

NORTH SHORE GAS COMPANY

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

FINANCIAL STATEMENTS

For the Quarter Ended June 30, 2016

NORTH SHORE GAS COMPANY

CONDENSED INCOME STATEMENTS (Unaudited)	Three Months Ended		Six Months Ended	
<i>(in millions)</i>	June 30		June 30	
	2016	2015	2016	2015
Operating revenues	\$ 30.6	\$ 32.1	\$ 96.2	\$ 122.7
Operating expenses				
Cost of natural gas	11.1	10.9	45.8	64.6
Other operation and maintenance	14.6	14.7	27.3	35.3
Depreciation and amortization	3.0	3.0	6.1	5.9
Property and revenue taxes	0.5	0.5	1.0	0.9
Total operating expenses	29.2	29.1	80.2	106.7
Operating income	1.4	3.0	16.0	16.0
Other income, net	0.1	0.2	0.1	0.4
Interest expense	0.9	0.9	1.8	1.7
Other expense	(0.8)	(0.7)	(1.7)	(1.3)
Income before income taxes	0.6	2.3	14.3	14.7
Income tax expense	0.3	0.9	5.9	5.8
Net income	\$ 0.3	\$ 1.4	\$ 8.4	\$ 8.9

NORTH SHORE GAS COMPANY

CONDENSED BALANCE SHEETS (Unaudited) <i>(in millions, except share amounts)</i>	June 30 2016	December 31 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 0.2	\$ 0.3
Accounts receivable and unbilled revenues, net of reserves of \$1.2 and \$1.5, respectively	18.5	28.1
Receivables from related parties	—	0.2
Materials, supplies, and inventories:		
Natural gas in storage, primarily at LIFO	7.5	9.4
Materials and supplies	1.8	1.7
Liquid propane	0.7	0.7
Other current assets	1.7	1.5
Current assets	30.4	41.9
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$190.2 and \$189.2, respectively	341.2	336.8
Regulatory assets	71.5	78.6
Other long-term assets	0.5	0.1
Long-term assets	413.2	415.5
Total assets	\$ 443.6	\$ 457.4
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	\$ 16.9	\$ 19.0
Payables to related parties	3.3	2.4
Derivative liabilities	0.7	4.0
Notes payable to related parties	15.5	28.8
Accrued taxes	2.5	2.8
Customer credit balances	3.0	6.2
Amounts refundable to customers	3.2	2.8
Other current liabilities	5.7	6.4
Current liabilities	50.8	72.4
Long-term liabilities		
Long-term debt	81.5	81.5
Deferred income taxes	88.4	88.0
Deferred investment tax credits	2.8	2.8
Regulatory liabilities	16.6	15.3
Environmental remediation liabilities	44.6	45.0
Pension and OPEB obligations	21.3	20.3
Asset retirement obligations	17.4	17.0
Other long-term liabilities	5.8	4.6
Long-term liabilities	278.4	274.5
Commitments and contingencies		
Common stock, without par value, 5,000,000 shares authorized; 3,625,887 shares issued and outstanding	33.0	25.0
Retained earnings	81.4	85.5
Total liabilities and shareholder's equity	\$ 443.6	\$ 457.4

NORTH SHORE GAS COMPANY

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)	Six Months Ended	
<i>(in millions)</i>	June 30	
	2016	2015
Operating Activities		
Net income	\$ 8.4	\$ 8.9
Reconciliation to cash provided by operating activities		
Depreciation and amortization	6.4	6.2
Deferred income taxes and investment tax credits, net	0.4	0.5
Change in –		
Accounts receivable and unbilled revenues	9.5	24.6
Materials, supplies, and inventories	1.8	2.2
Amounts recoverable from customers	1.2	8.9
Prepaid taxes	0.6	5.5
Other current assets	0.4	2.1
Accounts payable	(0.7)	(3.6)
Customer credit balances	(3.2)	(0.4)
Other current liabilities	(0.5)	5.8
Other, net	2.9	—
Net cash provided by operating activities	27.2	60.7
Investing Activities		
Capital expenditures	(9.7)	(15.2)
Other, net	0.2	—
Net cash used in investing activities	(9.5)	(15.2)
Financing Activities		
Change in notes payable to related parties	(13.3)	(38.4)
Payment of dividends to parent	(12.5)	(7.5)
Equity contribution from parent	8.0	—
Net cash used in financing activities	(17.8)	(45.9)
Net change in cash and cash equivalents	(0.1)	(0.4)
Cash and cash equivalents at beginning of period	0.3	0.6
Cash and cash equivalents at end of period	\$ 0.2	\$ 0.2
Supplemental Cash Flow Information		
Cash (paid) for interest	\$ (1.7)	\$ (1.5)
Cash (paid) received for income taxes, net of refunds (payments)	(4.3)	1.5