WISCONSIN GAS LLC

FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

WISCONSIN GAS LLC
FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

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

Integrys	Integrys Holding, Inc. (previously known as Integrys Energy Group, Inc.)
WBS	WEC Business Services LLC
WEC Energy Group	WEC Energy Group, Inc. (previously known as Wisconsin Energy Corporation)
Wisconsin Electric	Wisconsin Electric Power Company
Wisconsin Gas	Wisconsin Gas LLC

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
CWIP	Construction Work in Progress
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
OPEB	Other Postretirement Employee Benefits

Environmental Terms

CO_2	Carbon Dioxide

Measurements

Btu	British Thermal Unit(s)
Dth	Dekatherm(s) (One Dth equals one million Btu)

Other Terms and Abbreviations

N/A	Not Applicable
ROE	Return on Equity

FINANCIAL STATEMENTS AND NOTES

A. INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Wisconsin Gas LLC (the "Company"), a wholly owned subsidiary of WEC Energy Group, Inc., which comprise the balance sheets and statements of capitalization as of December 31, 2015 and 2014, 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, 2015 and 2014, 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, WI
March 17, 2016

WISCONSIN GAS LLC

B. INCOME STATEMENTS

Year Ended December 31 ***(in millions)***	**2015**	**2014**
Operating revenues	**$ 609.5**	$ 881.9
Operating expenses		
Cost of natural gas sold	**340.4**	603.4
Other operation and maintenance	**103.3**	106.4
Depreciation and amortization	**43.7**	44.9
Property and revenue taxes	**9.6**	7.4
Total operating expenses	**497.0**	762.1
Operating income	**112.5**	119.8
Other income, net	**4.8**	1.5
Interest expense	**12.9**	12.7
Other expense	**(8.1)**	(11.2)
Income before income taxes	**104.4**	108.6
Income tax expense	**40.4**	42.8
Net income	**$ 64.0**	$ 65.8

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)*	2015	2014
Assets		
Property, plant, and equipment		
Property, plant and equipment	**$ 2,037.8**	$ 1,817.0
Accumulated depreciation	**(688.2)**	(652.3)
Net property, plant and equipment	**1,349.6**	1,164.7
Current assets		
Cash and cash equivalents	**1.1**	0.1
Accounts receivable and unbilled revenues, net of reserves of $22.5 and $27.7	**96.5**	155.5
Natural gas in storage inventory	**53.2**	74.9
Materials and supplies inventories	**3.9**	5.3
Prepayments	**51.2**	8.2
Other current assets	**6.5**	6.9
Total current assets	**212.4**	250.9
Long-term assets		
Regulatory assets	**218.1**	203.7
Prepaid pension and other benefit costs	**128.9**	136.3
Goodwill	**95.9**	95.9
Other long-term assets	**16.4**	16.0
Long-term assets	**459.3**	451.9
Total assets	**$ 2,021.3**	$ 1,867.5
Capitalization and Liabilities		
Capitalization		
Member's equity	**$ 793.1**	$ 759.1
Long-term debt	**287.4**	89.0
Total capitalization	**1,080.5**	848.1
Current liabilities		
Current portion of long-term debt	**—**	125.0
Short-term debt	**337.7**	310.8
Accounts payable	**29.4**	52.6
Accounts payable to related parties	**7.7**	4.6
Refundable natural gas costs	**2.2**	13.9
Other current liabilities	**31.1**	22.8
Total current liabilities	**408.1**	529.7
Long-term liabilities		
Regulatory liabilities	**191.4**	214.7
Deferred income taxes	**288.8**	224.1
Environmental remediation obligation	**24.4**	26.1
Other long-term liabilities	**28.1**	24.8
Long-term liabilities	**532.7**	489.7
Total capitalization and liabilities	**$ 2,021.3**	$ 1,867.5

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)***	**2015**	2014
Operating activities		
Net income	**$ 64.0**	$ 65.8
Reconciliation to cash provided by operating activities		
Depreciation and amortization	**45.1**	46.3
Contributions to pension and OPEB plans	**(2.9)**	(3.1)
Deferred income taxes and investment tax credits, net	**57.9**	38.3
Change in -		
Accounts receivables and unbilled revenues	**58.9**	(5.9)
Inventories	**23.1**	(31.8)
Accounts payable	**(20.1)**	7.5
Prepaid and accrued income taxes, net	**(43.8)**	(3.4)
Refundable natural gas costs	**(11.6)**	(1.7)
Other assets and liabilities, net	**(7.3)**	(34.9)
Net cash provided by operating activities	**163.3**	77.1
Investing activities		
Capital expenditures	**(225.9)**	(148.9)
Other, net	**(6.5)**	(5.0)
Net cash used in investing activities	**(232.4)**	(153.9)
Financing activities		
Change in short-term debt	**26.9**	19.9
Issuance of long-term debt	**200.0**	—
Retirement of long-term debt	**(125.0)**	—
Capital contributions from WEC Energy Group	**—**	90.0
Dividends to WEC Energy Group	**(30.0)**	(33.0)
Other, net	**(1.8)**	—
Net cash provided by financing activities	**70.1**	76.9
Change in cash and cash equivalents	**1.0**	0.1
Cash and cash equivalents at beginning of year	**0.1**	—
Net cash and cash equivalents at end of year	**$ 1.1**	$ 0.1
Supplemental information – cash paid for		
Interest (net of amount capitalized)	**$ 11.4**	$ 12.5
Income taxes (net of refunds)	**$ 19.9**	$ 3.1

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

WISCONSIN GAS LLC

E. STATEMENTS OF CAPITALIZATION

At December 31 *(in millions)*			2015	2014
Member's equity (see Statements of Changes in Member's Equity)			**$ 793.1**	$ 759.1
Long-term debt				
Debentures (unsecured)	**Interest Rate**	**Year Due**		
	5.20%	2015	**—**	125.0
	3.53%	2025	**200.0**	—
	5.90%	2035	**90.0**	90.0
Total debentures			**290.0**	215.0
Unamortized debt issuance costs			**(1.9)**	(0.2)
Unamortized discount, net			**(0.7)**	(0.8)
Total			**287.4**	214.0
Current portion of long-term debt			**—**	(125.0)
Total long-term debt			**287.4**	89.0
Total capitalization			**$ 1,080.5**	$ 848.1

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

F. STATEMENTS OF CHANGES IN MEMBER'S EQUITY

(in millions)	**2015**	**2014**
Member's Equity at January 1,	**$ 759.1**	$ 636.3
Net income	**64.0**	65.8
Capital contributions from WEC Energy Group	**—**	90.0
Cash dividends paid to WEC Energy Group	**(30.0)**	(33.0)
Member's Equity at December 31,	**$ 793.1**	$ 759.1

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General Information—On June 29, 2015, our parent company, Wisconsin Energy Corporation, acquired Integrys and changed its name to WEC Energy Group, Inc. See Note 2, Acquisition, for more information on this acquisition.

As used in these notes, the term "financial statements" includes the income statements, balance sheets, statements of cash flows, statements of capitalization, and statements of changes in member's equity, 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. We have combined many common functions with Wisconsin Electric, another utility subsidiary of WEC Energy Group, and operate together under the trade name "We Energies".

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.

(b) Reclassifications— During the fourth quarter of 2015, we early implemented ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. As a result, debt issuance costs of $0.2 million, previously reported as other long-term assets, were reclassified to offset long-term debt on the December 31, 2014 balance sheet. We also early implemented ASU 2015-17, Balance Sheet Classification of Deferred Taxes, during the fourth quarter of 2015. Since we adopted this ASU on a retrospective basis, we reclassified current deferred income taxes of $35.2 million, previously reported as a separate component of current assets, to offset long-term deferred income tax liabilities on the December 31, 2014 balance sheet.

On the statements of cash flows for the year ended December 31, 2014, we reclassified $2.4 million from net pension and other postretirement income to other operating activities. In addition, we reclassified $3.1 million of nonqualified pension and OPEB contributions from other operating activities to contributions to pension and OPEB plans on the statements of cash flows for the year ended December 31, 2014. These reclassifications were made to be consistent with the current year presentation on the statements of cash flows.

(c) Cash and Cash Equivalents—Cash and cash equivalents include marketable debt securities acquired three months or less from maturity.

(d) Revenues and Customer Receivables—We recognize revenues related to the sale of natural gas on the accrual basis and include estimated amounts for services provided but not yet billed to customers.

We present revenues net of pass-through taxes on the income statements.

Below is a summary of the significant mechanisms we had in place that allowed us to recover or refund changes in prudently incurred costs from rate case-approved amounts:

- Our rates included 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.

- Our residential rates included 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.

We provide regulated natural gas service to customers in Wisconsin. The geographic concentration of our customers 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 above. As a result, we did not have any significant concentrations of credit risk at December 31, 2015. In addition, there were no customers that accounted for more than 10% of our revenues for the year ended December 31, 2015.

(e) Inventories – Materials, Supplies, and Natural Gas in Storage—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 revenue 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 regulators 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 capitalized interest. Utility property also includes AFUDC – Equity. Additions to and significant replacements of property are charged to property, plant, and equipment at cost; minor items are charged to maintenance expense. The cost of depreciable utility property less salvage value is charged to accumulated depreciation when property is retired.

Our property, plant, and equipment balances on our balance sheets included CWIP of $16.4 million and $29.1 million at December 31, 2015 and 2014, respectively.

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 rates were 2.36% and 2.69% in 2015 and 2014.

(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 CWIP expenditures are subject to the AFUDC calculation, with the exception of the West Central Lateral project. For this specific project, the 2015 PSCW rate case order allows us to accrue AFUDC on all project costs. The West Central Lateral project went into service in early November 2015 and it allows us to improve the reliability of our natural gas distribution network in the western part of Wisconsin and better meet customer demand. Our average AFUDC retail rates were 8.33% in 2015 and 8.92% in 2014.

(i) Goodwill—Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired, less impairment charges. At December 31, 2015 and 2014, we had gross goodwill of $441.9 million and accumulated impairment losses of $346.0 million.

Since goodwill is not amortized, it is subject to an annual impairment test. Interim impairment tests are also performed when impairment indicators are present. The carrying amount of a reporting unit's goodwill is considered not recoverable if the carrying amount of the reporting unit exceeds the reporting unit's fair value. We assess fair value by considering future discounted cash flows, a comparison of fair value based on public company trading multiples, and merger and acquisition transaction multiples for similar companies. This evaluation utilizes the information available under the circumstances, including reasonable and supportable assumptions and projections. An impairment loss is recorded for the excess of the carrying amount of goodwill over its implied fair value. If an impairment loss exists, it is reflected within operating expenses on the income statements. We performed our annual impairment test as of August 31, 2015, and no impairment resulted from this test.

(j) 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 10, 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.

(k) Income Taxes—We follow the liability method of accounting for income taxes. We record 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 related to our regulated utility assets are recorded as a deferred credit on our balance sheet and amortized to income over the applicable service lives of related properties in accordance with regulatory treatment.

We 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 8, Income Taxes, for more information.

WEC Energy Group allocates the tax benefit of exercised stock options to us to the extent the option holder's payroll cost was incurred by us. We record the allocated tax benefit as an addition to member’s equity.

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

We collect sales and use taxes from our customers and remit these taxes to governmental authorities. These taxes are recorded in our income statements on a net basis.

(l) Employee Benefits—The costs of pension and OPEB plans are expensed over the periods during which employees render service. These costs are allocated among WEC Energy Group's subsidiaries based on current employment status and actuarial calculations, as applicable. Our regulators allow recovery in rates for our net periodic benefit cost calculated under GAAP. See Note 9, Employee Benefits, for more information.

(m) Stock-Based Compensation—Our employees participate in the WEC Energy Group stock-based compensation plans. We record costs allocated to us related to awards held by our employees.

In accordance with stockholder approved plans, WEC Energy Group provides a long-term incentive through its equity interests to its outside directors, selected officers, and other key employees. The plans provide for the granting of stock options, restricted stock awards, performance shares, and other share-based awards. Awards may be paid in WEC Energy Group common stock, cash, or a combination thereof. We recognize share-based compensation expense on a straight-line basis. Accordingly, for awards classified as equity awards, share-based compensation expense is measured based on the grant-date fair value of the award and is recognized as expense ratably over the requisite service period.

Stock Options

Some of our employees are granted WEC Energy Group non-qualified stock options that vest on a cliff-basis after a three-year period. The exercise price of a stock option under the plan cannot be less than 100% of the fair market value of WEC Energy Group common stock on the grant date. Historically, all stock options have been granted with an exercise price equal to the fair market value of WEC Energy Group common stock on the date of grant. Options may not be exercised within six months of the grant date except in the event of a change in control. Options expire no later than 10 years from the date of grant. There were no modifications to the terms of outstanding stock options during the year.

The fair value of each WEC Energy Group stock option was calculated using a binomial option-pricing model. The following table shows the estimated fair value per stock option granted along with the weighted-average assumptions used in the valuation models:

	2015	2014
Risk-free interest rate	**0.1% – 2.1%**	0.1% – 3.0%
Dividend yield	**3.7%**	3.8%
Expected volatility	**18.0%**	18.0%
Expected life (years)	**5.8**	5.8
Expected forfeiture rate	**2.0%**	2.0%
Weighted-average fair value of stock options granted	**$5.29**	$4.18

The risk-free interest rate is based on the United States Treasury interest rate with a term consistent with the expected life of the stock options. Dividend yield, expected volatility, expected forfeiture rate, and expected life assumptions are based on WEC Energy Group's historical experience.

Restricted Shares

WEC Energy Group restricted shares have a three-year vesting period, and generally, one-third of the award vests on each anniversary of the grant date. During the vesting period, restricted share recipients also have voting rights and are entitled to dividends in the same manner as other WEC Energy Group shareholders.

Performance Units

Officers and other key employees are granted performance units under the WEC Energy Group Performance Unit Plan. Under the plan, the ultimate number of units that will be awarded is dependent on WEC Energy Group's total stockholder return (stock price appreciation plus dividends) as compared to the total stockholder return of a peer group of companies over a three-year period. Under the terms of the award, participants may earn between 0% and 175% of the base performance unit award. All grants are settled in cash and are accounted for as liability awards accordingly. We accrue compensation costs over the three-year performance period based on our estimate of the final expected value of the awards.

See Note 5, Member's Equity, for more information.

(n) 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. Derivatives with significant unobservable or internally developed inputs are categorized in Level 3.

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

Due to the short-term nature of cash and cash equivalents, net accounts receivable, accounts payable, and short-term borrowings, the carrying amount of each such item approximates fair value. The fair value of our long-term debt, including the current portion of long-term debt, is estimated based upon the quoted market value for the same or similar issues or upon the quoted market prices of United States Treasury issues having a similar term to maturity, adjusted for our bond rating and the present value of future cash flows.

We conduct a thorough review of fair value hierarchy classifications on a quarterly basis.

See Note 11, Fair Value Measurements, for more information.

(o) 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 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. Gains and losses on derivative instruments are primarily recorded in cost of natural gas sold on our income statements. 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 12, Derivative Instruments, for more information.

(p) Subsequent Events—Subsequent events were evaluated for potential recognition or disclosure through March 17, 2016, which is the date the financial statements were available to be issued.

NOTE 2—ACQUISITION

On June 29, 2015, our parent company acquired 100% of the outstanding common shares of Integrys, a provider of regulated natural gas and electricity, as well as nonregulated renewable energy. The combined company was renamed WEC Energy Group, Inc.

The acquisition was subject to the approvals of various government agencies, including the PSCW. Approvals were obtained from all agencies subject to several conditions. The PSCW order requires us to be subject to an earnings sharing mechanism for three years beginning January 1, 2016. Under the earnings sharing mechanism, if we earn over our authorized rate of return, 50% of the first 50 basis points of additional utility earnings will be shared with customers and will be used to reduce the costs of the Western Gas Lateral. All utility earnings above the first 50 basis points will be solely used to reduce the costs of the Western Gas Lateral.

We do not believe that the conditions set forth in the various regulatory orders approving the acquisition will have a material impact on our operations or financial results.

NOTE 3—RELATED PARTIES

We routinely enter into transactions with related parties, including WEC Energy Group and its subsidiaries. The following agreements result in related party receivables and payables.

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 the acquisition of Integrys by Wisconsin Energy Corporation on June 29, 2015, an affiliated interest agreement (Non-WBS AIA) went into effect. The Non-WBS AIA governs the provision and receipt of services by WEC Energy Group's subsidiaries, except that WBS will continue to provide services to Integrys and its subsidiaries only under the existing WBS affiliated interest agreements (WBS AIAs). WBS will provide services to WEC Energy Group and the legacy Wisconsin Energy Corporation subsidiaries, including us, under new interim WBS affiliated interest agreements (interim WBS AIAs). The PSCW and all other relevant state commissions have approved the Non-WBS AIA or granted appropriate waivers related to the Non-WBS AIA.

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

WBS provides several categories of services (including financial, human resources, and administrative services) to us pursuant to the interim WBS AIAs, which have been approved, or from which we have been granted appropriate waivers, by the appropriate regulators, including the PSCW. As required by the 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 interim WBS AIAs. Other modifications or amendments to the interim WBS AIAs would require PSCW approval. Recovery of allocated costs is addressed in our rate cases.

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

(in millions)	2015	2014
Natural gas transactions		
Sales to Wisconsin Electric	**$ 5.3**	$ 6.6
Services received		
WEC Energy Group	**12.5**	17.2
Wisconsin Electric	**79.4**	81.7
Services provided		
Wisconsin Electric	**23.5**	20.6

NOTE 4—REGULATORY ASSETS AND LIABILITIES

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

(in millions)	2015	2014	See Note
Regulatory assets (1) (2)			
Unrecognized pension and OPEB costs (3)	**$ 182.3**	$ 169.2	9
Environmental remediation costs (4)	**25.9**	27.2	10
Income tax related items (5)	**7.1**	4.4	
Other, net	**2.8**	2.9	
Total regulatory assets	**$ 218.1**	$ 203.7	

(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 the table above.

(2) As of December 31, 2015, we had $1.5 million of regulatory assets not earning a return.

(3) Represents the unrecognized future pension and OPEB costs resulting from actuarial gains and losses on defined benefit and OPEB plans. We are authorized recovery of this regulatory asset over the average future remaining service life of each plan.

(4) As of December 31, 2015, we had not yet made cash expenditures for $24.4 million of these environmental remediation costs. The recovery of these costs depends on the timing of the actual expenditures.

(5) Adjustments related to deferred income taxes. As the related temporary differences reverse, we prospectively collect taxes from customers for which deferred taxes were recorded in prior years.

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

(in millions)	2015	2014	See Note
Regulatory liabilities			
Removal costs [1]	$ **162.6**	$ 169.9	
Uncollectible expense [2]	**27.6**	38.1	1(d)
Other, net	**1.2**	6.7	
Total regulatory liabilities	**$ 191.4**	$ 214.7	

(1) Represents amounts collected from customers to cover the cost of future removal of property, plant, and equipment.

(2) Represents amounts refundable to customers related to escrow accounting. Escrow accounting allows us to recover or refund the difference between actual uncollectible write-offs and amounts recovered in rates.

NOTE 5—MEMBER'S EQUITY

Share-Based Compensation Plans

Our portion of WEC Energy Group's total share-based compensation expense was $1.5 million and $2.5 million in 2015 and 2014, respectively.

Restrictions

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. Under Wisconsin law, we are prohibited from loaning funds, either directly or indirectly, to WEC Energy Group.

In accordance with our most recent rate order, we may not pay common dividends 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 6, 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, 2015, our regulated member's equity, on a financial basis, was $637.6 million, of which $594.7 million was restricted.

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

NOTE 6—SHORT-TERM DEBT AND LINES OF CREDIT

Short-term notes payable balances and their corresponding weighted-average interest rate as of December 31 consist of:

(in millions, except percentages)	2015 Balance	2014 Balance
Commercial paper		
Amount outstanding at December 31	**$ 337.7**	$ 310.8
Average interest rate on amounts outstanding at December 31	**0.58%**	0.20%
Average amounts outstanding during the year *	**$ 256.0**	$ 272.0

* Based on daily outstanding balances during the year.

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 minimum total funded debt to capitalization ratio of less than 65%. As of December 31, 2015, we were in compliance with all financial covenants.

As of December 31, 2015, we had $12.3 million of available capacity under our bank back-up credit facility and $337.7 million of commercial paper outstanding that was supported by the credit facility.

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	2015
Revolving credit facility	December 2020	**$ 350.0**
Total short-term credit capacity		**$ 350.0**
Less:		
Commercial paper outstanding		**$ 337.7**
Available capacity under existing agreements		**$ 12.3**

In December 2015, we amended and restated our credit facility to extend its maturity to December 2020. The $350.0 million 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 7—LONG-TERM DEBT

See our statements of capitalization for details on our long-term debt. We amortize debt premiums, discounts and debt issuance costs over the lives of the debt and we include the costs in interest expense.

In September 2015, we issued $200.0 million of 3.53% Debentures due September 30, 2025. The net proceeds were used to repay short-term debt and for general corporate purposes.

In December 2015, our $125.0 million of 5.20% Debentures matured, and the outstanding principal balance was repaid.

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.

Debentures

A schedule of all principal debt payment amounts related to debenture maturities is as follows:

(in millions)	Payments
2016	$ —
2017	—
2018	—
2019	—
2020	—
Thereafter	290.0
Total	$ 290.0

NOTE 8—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)	2015	2014
Current tax expense	**$ (17.4)**	$ 4.6
Deferred income taxes, net	**57.9**	38.3
Investment tax credit, net	**(0.1)**	(0.1)
Total Income Tax Expense	**$ 40.4**	$ 42.8

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:

	2015		2014	
(in millions)	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Expected tax at statutory federal tax rates	**$ 36.6**	**35.0 %**	$ 38.0	35.0 %
State income taxes net of federal tax benefit	**5.4**	**5.2 %**	5.4	5.0 %
Investment tax credit restored	**(0.1)**	**(0.1)%**	(0.1)	(0.1)%
Other, net	**(1.5)**	**(1.4)%**	(0.5)	(0.5)%
Total income tax expense	**$ 40.4**	**38.7 %**	$ 42.8	39.4 %

Deferred Income Tax Assets and Liabilities

The components of deferred income taxes as of December 31 are as follows:

(in millions)	2015	2014
Deferred tax assets		
Uncollectible account expense	**$ 20.1**	$ 26.4
Future federal tax benefits	**5.3**	4.9
Construction advances	**3.7**	3.4
Inventory	**2.5**	2.0
Employee benefits and compensation	**—**	2.1
Other	**0.6**	0.5
Total deferred tax assets	**$ 32.2**	$ 39.3
Deferred tax liabilities		
Property-related	**198.5**	144.2
Pension benefits	**94.4**	93.3
Post-retirement benefits	**24.1**	23.6
Environmental	**0.4**	0.3
Other	**3.6**	2.0
Total deferred tax liabilities	**$ 321.0**	$ 263.4
Deferred tax liability, net	**$ 288.8**	$ 224.1

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

As of December 31, 2015, we had approximately $15.2 million of net operating loss carryforwards resulting in deferred tax assets of approximately $5.3 million. As of December 31, 2014, we had approximately $14.1 million of net operating loss carryforwards resulting in deferred tax assets of approximately $4.9 million.

Unrecognized Tax Benefits

We previously adopted accounting guidance related to uncertainty in income taxes. The amount of unrecognized tax benefits was zero as of December 31, 2015 and 2014.

We recognize interest and penalties accrued to unrecognized tax benefits as a component of income tax expense. For the years ended December 31, 2015 and 2014, we recognized no accrued interest or penalties in our income statements. We also had no accrued interest or penalties on our balance sheets as of December 31, 2015 and 2014.

We do not anticipate any significant increases or decreases in the total amount of unrecognized tax benefits within the next twelve months.

Our primary tax jurisdictions include Federal and the state of Wisconsin. Currently, the tax years of 2012 through 2015 are subject to Federal examination, and the tax years 2011 through 2015 are subject to examination by the state of Wisconsin.

NOTE 9—EMPLOYEE BENEFITS

Pension and Other Postretirement Employee Benefits

We participate in WEC Energy Group's defined benefit pension plans that cover substantially all of our employees. In addition, we participate in WEC Energy Group's OPEB plans that cover substantially all of our employees. The benefits for a portion of these plans are funded through irrevocable trusts, as allowed for income tax purposes. 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 the company 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.

Approximately half of our projected benefit obligation relates to benefits based upon years of service and final average salary. New management employees hired after December 31, 2014 will receive a 6% annual Company contribution to their 401(k) plan instead of being enrolled in the defined benefit plans.

The assets, obligations, and the components of our pension and OPEB costs are allocated by WEC Energy Group's actuary to each of the participating companies as if each participating company had its own plan. The disclosures below are based on an allocation to us of the amounts for WEC Energy Group's pension and OPEB plans.

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 tables provide a reconciliation of the changes in our plans' benefit obligations and fair value of assets:

	Pension Costs		OPEB Costs	
(in millions)	**2015**	**2014**	**2015**	**2014**
Change in benefit obligation	**$ 169.7**	$ 164.0	**$ 74.1**	$ 68.7
Service cost	**1.0**	0.7	**0.5**	0.5
Interest cost	**6.9**	7.8	**2.8**	3.3
Participant contributions	**—**	—	**0.6**	0.6
Plan amendments	**—**	—	**—**	0.6
Transfer to affiliates	**2.5**	—	**—**	—
Actuarial loss (gain)	**1.1**	10.8	**(4.9)**	5.3
Other accrued benefits	**—**	1.1	**—**	—
Benefit payments	**(11.1)**	(14.7)	**(4.9)**	(5.1)
Federal subsidy on benefits paid	**N/A**	N/A	**0.3**	0.2
Obligation at December 31	**$ 170.1**	$ 169.7	**$ 68.5**	$ 74.1
Change in fair value of plan assets				
Fair value at January 1	**$ 259.1**	$ 257.0	**$ 108.6**	$ 105.2
Actual return on plan assets	**(1.5)**	15.8	**(0.6)**	5.8
Employer contributions	**1.1**	1.0	**1.8**	2.1
Participant contributions	**—**	—	**0.6**	0.6
Benefit payments	**(11.1)**	(14.7)	**(4.9)**	(5.1)
Transfer to affiliates	**(0.5)**	—	**—**	—
Fair value at December 31	**$ 247.1**	$ 259.1	**$ 105.5**	$ 108.6

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)	**2015**	**2014**	**2015**	**2014**
Prepaid pension and other benefit costs	**$ 89.3**	$ 98.6	**$ 39.6**	$ 37.7
Other long-term liabilities	**12.3**	9.2	**2.6**	3.2
Total net assets	**$ 77.0**	$ 89.4	**$ 37.0**	$ 34.5

The accumulated benefit obligation for all defined benefit plans was $170.1 million and $169.7 million as of December 31, 2015 and 2014, respectively.

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)	**2015**	**2014**	**2015**	**2014**
Net regulatory assets				
Net actuarial loss	**$ 155.0**	$ 144.5	**$ 26.2**	$ 23.7
Prior service costs (credits)	**0.3**	0.4	**0.8**	0.6
Total	**$ 155.3**	$ 144.9	**$ 27.0**	$ 24.3

The following table shows the estimated amounts that will be amortized into net periodic benefit cost during 2016:

(in millions)	Pension Costs	OPEB Costs
Net actuarial loss	$ 9.5	$ 1.6
Prior service costs	0.1	(0.1)
Total 2016 – estimated amortization	$ 9.6	$ 1.5

The components of net periodic benefit cost for the years ended December 31 are as follows:

	Pension Costs		OPEB Costs	
(in millions)	2015	2014	2015	2014
Service cost	**$ 1.0**	$ 0.7	**$ 0.5**	$ 0.5
Interest cost	**6.9**	7.8	**2.8**	3.3
Expected return on plan assets	**(17.6)**	(17.8)	**(7.8)**	(7.5)
Amortization of prior service cost (credit)	**0.1**	0.1	**(0.1)**	(0.1)
Amortization of net actuarial loss	**10.2**	9.7	**1.0**	0.9
Net periodic benefit cost (credit)	**$ 0.6**	$ 0.5	**$ (3.6)**	$ (2.9)

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

	Pension Costs		OPEB Costs	
	2015	2014	2015	2014
Weighted-Average assumptions used to determine benefit obligations as of December 31				
Discount rate	**4.44%**	4.15%	**4.45%**	4.20%
Rate of compensation increase	**4.00%**	4.00%	**N/A**	N/A
Weighted-Average assumptions used to determine net cost for year ended December 31				
Discount rate	**4.15%**	5.00%	**4.20%**	4.95%
Expected return on plan assets	**7.00%**	7.25%	**7.25%**	7.50%
Rate of compensation increase	**4.00%**	4.00%	**N/A**	N/A

Assumed health care cost trend rates as of December 31	2015	2014
Health care cost trend rate assumed for next year (Pre 65/Post 65)	**7.50%**	7.50%
Rate that the cost trend rate gradually adjusts to	**5.00%**	5.00%
Year that the rate reaches the rate it is assumed to remain at (Pre 65/Post 65)	**2021**	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 2016, the expected return on assets assumption is 7.00% for the pension plan and 7.25% for the OPEB plan.

Assumed health care cost trend rates can have a significant effect on the amounts reported by us for the health care plans. For the year ended December 31, 2015, a one-percentage-point change in assumed health care cost trend rates would have had no material effect on the total service and interest cost components of net periodic postretirement health care benefit cost. A one-percentage-point change in assumed health care cost trend rates would have had the following effect:

(in millions)	1% Increase	1% Decrease
Effect on the health care component of the accumulated postretirement benefit obligation	$ 0.4	$ (0.4)

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 payment cash flows 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.

Previously, our pension trust target allocation was 45% equity investments and 55% fixed income investments. A transition to a target asset allocation of 35% equity investments, 55% fixed income investments, and 10% private equity and real estate investments began in late 2014. The current OPEB trusts' target asset allocations are 60% equity investments and 40% fixed income investments. Equity securities include investments in large-cap, mid-cap, and small-cap companies primarily located in the United States. 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(n), 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, 2015							
	Pension Plan Assets				OPEB Assets			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2.9	$ —	$ —	$ 2.9	$ 1.2	$ —	$ —	$ 1.2
Equities:								
United States Equity	77.3	—	—	77.3	42.2	—	—	42.2
International equity	20.4	5.0	—	25.4	13.2	0.8	—	14.0
Fixed income securities: *								
United States Bonds	7.2	106.9	—	114.1	1.2	38.1	—	39.3
International Bonds	11.5	6.8	—	18.3	5.2	2.2	—	7.4
Private equity and real estate	—	—	9.1	9.1	—	—	1.4	1.4
Total	$ 119.3	$ 118.7	$ 9.1	$ 247.1	$ 63.0	$ 41.1	$ 1.4	$ 105.5

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

	As of December 31, 2014							
	Pension Plan Assets				OPEB Assets			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1.1	$ —	$ —	$ 1.1	$ 0.5	$ —	$ —	$ 0.5
Equities:								
United States Equity	90.4	—	—	90.4	47.6	—	—	47.6
International equity	23.1	5.3	—	28.4	13.7	0.8	—	14.5
Fixed income securities: *								
United States Bonds	7.7	107.5	—	115.2	1.1	36.6	—	37.7
International Bonds	14.2	7.7	—	21.9	5.7	2.3	—	8.0
Private equity and real estate	—	—	2.1	2.1	—	—	0.3	0.3
Total	$ 136.5	$ 120.5	$ 2.1	$ 259.1	$ 68.6	$ 39.7	$ 0.3	$ 108.6

* 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:

(in millions)	Private Equity and Real Estate	
	Pension	OPEB
Beginning balance at January 1, 2015	$ 2.1	$ 0.3
Net realized and unrealized gains	0.3	—
Purchases	8.5	1.4
Liquidations	(1.8)	(0.3)
Ending balance at December 31, 2015	**$ 9.1**	**$ 1.4**

(in millions)	Private Equity and Real Estate	
	Pension	OPEB
Beginning balance at January 1, 2014	$ —	$ —
Purchases	2.1	0.3
Ending balance at December 31, 2014	$ 2.1	$ 0.3

Cash Flows

We expect to contribute $1.1 million to the pension plans and $0.1 million to OPEB plans in 2016, dependent upon various factors affecting us, including our liquidity position and possible tax law changes.

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

(in millions)	Pension	OPEB
2016	$ 11.0	$ 9.7
2017	11.5	11.4
2018	12.0	7.1
2019	11.9	6.2
2020	11.4	5.8
2021-2025	54.5	23.3

Savings Plans

We participate in savings plans sponsored by WEC Energy Group, which allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan-specified guidelines. Under these plans, we expensed matching contributions of $1.2 million during each of 2015 and 2014.

NOTE 10—COMMITMENTS AND CONTINGENCIES

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

Unconditional Purchase Obligations Related to Natural Gas

We routinely enter into long-term purchase and sale commitments for various quantities and lengths of time. 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.

The following table shows our minimum future commitments related to these purchase obligations as of December 31, 2015.

(in millions)	Date Contracts Extend Through	Total Amounts Committed	Payments Due By Period					
			2016	2017	2018	2019	2020	Later Years
Natural gas supply and transportation	**2028**	**$ 412.2**	**$ 88.3**	**$ 74.6**	**$ 70.2**	**$ 62.7**	**$ 42.7**	**$ 73.7**

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 air quality standards and federal clean air rules; and
- the remediation of former manufactured gas plant sites.

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 2014, we reported aggregated CO_2 equivalent emissions of approximately 6.4 million metric tonnes to the EPA related to our distribution and sale of natural gas. Based upon our preliminary analysis of the data, we estimate that we will report CO_2 equivalent emissions of approximately 5.6 million metric tonnes to the EPA for 2015.

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)	**2015**	2014
Regulatory assets	**$ 25.9**	$ 27.2
Reserves for future remediation	**24.4**	26.1

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.

Solvay Coke and Gas Site

In August 2004, we were identified as a potentially responsible party at the Solvay Coke and Gas Site located in Milwaukee, Wisconsin. A predecessor company of ours had a customer and corporate relationship with the entity that owned and operated the site. In 2007, we and several other parties entered into an Administrative Settlement Agreement and Order with the EPA to perform additional investigation and assessment and reimburse the EPA's oversight costs. The final remedial investigation report was submitted to the EPA in December 2015, and work will now begin on the feasibility study. Under the Administrative Settlement Agreement, we did not admit to any liability for the site, waive any liability defenses, or commit to perform future site remedial activities. Our share of the costs to perform the required work and reimburse the EPA's oversight costs, as well as potential future remediation cost estimates and reserves, are included in the estimated manufactured gas plant values reported above.

NOTE 11—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, 2015			
(in millions)	Level 1	Level 2	Level 3	Total
Derivative assets				
Natural gas contracts	**$ 0.6**	**$ 0.3**	**$ —**	**$ 0.9**
Derivative liabilities				
Natural gas contracts	**4.5**	**0.4**	**—**	**4.9**

	December 31, 2014			
(in millions)	Level 1	Level 2	Level 3	Total
Derivative assets				
Natural gas contracts	$ 0.7	$ 2.0	$ —	$ 2.7
Derivative liabilities				
Natural gas contracts	4.7	0.5	—	5.2

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 12, 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:

	2015		2014	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion	**$ 287.4**	**$ 301.8**	$ 214.0	$ 244.6

NOTE 12—DERIVATIVE INSTRUMENTS

The following table shows our derivative assets and derivative liabilities:

		December 31, 2015		December 31, 2014	
(in millions)	Balance Sheet Presentation	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Natural gas contracts	Other current	**$ 0.9**	**$ 4.8**	**$ 2.7**	**$ 5.2**
Natural gas contracts	Other long-term	**—**	**0.1**	**—**	**—**
Total		**$ 0.9**	**$ 4.9**	**$ 2.7**	**$ 5.2**

Our estimated notional volumes and (losses) gains were as follows:

	December 31, 2015		December 31, 2014	
(in millions)	Volume	Losses	Volume	Gains
Natural gas contracts	**20.0 Dth**	**$ (10.6)**	19.1 Dth	$ 3.3

As of December 31, 2015 and 2014, we posted collateral of $5.6 million and $4.3 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, 2015		December 31, 2014	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Gross amount recognized on the balance sheet	**$ 0.9**	**$ 4.9**	$ 2.7	$ 5.2
Gross amount not offset on the balance sheet *	**(0.6)**	**(4.5)**	—	(4.7)
Net amount	**$ 0.3**	**$ 0.4**	$ 2.7	$ 0.5

* Includes cash collateral posted of $3.9 million as of both December 31, 2015 and 2014.

NOTE 13—REGULATORY ENVIRONMENT

2015 Wisconsin Rate Order

In May 2014, we applied to the PSCW for a biennial review of costs and rates. In December 2014, the PSCW approved rate increases of $17.1 million (2.6%) in 2015 and $21.4 million (3.2%) in 2016 for our natural gas customers. These rate adjustments were effective January 1, 2015. Our authorized ROE was set at 10.3%. The PSCW also authorized an increase in our common equity component to an average of 49.5%.

Earnings Sharing Agreement

In May 2015, the PSCW approved Wisconsin Energy Corporation's acquisition of Integrys subject to the condition of an earnings sharing mechanism for us. See Note 2, Acquisition, for more information on this earnings sharing mechanism.

2013 Wisconsin Rate Order

In March 2012, we initiated a rate proceeding with the PSCW. In December 2012, the PSCW approved a rate decrease of approximately $34.0 million (-5.5%) for our natural gas customers in 2013, with no rate adjustment in 2014. The rates reflect a $43.8 million reduction in bad debt expense. The rate adjustments were effective January 1, 2013, and our authorized ROE remained at 10.5%.

NOTE 14—NEW ACCOUNTING PRONOUNCEMENTS

Revenue Recognition

In May 2014, the FASB and the International Accounting Standards Board issued their joint revenue recognition standard, ASU 2014-09, Revenue from Contracts with Customers. This guidance is effective for fiscal years and interim periods beginning after December 15, 2018, and can either be applied retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently assessing the effects this guidance may have on our financial statements.

Classification and Measurement of Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Classification and Measurement of Financial Assets and Liabilities. This guidance is effective for fiscal years and interim periods beginning after December 15, 2018, and will be recorded with a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year in which the guidance is effective. We are currently assessing the effects this guidance may have on our financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently assessing the effects this guidance may have on our financial statements.