WISCONSIN GAS LLC

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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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. (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)
WE	Wisconsin Electric Power Company
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
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	
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"), a wholly owned subsidiary of WEC Energy Group, Inc., which comprise the balance sheets and statements of capitalization as of December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2018

WISCONSIN GAS LLC

B. INCOME STATEMENTS

Year Ended December 31 ***(in millions)***	**2017**	**2016**
Operating revenues	**$ 614.3**	$ 572.0
Operating expenses		
Cost of natural gas sold	**316.4**	281.8
Other operation and maintenance	**108.8**	110.4
Depreciation and amortization	**48.6**	47.1
Property and revenue taxes	**6.2**	7.0
Total operating expenses	**480.0**	446.3
Operating income	**134.3**	125.7
Other income, net	**1.5**	0.8
Interest expense	**21.9**	16.2
Other expense	**(20.4)**	(15.4)
Income before income taxes	**113.9**	110.3
Income tax expense	**60.7**	44.5
Net income	**$ 53.2**	$ 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)*	2017	2016
Assets		
Current assets		
Cash and cash equivalents	**$ 1.8**	$ 4.4
Accounts receivable and unbilled revenues, net of reserves of $18.4 and $19.6	**132.6**	120.2
Accounts receivable from related parties	**0.8**	0.8
Materials, supplies, and inventory:		
Natural gas in storage	**45.2**	42.3
Materials and supplies	**4.9**	4.3
Prepayments	**8.5**	11.5
Other	**2.5**	2.7
Current assets	**196.3**	186.2
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of $722.1 and $701.8	**1,550.8**	1,438.7
Regulatory assets	**206.1**	212.2
Prepaid pension and OPEB costs	**162.3**	142.3
Goodwill	**95.9**	95.9
Other	**18.7**	18.0
Long-term assets	**2,033.8**	1,907.1
Total assets	**$ 2,230.1**	$ 2,093.3
Liabilities and Member's Equity		
Current liabilities		
Short-term debt	**$ 205.9**	$ 151.5
Accounts payable	**41.4**	36.6
Accounts payable to related parties	**6.3**	6.5
Customer credit balances	**12.9**	14.1
Amounts refundable to customers	**16.4**	12.3
Other	**24.7**	11.2
Current liabilities	**307.6**	232.2
Long-term liabilities		
Long-term debt	**486.0**	485.7
Regulatory liabilities	**383.0**	197.8
Deferred income taxes	**192.6**	332.6
Environmental remediation liabilities	**41.2**	36.1
Other	**27.5**	25.0
Long-term liabilities	**1,130.3**	1,077.2
Commitments and contingencies (Note 12)		
Member's equity	**792.2**	783.9
Total liabilities and member's equity	**$ 2,230.1**	$ 2,093.3

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)***	**2017**	**2016**
Operating activities		
Net income	**$ 53.2**	$ 65.8
Reconciliation to cash provided by operating activities		
Depreciation and amortization	**48.6**	47.1
Deferred income taxes and investment tax credits, net	**40.8**	38.9
Contributions and payments related to pension and OPEB plans	**(2.7)**	(3.0)
Change in –		
Accounts receivable and unbilled revenues	**(12.4)**	(24.5)
Materials, supplies, and inventories	**(3.5)**	10.5
Prepaid taxes	**4.5**	39.2
Other current assets	**(3.3)**	6.1
Accounts payable	**4.7**	6.0
Amounts refundable to customers	**4.1**	10.1
Accrued taxes	**11.7**	0.1
Other current liabilities	**(0.3)**	(1.2)
Other, net	**(1.8)**	3.4
Net cash provided by operating activities	**143.6**	198.5
Investing activities		
Capital expenditures	**(154.3)**	(130.9)
Other, net	**(1.3)**	(1.2)
Net cash used in investing activities	**(155.6)**	(132.1)
Financing activities		
Change in short-term debt	**54.4**	(186.2)
Issuance of long-term debt	**—**	200.0
Payment of distributions to parent	**(45.0)**	(75.0)
Other, net	**—**	(1.9)
Net cash provided by (used in) financing activities	**9.4**	(63.1)
Net change in cash and cash equivalents	**(2.6)**	3.3
Cash and cash equivalents at beginning of year	**4.4**	1.1
Cash and cash equivalents at end of year	**$ 1.8**	$ 4.4

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)	**2017**	**2016**
Member's Equity at January 1	**$ 783.9**	$ 793.1
Net income	**53.2**	65.8
Distributions to parent	**(45.0)**	(75.0)
Other	**0.1**	—
Member's Equity at December 31	**$ 792.2**	$ 783.9

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)*			2017	2016
Member's equity (see Statements of Changes in Member's Equity)			**$ 792.2**	$ 783.9
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			**(3.4)**	(3.7)
Unamortized discount, net			**(0.6)**	(0.6)
Total long-term debt			**486.0**	485.7
Total long-term capitalization			**$ 1,278.2**	$ 1,269.6

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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 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 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) 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 escrow accounting for uncollectible expense. Escrow accounting allows us to recover or refund 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, 2017. In addition, there were no customers that accounted for more than 10% of our revenues for the year ended December 31, 2017.

(e) Materials, Supplies, and Inventory—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 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 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.

Our property, plant, and equipment balances on our balance sheets included CWIP of $14.7 million and $27.5 million at December 31, 2017 and 2016, 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 2.30% and 2.34% in 2017 and 2016, respectively.

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.

(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. Our average AFUDC retail rate was 8.33% in 2017 and 2016.

(i) Goodwill—Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired. At December 31, 2017 and 2016, 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.

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, 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 completed our annual goodwill impairment test as of July 1, 2017, and no impairment resulted from this test.

(j) 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, 2017, and 2016, we recorded stock-based compensation expense of $1.2 million and $0.8 million, respectively.

Stock-based compensation costs capitalized during 2017 and 2016 were not significant.

(k) 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 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 upon our separate tax computation. See Note 8, Income Taxes, for more information.

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

(l) 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.

Due to the short-term nature of cash and cash equivalents, net accounts receivable and unbilled revenues, accounts payable, and short-term borrowings, the carrying amount of each such item approximates fair value. The fair value of our long-term debt is estimated based upon the quoted market value for the same issue, 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. The fair value of long-term debt is categorized within Level 2 of the fair value hierarchy.

See Note 9, Fair Value Measurements, for more information.

(m) 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. Realized 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, and cash collateral received is reflected in other current liabilities. See Note 10, Derivative Instruments, for more information.

(n) 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. Our regulators allow recovery in rates for our net periodic benefit cost calculated under GAAP. See Note 11, Employee Benefits, for more information.

(o) Customer Credit Balances—Utility 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 the balance sheets.

(p) 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 12, 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.

(q) Subsequent Events—Subsequent events were evaluated for potential recognition or disclosure through March 23, 2018, which is the date the financial statements were available to be issued.

NOTE 2—ACQUISITION

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

On June 30, 2017, our parent company completed the acquisition of Bluewater for $226.0 million. Bluewater owns natural gas storage facilities in Michigan that will provide a portion of our current natural gas storage needs. In September 2017, we entered into a long-term service agreement with a wholly owned subsidiary of Bluewater to take the allocated storage, which was then approved by the PSCW in November 2017. See Note 14, Regulatory Environment, for more information.

NOTE 3—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 the acquisition of Integrys by Wisconsin Energy Corporation 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 interim WBS AIAs, which were approved, or from which we were 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.

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, including the PSCW, approved modifications to the new AIA to incorporate WEC Energy Group's acquisition of Bluewater. See Note 2, Acquisition, for more information on the acquisition of Bluewater.

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

(in millions)	2017	2016
Billings from WBS [1]	**$ 20.2**	$ 18.3
Billings from WEC Energy Group [1]	**10.3**	9.3
Transactions with WE		
Natural gas sales to WE	**5.3**	5.3
Billings to WE [1]	**23.1**	21.5
Billings from WE [1]	**64.0**	60.6
Transactions with Bluewater [2]		
Storage service fees	**2.1**	—

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

[2] The acquisition of Bluewater was completed June 30, 2017.

NOTE 4—REGULATORY ASSETS AND LIABILITIES

We recorded a $190 million change in our deferred taxes due to the enactment of the Tax Legislation, which resulted in an increase to the 2017 Tax Legislation impact and income tax related regulatory liabilities as well as a decrease to certain existing income tax related items in regulatory assets included in other, both in the tables below. The $190 million change in our deferred taxes represents our estimate of the tax benefit that will be returned to ratepayers through future refunds, bill credits, or reductions in other regulatory assets. See Note 8, Income Taxes, for more information on the Tax Legislation.

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

(in millions)	2017	2016	See Note
Regulatory assets [1] [2]			
Unrecognized pension and OPEB costs [3]	**$ 157.6**	$ 170.5	11
Environmental remediation costs [4]	**47.3**	39.7	12
Other	**1.2**	2.0	
Total regulatory assets	**$ 206.1**	$ 212.2	

(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.

(2) As of December 31, 2017, we had $6.1 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) 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 remaining service life of each plan.

(4) As of December 31, 2017, we had not yet made cash expenditures for $41.2 million of these environmental remediation costs.

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

(in millions)	2017	2016	See Note
Regulatory liabilities			
2017 Tax Legislation impact and income tax related	**$ 188.0**	$ 0.8	8
Removal costs [1]	**173.8**	167.7	
Uncollectible expense [2]	**18.3**	23.1	1(d)
Natural gas costs refundable through rate adjustments [3]	**16.4**	12.3	1(d)
Other	**2.9**	6.2	
Total regulatory liabilities	**$ 399.4**	$ 210.1	
Balance Sheet Presentation			
Amounts refundable to customers	**$ 16.4**	$ 12.3	
Regulatory liabilities	**383.0**	197.8	
Total regulatory liabilities	**$ 399.4**	$ 210.1	

(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 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.

(3) Represents natural gas costs that will be refunded to customers in the future.

NOTE 5—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 dividends, 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 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, 2017, approximately $665 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 6—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)	2017	2016
Commercial paper		
Amount outstanding at December 31	**$ 205.9**	$ 151.5
Average interest rate on amounts outstanding at December 31	**1.71%**	0.80%

Our average amount of commercial paper borrowings based on daily outstanding balances during 2017 was $117.0 million, with a weighted-average interest rate during the period of 1.20%.

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, 2017, we were in compliance with our financial covenants.

As of December 31, 2017, we had $144.1 million of available capacity under our bank back-up credit facility and $205.9 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	2017
Revolving credit facility	October 2022	**$ 350.0**
Less:		
Commercial paper outstanding		**205.9**
Available capacity under existing agreement		**$ 144.1**

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 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.

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.

The following table shows the future maturities of our long-term debt outstanding as of December 31, 2017:

(in millions)	Payments
2018	$ —
2019	—
2020	—
2021	—
2022	—
Thereafter	490.0
Total	$ 490.0

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)	2017	2016
Current tax expense	**$ 19.9**	$ 5.6
Deferred income taxes, net	**40.8**	39.0
Investment tax credit, net	**—**	(0.1)
Total income tax expense	**$ 60.7**	$ 44.5

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:

	2017		2016	
(in millions)	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Expected tax at statutory federal tax rates	**$ 39.9**	**35.0 %**	$ 38.6	35.0 %
State income taxes net of federal tax benefit	**5.8**	**5.1 %**	5.7	5.2 %
Tax Legislation	**15.1**	**13.3 %**	—	— %
Investment tax credit restored	**—**	**— %**	(0.1)	(0.1)%
Other, net	**(0.1)**	**(0.1)%**	0.3	0.2 %
Total income tax expense	**$ 60.7**	**53.3 %**	$ 44.5	40.3 %

Deferred Income Tax Assets and Liabilities

On December 22, 2017, the Tax Legislation was signed into law. For businesses, the Tax Legislation reduces the corporate federal tax rate from a maximum of 35% to a 21% rate effective January 1, 2018. We estimated a preliminary net tax benefit related to the re-measurement of our deferred taxes in the amount of approximately $175 million. Accordingly, a $190 million 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 as of December 31, 2017. The remeasurement of certain deferred tax assets related to non-regulated items resulted in income tax expense of approximately $15.1 million for the year ended December 31, 2017. Our revaluation of our deferred tax assets and liabilities is subject to further clarification of the new law that cannot be estimated at this time. The impact of the Tax Legislation could materially differ from this estimate due to, among other things, changes in interpretations and assumptions we have made.

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 provides 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 are to be considered "provisional" as discussed in SAB 118 and subject to revision. We are awaiting additional guidance from industry and income tax authorities in order to finalize our accounting.

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

(in millions)	2017	2016
Deferred tax assets		
Tax gross up – regulatory items	**$ 46.6**	$ —
Uncollectible account expense	**10.0**	17.1
Construction advances	**2.2**	3.5
Inventory	**1.2**	2.0
Employee benefits and compensation	**0.9**	2.6
Future tax benefits	**0.9**	7.8
Other	**2.8**	1.2
Total deferred tax assets	**$ 64.6**	$ 34.2
Deferred tax liabilities		
Property-related	**$ 169.6**	$ 241.8
Pension benefits	**64.0**	94.7
Post-retirement benefits	**21.0**	29.3
Other	**2.6**	1.0
Total deferred tax liabilities	**$ 257.2**	$ 366.8
Deferred tax liability, net	**$ 192.6**	$ 332.6

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, 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. These federal charitable contribution carryforwards begin to expire in 2021 and tax credit carryforwards do not expire. As of December 31, 2016, we had $21.6 million of federal net operating loss carryforwards resulting in deferred tax assets of $7.6 million. As of 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. These state charitable contribution carryforwards begin to expire in 2017 and state net operating loss carryforwards begin to expire in 2035. As of December 31, 2016, we had $4.0 million of state net operating loss carryforwards resulting in deferred tax assets of $0.2 million.

Valuation allowances have not been established for deferred income tax assets based on our projected ability to realize these benefits by off-setting future taxable income.

Unrecognized Tax Benefits

We had no unrecognized tax benefits as of December 31, 2017 and 2016.

We do not expect any unrecognized tax benefits to affect our effective tax rate in periods after December 31, 2017.

For the years ended December 31, 2017 and 2016, we recognized no accrued interest or penalties related to unrecognized tax benefits in our income statements. We also had no accrued interest or penalties related to unrecognized tax benefits on our balance sheets at December 31, 2017 and 2016.

We do not anticipate any significant increases or decreases 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 2014. At December 31, 2017, we were subject to examination by the Wisconsin taxing authority for tax years 2013 through 2017.

NOTE 9—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, 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**

	December 31, 2016			
(in millions)	Level 1	Level 2	Level 3	Total
Derivative assets				
Natural gas contracts	$ 1.8	$ 1.0	$ —	$ 2.8
Derivative liabilities				
Natural gas contracts	0.1	—	—	0.1

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 10, 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:

	2017		2016	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	**$ 486.0**	**$ 513.8**	$ 485.7	$ 487.6

NOTE 10—DERIVATIVE INSTRUMENTS

The following table shows our derivative assets and derivative liabilities:

	December 31, 2017		December 31, 2016	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Other current				
Natural gas contracts	**$ 0.7**	**$ 0.9**	$ 2.8	$ 0.1
Other long-term				
Natural gas contracts	**—**	**0.1**	—	—
Total	**$ 0.7**	**$ 1.0**	$ 2.8	$ 0.1

Our estimated notional sales volumes and realized losses were as follows for the years ended:

	December 31, 2017		December 31, 2016	
(in millions)	Volume	Losses	Volume	Losses
Natural gas contracts	**19.0 Dth**	**$ (1.1)**	22.9 Dth	$ (9.6)

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

	December 31, 2017		December 31, 2016	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Gross amount recognized on the balance sheet	**$ 0.7**	**$ 1.0**	$ 2.8	$ 0.1
Gross amount not offset on the balance sheet	**(0.3)**	**(0.9)** [1]	(1.1) [2]	(0.1)
Net amount	**$ 0.4**	**$ 0.1**	$ 1.7	$ —

[1] Includes cash collateral posted of $0.6 million.

[2] Includes cash collateral received of $1.0 million.

At December 31, 2017, we had posted cash collateral of $1.8 million, and at December 31, 2016, we had received cash collateral of $1.0 million.

NOTE 11—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 a 6% 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 the plans' benefit obligations and fair value of assets.

As of December 31:	Pension Costs		OPEB Costs	
(in millions)	2017	2016	2017	2016
Benefit obligation	**$ 148.6**	$ 147.0	**$ 69.6**	$ 64.1
Fair value of plan assets	**248.3**	233.6	**120.3**	108.0
Funded status	**$ 99.7**	$ 86.6	**$ 50.7**	$ 43.9
For the years ended December 31:				
Employer contributions	**$ 1.0**	$ 1.2	**$ 1.7**	$ 1.8
Participant contributions	**—**	—	**0.6**	0.6
Benefit payments	**(11.2)**	(7.9)	**(4.0)**	(4.2)

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)	2017	2016	2017	2016
Prepaid pension and OPEB costs	**$ 111.6**	$ 98.4	**$ 50.7**	$ 43.9
Other long-term liabilities	**11.9**	11.8	**—**	—
Total net assets	**$ 99.7**	$ 86.6	**$ 50.7**	$ 43.9

The accumulated benefit obligation for all defined benefit plans was $148.6 million and $146.9 million as of December 31, 2017 and 2016, 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)	2017	2016
Projected benefit obligation	**$ 11.9**	$ 11.8
Accumulated benefit obligation	**11.9**	11.8

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)	2017	2016	2017	2016
Net regulatory assets				
Net actuarial loss	**$ 134.6**	$ 146.6	**$ 23.5**	$ 23.2
Prior service (credits) costs	**(0.3)**	(0.2)	**(0.2)**	0.9
Total	**$ 134.3**	$ 146.4	**$ 23.3**	$ 24.1

The following table shows the estimated amounts that will be amortized into net periodic benefit cost during 2018:

(in millions)	Pension Costs	OPEB Costs
Net actuarial loss	$ 9.6	$ —
Prior service costs (credits)	0.1	(0.1)
Total 2018 – estimated amortization	$ 9.7	$ (0.1)

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)	2017	2016	2017	2016
Net periodic benefit costs (credits)	**$ 1.2**	$ 0.6	**$ (4.6)**	$ (2.5)

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

	Pension		OPEB	
	2017	2016	2017	2016
Discount rate	**3.64%**	4.14%	**3.65%**	4.20%
Rate of compensation increase	**3.20%**	3.20%	**N/A**	N/A
Assumed medical cost trend rate (pre 65)	**N/A**	N/A	**6.50%**	7.00%
Ultimate trend rate	**N/A**	N/A	**5.00%**	5.00%
Year ultimate trend rate is reached	**N/A**	N/A	**2024**	2021
Assumed medical cost trend rate (post 65)	**N/A**	N/A	**6.18%**	7.00%
Ultimate trend rate	**N/A**	N/A	**5.00%**	5.00%
Year ultimate trend rate is reached	**N/A**	N/A	**2028**	2021

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	
	2017	2016
Discount rate	**4.09%**	4.44%
Expected return on assets	**7.00%**	7.00%
Rate of compensation increase	**3.20%**	3.50%

	OPEB Costs	
	2017	**2016**
Discount rate	**4.10%**	4.45%
Expected return on assets	**7.25%**	7.25%
Assumed medical cost trend rate (Pre 65/Post 65)	**7.00%**	7.50%
Ultimate trend rate	**5.00%**	5.00%
Year ultimate trend rate is reached	**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 2018, 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. The 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. 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(l), 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, 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.

(in millions)	Pension Plan Assets Level 1	Pension Plan Assets Level 2	Pension Plan Assets Level 3	Pension Plan Assets Total	OPEB Assets Level 1	OPEB Assets Level 2	OPEB Assets Level 3	OPEB Assets Total
	As of December 31, 2016							
Asset Class								
Cash and cash equivalents	$ 0.2	$ 4.1	$ —	$ 4.3	$ 3.3	$ 0.6	$ —	$ 3.9
Equity securities:								
United States Equity	18.1	—	—	18.1	5.5	—	—	5.5
International Equity	3.8	—	—	3.8	0.6	—	—	0.6
Fixed income securities: *								
United States Bonds	—	96.5	—	96.5	—	22.9	—	22.9
International Bonds	—	6.7	—	6.7	—	1.5	—	1.5
Private Equity and Real Estate	—	—	2.3	2.3	—	—	0.4	0.4
	22.1	107.3	2.3	131.7	9.4	25.0	0.4	34.8
Investments measured at net asset value				101.9				73.2
Total	$ 22.1	$ 107.3	$ 2.3	$ 233.6	$ 9.4	$ 25.0	$ 0.4	$ 108.0

* 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	Private Equity and Real Estate 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**

(in millions)	Private Equity and Real Estate Pension	Private Equity and Real Estate OPEB
Beginning balance at January 1, 2016	$ 0.9	$ 0.1
Purchases	1.4	0.3
Ending balance at December 31, 2016	$ 2.3	$ 0.4

Cash Flows

We expect to contribute $1.1 million to the pension plans and $0.1 million to the OPEB plans in 2018, dependent upon various factors affecting us, including our liquidity position and the effects of the new Tax Legislation.

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

(in millions)	Pension	OPEB
2018	$ 11.9	$ 6.8
2019	11.4	6.4
2020	10.7	5.9
2021	10.4	5.4
2022	9.5	5.1
2023-2027	42.5	21.8

Savings Plans

WEC Energy Group sponsors a 401(k) savings plan which allows our 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. Certain employees participate in a defined contribution pension plan with a contribution into the employee's savings plan account, up to certain limits. Total costs incurred under all of these plans were $1.3 million and $1.4 million in 2017 and 2016, respectively.

NOTE 12—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, 2017.

			Payments Due By Period					
(in millions)	**Date Contracts Extend Through**	**Total Amounts Committed**	**2018**	**2019**	**2020**	**2021**	**2022**	**Later Years**
Natural gas supply and transportation	**2048**	**$ 660.9**	**$ 108.5**	**$ 95.6**	**$ 69.4**	**$ 46.7**	**$ 31.3**	**$ 309.4**

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 2016, we reported aggregated CO_2 equivalent emissions of approximately 5.5 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 5.7 million metric tonnes to the EPA for 2017.

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)	2017	2016
Regulatory assets	**$ 47.3**	$ 39.7
Reserves for future remediation	**41.2**	36.1

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.

NOTE 13—SUPPLEMENTAL CASH FLOW INFORMATION

(in millions)	2017	2016
Cash (paid) for interest, net of amount capitalized	**$ (21.6)**	$ (14.1)
Cash received for income taxes, net	**5.0**	35.3

NOTE 14—REGULATORY ENVIRONMENT

Tax Cuts and Jobs Act of 2017

We deferred for return to ratepayers, through future refunds, bill credits, or reductions in other regulatory assets, 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 related to our regulated operations. See Note 8, Income Taxes, for more information.

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. Various intervenors had filed requests for rehearing, all of which have been denied. Pursuant to the settlement agreement, we also agreed to keep our earnings sharing mechanism in place through 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 would provide a portion of our current natural gas storage needs. 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 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.

2015 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, which were effective January 1, 2015, and January 1, 2016, respectively. 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 WEC Energy Group's acquisition of Integrys subject to the condition of an earnings sharing mechanism for us**.** 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. For the years ended December 31, 2017 and 2016, we recorded $2.7 million and $3.3 million of expense related to this earnings sharing mechanism, respectively.

NOTE 15—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. Several amendments were issued subsequent to the standard to clarify the guidance. The core principle of the guidance is to recognize revenue in an amount that an entity is entitled to receive in exchange for goods and services. The guidance also requires additional disclosures about the nature, amount, timing, and uncertainty of revenues and the related cash flows arising from contracts with customers.

We have completed the review of our contracts with customers and are finalizing the related financial disclosures to evaluate the impact of the amended guidance on our existing revenue recognition policies and procedures. We have evaluated the nature of our operating revenues and do not expect that there will be a significant shift in the timing or pattern of revenue recognition. Most of our revenues are from regulated tariff sales, which are in the scope of the new standard, excluding the revenue component related to alternative revenue programs. The revenues from these contracts are recorded at the amount of the natural gas delivered to the customer during the period.

We adopted this standard for interim and annual periods beginning January 1, 2018, and used the modified retrospective method of adoption. The most significant impact to the financial statements is expected to be in the form of additional disclosures. However, we do not expect to have a cumulative-effect adjustment to record on the balance sheet as of the beginning of 2018; and therefore, do not expect to include a reconciliation of results under the new revenue recognition guidance compared with what would have been reported in 2018 under the old revenue recognition guidance. We will include disaggregated revenue disclosures by customer class in the notes to financial statements, starting in 2018.

Recognition and Measurement of Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities. This guidance requires equity investments, including other ownership interests such as partnerships, unincorporated joint ventures, and limited liability companies, to be measured at fair value with changes in fair value recognized in net income. It also simplifies the impairment assessment of equity investments without readily determinable fair values and amends certain disclosure requirements associated with the fair value of financial instruments. This ASU does not apply to investments accounted for under the equity method of accounting. We adopted this ASU for interim and annual periods beginning January 1, 2018. We do not believe the adoption of this guidance will have a significant impact on our financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases. This guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020, and will be applied using a modified retrospective approach. The main provision of this ASU is that lessees will be required to recognize lease assets and lease liabilities for most leases, including those classified as operating leases under GAAP. We are currently assessing the effects this guidance may have on our financial statements.

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, 2020, and interim periods within fiscal years beginning after December 15, 2021. 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.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. There are eight main provisions of this ASU for which current GAAP either is unclear or does not include specific guidance. We adopted this ASU for interim and annual periods beginning January 1, 2018, and used a retrospective transition method. We do not believe the adoption of this guidance will have a significant impact on our financial statements.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Under this ASU, an employer is required to disaggregate the service cost component from the other components of the net benefit cost. The amendments provide explicit guidance on how to present the service cost component and the other components of the net benefit cost in the income statement and allow only the service cost component of the net benefit cost to be eligible for capitalization. We adopted this ASU for interim and annual periods beginning January 1, 2018. The amendments will be applied retrospectively for the presentation of the service cost component and the other components of the net benefit cost in the income statement, and prospectively for the capitalization of the service cost component in assets. As a result of the application of accounting principles for rate regulated entities, a similar amount of net benefit cost (including non-service components) will be recognized in our financial statements consistent with the current rate-making treatment. The impacts of adoption will be limited to changes in classification of non-service costs in the income statements.