Key Challenges and Risks

We are subject to a variety of risks – many of which are beyond our control – that may adversely affect our business, financial condition and results of operations. You should carefully consider the following risk factors, as well as the other information included in this report and other documents filed by us with the Securities and Exchange Commission (SEC) from time to time, when making an investment decision.

Risks related to legislation and regulation

Our business is significantly impacted by governmental regulation. We are subject to significant state, local and federal governmental regulation, including regulation by the various utility commissions in the states where we serve customers. This regulation significantly influences our operating environment and may affect our ability to recover costs from utility customers. Many aspects of our operations are regulated, including, but not limited to: the rates we charge our retail electric, natural gas and steam customers; wholesale power service practices; electric reliability requirements and accounting; participation in the interstate natural gas pipeline capacity market; standards of service; issuance of securities; short-term debt obligations; construction and operation of facilities; transactions with affiliates; and billing practices. Our significant level of regulation imposes restrictions on our operations and causes us to incur substantial compliance costs. Failure to comply with any applicable rules or regulations may lead to customer refunds, penalties and other payments, which could materially and adversely affect our results of operations and financial condition.

The rates we are allowed to charge our customers for retail and wholesale services, including adjustments determined under riders, have the most significant impact on our financial condition, results of operations and liquidity. Rate regulation is based on providing an opportunity to recover prudently incurred costs and earn a reasonable rate of return on invested capital. However, our ability to obtain rate adjustments in the future is dependent on regulatory action, and there is no assurance that our regulators will consider all of our costs to have been prudently incurred. In addition, our rate proceedings may not always result in rates that fully recover our costs or provide for a reasonable rate of return. We defer certain costs and revenues as regulatory assets and liabilities for future recovery or refund to customers, as authorized by our regulators. Future recovery of regulatory assets is not ensured, and is subject to review and approval by our regulators. If recovery of regulatory assets is not approved or is no longer deemed probable, these costs would be recognized in current period expense and could have a material adverse impact on our results of operations, cash flows and financial condition.

We believe we have obtained the necessary permits, approvals, authorizations, certificates and licenses for our existing operations; have complied with all of their associated terms; and our businesses are conducted in accordance with applicable laws. These permits, approvals, authorizations, certificates and licenses may be revoked or modified by the agencies that granted them if facts develop that differ significantly from the facts assumed when they were issued. In addition, discharge permits and other approvals and licenses are often granted for a term that is less than the expected life of the associated facility. Licenses and permits may require periodic renewal, which may result in additional requirements being imposed by the granting agency. In addition, existing regulations may be revised or reinterpreted by federal, state and local agencies, or these agencies may adopt new laws and regulations that apply to us. We cannot predict the impact on our business and operating results of any such actions by these agencies. Changes in regulations, interpretations of regulations or the imposition of new regulations could influence our operating environment, may result in substantial compliance costs or may require us to change our business operations.

If we are unable to obtain, renew or comply with these governmental permits, approvals, authorizations, certificates or licenses, or if we are unable to recover any increased costs of complying with additional requirements or any other associated costs in customer rates in a timely manner, our results of operations and financial condition could be materially and adversely affected.

We may face significant costs to comply with existing and future environmental laws and regulations. Our operations are subject to numerous federal and state environmental laws and regulations. These laws and regulations govern, among other things, air emissions (including CO_2, methane, mercury, SO_2, and NO_x), water quality, wastewater discharges, and management of hazardous, toxic, and solid wastes and substances. We incur significant costs to comply with these environmental requirements, including costs associated with the installation of pollution-control equipment, environmental monitoring, emissions fees and permits at our facilities. In addition, if we fail to comply with environmental laws and regulations, even if caused by factors beyond our control, that failure may result in the assessment of civil or criminal penalties and fines.

The U.S. Environmental Protection Agency (EPA) has adopted and has implemented (or is in the process of implementing) regulations governing the emission of NO_x, SO_2, fine particulate matter, mercury and other air pollutants under the Clean Air Act through the National Ambient Air Quality Standards, the Mercury and Air Toxics Standards rule, the Clean Power Plan (CPP), the Cross-State Air Pollution Rule, and other air quality regulations. In addition, the EPA has finalized regulations under the Clean Water Act that govern cooling-water intake structures at our power plants and revised the effluent guidelines for steam electric generating plants. The EPA also has adopted a final rule that would expand traditional federal jurisdiction over navigable waters and related wetlands for permitting and other regulatory matters; however, this rule has been stayed. We continue to assess the potential cost of complying, and explore different alternatives in order to comply, with these and other environmental regulations. Several environmental regulations were either finalized or implemented during 2015, and there is still uncertainty as to what capital expenditures or additional costs may ultimately be required to comply with these regulations.

Existing environmental laws and regulations may be revised or new laws or regulations may be adopted at the federal or state level that could result in significant additional expenditures for our generation units or distribution systems, including, without limitation, costs to further limit greenhouse gas emissions from our operations through emission control technology; operating restrictions on our facilities; and increased compliance costs. In addition, the operation of emission control equipment and compliance with rules regulating our intake and discharge of water could increase our operating costs and reduce the generating capacity of our power plants. Any such regulation may also create substantial additional costs in the form of taxes or emission allowances and could affect the availability and/or cost of fossil fuels.

As a result, certain of our coal-fueled electric generating facilities may become uneconomical to maintain and operate, which could result in some of these units being retired or converted to an alternative type of fuel. If generation facility owners in the Midwest, including us, are forced to retire a significant number of older coal-fueled generation facilities, a potential reduction in the region's capacity reserve margin below acceptable risk levels may result. This could impair the reliability of the grid in the Midwest, particularly during peak demand periods. A reduction in available future capacity could also adversely affect our ability to serve our customers' needs.

Our electric and natural gas utilities also are subject to significant liabilities related to the investigation and remediation of environmental impacts at certain of our current and former facilities, and at third-party owned sites. We accrue liabilities and defer costs (recorded as regulatory assets) incurred in connection with our former manufactured gas plant sites. These costs include all costs incurred to date that we expect to recover, management's best estimates of future costs for investigation and remediation, and related legal expenses, and are net of amounts recovered by or that may be recovered from insurance or other third parties. Due to the potential for imposition of stricter standards and greater regulation in the future, as well as the possibility that other potentially responsible parties may not be financially able to contribute to cleanup costs, conditions may change or additional contamination may be discovered, our remediation costs could increase, and the timing of our capital and/or operating expenditures in the future may accelerate or could vary from the amounts currently accrued.

If we are not able to recover all of our environmental expenditures and related costs from our customers in the future, our results of operations and financial condition could be adversely affected. Further, increased costs recovered through rates could contribute to reduced demand for electricity, which could adversely affect our results of operations, cash flows and financial condition.

Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance and citizen enforcement of environmental requirements, has increased generally throughout the U.S. In particular, personal injury, property damage and other claims for damages alleged to have been caused by environmental impacts and alleged exposure to hazardous materials have become more frequent. In addition to claims relating to our current facilities, we also may be subject to potential liability in connection with the environmental condition of facilities that we previously owned and operated, regardless of whether the liabilities arose before, during or after the time we owned or operated these facilities. If we fail to comply with environmental laws and regulations or cause (or caused) harm to the environment or persons, that failure or harm may result in the assessment of civil penalties and damages against us. The incurrence of a material environmental liability or a material judgment in any action for personal injury or property damage related to environmental matters could have a significant adverse effect on our results of operations and financial condition.

We may face significant costs to comply with the regulation of greenhouse gas (GHG) emissions. Federal, state, regional and international authorities have undertaken efforts to limit GHG emissions. In 2015, the EPA issued the CPP, which is a final rule that regulates GHG emissions from existing generating units, as well as a proposed federal plan as an alternative to state compliance plans. The EPA also issued final performance standards for modified and reconstructed generating units, as well as for new fossil-fueled power plants.

If Wisconsin or Michigan determines not to file a state compliance plan, we may be required to comply with the federal plan, which could result in more significant compliance costs than a state compliance plan. Our companies are meeting with various stakeholders to discuss and model several options and identify those that could minimize impacts on reliability and customers.

In October 2015, numerous states (including Wisconsin and Michigan), trade associations and private parties filed lawsuits challenging the final rule, including a request to stay the implementation of the final rule pending the outcome of these legal challenges. The U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court of Appeals) denied the stay request, but on Feb. 9, 2016, the U.S. Supreme Court (Supreme Court) stayed the effectiveness of the rule until disposition of the litigation in the D.C. Circuit Court of Appeals and to the extent that review is sought, at the Supreme Court. Therefore, it is unlikely that states will move forward on the development of the state plans until the litigation is complete. Any state or federal compliance plans that are developed could be subject to change based upon the outcome of this litigation. In addition, on Feb. 15, 2016, the governor of Wisconsin issued Executive Order 186, which prohibits state agencies, departments, boards, commissions or other state entities from developing or promoting the development of a state plan. The rule could result in significant additional compliance costs, including capital expenditures, and impact how we operate our existing fossil-fueled power plants and biomass facility, all of which could have a material adverse impact on our operating costs.

There is no guarantee that we will be allowed to fully recover costs incurred to comply with the CPP or that cost recovery will not be delayed or otherwise conditioned. The CPP and any other related regulations that may be adopted in the future, either at the federal or state level, may cause our environmental compliance spending over the next several years to differ materially from the amounts currently estimated. These regulations could have a material adverse impact on our electric generation and natural gas distribution operations, could make some of our electric generating units uneconomic to maintain or operate, and could affect unit retirement and replacement decisions. These regulations could also adversely affect our future results of operations, cash flows, and financial condition.

In addition, our natural gas delivery systems may generate fugitive gas as a result of normal operations and as a result of excavation, construction and repair of natural gas delivery systems. Fugitive gas typically vents to the atmosphere and consists primarily of methane. CO_2 also is a byproduct of natural gas consumption. As a result, future legislation to regulate GHG emissions could increase the price of natural gas, restrict the use of natural gas, and adversely affect our ability to operate our natural gas facilities. A significant increase in the price of natural gas may increase rates for our natural gas customers, which could reduce natural gas demand.

Our electric utilities could be subject to higher costs and penalties as a result of mandatory reliability standards. Our electric utilities are subject to mandatory reliability and critical infrastructure protection standards established by the North American Electric Reliability Corp. and enforced by the Federal Energy Regulatory Commission (FERC). The critical infrastructure protection standards focus on controlling access to critical physical and cyber security assets. Compliance with the mandatory reliability standards could subject our electric utilities to higher operating costs. If our electric utilities were ever found to be in noncompliance with the mandatory reliability standards, they could be subject to sanctions, including substantial monetary penalties.

Provisions of the Wisconsin Utility Holding Company Act limit our ability to invest in nonutility businesses and could deter takeover attempts by a potential purchaser of our common stock that would be willing to pay a premium for our common stock. Under the Wisconsin Utility Holding Company Act, we remain subject to certain restrictions that have the potential of limiting our diversification into nonutility businesses. Under the act, the sum of certain assets of all nonutility affiliates in a holding company system generally may not exceed 25 percent of the assets of all public utility affiliates in the system, subject to certain exceptions.

In addition, the act precludes the acquisition of 10 percent or more of the voting shares of a holding company of a Wisconsin public utility unless the Public Service Commission of Wisconsin has first determined that the acquisition is in the best interests of utility customers, investors and public. This provision and other requirements of the act may delay or reduce the likelihood of a sale or change of control of WEC Energy Group. As a result, stockholders may be deprived of opportunities to sell some or all of their shares of our common stock at prices that represent a premium over market prices.

Risks related to the operation of our business

Our operations are subject to risks arising from the reliability of our electric generation, transmission and distribution facilities, natural gas infrastructure facilities, and other facilities, as well as the reliability of third-party transmission providers. Our financial performance depends on the successful operation of our electric generation and natural gas and electric distribution facilities. The operation of these facilities involves many risks, including operator error and the breakdown or failure of equipment or processes. Potential breakdown or failure may occur due to severe weather; catastrophic events (i.e., fires, earthquakes, explosions, tornadoes, floods, droughts, pandemic health events, etc.); significant changes in water levels in waterways; fuel supply or transportation disruptions; accidents; employee labor disputes; construction delays or cost overruns; shortages of or delays in obtaining equipment, material and/or labor; performance below expected levels; operating limitations that may be imposed by environmental or other regulatory requirements; terrorist attacks; or cyber security threats. Any of these events could lead to substantial financial losses.

Because our electric generation facilities are interconnected with third-party transmission facilities, the operation of our facilities also could be adversely affected by events impacting their systems. Unplanned outages at our power plants may reduce our revenues or cause us to incur significant costs if we are required to operate our higher-cost electric generators or purchase replacement power to satisfy our obligations, and could result in additional maintenance expenses.

Insurance, warranties, performance guarantees or recovery through the regulatory process may not cover any or all of these lost revenues or increased expenses, which could adversely affect our results of operations and cash flows.

Our operations are subject to various conditions that can result in fluctuations in energy sales to customers, including customer growth and general economic conditions in our service areas, varying weather conditions and energy conservation efforts. Our results of operations and cash flows are affected by the demand for electricity and natural gas, which can vary greatly based upon:

- *Fluctuations in customer growth and general economic conditions in our service areas.* Customer growth and energy use can be negatively impacted by population declines as well as economic factors in our service territories, including job losses, decreases in income and business closings. Our electric and natural gas utilities are impacted by economic cycles and the competitiveness of the commercial and industrial customers we serve. Any economic downturn or disruption of financial markets could adversely affect the financial condition of our customers and demand for their products. These risks could directly influence the demand for electricity and natural gas as well as the need for additional power generation and generating facilities. We also could be exposed to greater risks of accounts receivable write-offs if customers are unable to pay their bills.

- *Weather conditions.* Electricity demand is greater in the summer and winter months associated with cooling and heating. In addition, natural gas demand peaks in the winter heating season. As a result, our overall results fluctuate seasonally. In addition, milder temperatures during the summer cooling season and during the winter heating season may decrease revenues and net income.
- *Our customers' continued focus on energy conservation and ability to meet their own energy needs.* Customers could voluntarily reduce their consumption of energy in response to decreases in their disposable income, increases in energy prices and individual conservation efforts through the use of more energy-efficient technologies. Conservation of energy can be influenced by certain federal and state programs that are intended to influence how consumers use energy. In addition, several states, including Wisconsin and Michigan, have adopted energy efficiency targets to reduce energy consumption by certain dates.

As part of our planning process, we estimate the impacts of changes in customer growth and general economic conditions, weather and customer energy conservation efforts, but risks still remain. Any of these matters, as well as any regulatory delay in adjusting rates as a result of reduced sales from effective conservation measures or the adoption of new technologies, could adversely impact our results of operations and financial condition.

We are involved with several significant capital projects, which are subject to a number of risks and uncertainties that could adversely affect project costs and completion of construction projects. Our energy businesses require substantial capital expenditures for investments in, among other things, capital improvements to electric generating facilities, electric and natural gas distribution infrastructure, natural gas storage, and other projects, including projects for environmental compliance. In addition, WEC Business Services, LLC has various capital projects that are primarily related to the development of software applications used to support our utilities.

Achieving the intended benefits of any large construction project is subject to many uncertainties, some of which we will have limited or no control over, that could adversely affect project costs and completion time. These risks include, but are not limited to, the ability to adhere to established budgets and time frames; the availability of labor or materials at estimated costs; the ability of contractors to perform under their contracts; strikes; adverse weather conditions; potential legal challenges; changes in applicable laws or regulations; other governmental actions; continued public and policymaker support for such projects; and events in the global economy. In addition, certain of these projects require the approval of our regulators. If construction of commission-approved projects should materially and adversely deviate from the schedules, estimates and projections on which the approval was based, the applicable commission may deem the additional capital costs as imprudent and disallow recovery of them through rates.

To the extent that delays occur, costs become unrecoverable, or we otherwise become unable to effectively manage and complete our capital projects, our results of operations, cash flows and financial condition may be adversely affected.

Advances in technology could make our electric generating facilities less competitive. Research and development activities are ongoing for new technologies that produce power or reduce power consumption. These technologies include renewable energy, customer-oriented generation, energy storage and energy efficiency. We generate power at central station power plants to achieve economies of scale and produce power at a competitive cost. There are distributed generation technologies that produce power, including fuel cells, microturbines, wind turbines and solar cells, which have become more cost competitive. It is possible that advances in technology will continue to reduce the costs of these alternative methods of producing power to a level that is competitive with that of central station power production. If these technologies become cost competitive and achieve economies of scale, our market share could be eroded, and the value of our generating facilities could be reduced. Advances in technology also could change the channels through which our electric customers purchase or use power, which could reduce our sales and revenues or increase our expenses.

Our operations are subject to risks beyond our control, including but not limited to, cyber security intrusions, terrorist attacks, acts of war or unauthorized access to personally identifiable information. We face the risk of terrorist and cyber intrusions, both threatened and actual, against our generation facilities, electric and natural gas distribution infrastructure, our information and technology systems, and network infrastructure, including that of third parties on which we rely, any of which could result in a full or partial disruption of our ability to generate, transmit, purchase or distribute electricity or natural gas or cause environmental repercussions. Any operational disruption or environmental repercussions could result in a significant decrease in our revenues or significant reconstruction or remediation costs, which could materially and adversely affect our results of operations, financial condition and cash flows.

We operate in an industry that requires the use of sophisticated information technology systems and network infrastructure, which control an interconnected system of generation, distribution and transmission systems shared with third parties. A successful physical or cybersecurity intrusion may occur despite our security measures or those that we require our vendors to take, which include compliance with reliability standards and critical infrastructure protection standards. Successful cyber intrusions, including those targeting the electronic control systems used at our generating facilities and electric and natural gas transmission, distribution and storage systems, could disrupt our operations and result in loss of service to customers. These intrusions may cause unplanned outages at our power plants, which may reduce our revenues or cause us to incur significant costs if we are required to operate our higher-cost electric generators or purchase replacement power to satisfy our obligations, and could result in additional maintenance expenses. The risk of such intrusions may also increase our capital and operating costs as a result of having to implement increased security measures for protection of our information technology and infrastructure.

We face ongoing threats to our assets and technology systems. Despite the implementation of strong security measures, all assets and systems are potentially vulnerable to disability, failures, or unauthorized access due to human error or physical or cyber intrusions. If our assets or systems were to fail, be physically damaged, or be breached and were not recovered in a timely manner, we may be unable to perform critical business functions, and sensitive and other data could be compromised.

Our business requires the collection and retention of personally identifiable information of our customers, stockholders and employees, who expect that we will adequately protect such information. Security breaches may expose us to a risk of loss or misuse of confidential and proprietary information. A significant theft, loss or fraudulent use of personally identifiable information may lead to potentially large costs to notify and protect the impacted persons, and/or could cause us to become subject to significant litigation, costs, liability, fines or penalties, any of which could materially and adversely impact our results of operations as well as our reputation with customers, stockholders and regulators, among others. In addition, we may be required to incur significant costs associated with governmental actions in response to such intrusions or to strengthen our information and electronic control systems. We also may need to obtain additional insurance coverage related to the threat of such intrusions.

The costs of repairing damage to our facilities, protecting personally identifiable information, and notifying impacted persons, as well as related legal claims, may not be recoverable in rates, may exceed the insurance limits on our insurance policies or, in some cases, may not be covered by insurance.

Transporting, distributing and storing natural gas involves numerous risks that may result in accidents and other operating risks and costs. Inherent in natural gas distribution activities are a variety of hazards and operational risks, such as leaks, accidental explosions, including third-party damages, and mechanical problems, which could materially and adversely affect our results of operations, financial condition and cash flows. In addition, these risks could result in serious injury to employees and nonemployees, loss of human life, significant damage to property, environmental pollution, impairment of operations and substantial losses to us. The location of natural gas pipelines and storage facilities near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. These activities may subject us to litigation or administrative proceedings from time to time, which could result in substantial monetary judgments, fines or penalties against us, or be resolved on unfavorable terms.

We are a holding company and rely on subsidiary earnings to meet our financial obligations. As a holding company with no operations of our own, our ability to meet our financial obligations and pay dividends on our common stock is dependent upon the ability of our subsidiaries to pay amounts to us, whether through dividends or other payments. Our subsidiaries are separate legal entities that have no obligation to pay any of our obligations or to make any funds available for that purpose or for the payment of dividends on our common stock. The ability of our subsidiaries to pay amounts to us depends on their earnings, cash flows, capital requirements and general financial condition, as well as regulatory limitations. Prior to distributing cash to us, our subsidiaries have financial obligations that must be satisfied, including, among others, debt service and preferred stock dividends. In addition, each subsidiary's ability to pay amounts to us depends on any statutory, regulatory and/or contractual restrictions and limitations applicable to such subsidiary, which may include requirements to maintain specified levels of debt or equity ratios, working capital or other assets. Our utility subsidiaries are regulated by various state utility commissions, which generally possess broad powers to ensure that the needs of the utility customers are being met.

We may fail to attract and retain an appropriately qualified workforce. We operate in an industry that requires many of our employees to possess unique technical skill sets. Events, such as an aging workforce without appropriate replacements, the mismatch of skill sets to future needs or the unavailability of contract resources, may lead to operating challenges or increased costs. These operating challenges include lack of resources, loss of knowledge and a lengthy time period associated with skill development. In addition, current and prospective employees may determine that they do not want to work for us. Failure to hire and obtain replacement employees, including the ability to transfer significant internal historical knowledge and expertise to the new employees, may adversely affect our ability to manage and operate our business. If we are unable to successfully attract and retain an appropriately qualified workforce, our results of operations could be adversely affected.

Failure of our counterparties to meet their obligations, including obligations under power purchase agreements, could have an adverse impact on our results of operations. We are exposed to the risk that counterparties to various arrangements who owe us money, electricity, natural gas or other commodities or services will not be able to perform their obligations. Should the counterparties to these arrangements fail to perform, we may be required to replace the underlying commitment at current market prices or we may be unable to meet all of our customers' electric and natural gas requirements unless or until alternative supply arrangements are put in place. In such an event, we may incur losses, and our results of operations, financial position or liquidity could be adversely affected.

We have entered into several power purchase agreements with nonaffiliated companies, and continue to look for additional opportunities to enter into these agreements. Revenues are dependent on the continued performance by the purchasers of their obligations under the power purchase agreements. Although we have a comprehensive credit evaluation process and contractual protections, it is possible that one or more purchasers could fail to perform their obligations under the power purchase agreements. If this were to occur, we would expect that any operating and other costs that were initially allocated to a defaulting customer's power purchase agreement would be reallocated among our retail customers. To the extent there is any regulatory delay in adjusting rates, a customer default under a power purchase agreement could have a negative impact on our results of operations and cash flows.

Our revenues could be negatively impacted by competitive activity in the wholesale electricity markets. The FERC rules related to transmission are designed to facilitate competition in the wholesale electricity markets among regulated utilities, nonutility generators, wholesale power marketers and brokers by providing greater flexibility and more choices to wholesale customers, including initiatives designed to encourage the integration of renewable sources of supply. In addition, along with transactions contemplating physical delivery of energy, financial laws and regulations impact hedging and trading based on futures contracts and derivatives that are traded on various commodities exchanges, as well as over-the-counter. Technology changes in the power and fuel industries also have significant impacts on wholesale transactions and related costs. We currently cannot predict the impact of these and other developments or the effect of changes in levels of wholesale supply and demand, which are driven by factors beyond our control.

We may not be able to use tax credits, net operating losses and/or charitable contribution deduction carryforwards. We have significantly reduced our consolidated federal and state income tax liability in the past through tax credits, net operating losses and charitable contribution deductions available under the applicable tax codes. We have not fully used the allowed tax credits, net operating losses and charitable contribution deductions in our previous tax filings. We may not be able to fully use the tax credits, net operating losses and charitable contribution deductions available as carryforwards if our future federal and state taxable income and related income tax liability is insufficient to permit their use. In addition, any future disallowance of some or all of those tax credits, net operating losses or charitable contribution deduction carryforwards as a result of legislation or an adverse determination by one of the applicable taxing jurisdictions could materially affect our tax obligations and financial results.

Risks related to economic and market volatility

Our business is dependent on our ability to successfully access capital markets. We rely on access to credit and capital markets to support our capital requirements, including expenditures for our utility infrastructure and to comply with future regulatory requirements, to the extent not satisfied by the cash flow generated by our operations. We historically have secured funds from a variety of sources, including the issuance of short-term and long-term debt securities. Successful implementation of our long-term business strategies, including capital investment, is dependent upon our ability to access the capital markets, including the banking and commercial paper markets, on competitive terms and rates. In addition, we rely on committed bank credit agreements as backup liquidity, which allows us to access the low-cost commercial paper markets.

Our or our subsidiaries' access to the credit and capital markets could be limited, or our subsidiaries' cost of capital significantly increased, due to any of the following risks and uncertainties:

- Rating downgrade
- Economic downturn or uncertainty
- Prevailing market conditions
- Concerns over foreign economic conditions
- Changes in tax policy
- War or threat of war
- Overall health and view of the utility and financial institution industries

If any of these risks or uncertainties limit our access to the credit and capital markets or significantly increase our cost of capital, it could limit our ability to implement, or increase the costs of implementing, our business plan, which, in turn, could materially and adversely affect our results of operations, cash flows, and financial condition, and could limit our ability to sustain our current common stock dividend level.

A downgrade in our or any of our subsidiaries' credit ratings could negatively affect our or our subsidiaries' ability to access capital at reasonable costs and/or require the posting of collateral. Factors that impact our and our subsidiaries' credit ratings include, but are not limited to, capital structure, regulatory environment, ability to cover liquidity requirements and other requirements for capital. We or any of our subsidiaries could experience a downgrade in ratings if the rating agencies determine that the level of business or financial risk of us, our utilities or the utility industry has deteriorated. Changes in rating methodologies by the rating agencies also could have a negative impact on credit ratings.

Any downgrade by the rating agencies could:

- Increase borrowing costs under certain existing credit facilities
- Require payment of higher interest rates in future financings and possibly reduce the pool of creditors
- Decrease funding sources by limiting our or our subsidiaries' access to the commercial paper market
- Limit availability of adequate credit support for our subsidiaries' operations
- Trigger collateral requirements in various contracts

Fluctuating commodity prices could negatively impact our electric and natural gas utility operations. The margins and liquidity requirements of our businesses are impacted by changes in the forward and current market prices of natural gas, coal, electricity, renewable energy credits and ancillary services.

Our electric utilities burn natural gas in several of their electric generation plants and as a supplemental fuel at several coal-fueled plants. In many instances, purchased power costs are tied to natural gas costs. Natural gas costs may increase because of disruptions in natural gas supply due to a curtailment in production or distribution, international market conditions, demand for natural gas, and availability of shale gas and potential regulations affecting its accessibility.

Our Wisconsin electric utilities bear the risk for the recovery of fuel and purchased power costs within a symmetrical 2 percent fuel tolerance band compared to the forecast of fuel and purchased power costs established in their respective rate structures. Our natural gas utilities receive dollar-for-dollar recovery of prudently incurred natural gas costs.

Changes in commodity prices could result in:

- Higher working capital requirements, particularly related to natural gas inventory, accounts receivable and cash collateral postings
- Reduced profitability to the extent that reduced margins, increased bad debt and interest expense are not recovered through rates
- Higher rates charged to our customers, which could impact our competitive position
- Reduced demand for energy, which could impact margins and operating expenses
- Shutting down generation facilities if generation costs exceed the market price for electricity

We may not be able to obtain an adequate supply of coal, which could limit our ability to operate our coal-fueled facilities. We are dependent on coal for much of our electric generating capacity. Although we generally carry sufficient coal inventory at our generating facilities to protect against an interruption or decline in supply, there can be no assurance that the inventory levels will be adequate. While we have coal supply and transportation contracts in place, we cannot ensure that the counterparties to these agreements will be able to fulfill their obligations to supply coal to us or that we will be able to take delivery of all the contracted coal volume. The suppliers under these agreements may experience financial or operational problems that inhibit their ability to fulfill their obligations to us, or we may experience operational problems or constraints that prevent us from taking delivery. In addition, suppliers under these agreements may not be required to supply coal to us under certain circumstances, such as in the event of a natural disaster. Furthermore, demand for coal can impact its availability and cost. If we are unable to obtain our coal requirements under our coal supply and transportation contracts, we may be required to purchase coal at higher prices, or we may be forced to reduce generation at our coal-fueled units and replace this lost generation through additional power purchases in the MISO Energy and Operating Reserves Market (MISO energy markets). There is no guarantee that we would be able to fully recover any increased costs in rates or that recovery would not otherwise be delayed, either of which could adversely affect our cash flows.

Our electric generation frequently exceeds our customer load. When this occurs, we generally sell the excess generation into the MISO energy markets. If we are unable to run our lower-cost units, we may lose the ability to engage in these opportunity sales, which may adversely affect our results of operations.

The use of derivative contracts could result in financial losses. We use derivative instruments such as swaps, options, futures and forwards to manage commodity price exposure. We could recognize financial losses as a result of volatility in the market value of these contracts or if a counterparty fails to perform. These risks are managed through risk-management policies, which might not work as planned and cannot entirely eliminate the risks associated with these activities. In addition, although the hedging programs of our utilities must be approved by the various state commissions, derivative contracts entered into for hedging purposes might not offset the underlying exposure being hedged as expected, resulting in financial losses. In the absence of actively quoted market prices and pricing information from external sources, the value of these financial instruments can involve management's judgment or use of estimates. Changes in the underlying assumptions or use of alternative valuation methods could affect the value of the reported fair value of these contracts.

Restructuring in the regulated energy industry could have a negative impact on our business. The regulated energy industry continues to experience significant structural changes. Increased competition in the retail and wholesale markets, which may result from restructuring efforts, could have a significant adverse financial impact on us.

Certain jurisdictions in which we operate, including Michigan and Illinois, have adopted retail choice. Under Michigan law, our retail customers may choose an alternative electric supplier to provide power supply service. The law limits customer choice to 10 percent of our Michigan retail load. The two iron ore mines located in the Upper Peninsula of Michigan are excluded from this cap. When a customer switches to an alternative electric supplier, we continue to provide distribution and customer service functions for the customer. It is uncertain whether retail choice might be implemented in Wisconsin or Minnesota.

Illinois utilities' retail customers may choose an alternative natural gas supplier. Transportation customers purchase natural gas directly from third-party natural gas suppliers and use our distribution system to transport the natural gas to their facilities. Because we earn a distribution charge for transporting the natural gas for these customers, these arrangements have little or no impact on our net income.

FERC continues to support the existing Regional Transmission Organizations (RTOs) that affect the structure of the wholesale market within these RTOs. In connection with its status as a FERC approved RTO, Midcontinent Independent System Operator, Inc. (MISO) implemented bid-based energy markets that are part of the MISO energy markets. The MISO energy markets rules require that all market participants submit day-ahead and/or real-time bids and offers for energy at locations across the MISO region. MISO then calculates the most efficient solution for all of the bids and offers made into the market that day and establishes a locational marginal price that reflects the market price for energy. As a participant in the MISO energy markets, we are required to follow MISO's instructions when dispatching generating units to support MISO's responsibility for maintaining stability of the transmission system. MISO also implemented an ancillary services market for operating reserves that was simultaneously co-optimized with its existing energy markets.

These market designs continue to have the potential to increase costs of transmission, costs associated with inefficient generation dispatching, costs of participation in the MISO energy markets, and costs associated with estimated payment settlements.

We may experience poor investment performance of benefit plan holdings due to changes in assumptions and market conditions. We have significant obligations related to pension and other postretirement employee benefit plans. If we are unable to successfully manage our benefit plan assets and medical costs, our cash flows, financial condition or results of operations could be adversely impacted.

Our cost of providing these plans is dependent upon a number of factors, including actual plan experience, changes made to the plans and assumptions concerning the future. Types of assumptions include earnings on plan assets, discount rates, level of interest rates used to measure the required minimum funding levels of the plans, future government regulation, estimated withdrawals by retirees and our required or voluntary contributions to the plans. Plan assets are subject to market fluctuations and may yield returns that fall below projected return rates. In addition, medical costs for both active and retired employees may increase at a rate that is significantly higher than we currently anticipate. Our funding requirements could be impacted by a decline in the market value of plan assets, changes in interest rates, changes in demographics (including the number of retirements) or changes in life expectancy assumptions.

We may be unable to obtain insurance on acceptable terms or at all, and the insurance coverage we do obtain may not provide protection against all significant losses. Our ability to obtain insurance, as well as the cost and coverage of such insurance, could be affected by developments affecting our business; international, national, state or local events; and the financial condition of insurers. Insurance coverage may not continue to be available at all, or at rates or terms similar to those presently available to us. In addition, our insurance may not be sufficient or effective under all circumstances and against all hazards or liabilities to which we may be subject. Any losses for which we are not fully insured or that are not covered by insurance at all could materially adversely affect our results of operations, cash flows and financial position.

Risks related to the Integrys acquisition

The acquisition of Integrys Energy Group Inc. (Integrys) may not achieve its anticipated results, and we may be unable to integrate operations as expected. The merger agreement between us and Integrys was entered into with the expectation that the acquisition would result in various benefits, including, among other things, cost savings and operating efficiencies. Achieving the anticipated benefits of the acquisition is subject to a number of uncertainties, including whether the businesses of the two companies can be integrated in an efficient, effective and timely manner.

Integration may take longer than anticipated and could result in the loss of valuable employees; disruption of ongoing businesses, processes and systems; or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, any of which could adversely affect our ability to achieve the anticipated benefits of the transaction as and when expected. We may have difficulty addressing possible differences in corporate cultures and management philosophies. Failure to achieve anticipated acquisition benefits could result in increased costs or decreases in expected revenues and could adversely affect our future business, financial condition, operating results and prospects.

The acquisition may not be accretive to earnings and may cause dilution to our earnings per share, which may negatively affect the market price of our common stock. We anticipate that the acquisition will be accretive to earnings per share in 2016, which will be the first full year following completion of the transaction. This expectation is based on preliminary estimates that are subject to change. We also could encounter additional transaction and integration-related costs, may fail to realize all of the benefits anticipated in the acquisition, or may be subject to other factors that affect preliminary estimates. Any of these factors could cause a decrease in our earnings per share or decrease or delay the expected accretive effect of the transaction and contribute to a decrease in the price of our common stock.

We may incur unexpected transaction fees and transaction-related costs in connection with the acquisition. We incurred a number of expenses associated with completing the acquisition, and expect to incur additional expenses related to combining the operations of the two companies. We may incur additional unanticipated costs in the integration of the businesses. Although we expect that the elimination of certain duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses of the two companies, will offset the incremental transaction-related costs over time, we may not achieve this net benefit in the near term, or at all.

We recorded goodwill that could become impaired and adversely affect financial results. The acquisition of Integrys was accounted for as a purchase in accordance with generally accepted accounting principles. Under the purchase method of accounting, the assets and liabilities acquired and assumed were recorded at their estimated fair values at the date of acquisition and added to those of legacy Wisconsin Energy Corp. The excess of the purchase price over the estimated fair values was recorded as goodwill. As of Dec. 31, 2015, goodwill totaled $3,023.5 million, of which $2,581.6 million is attributable to the acquisition of Integrys. We perform an analysis of our goodwill balances to test for impairment on an annual basis or whenever events occur or circumstances change that would indicate a potential for impairment. If goodwill is deemed to be impaired, we may be required to incur material noncash charges that could materially adversely affect our results of operations.