

NORTH SHORE GAS COMPANY

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

FINANCIAL STATEMENTS

For the Quarter Ended September 30, 2016

NORTH SHORE GAS COMPANY

CONDENSED INCOME STATEMENTS (Unaudited) (in millions)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2016	2015	2016	2015
Operating revenues	\$ 23.7	\$ 25.0	\$ 119.9	\$ 147.7
Operating expenses				
Cost of natural gas	6.0	7.1	51.8	71.7
Other operation and maintenance	12.5	15.1	39.8	50.4
Depreciation and amortization	3.1	2.9	9.2	8.8
Property and revenue taxes	0.4	0.5	1.4	1.4
Total operating expenses	22.0	25.6	102.2	132.3
Operating income (loss)	1.7	(0.6)	17.7	15.4
Other income, net	—	0.1	0.1	0.5
Interest expense	0.9	0.9	2.7	2.6
Other expense	(0.9)	(0.8)	(2.6)	(2.1)
Income (loss) before income taxes	0.8	(1.4)	15.1	13.3
Income tax expense (benefit)	0.4	(0.5)	6.3	5.3
Net income (loss)	\$ 0.4	\$ (0.9)	\$ 8.8	\$ 8.0

NORTH SHORE GAS COMPANY

CONDENSED BALANCE SHEETS (Unaudited) (in millions, except share amounts)	September 30 2016	December 31 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 0.3	\$ 0.3
Accounts receivable and unbilled revenues, net of reserves of \$1.2 and \$1.5, respectively	16.4	28.1
Receivables from related parties	0.2	0.2
Materials, supplies, and inventories:		
Natural gas in storage, primarily at LIFO	23.6	9.4
Materials and supplies	1.7	1.7
Liquid propane	0.7	0.7
Other current assets	2.0	1.5
Current assets	44.9	41.9
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$190.7 and \$189.2, respectively	343.3	336.8
Regulatory assets	70.3	78.6
Other long-term assets	—	0.1
Long-term assets	413.6	415.5
Total assets	\$ 458.5	\$ 457.4
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	\$ 16.7	\$ 19.0
Payables to related parties	2.1	2.4
Derivative liabilities	0.2	4.0
Notes payable to related parties	31.1	28.8
Customer credit balances	4.5	6.2
Other current liabilities	9.9	12.0
Current liabilities	64.5	72.4
Long-term liabilities		
Long-term debt	81.5	81.5
Deferred income taxes	90.0	88.0
Deferred investment tax credits	2.8	2.8
Environmental remediation liabilities	44.3	45.0
Pension and OPEB obligations	21.8	20.3
Asset retirement obligations	17.7	17.0
Other long-term liabilities	21.1	19.9
Long-term liabilities	279.2	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	81.8	85.5
Total liabilities and shareholder's equity	\$ 458.5	\$ 457.4

NORTH SHORE GAS COMPANY

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)	Nine Months Ended	
	September 30	
(in millions)	2016	2015
Operating Activities		
Net income	\$ 8.8	\$ 8.0
Reconciliation to cash provided by operating activities		
Depreciation and amortization	9.6	9.2
Deferred income taxes and investment tax credits, net	2.0	1.3
Change in –		
Accounts receivable and unbilled revenues	12.2	30.1
Materials, supplies, and inventories	(14.2)	(5.9)
Amounts recoverable from customers	0.5	9.7
Other current assets	0.4	4.4
Accounts payable	(1.6)	(4.9)
Other current liabilities	(3.7)	0.8
Other, net	3.4	2.4
Net cash provided by operating activities	17.4	55.1
Investing Activities		
Capital expenditures	(15.5)	(20.1)
Other, net	0.3	(0.1)
Net cash used in investing activities	(15.2)	(20.2)
Financing Activities		
Change in notes payable to related parties	2.3	(27.7)
Payment of dividends to parent	(12.5)	(7.5)
Equity contribution from parent	8.0	—
Net cash used in financing activities	(2.2)	(35.2)
Net change in cash and cash equivalents	—	(0.3)
Cash and cash equivalents at beginning of period	0.3	0.6
Cash and cash equivalents at end of period	\$ 0.3	\$ 0.3
Supplemental Cash Flow Information		
Cash (paid) for interest	\$ (1.8)	\$ (1.5)
Cash (paid) for income taxes, net of refunds	(5.1)	(1.7)