Statements are an integral part of these financial statements.

WISCONSIN GAS LLC

F. STATEMENTS OF CAPITALIZATION

At December 31 *(in millions)*			2018	2017
Member's equity (see Statements of Changes in Member's Equity)			**$ 844.3**	$ 792.2
Long-term debt	**Interest Rate**	**Year Due**		
Debentures (unsecured)	3.53%	2025	**200.0**	200.0
	5.90%	2035	**90.0**	90.0
	3.71%	2046	**200.0**	200.0
Total			**490.0**	490.0
Unamortized debt issuance costs			**(3.1)**	(3.4)
Unamortized discount, net			**(0.6)**	(0.6)
Total long-term debt			**486.3**	486.0
Total long-term capitalization			**$ 1,330.6**	$ 1,278.2

The accompanying Notes to Financial Statements are an integral part of these financial statements.

G. NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations—As used in these notes, the term "financial statements" includes the income statements, balance sheets, statements of cash flows, statements of changes in member's equity, and statements of capitalization, unless otherwise noted. In this report, when we refer to "us," "we," "our," or "ours," we are referring to Wisconsin Gas LLC.

We are a public utility engaged in the distribution of natural gas throughout Wisconsin and are a wholly owned subsidiary of WEC Energy Group. We are subject to the jurisdiction of, and regulation by, the PSCW, which has general supervisory and regulatory powers over virtually all phases of the public utility industry in Wisconsin. We have combined many common functions with WE, another utility subsidiary of WEC Energy Group, and operate together under the trade name "We Energies".

(b) Basis of Presentation—We prepare our financial statements in conformity with GAAP. We make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

(c) Cash and Cash Equivalents—Cash and cash equivalents include marketable debt securities with an original maturity of three months or less.

(d) Operating Revenues—The following discussion includes our significant accounting policies related to operating revenues, including our adoption of ASU 2014-09, Revenues from Contracts with Customers. For additional required disclosures on disaggregation of operating revenues as required by this ASU, see Note 3, Operating Revenues.

Adoption of ASU 2014-09, Revenues from Contracts with Customers

On January 1, 2018, we adopted ASU 2014-09, Revenues from Contracts with Customers, and the related amendments. In accordance with the guidance, we recognize revenues when control of the promised goods or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to receive in exchange for those goods or services. These revenues include unbilled revenues, which are estimated using the amount of natural gas delivered to our customers but not billed until after the end of the period.

We adopted this standard using the modified retrospective method. Results for reporting periods beginning after January 1, 2018, are presented under the new standard. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Adoption of the standard did not result in an adjustment to our opening retained earnings balance as of January 1, 2018, and we do not expect the adoption of the standard to have a material impact on our net income in future periods.

We adopted the following practical expedients and optional exemptions for the implementation of this standard:

- We elected to exclude from the transaction price any amounts collected from customers for all sales taxes and other similar taxes.
- When applicable, we elected to apply the standard to a portfolio of contracts with similar characteristics, primarily our tariff-based contracts, as we reasonably expect that the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts.
- We elected to recognize revenue in the amount we have the right to invoice for performance obligations satisfied over time when the consideration received from a customer corresponds directly with the value provided to the customer during the same period.
- We elected to not disclose the remaining performance obligations of a contract that has an original expected duration of one year or less.
- We elected to apply this standard only to contracts that are not completed as of the date of initial application.

Revenues from Contracts with Customers

Natural Gas Utility Operating Revenues

We recognize natural gas utility operating revenues under requirements contracts with residential, commercial and industrial, and transportation customers served under our tariffs. Tariffs provide our customers with the standard terms and conditions, including rates, related to the services offered. Requirements contracts provide for the delivery of as much natural gas as the customer needs. These requirements contracts represent discrete deliveries of natural gas and constitute a single performance obligation satisfied over time. Our performance obligation is both created and satisfied with the transfer of control of natural gas upon delivery to the customer. For most of our customers, natural gas is delivered and consumed by the customer simultaneously. A performance obligation can be bundled to consist of both the sale and the delivery of the natural gas commodity. Our customers can purchase the commodity from a third party. In this case, the performance obligation only includes the delivery of the natural gas to the customer.

The transaction price of the performance obligations for our natural gas customers is valued using the rates, charges, terms, and conditions of service included in our tariffs, which have been approved by the PSCW. These rates often have a fixed component customer charge and a usage-based variable component charge. We recognize revenue for the fixed component customer charge monthly using a time-based output method. We recognize revenue for the usage-based variable component charge using an output method based on natural gas delivered each month.

Our tariffs include various rate mechanisms that allow us to recover or refund changes in prudently incurred costs from rate case-approved amounts. Our rates include a one-for-one recovery mechanism for natural gas commodity costs. We defer any difference between actual natural gas costs incurred and costs recovered through rates as a current asset or liability. The deferred balance is returned to or recovered from customers at intervals throughout the year. In addition, our residential tariffs include a mechanism for cost recovery or refund of uncollectible expense based on the difference between actual uncollectible write-offs and the amounts recovered in rates.

Consistent with the timing of when we recognize revenue, customer billings generally occur on a monthly basis, with payments typically due in full within 30 days.

(e) Materials, Supplies, and Inventories—We record substantially all materials, supplies, and natural gas in storage inventories using the weighted-average cost method of accounting.

(f) Regulatory Assets and Liabilities—The economic effects of regulation can result in regulated companies recording costs and revenues that have been or are expected to be allowed in the rate-making process in a period different from the period in which the costs or revenues would be recognized by a nonregulated company. When this occurs, regulatory assets and regulatory liabilities are recorded on the balance sheet. Regulatory assets represent probable future revenues associated with certain costs or liabilities that have been deferred and are expected to be recovered through rates charged to customers. Regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts that are collected in rates for future costs.

Recovery or refund of regulatory assets and liabilities is based on specific periods determined by the PSCW or occurs over the normal operating period of the assets and liabilities to which they relate. If at any reporting date a previously recorded regulatory asset is no longer probable of recovery, the regulatory asset is reduced to the amount considered probable of recovery with the reduction charged to expense in the reporting period the determination is made. See Note 4, Regulatory Assets and Liabilities, for more information.

(g) Property, Plant, and Equipment—We record property, plant, and equipment at cost. Cost includes material, labor, overhead, and both debt and equity components of AFUDC. Additions to and significant replacements of property are charged to property, plant, and equipment at cost; minor items are charged to other operation and maintenance expense. The cost of depreciable utility property less salvage value is charged to accumulated depreciation when property is retired.

We record straight-line depreciation expense over the estimated useful life of utility property using depreciation rates as approved by the PSCW. Our annual utility composite depreciation rate was 2.30% in 2018 and 2017.

Third parties reimburse us for all or a portion of expenditures for certain capital projects. Such contributions in aid of construction costs are recorded as a reduction to property, plant, and equipment.

See Note 5, Property, Plant, and Equipment, for more information.

(h) Allowance for Funds Used During Construction—AFUDC is included in utility plant accounts and represents the cost of borrowed funds (AFUDC – Debt) used during plant construction and a return on member's equity (AFUDC – Equity) used for construction purposes. AFUDC – Debt is recorded as a reduction of interest expense and AFUDC – Equity is recorded in other income, net.

Approximately 50% of our retail jurisdictional construction work in progress expenditures are subject to the AFUDC calculation. Our average AFUDC retail rate was 8.33% in 2018 and 2017.

(i) Asset Impairment—We periodically assess the recoverability of certain long-lived assets when factors indicate the carrying value of such assets may be impaired or such assets are planned to be sold. These assessments require significant assumptions and judgments by management. The long-lived assets assessed for impairment generally include certain assets within regulated operations that may not be fully recovered from our customers as a result of regulatory decisions that will be made in the future. An impairment loss is recognized when the carrying amount of an asset is not recoverable and exceeds the fair value of the asset. The carrying amount of an asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. An impairment loss is measured as the excess of the carrying amount of the asset in comparison to the fair value of the asset.

(j) Goodwill—Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired. At December 31, 2018 and 2017, we had gross goodwill of $441.9 million and accumulated goodwill impairment losses of $346.0 million, resulting in a net goodwill balance of $95.9 million. Our goodwill balances did not change during the years ended December 31, 2018 and 2017.

Goodwill is subject to an annual impairment test. Interim impairment tests are performed when impairment indicators are present. Our reporting unit containing goodwill as of July 1, 2018, performed an annual goodwill impairment test during the third quarter of 2018. No impairments resulted from this test. The carrying amount of the reporting unit's goodwill is considered not recoverable if the carrying amount of the reporting unit exceeds the reporting unit's fair value. An impairment loss is recorded for the excess of the carrying amount of goodwill over its implied fair value.

(k) Stock-Based Compensation—Our employees participate in the WEC Energy Group stock-based compensation plans. In accordance with the WEC Energy Group shareholder approved WEC Energy Group 1993 Omnibus Stock Incentive Plan, Amended and Restated Effective as of January 1, 2016, WEC Energy Group provides long-term incentives through its equity interests to its non-employee directors, officers, and other key employees. The plan provides for the granting of stock options, restricted stock, performance shares, and other stock-based awards. Awards may be paid in WEC Energy Group common stock, cash, or a combination thereof. Stock-based compensation expense related to these awards is allocated to us based on the outstanding awards held by our employees and our allocation of labor costs. For the years ended December 31, 2018 and 2017, we recorded stock-based compensation expense of $1.8 million and $1.2 million, respectively.

Stock-based compensation costs capitalized during 2018 and 2017 were not significant.

(l) Income Taxes—We follow the liability method in accounting for income taxes. Accounting guidance for income taxes requires the recording of deferred assets and liabilities to recognize the expected future tax consequences of events that have been reflected in our financial statements or tax returns and the adjustment of deferred tax balances to reflect tax rate changes. We are required to assess the likelihood that our deferred tax assets would expire before being realized. If we conclude that certain deferred tax assets are likely to expire before being realized, a valuation allowance would be established against those assets. GAAP requires that, if we conclude in a future period that it is more likely than not that some or all of the deferred tax assets would be realized before expiration, we reverse the related valuation allowance in that period. Any change to the allowance, as a result of a change in judgment about the realization of deferred tax assets, is reported in income tax expense.

Investment tax credits associated with regulated operations are deferred and amortized over the life of the assets. We and our subsidiary are included in WEC Energy Group's consolidated federal and state income tax returns. In accordance with our tax allocation agreement with WEC Energy Group, we are allocated income tax payments and refunds based on our separate tax computation. See Note 9, Income Taxes, for more information.

We recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense in our income statements.

(m) Fair Value Measurements—Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

Fair value accounting rules provide a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted prices are 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.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs within models or other valuation methods.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methods that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. We use a mid-market pricing convention (the mid-point price between bid and ask prices) as a practical measure for valuing certain derivative assets and liabilities. We primarily use a market approach for recurring fair value measurements and attempt to use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

When possible, we base the valuations of our derivative assets and liabilities on quoted prices for identical assets and liabilities in active markets. These valuations are classified in Level 1. The valuations of certain contracts not classified as Level 1 may be based on quoted market prices received from counterparties and/or observable inputs for similar instruments. Transactions valued using these inputs are classified in Level 2. Certain derivatives are categorized in Level 3 due to the significance of unobservable or internally-developed inputs.

We recognize transfers between the levels of the fair value hierarchy as of the end of the reporting period.

See Note 10, Fair Value Measurements, for more information.

(n) Derivative Instruments—We use derivatives as part of our risk management program to manage the risks associated with the price volatility of natural gas costs for the benefit of our customers. Our approach is non-speculative and is designed to mitigate risk. Our regulated hedging program is approved by the PSCW.

We record derivative instruments on our balance sheets as an asset or liability measured at fair value, unless they qualify for the normal purchases and sales exception, and are so designated. We continually assess our contracts designated as normal and will discontinue the treatment of these contracts as normal if the required criteria are no longer met. 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 of our natural gas-related physical and financial contracts that qualify as derivatives, the PSCW allows the effects of fair value accounting to be offset to regulatory assets and liabilities.

We classify derivative assets and liabilities as current or long-term on our balance sheets based on the maturities of the underlying contracts. Cash flows from derivative activities are presented in the same category as the item being hedged within operating activities on our statements of cash flows.

Derivative accounting rules provide the option to present certain asset and liability derivative positions net on the balance sheets and to net the related cash collateral against these net derivative positions. We elected not to net these items. On our balance sheets, cash collateral provided to others is reflected in other current assets. See Note 11, Derivative Instruments, for more information.

(o) Employee Benefits—The costs of pension and OPEB plans are expensed over the periods during which employees render service. These costs are distributed among WEC Energy Group's subsidiaries based on current employment status and actuarial

calculations, as applicable. The PSCW allows recovery in rates for our net periodic benefit cost calculated under GAAP. See Note 12, Employee Benefits, for more information.

(p) Customer Credit Balances—Customers can elect to be on a budget plan. Under this type of plan, a monthly installment amount is calculated based on estimated annual usage. During the year, the monthly installment amount is reviewed by comparing it to actual usage. If necessary, an adjustment is made to the monthly amount. Annually, the budget plan is reconciled to actual annual usage. Payments in excess of actual customer usage are presented as customer credit balances on our balance sheets.

(q) Environmental Remediation Costs—We are subject to federal and state environmental laws and regulations that in the future may require us to pay for environmental remediation at sites where we have been, or may be, identified as a potentially responsible party. Loss contingencies may exist for the remediation of hazardous substances at various potential sites, including manufactured gas plant sites. See Note 13, Commitments and Contingencies, for more information.

We record environmental remediation liabilities when site assessments indicate remediation is probable, and we can reasonably estimate the loss or a range of losses. The estimate includes both our share of the liability and any additional amounts that will not be paid by other potentially responsible parties or the government. When possible, we estimate costs using site-specific information but also consider historical experience for costs incurred at similar sites. Remediation efforts for a particular site generally extend over a period of several years. During this period, the laws governing the remediation process may change, as well as site conditions, potentially affecting the cost of remediation.

We have received approval to defer certain environmental remediation costs, as well as estimated future costs, through a regulatory asset. The recovery of deferred costs is subject to PSCW approval.

We review our estimated costs of remediation annually for our manufactured gas plant sites. We adjust the liabilities and related regulatory assets, as appropriate, to reflect the new cost estimates. Any material changes in cost estimates are adjusted throughout the year.

(r) Customer Concentrations of Credit Risk—The geographic concentration of our customers in our service territory did not contribute significantly to our overall exposure to credit risk. We periodically review customers' credit ratings, financial statements, and historical payment performance and require them to provide collateral or other security as needed. Our credit risk exposure is mitigated by our recovery mechanism for uncollectible expense discussed in Note 1(d), Operating Revenues. As a result, we did not have any significant concentrations of credit risk at December 31, 2018. In addition, there were no customers that accounted for more than 10% of our revenues for the year ended December 31, 2018.

(s) Subsequent Events—Subsequent events were evaluated for potential recognition or disclosure through March 26, 2019, which is the date the financial statements were available to be issued.

NOTE 2—RELATED PARTIES

We routinely enter into transactions with related parties, including WEC Energy Group and its other subsidiaries.

We provide and receive services, property, and other items of value to and from our parent, WEC Energy Group, and other subsidiaries of WEC Energy Group.

Following WEC Energy Group's acquisition of Integrys on June 29, 2015, an AIA (Non-WBS AIA) went into effect. The Non-WBS AIA governed the provision and receipt of services by WEC Energy Group's subsidiaries, except that WBS continued to provide services to Integrys and its subsidiaries only under the existing WBS AIAs. WBS provided services to WEC Energy Group and the former Wisconsin Energy Corporation subsidiaries, including us, under interim WBS AIAs. The PSCW and all other relevant state commissions approved the Non-WBS AIA or granted appropriate waivers related to the Non-WBS AIA.

Services under the Non-WBS AIA were subject to various pricing methodologies. All services provided by any regulated subsidiary to another regulated subsidiary were priced at cost. All services provided by any regulated subsidiary to any nonregulated subsidiary were priced at the greater of cost or fair market value. All services provided by any nonregulated subsidiary to any regulated subsidiary were priced at the lesser of cost or fair market value. All services provided by any regulated or nonregulated subsidiary to WBS were priced at cost.

WBS provided several categories of services (including financial, human resources, and administrative services) to us pursuant to the WBS AIAs, which were approved, or from which we were granted appropriate waivers, by the appropriate regulators, including the PSCW. As required by Federal Energy Regulatory Commission regulations for centralized service companies, WBS renders services at cost. The PSCW must be notified prior to making changes to the services offered under and the allocation methods specified in the WBS AIAs. Other modifications or amendments to the WBS AIAs would require PSCW approval. Recovery of allocated costs is addressed in our rate cases.

A new AIA took effect January 1, 2017. The new agreement replaced the previous agreements. The pricing methodology and services under this new agreement are substantially identical to those under the agreements that were replaced. All of the applicable state commissions approved modifications to the new AIA to incorporate WEC Energy Group's acquisition of Bluewater. See below for more information about the acquisition.

The following table shows activity associated with our related party transactions for the years ended December 31:

(in millions)	2018		2017
Transactions with WBS [1]			
Billings to WBS	**$ 7.9**		$ 0.1
Billings from WBS	**40.1**	[2]	20.2
Billings from WEC Energy Group [1]	**—**		10.3
Transactions with WE			
Natural gas sales to WE	**5.3**		5.3
Billings to WE [1]	**32.6**		23.1
Billings from WE [1]	**59.0**	[2]	64.0
Transactions with Bluewater [3]			
Storage service fees	**20.9**		2.1

[1] Includes amounts billed for services, pass through costs, and other items in accordance with the approved AIAs.

[2] Includes $10.3 million and $5.3 million for the transfer of certain software assets to us from WBS and WE, respectively, for the year ended December 31, 2018.

[3] WEC Energy Group's acquisition of Bluewater was completed June 30, 2017.

Parent Company's Acquisition of Natural Gas Storage Facilities in Michigan

On June 30, 2017, our parent company completed its acquisition of Bluewater for $226.0 million. Bluewater owns natural gas storage facilities in Michigan that provide a portion of the current storage needs for our natural gas utility operations. In September 2017, we entered into a long-term service agreement with a wholly owned subsidiary of Bluewater to take a portion of the storage, which was then approved by the PSCW in November 2017. See Note 15, Regulatory Environment, for more information.

NOTE 3—OPERATING REVENUES

Disaggregation of Operating Revenues

The following tables present our operating revenues disaggregated by revenue source. We disaggregate revenues into categories that depict how the nature, amount, timing, and uncertainty of revenues and cash flows are affected by economic factors. Natural gas revenues are further disaggregated by customer class. Each customer class has different expectations of service, natural gas and demand requirements, and are impacted by regulatory activities within Wisconsin.

Comparable amounts have not been presented for the year ended December 31, 2017, due to our adoption of ASU 2014-09, Revenues from Contracts with Customers, under the modified retrospective method. See Note 1(d), Operating Revenues, for more information about our significant accounting policies related to operating revenues.

(in millions)	Natural Gas Operating Revenues
Year ended December 31, 2018	
Natural gas utility revenues from contracts with customers	**$ 646.3**
Other operating revenues	**3.3**
Total natural gas operating revenues	**$ 649.6**

Revenues from Contracts with Customers

Natural Gas Utility Operating Revenues

The following table disaggregates natural gas utility operating revenues into customer class:

(in millions)	Natural Gas Utility Operating Revenues
Year Ended December 31, 2018	
Residential	**$ 390.2**
Commercial and industrial	**203.6**
Total retail revenues	**593.8**
Transport	**45.6**
Other utility revenues *	**6.9**
Total natural gas utility operating revenues	**$ 646.3**

* Includes amounts collected from customers for purchased gas adjustment costs.

Other Operating Revenues

Other operating revenues consist primarily of the following:

(in millions)	Year Ended December 31, 2018
Late payment charges	**$ 3.2**
Leases	**0.1**
Total other operating revenues	**$ 3.3**

NOTE 4—REGULATORY ASSETS AND LIABILITIES

The following regulatory assets were reflected on our balance sheets as of December 31:

(in millions)	2018	2017	See Note
Regulatory assets [1] [2]			
Pension and OPEB costs [3]	**$ 164.4**	$ 157.6	12
Environmental remediation costs [4]	**85.6**	47.3	13
Other, net	**0.7**	1.2	
Total regulatory assets	**$ 250.7**	$ 206.1	

(1) Based on prior and current rate treatment, we believe it is probable that we will continue to recover from customers the regulatory assets in this table.

(2) As of December 31, 2018, we had $7.9 million of regulatory assets not earning a return. The regulatory assets not earning a return relate to certain environmental remediation costs, the recovery of which depends on the timing of the actual expenditures. The other regulatory assets in the table either earn a return or the cash has not yet been expended, in which case the regulatory assets are offset by liabilities.

(3) Primarily represents the unrecognized future pension and OPEB costs related to our defined benefit pension and OPEB plans. We are authorized recovery of these regulatory assets over the average remaining service life of each plan.

(4) As of December 31, 2018, we had made cash expenditures of $7.9 million related to these environmental remediation costs. The remaining $77.7 million represents our estimated future cash expenditures.

The following regulatory liabilities were reflected on our balance sheets as of December 31:

(in millions)	2018	2017	See Note
Regulatory liabilities			
Income tax related items [1]	**$ 198.1**	$ 188.0	9
Removal costs [2]	**180.3**	173.8	
Uncollectible expense [3]	**14.1**	18.3	1(d)
Natural gas costs refundable through rate adjustments [4]	**9.8**	16.4	1(d)
Other, net	**10.0**	2.9	
Total regulatory liabilities	**$ 412.3**	$ 399.4	
Balance sheet presentation			
Amounts refundable to customers	**$ 9.8**	$ 16.4	
Regulatory liabilities	**402.5**	383.0	
Total regulatory liabilities	**$ 412.3**	$ 399.4	

(1) For information on the regulatory treatment of the impacts of the Tax Legislation, see Note 15, Regulatory Environment.

(2) Represents amounts collected from customers to cover the future cost of property, plant, and equipment removals that are not legally required.

(3) Represents amounts refundable to customers related to our uncollectible expense tracking mechanism. This mechanism allows us to recover or refund the difference between actual uncollectible write-offs and the amounts recovered in rates.

(4) Represents an over-collection of natural gas costs that will be refunded to customers in the future. When the rates we charge to customers include natural gas costs that are higher than our actual natural gas costs, any over-collection is refunded to customers.

NOTE 5—PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following utility and non-utility assets at December 31:

(in millions)	2018	2017
Natural gas - distribution, storage, and transmission	**$ 2,254.6**	$ 2,128.0
Other	**136.3**	126.2
Less: Accumulated depreciation	**740.6**	722.1
Net	**1,650.3**	1,532.1
Construction work in progress	**28.9**	14.7
Net utility property, plant, and equipment	**1,679.2**	1,546.8
Non-utility property, plant, and equipment	**4.0**	4.0
Total property, plant, and equipment	**$ 1,683.2**	$ 1,550.8

NOTE 6—MEMBER'S EQUITY

Various financing arrangements and regulatory requirements impose certain restrictions on our ability to transfer funds to WEC Energy Group in the form of cash distributions, loans, or advances. In addition, Wisconsin law prohibits us from making loans to or guaranteeing obligations of WEC Energy Group.

In accordance with our most recent rate order, we may not pay distributions above the test year forecasted amount reflected in our rate case, if it would cause our average common equity ratio, on a financial basis, to fall below our authorized level of 49.5%. A return of capital in excess of the test year amount can be paid by us at the end of the year provided that our average common equity ratio does not fall below the authorized level.

See Note 7, Short-Term Debt and Lines of Credit, for discussion of certain financial covenants related to our short-term debt obligations.

Our regulated member's equity is lower than our GAAP equity as it includes adjustments for purchase accounting and other factors. As of December 31, 2018, approximately $737 million of our regulated member's equity, on a financial basis, was restricted.

We do not believe that these restrictions will materially affect our operations or limit any distributions in the foreseeable future.

NOTE 7—SHORT-TERM DEBT AND LINES OF CREDIT

The following table shows our short-term borrowings and their corresponding weighted-average interest rates as of December 31:

(in millions, except percentages)	2018	2017
Commercial paper		
Amount outstanding at December 31	**$ 277.3**	$ 205.9
Average interest rate on amounts outstanding at December 31	**2.76%**	1.71%

Our average amount of commercial paper borrowings based on daily outstanding balances during 2018 was $184.8 million, with a weighted-average interest rate during the period of 2.23%.

We have entered into a bank back-up credit facility to maintain short term credit liquidity which, among other terms, requires us to maintain, subject to certain exclusions, a total funded debt to capitalization ratio of 65% or less. As of December 31, 2018, we were in compliance with our financial covenants.

The information in the table below relates to our revolving credit facility used to support our commercial paper borrowing program, including remaining available capacity under this facility as of December 31:

(in millions)	Maturity	2018
Revolving credit facility	October 2022	**$ 350.0**
Less:		
Commercial paper outstanding		**277.3**
Available capacity under existing agreement		**$ 72.7**

This facility has a renewal provision for two one-year extensions, subject to lender approval.

Our bank back-up credit facility contains customary covenants, including certain limitations on our ability to sell assets. The credit facility also contains customary events of default, including payment defaults, material inaccuracy of representations and warranties, covenant defaults, bankruptcy proceedings, certain judgments, Employee Retirement Income Security Act of 1974 defaults and change of control.

NOTE 8—LONG-TERM DEBT

See our statements of capitalization for details on our long-term debt.

The following table shows the future maturities of our long-term debt outstanding as of December 31, 2018:

(in millions)	Payments
2019	$ —
2020	—
2021	—
2022	—
2023	—
Thereafter	490.0
Total	$ 490.0

We amortize debt premiums, discounts and debt issuance costs over the lives of the debt and we include the costs in interest expense.

Our long-term debt obligations contain covenants related to payment of principal and interest when due and various other obligations. Failure to comply with these covenants could result in an event of default, which could result in the acceleration of outstanding debt obligations.

NOTE 9—INCOME TAXES

Income Tax Expense

The following table is a summary of income tax expense for each of the years ended December 31:

(in millions)	2018	2017
Current tax expense	**$ 9.5**	$ 19.9
Deferred income taxes, net	**15.3**	40.8
Total income tax expense	**$ 24.8**	$ 60.7

Statutory Rate Reconciliation

The provision for income taxes for each of the years ended December 31 differs from the amount of income tax determined by applying the applicable United States statutory federal income tax rate to income before income taxes as a result of the following:

	2018		2017	
(in millions)	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Expected tax at statutory federal tax rates	**$ 21.0**	**21.0 %**	$ 39.9	35.0 %
State income taxes net of federal tax benefit	**6.2**	**6.2 %**	5.8	5.1 %
Federal excess deferred tax amortization	**(2.3)**	**(2.3)%**	—	— %
Tax Legislation	**—**	**— %**	15.1	13.3 %
Other, net	**(0.1)**	**(0.1)%**	(0.1)	(0.1)%
Total income tax expense	**$ 24.8**	**24.8 %**	$ 60.7	53.3 %

Deferred Income Tax Assets and Liabilities

On December 22, 2017, the Tax Legislation was signed into law. For businesses, the Tax Legislation reduced the corporate federal tax rate from a maximum of 35% to a 21% rate effective January 1, 2018. In December 2017, we recorded a net tax benefit related to the remeasurement of our deferred taxes in the amount of $175 million. Accordingly, the tax benefit related to our regulated operations was recorded as both an increase to regulatory liabilities as well as a decrease to certain existing regulatory assets at December 31, 2017. The effects of the Tax Legislation related to certain non-regulated items resulted in the recording of income tax expense in the amount of $15.1 million for the year ended December 31, 2017. This amount was primarily due to a re-measurement of deferred tax assets and liabilities.

On December 22, 2017, the Securities and Exchange Commission staff issued guidance in Staff Accounting Bulletin 118 (SAB 118), Income Tax Accounting Implications of the Tax Cuts and Jobs Act, which provided for a measurement period of up to one year from the enactment date to complete accounting under GAAP for the tax effects of the legislation. Due to the complex and comprehensive nature of the enacted tax law changes, and their application under GAAP, certain amounts related to bonus depreciation and future tax benefit utilization recorded in the financial statements as a result of the Tax Legislation were considered "provisional" and subject to revision at December 31, 2017, and through 2018, as discussed in SAB 118.

In 2018, we considered all available guidance from industry and income tax authorities related to these tax items, analyzed the impact on Alternative Minimum Tax Credit carryforwards, and revised our estimates for re-measurement of deferred income taxes related to guidance on bonus depreciation. At December 31, 2018, we no longer considered any amounts related to bonus depreciation and future tax benefit utilization "provisional." However, any further amendments or technical corrections to the Tax Legislation could subject these tax items to revision.

The components of deferred income taxes at December 31 were as follows:

(in millions)	2018	2017
Deferred tax assets		
Tax gross up – regulatory items	**$ 51.6**	$ 46.6
Uncollectible account expense	**8.8**	10.0
Construction advances	**1.6**	2.2
Inventory	**1.1**	1.2
Employee benefits and compensation	**1.1**	0.9
Future tax benefits	**0.3**	0.9
Other	**7.3**	2.8
Total deferred tax assets	**$ 71.8**	$ 64.6
Deferred tax liabilities		
Property-related	**$ 185.4**	$ 169.6
Pension benefits	**64.1**	64.0
Post-retirement benefits	**21.9**	21.0
Other	**3.6**	2.6
Total deferred tax liabilities	**$ 275.0**	$ 257.2
Deferred tax liability, net	**$ 203.2**	$ 192.6

Consistent with rate-making treatment, deferred taxes in the table above are offset for temporary differences that have related regulatory assets and liabilities.

At December 31, 2018, we had $0.1 million of federal tax benefit carryforwards resulting in deferred tax assets of $0.1 million. These federal tax benefit carryforwards expire in 2022. We expect to have future taxable income sufficient to utilize these deferred tax assets. At December 31, 2017, we had $1.2 million and $0.1 million of federal charitable contribution and tax credit carryforwards resulting in deferred tax assets of $0.3 million and $0.1 million, respectively.

At December 31, 2018, we had $4.3 million of state net operating loss carryforwards resulting in deferred tax assets of $0.2 million. These state net operating loss carryforwards begin to expire in 2035. We expect to have future taxable income sufficient to utilize these deferred tax assets. At December 31, 2017, we had $6.5 million and $2.1 million of state charitable contribution and state net operating loss carryforwards resulting in deferred tax assets of $0.4 million and $0.1 million, respectively.

Unrecognized Tax Benefits

We had no unrecognized tax benefits at December 31, 2018 and 2017.

We do not expect any unrecognized tax benefits to affect our effective tax rate in periods after December 31, 2018.

For the years ended December 31, 2018 and 2017, we recognized no interest and no penalties related to unrecognized tax benefits in our income statements. At December 31, 2018 and 2017, we had no interest accrued and no penalties accrued related to unrecognized tax benefits on our balance sheets.

We do not anticipate any significant increases in the total amounts of unrecognized tax benefits within the next 12 months.

Our primary tax jurisdictions include federal and the state of Wisconsin. With a few exceptions, we are no longer subject to federal income tax examinations by the United States Internal Revenue Service for years prior to 2015. At December 31, 2018, we were subject to examination by the Wisconsin taxing authority for tax years 2014 through 2018.

NOTE 10—FAIR VALUE MEASUREMENTS

The following tables summarize our financial assets and liabilities that were accounted for at fair value on a recurring basis, categorized by level within the fair value hierarchy:

	December 31, 2018			
(in millions)	Level 1	Level 2	Level 3	Total
Derivative assets				
Natural gas contracts	**$ 0.4**	**$ 0.1**	**$ —**	**$ 0.5**
Derivative liabilities				
Natural gas contracts	**0.4**	**0.2**	**—**	**0.6**

	December 31, 2017			
(in millions)	Level 1	Level 2	Level 3	Total
Derivative assets				
Natural gas contracts	$ 0.3	$ 0.4	$ —	$ 0.7
Derivative liabilities				
Natural gas contracts	0.9	0.1	—	1.0

The derivative assets and liabilities listed in the tables above include natural gas purchase contracts, options, and futures used to manage volatility in natural gas supply costs. See Note 11, Derivative Instruments, for more information.

Fair Value of Financial Instruments

The following table shows the financial instruments included on our balance sheets that are not recorded at fair value at December 31:

	2018		2017	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	**$ 486.3**	**$ 479.8**	$ 486.0	$ 513.8

The fair value of long-term debt is categorized within Level 2 of the fair value hierarchy.

NOTE 11—DERIVATIVE INSTRUMENTS

The following table shows our derivative assets and derivative liabilities, none of which are designated as hedging instruments.

	December 31, 2018		December 31, 2017	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Other current				
Natural gas contracts	**$ 0.5**	**$ 0.6**	$ 0.7	$ 0.9
Other long-term				
Natural gas contracts	**—**	**—**	—	0.1
Total	**$ 0.5**	**$ 0.6**	$ 0.7	$ 1.0

Realized gains and losses on derivative instruments are primarily recorded in cost of natural gas sold on our income statements. Our estimated notional sales volumes and realized gains and losses were as follows for the years ended:

	December 31, 2018		December 31, 2017	
(in millions)	Volume	Gains	Volume	Losses
Natural gas contracts	23.8 Dth	**$ 3.0**	19.0 Dth	$ (1.1)

At December 31, 2018 and 2017, we had posted cash collateral of $0.5 million and $1.8 million, respectively, in our margin accounts.

The following table shows derivative assets and derivative liabilities if derivative instruments by counterparty were presented net on our balance sheets:

	December 31, 2018		December 31, 2017	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Gross amount recognized on the balance sheet	**$ 0.5**	**$ 0.6**	$ 0.7	$ 1.0
Gross amount not offset on the balance sheet	**(0.4)**	**(0.4)**	(0.3)	(0.9) *
Net amount	**$ 0.1**	**$ 0.2**	$ 0.4	$ 0.1

* Includes cash collateral posted of $0.6 million.

NOTE 12—EMPLOYEE BENEFITS

Pension and Other Postretirement Employee Benefits

We participate in WEC Energy Group's defined benefit pension plans and OPEB plans that cover substantially all of our employees. We are responsible for our share of the plan assets and obligations. The benefits for a portion of these plans are funded through irrevocable trusts, as allowed for income tax purposes. Our balance sheets reflect only the liabilities associated with our past and current employees and our share of the plan assets and obligations. We also offer medical, dental, and life insurance benefits to active employees and their dependents. We expense the costs of these benefits as incurred.

Generally, employees who started with us after 1997 receive a benefit based on a percentage of their annual salary plus an interest credit, while employees who started before 1998 receive a benefit based upon years of service and final average salary. New management employees hired after December 31, 2014 receive an annual company contribution to their 401(k) savings plan instead of being enrolled in the defined benefit plans. In October 2017, we remeasured the obligations of our OPEB plan as a result of a plan design change to move all participants to the same Medicare Advantage plan design starting January 1, 2018.

We use a year-end measurement date to measure the funded status of all of the pension and OPEB plans. Due to the regulated nature of our business, we have concluded that substantially all of the unrecognized costs resulting from the recognition of the funded status of the pension and OPEB plans qualify as a regulatory asset.

The following table shows information relating to our share of the plans' benefit obligations and fair value of assets. Amounts presented are as of December 31:

	Pension Costs		OPEB Costs	
(in millions)	2018	2017	2018	2017
Benefit obligation	**$ 136.6**	$ 148.6	**$ 55.7**	$ 69.6
Fair value of plan assets	**232.1**	248.3	**112.8**	120.3
Funded status	**$ 95.5**	$ 99.7	**$ 57.1**	$ 50.7

The amount of contributions and benefit payments for the years ended December 31 was as follows:

	Pension Costs		OPEB Costs	
(in millions)	2018	2017	2018	2017
Employer contributions	**$ 1.0**	$ 1.0	**$ 2.2**	$ 1.7
Participant contributions	**—**	—	**0.4**	0.6
Benefit payments	**(11.5)**	(11.2)	**(5.4)**	(4.0)

The amounts recognized on our balance sheets as of December 31 related to the funded status of the benefit plans were as follows:

	Pension Costs		OPEB Costs	
(in millions)	2018	2017	2018	2017
Prepaid pension and OPEB costs	**$ 111.9**	$ 111.6	**$ 57.1**	$ 50.7
Other long-term liabilities	**16.4**	11.9	**—**	—
Total net assets	**$ 95.5**	$ 99.7	**$ 57.1**	$ 50.7

The accumulated benefit obligation for all defined benefit plans was $136.6 million and $148.6 million as of December 31, 2018 and 2017, respectively.

The following table shows information for pension plans with an accumulated benefit obligation in excess of plan assets. There were no plan assets related to these pension plans. Amounts presented are as of December 31:

(in millions)	2018	2017
Projected benefit obligation	**$ 38.3**	$ 11.9
Accumulated benefit obligation	**38.3**	11.9
Fair value of plan assets	**21.9**	—

The following table shows the amounts that have not yet been recognized in our net periodic benefit cost as of December 31:

	Pension Costs		OPEB Costs	
(in millions)	2018	2017	2018	2017
Net regulatory assets				
Net actuarial loss	**$ 140.3**	$ 134.6	**$ 24.5**	$ 23.5
Prior service credits	**(0.3)**	(0.3)	**(0.1)**	(0.2)
Total	**$ 140.0**	$ 134.3	**$ 24.4**	$ 23.3

The following table shows the estimated amounts that will be amortized into net periodic benefit cost during 2019:

(in millions)	Pension Costs	OPEB Costs
Net actuarial loss	$ 8.5	$ —
Total 2019 – estimated amortization	$ 8.5	$ —

The amount of net periodic benefit cost (credit) recognized (including amounts capitalized to our balance sheets) for the years ended December 31 was as follows:

	Pension Costs		OPEB Costs	
(in millions)	2018	2017	2018	2017
Net periodic benefit (credits) costs	**$ (0.5)**	$ 1.2	**$ (5.4)**	$ (4.6)

Effective January 1, 2018, we adopted ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which modifies certain aspects of the accounting for employee benefit costs. Under the new guidance, only the service cost component can be included in total operating expenses. The remaining components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component, outside of operating income. As required, this change was applied retrospectively to all prior periods presented. Accordingly, for the years ended December 31, 2018 and 2017, we have presented the service cost component of our retirement benefit plans in other operation and maintenance on the income statements, while presenting the non-service cost components in other income, net.

As required by ASU 2017-07, our income statement for the year ended December 31, 2017, was retroactively restated from what was previously presented in our 2017 Annual Report. The impacts to our income statement from adoption of this standard are reflected in the table below.

	Year Ended December 31, 2017		
(in millions)	2017 Annual Report Income Statement	Impact of ASU 2017-07	Income Statement After Adoption
Operating expenses			
Other operation and maintenance	$ 108.8	$ 5.4	$ 114.2
Other expense			
Other income, net	1.5	5.4	6.9

In addition, under ASU 2017-07, only the service cost component of net periodic benefit cost is eligible for capitalization to property, plant, and equipment. In prior periods, a portion of all net benefit cost components was capitalized to property, plant, and equipment. As required, this amendment was applied prospectively, beginning January 1, 2018. As a result of the application of

accounting principles for rate regulated entities, the non-service cost components of the net benefit cost that are no longer eligible for capitalization under this standard, but are capitalized under the regulatory framework, will be presented as regulatory assets or liabilities rather than property, plant, and equipment.

The weighted-average assumptions used to determine benefit obligations for the plans were as follows for the years ended December 31:

	Pension		OPEB	
	2018	**2017**	**2018**	**2017**
Discount rate	**4.29%**	3.64%	**4.30%**	3.65%
Rate of compensation increase	**3.40%**	3.20%	**N/A**	N/A
Assumed medical cost trend rate (Pre 65)	**N/A**	N/A	**6.25%**	6.50%
Ultimate trend rate (Pre 65)	**N/A**	N/A	**5.00%**	5.00%
Year ultimate trend rate is reached (Pre 65)	**N/A**	N/A	**2024**	2024
Assumed medical cost trend rate (Post 65)	**N/A**	N/A	**6.11%**	6.18%
Ultimate trend rate (Post 65)	**N/A**	N/A	**5.00%**	5.00%
Year ultimate trend rate is reached (Post 65)	**N/A**	N/A	**2028**	2028

The weighted-average assumptions used to determine net periodic benefit cost for the plans were as follows for the years ended December 31:

	Pension Costs	
	2018	**2017**
Discount rate	**3.64%**	4.09%
Expected return on assets	**7.00%**	7.00%
Rate of compensation increase	**3.40%**	3.20%

	OPEB Costs	
	2018	**2017**
Discount rate	**3.65%**	4.10%
Expected return on assets	**7.25%**	7.25%
Assumed medical cost trend rate (Pre 65)	**6.50%**	7.00%
Ultimate trend rate (Pre 65)	**5.00%**	5.00%
Year ultimate trend rate is reached (Pre 65)	**2024**	2021
Assumed medical cost trend rate (Post 65)	**6.18%**	7.00%
Ultimate trend rate (Post 65)	**5.00%**	5.00%
Year ultimate trend rate is reached (Post 65)	**2028**	2021

WEC Energy Group consults with its investment advisors on an annual basis to help forecast expected long-term returns on plan assets by reviewing historical returns as well as calculating expected total trust returns using the weighted-average of long-term market returns for each of the major target asset categories utilized in the fund. For 2019, the expected return on assets assumption is 7.00% for the pension plans and 7.25% for the OPEB plans.

Plan Assets

Current pension trust assets and amounts which are expected to be contributed to the trusts in the future are expected to be adequate to meet pension payment obligations to current and future retirees.

The Investment Trust Policy Committee oversees investment matters related to all of our funded benefit plans. The Committee works with external actuaries and investment consultants on an on-going basis to establish and monitor investment strategies and target asset allocations. Forecasted cash flows for plan liabilities are regularly updated based on annual valuation results. Target allocations are determined using projected benefit payments and risk analyses of appropriate investments. They are intended to reduce risk, provide long-term financial stability for the plans and maintain funded levels which meet long-term plan obligations while preserving sufficient liquidity for near-term benefit payments.

Our pension plan's assets are invested in a corporate pension trust with a target asset allocation of 35% equity investments, 55% fixed income investments, and 10% private equity and real estate investments. Our two OPEB trusts have target asset allocations of 50% equity investments and 50% fixed income investments, and 70% equity investments and 30% fixed income investments, respectively. Equity securities include investments in large-cap, mid-cap, and small-cap companies. Fixed income securities include corporate bonds of companies from diversified industries, mortgage and other asset backed securities, commercial paper, and United States Treasuries.

Pension and OPEB plan investments are recorded at fair value. See Note 1(m), Fair Value Measurements, for more information regarding the fair value hierarchy and the classification of fair value measurements based on the types of inputs used.

The following table summarizes the fair values of our investments by asset class:

	As of December 31, 2018							
	Pension Plan Assets				OPEB Assets			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Equity securities:								
United States Equity	**$ 20.2**	**$ —**	**$ —**	**$ 20.2**	**$ 13.9**	**$ —**	**$ —**	**$ 13.9**
International Equity	**19.5**	**—**	**—**	**19.5**	**13.6**	**—**	**—**	**13.6**
Fixed income securities: *								
United States Bonds	**15.1**	**99.3**	**—**	**114.4**	**13.9**	**25.9**	**—**	**39.8**
International Bonds	**1.9**	**7.2**	**—**	**9.1**	**0.9**	**1.6**	**—**	**2.5**
	$ 56.7	**$ 106.5**	**$ —**	**$ 163.2**	**$ 42.3**	**$ 27.5**	**$ —**	**$ 69.8**
Investments measured at net asset value				**$ 68.9**				**$ 43.0**
Total	**$ 56.7**	**$ 106.5**	**$ —**	**$ 232.1**	**$ 42.3**	**$ 27.5**	**$ —**	**$ 112.8**

* This category represents investment grade bonds of United States and foreign issuers denominated in United States dollars from diverse industries.

	As of December 31, 2017							
	Pension Plan Assets				OPEB Assets			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Cash and cash equivalents	$ —	$ 1.5	$ —	$ 1.5	$ 1.2	$ 0.2	$ —	$ 1.4
Equity securities:								
United States Equity	24.0	—	—	24.0	16.0	—	—	16.0
International Equity	25.0	—	—	25.0	17.7	—	—	17.7
Fixed income securities: *								
United States Bonds	16.6	102.4	—	119.0	13.4	24.9	—	38.3
International Bonds	2.1	7.2	—	9.3	0.9	1.5	—	2.4
Private Equity and Real Estate	—	4.5	12.1	16.6	—	0.8	2.0	2.8
	$ 67.7	$ 115.6	$ 12.1	$ 195.4	$ 49.2	$ 27.4	$ 2.0	$ 78.6
Investments measured at net asset value				$ 52.9				$ 41.7
Total	$ 67.7	$ 115.6	$ 12.1	$ 248.3	$ 49.2	$ 27.4	$ 2.0	$ 120.3

* This category represents investment grade bonds of United States and foreign issuers denominated in United States dollars from diverse industries.

The following tables set forth a reconciliation of changes in the fair value of pension and OPEB plan assets categorized as Level 3 in the fair value hierarchy:

	Private Equity and Real Estate	
(in millions)	**Pension**	**OPEB**
Beginning balance at January 1, 2018	**$ 12.1**	**$ 2.0**
Realized and unrealized gains	**1.4**	**0.3**
Purchases	**2.2**	**0.4**
Liquidations	**(0.2)**	**—**
Transfers out of level 3	**(15.5)**	**(2.7)**
Ending balance at December 31, 2018	**$ —**	**$ —**

	Private Equity and Real Estate	
(in millions)	**Pension**	**OPEB**
Beginning balance at January 1, 2017	$ 2.3	$ 0.4
Realized and unrealized gains	0.5	0.1
Purchases	4.9	0.8
Transfers into level 3	4.4	0.7
Ending balance at December 31, 2017	$ 12.1	$ 2.0

Cash Flows

We expect to contribute $1.1 million to the pension plans in 2019, dependent upon various factors affecting us, including our liquidity position and the effects of the new Tax Legislation. We expect to contribute an insignificant amount to the OPEB plans in 2019.

The following table shows the payments, reflecting expected future service, that we expect to make for pension and OPEB:

(in millions)	**Pension**	**OPEB**
2019	$ 11.5	$ 4.2
2020	10.6	4.6
2021	11.0	4.7
2022	10.2	4.6
2023	9.2	4.6
2024-2028	42.0	18.4

Savings Plans

WEC Energy Group sponsors a 401(k) savings plan which allows substantially all of our full-time employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan-specified guidelines. A percentage of employee contributions are matched by us through a contribution into the employee's savings plan account, up to certain limits. The 401(k) savings plan includes an Employee Stock Ownership Plan. Certain employees receive an employer retirement contribution, which amounts are contributed to an employee's savings plan account. Total costs incurred under all of these plans were $1.5 million and $1.3 million in 2018 and 2017, respectively.

NOTE 13—COMMITMENTS AND CONTINGENCIES

We have significant commitments and contingencies arising from our operations, including those related to unconditional purchase obligations, environmental matters, and enforcement and litigation matters.

Unconditional Purchase Obligations

We have obligations to distribute and sell natural gas to our customers and expect to recover costs related to these obligations in future customer rates. In order to meet these obligations, we routinely enter into long-term purchase and sale commitments for various quantities and lengths of time.

The following table shows our minimum future commitments related to these purchase obligations as of December 31, 2018.

(in millions)	Date Contracts Extend Through	Total Amounts Committed	Payments Due By Period					
			2019	2020	2021	2022	2023	Later Years
Natural gas supply and transportation	**2048**	**$ 666.6**	**$ 103.3**	**$ 73.9**	**$ 51.1**	**$ 36.4**	**$ 30.2**	**$ 371.7**

Environmental Matters

Consistent with other companies in the natural gas utility industry, we face significant ongoing environmental compliance and remediation obligations related to current and past operations. Specific environmental issues affecting us include, but are not limited to, current and future regulation of greenhouse gas emissions and remediation of impacted properties, including former manufactured gas plant sites.

We have continued to pursue a proactive strategy to manage our environmental compliance obligations, including:

- the protection of wetlands and waterways, threatened and endangered species, and cultural resources associated with utility construction projects;
- the reporting of CO_2 emissions to comply with federal clean air rules; and
- the remediation of former manufactured gas plant sites.

Air Quality

Environmental Protection Agency Greenhouse Gases Reporting Program

We are required to report our CO_2 equivalent emissions related to the natural gas that we distribute and sell under the EPA Greenhouse Gases Reporting Program. For 2017, we reported CO_2 equivalent emissions of approximately 5.8 million metric tonnes to the EPA. Based upon our preliminary analysis of the data, we estimate that we will report CO_2 equivalent emissions of approximately 6.3 million metric tonnes to the EPA for 2018.

Land Quality

Manufactured Gas Plant Remediation

We have identified sites at which we or a predecessor company owned or operated a manufactured gas plant or stored manufactured gas. We have also identified other sites that may have been impacted by historical manufactured gas plant activities. We are responsible for the environmental remediation of these sites. We are also working with the Wisconsin Department of Natural Resources and the EPA on our investigation and remediation planning. These sites are at various stages of investigation, monitoring, remediation, and closure.

The future costs for detailed site investigation, future remediation, and monitoring are dependent upon several variables including, among other things, the extent of remediation, changes in technology, and changes in regulation. Historically, our regulators have allowed us to recover incurred costs, net of insurance recoveries and recoveries from potentially responsible parties, associated with the remediation of manufactured gas plant sites. Accordingly, we have established regulatory assets for costs associated with these sites.

We have established the following regulatory assets and reserves related to manufactured gas plant sites as of December 31:

(in millions)	2018	2017
Regulatory assets	**$ 85.6**	$ 47.3
Reserves for future remediation	**77.7**	41.2

Enforcement and Litigation Matters

We are involved in legal and administrative proceedings before various courts and agencies with respect to matters arising in the ordinary course of business. Although we are unable to predict the outcome of these matters, management believes that appropriate reserves have been established and that final settlement of these actions will not have a material effect on our financial condition or results of operations.

NOTE 14—SUPPLEMENTAL CASH FLOW INFORMATION

(in millions)	2018	2017
Cash (paid) for interest, net of amount capitalized	**$ (24.5)**	$ (21.6)
Cash (paid) received for income taxes, net	**(18.9)**	5.0
Significant non-cash transactions:		
Accounts payable related to construction costs	**3.3**	—

NOTE 15—REGULATORY ENVIRONMENT

Tax Cuts and Jobs Act of 2017

In December 2017, we deferred for return to ratepayers, through future refunds or bill credits, the estimated tax benefit of $190 million related to the Tax Legislation that was signed into law in December 2017. This tax benefit resulted from the revaluation of deferred taxes. The Tax Legislation also reduced the corporate federal tax rate from a maximum of 35% to a 21% rate, effective January 1, 2018.

In May 2018, the PSCW issued an order regarding the benefits associated with the Tax Legislation. The PSCW order requires 100% of the current 2018 and 2019 tax benefits be returned to our customers in the form of bill credits. Regarding the net tax benefit associated with the revaluation of deferred taxes, amortization required in accordance with normalization accounting is being deferred. The timing and method of returning the remaining net tax benefit associated with the revaluation of deferred taxes was not addressed and will be determined in a future rate proceeding.

2018 and 2019 Rates

During April 2017, we, along with WE and WPS, filed an application with the PSCW for approval of a settlement agreement we made with several of our commercial and industrial customers regarding 2018 and 2019 base rates. In September 2017, the PSCW issued an order that approved the settlement agreement, which freezes base rates through 2019 for our natural gas customers. Based on the PSCW order, our authorized ROE remains at 10.3%, and our current capital cost structure will remain unchanged through 2019.

Pursuant to the settlement agreement, we also agreed to keep our earnings sharing mechanism in place through 2019. Under this earnings sharing mechanism, if we earn above our authorized ROE, 50% of the first 50 basis points of additional utility earnings must be shared with customers. All utility earnings above the first 50 basis points must also be shared with customers.

As required in the settlement agreement, we anticipate initiating a rate proceeding with the PSCW by April 1, 2019.

Natural Gas Storage Facilities in Michigan

In January 2017, WEC Energy Group signed an agreement for the acquisition of Bluewater. Bluewater owns natural gas storage facilities in Michigan that provide a portion of the current storage needs for our natural gas utility operations. As a result of this agreement, we, along with WE and WPS, filed a request with the PSCW in February 2017 for a declaratory ruling on various items associated with the storage facilities. In the filing, we requested that the PSCW review and confirm the reasonableness and prudency of our potential long-term storage service agreement and interstate natural gas transportation contract related to the storage facilities. We, along with WE and WPS, also requested approval to amend WEC Energy Group's AIA to ensure WBS and WEC Energy Group's other subsidiaries could provide services to the storage facilities. During June 2017, the PSCW granted, subject to various conditions, these declarations and approvals, and WEC Energy Group acquired Bluewater on June 30, 2017. In September 2017, we entered into the long-term service agreement for the natural gas storage, which was then approved by the PSCW in November 2017.

NOTE 16—OTHER INCOME, NET

Total other income, net was as follows for the years ended December 31:

(in millions)	2018	2017
Non-service components of net periodic benefit costs	**0.4**	5.4
AFUDC – Equity	**0.6**	0.9
Other, net	**0.9**	0.6
Total other income, net	**$ 1.9**	$ 6.9

NOTE 17—NEW ACCOUNTING PRONOUNCEMENTS

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which revised the previous guidance (Topic 840) regarding accounting for leases. Revisions include requiring a lessee to recognize a lease asset and a lease liability on its balance sheet for each lease, including operating leases with an initial term greater than 12 months. In addition, required quantitative and qualitative disclosures related to lease agreements were expanded. For lessors however, accounting for leases was largely unchanged from previous provisions of GAAP.

We have finalized our inventory of leases and did not identify any leases that were significant, documented our technical accounting issues, and implemented required changes to internal controls and processes as a result of the new lease guidance. In addition, we continue to finalize the related financial disclosures that will be incorporated into our annual report for the year ended December 31, 2019.

We adopted Topic 842 for interim and annual periods beginning January 1, 2019. We utilized the following practical expedients, which were available under ASU 2016-02, in our adoption of the new lease guidance.

- We did not reassess whether any expired or existing contracts were leases or contained leases.
- We did not reassess the lease classification for any expired or existing leases.
- We did not reassess the accounting for initial direct costs for any existing leases.

We did not elect the practical expedient allowing entities to account for the nonlease components in lease contracts as part of the single lease component to which they were related. Instead, in accordance with Accounting Standards Codification 842-10-15-31, our policy is to account for each lease component separately from the nonlease components of the contract.

We did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment of our right-of-use assets. No impairment losses were included in the measurement of our right-of-use assets upon our adoption of Topic 842.

In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842, which is an amendment to ASU 2016-02. Land easements (also commonly referred to as rights of way) represent the right to use, access or cross another entity's land for a specified purpose. This new guidance permits an entity to elect a transitional practical expedient, to be applied consistently, to not evaluate under Topic 842 land easements that were already in existence or had expired at the time of the entity's adoption of Topic 842. Once Topic 842 is adopted, an entity is required to apply Topic 842 prospectively to all new (or modified) land easements to determine whether the arrangement should be accounted for as a lease. We elected this practical expedient upon our adoption of Topic 842, resulting in none of our land easements being treated as leases.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which amends ASU 2016-02 and allows entities the option to initially apply Topic 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, if required. We used the optional transition method to apply the new guidance as of January 1, 2019, rather than as of the earliest period presented. We do not expect the adoption of Topic 842 to result in us recording any significant right of use assets or related lease liabilities related to operating leases, and we had no capital leases upon adoption. We did not require a cumulative-effect adjustment upon adoption of Topic 842, and the new guidance is not expected to have any impact on future net income or cash flows.

Financial Instruments Credit Losses

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. This guidance is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. This ASU introduces a new impairment model known as the current expected credit loss model. The ASU requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. Previously, recognition of the full amount of credit losses was generally delayed until the loss was probable of occurring. We are currently assessing the effects this guidance may have on our financial statements.

Cloud Computing

In August 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The standard allows entities who are customers in hosting arrangements that are service contracts to apply the existing internal-use software guidance to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The guidance specifies classification for capitalizing implementation costs and related amortization expense within the financial statements and requires additional disclosures. This guidance is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted and can be applied either retrospectively or prospectively. We are currently evaluating the transition methods and the impact the adoption of this standard may have on our financial statements.