

NORTH SHORE GAS COMPANY

(An Indirect Wholly Owned Subsidiary of WEC Energy Group, Inc.)

FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2016

NORTH SHORE GAS COMPANY

CONDENSED INCOME STATEMENTS (Unaudited)	Three Months Ended	
	March 31	
	2016	2015
<i>(in millions)</i>		
Operating revenues	\$ 65.6	\$ 90.6
Operating expenses		
Cost of natural gas	34.7	53.7
Other operation and maintenance	12.7	20.6
Depreciation and amortization	3.1	2.9
Property and revenue taxes	0.5	0.4
Total operating expenses	51.0	77.6
Operating income	14.6	13.0
Other income, net	—	0.2
Interest expense	0.9	0.8
Other expense	(0.9)	(0.6)
Income before income taxes	13.7	12.4
Income tax expense	5.6	4.9
Net income	\$ 8.1	\$ 7.5

NORTH SHORE GAS COMPANY

CONDENSED BALANCE SHEETS (Unaudited) (in millions, except share amounts)	March 31 2016	December 31 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 0.4	\$ 0.3
Accounts receivable and unbilled revenues, net of reserves of \$1.7 and \$1.5, respectively	31.3	28.1
Receivables from related parties	1.0	0.2
Materials, supplies, and inventories:		
Natural gas in storage, primarily at LIFO	2.6	9.4
Materials and supplies	1.8	1.7
Liquid propane	0.7	0.7
Other current assets	0.6	1.5
Current assets	38.4	41.9
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$189.4 and \$189.2, respectively	337.3	336.8
Regulatory assets	76.8	78.6
Other long-term assets	0.1	0.1
Long-term assets	414.2	415.5
Total assets	\$ 452.6	\$ 457.4
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	13.6	19.0
Payables to related parties	4.8	2.4
Derivative liabilities	3.2	4.0
Notes payable to related parties	24.0	28.8
Accrued taxes	7.4	2.8
Customer credit balances	2.8	6.2
Temporary LIFO liquidation credit	6.0	—
Other current liabilities	9.4	9.2
Current liabilities	71.2	72.4
Long-term liabilities		
Long-term debt	81.5	81.5
Deferred income taxes	88.1	88.0
Deferred investment tax credits	2.8	2.8
Environmental remediation liabilities	44.9	45.0
Pension and OPEB obligations	20.9	20.3
Asset retirement obligations	17.2	17.0
Other long-term liabilities	19.9	19.9
Long-term liabilities	275.3	274.5
Commitments and contingencies		
Common stock, without par value, 5,000,000 shares authorized; 3,625,887 shares issued and outstanding	25.0	25.0
Retained earnings	81.1	85.5
Total liabilities and shareholder's equity	\$ 452.6	\$ 457.4

NORTH SHORE GAS COMPANY

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)		Three Months Ended	
		March 31	
		2016	2015
<i>(in millions)</i>			
Operating activities			
Net income	\$	8.1	\$ 7.5
Reconciliation to cash provided by operating activities			
Depreciation and amortization		3.2	3.1
Deferred income taxes and investment tax credits, net		0.1	(0.2)
Change in -			
Accounts receivable and unbilled revenues		(3.6)	3.2
Materials, supplies, and inventories		6.7	5.8
Prepaid taxes		0.6	5.5
Other current assets		0.2	2.0
Accounts payable		0.6	0.2
Temporary LIFO liquidation credit		6.0	13.2
Accrued taxes		4.7	5.4
Customer credit balances		(3.4)	(1.5)
Other current liabilities		0.2	2.0
Other, net		(0.4)	2.5
Net cash provided by operating activities		23.0	48.7
Investing activities			
Capital expenditures		(5.6)	(7.3)
Other, net		—	0.1
Net cash used for investing activities		(5.6)	(7.2)
Financing activities			
Change in notes payable to related parties		(4.8)	(34.2)
Payment of dividends to parent		(12.5)	(7.5)
Net cash used for financing activities		(17.3)	(41.7)
Net change in cash and cash equivalents		0.1	(0.2)
Cash and cash equivalents at beginning of period		0.3	0.6
Cash and cash equivalents at end of period	\$	0.4	\$ 0.4
<i>Cash paid for interest</i>	<i>\$</i>	<i>—</i>	<i>\$ —</i>
<i>Cash (paid) received for income taxes</i>		<i>(0.5)</i>	<i>5.4</i>