

NORTH SHORE GAS COMPANY

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

FINANCIAL STATEMENTS

For the Quarter Ended June 30, 2017

NORTH SHORE GAS COMPANY

CONDENSED INCOME STATEMENTS (Unaudited)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2017	2016	2017	2016
<i>(in millions)</i>				
Operating revenues	\$ 33.6	\$ 30.6	\$ 109.0	\$ 96.2
Operating expenses				
Cost of natural gas	13.9	11.1	57.5	45.8
Other operation and maintenance	11.1	14.6	23.3	27.3
Depreciation and amortization	3.6	3.0	7.1	6.1
Property and revenue taxes	0.5	0.5	1.0	1.0
Total operating expenses	29.1	29.2	88.9	80.2
Operating income	4.5	1.4	20.1	16.0
Other income, net	—	0.1	—	0.1
Interest expense	0.9	0.9	1.9	1.8
Other expense	(0.9)	(0.8)	(1.9)	(1.7)
Income before income taxes	3.6	0.6	18.2	14.3
Income tax expense	1.4	0.3	7.3	5.9
Net income	\$ 2.2	\$ 0.3	\$ 10.9	\$ 8.4

NORTH SHORE GAS COMPANY

CONDENSED BALANCE SHEETS (Unaudited) (in millions, except share amounts)	June 30 2017	December 31 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 0.2	\$ 0.4
Accounts receivable and unbilled revenues, net of reserves of \$1.5 and \$1.3, respectively	25.8	36.3
Receivables from related parties	0.2	0.3
Materials, supplies, and inventories:		
Natural gas in storage, at LIFO	14.2	19.8
Materials and supplies	1.6	1.6
Liquid propane	0.7	0.7
Derivative assets	0.3	3.2
Other	0.3	2.0
Current assets	43.3	64.3
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$196.1 and \$192.5, respectively	365.9	355.9
Regulatory assets	64.2	68.4
Other	1.1	1.6
Long-term assets	431.2	425.9
Total assets	\$ 474.5	\$ 490.2
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	\$ 21.1	\$ 26.3
Payables to related parties	3.5	2.9
Notes payable to related parties	28.0	40.2
Accrued taxes	6.4	3.0
Customer credit balances	3.2	4.9
Other	11.9	8.1
Current liabilities	74.1	85.4
Long-term liabilities		
Long-term debt	81.5	81.5
Deferred income taxes	95.2	94.9
Deferred investment tax credits	2.7	2.7
Regulatory liabilities	15.6	20.0
Environmental remediation liabilities	44.3	44.6
Pension and OPEB obligations	17.5	18.7
Asset retirement obligations	17.8	17.4
Other	5.4	5.5
Long-term liabilities	280.0	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	87.4	86.5
Shareholder's equity	120.4	119.5
Total liabilities and shareholder's equity	\$ 474.5	\$ 490.2

NORTH SHORE GAS COMPANY

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)		Six Months Ended	
		June 30	
<i>(in millions)</i>		2017	2016
Operating activities			
Net income	\$	10.9	\$ 8.4
Reconciliation to cash provided by operating activities			
Depreciation and amortization		7.1	6.4
Deferred income taxes and investment tax credits, net		0.3	0.4
Change in –			
Accounts receivable and unbilled revenues		10.6	9.5
Materials, supplies, and inventories		5.6	1.8
Other current assets		1.7	2.2
Accounts payable		(3.6)	(0.7)
Accrued taxes		3.4	(0.2)
Customer credit balances		(1.7)	(3.2)
Amounts refundable to customers		3.3	0.4
Other current liabilities		0.2	(0.7)
Other, net		(1.0)	2.9
Net cash provided by operating activities		36.8	27.2
Investing activities			
Capital expenditures		(10.8)	(9.7)
Payments for assets transferred from WEC Business Services LLC		(4.3)	—
Other, net		0.3	0.2
Net cash used in investing activities		(14.8)	(9.5)
Financing activities			
Short-term notes payable to related parties, net		(12.2)	(13.3)
Payment of dividends to parent		(10.0)	(12.5)
Equity contribution from parent		—	8.0
Net cash used in financing activities		(22.2)	(17.8)
Net change in cash and cash equivalents		(0.2)	(0.1)
Cash and cash equivalents at beginning of period		0.4	0.3
Cash and cash equivalents at end of period	\$	0.2	\$ 0.2
Supplemental Cash Flow Information			
Cash (paid) for interest	\$	(1.8)	\$ (1.7)
Cash (paid) for income taxes, net		(0.9)	(4.3)