

NORTH SHORE GAS COMPANY

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

FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2017

NORTH SHORE GAS COMPANY

CONDENSED INCOME STATEMENTS (Unaudited)	Three Months Ended	
	March 31	
<i>(in millions)</i>	2017	2016
Operating revenues	\$ 75.4	\$ 65.6
Operating expenses		
Cost of natural gas	43.6	34.7
Other operation and maintenance	12.2	12.7
Depreciation and amortization	3.5	3.1
Property and revenue taxes	0.5	0.5
Total operating expenses	59.8	51.0
Operating income	15.6	14.6
Other income, net	—	—
Interest expense	1.0	0.9
Other expense	(1.0)	(0.9)
Income before income taxes	14.6	13.7
Income tax expense	5.9	5.6
Net income	\$ 8.7	\$ 8.1

NORTH SHORE GAS COMPANY

CONDENSED BALANCE SHEETS (Unaudited) (in millions, except share amounts)	March 31 2017	December 31 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 0.3	\$ 0.4
Accounts receivable and unbilled revenues, net of reserves of \$1.6 and \$1.3, respectively	35.4	36.3
Receivables from related parties	0.2	0.3
Materials, supplies, and inventories	8.6	22.1
Derivative assets	1.4	3.2
Other	0.5	2.0
Current assets	46.4	64.3
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$193.7 and \$192.5, respectively	356.1	355.9
Regulatory assets	65.9	68.4
Other	0.9	1.6
Long-term assets	422.9	425.9
Total assets	\$ 469.3	\$ 490.2
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	\$ 15.2	\$ 26.3
Payables to related parties	1.4	2.9
Notes payable to related parties	27.6	40.2
Temporary LIFO liquidation credit	4.6	—
Accrued taxes	9.1	3.0
Customer credit balances	2.0	4.9
Customer deposits	3.7	3.2
Other	7.3	4.9
Current liabilities	70.9	85.4
Long-term liabilities		
Long-term debt	81.5	81.5
Deferred income taxes	94.1	94.9
Deferred investment tax credits	2.7	2.7
Regulatory liabilities	17.4	20.0
Environmental remediation liabilities	44.6	44.6
Pension and OPEB obligations	17.0	18.7
Asset retirement obligations	17.6	17.4
Other	5.3	5.5
Long-term liabilities	280.2	285.3
Commitments and contingencies		
Shareholder's equity		
Common stock, without par value, 5,000,000 shares authorized; 3,625,887 shares issued and outstanding	33.0	33.0
Retained earnings	85.2	86.5
Shareholder's equity	118.2	119.5
Total liabilities and shareholder's equity	\$ 469.3	\$ 490.2

NORTH SHORE GAS COMPANY

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)		Three Months Ended	
		March 31	
<i>(in millions)</i>		2017	2016
Operating activities			
Net income	\$	8.7	\$ 8.1
Reconciliation to cash provided by operating activities			
Depreciation and amortization		3.5	3.2
Deferred income taxes and investment tax credits, net		(0.8)	0.1
Change in –			
Accounts receivable and unbilled revenues		0.9	(3.6)
Materials, supplies, and inventories		13.5	6.7
Other current assets		1.5	0.8
Accounts payable		(8.8)	0.6
Temporary LIFO liquidation credit		4.6	6.0
Accrued taxes		6.1	4.7
Customer credit balances		(2.9)	(3.4)
Other current liabilities		2.8	0.2
Other, net		(1.6)	(0.4)
Net cash provided by operating activities		27.5	23.0
Investing activities			
Capital expenditures		(5.1)	(5.6)
Other, net		0.1	—
Net cash used in investing activities		(5.0)	(5.6)
Financing activities			
Short-term notes payable to related parties, net		(12.6)	(4.8)
Payment of dividends to parent		(10.0)	(12.5)
Net cash used in financing activities		(22.6)	(17.3)
Net change in cash and cash equivalents		(0.1)	0.1
Cash and cash equivalents at beginning of period		0.4	0.3
Cash and cash equivalents at end of period	\$	0.3	\$ 0.4
Supplemental Cash Flow Information			
Cash (paid) for interest	\$	(0.1)	\$ —
Cash received (paid) for income taxes, net		0.3	(0.5)