

WISCONSIN ENERGY CORP  
Form 10-Q  
May 02, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2014

Commission File Number	Registrant; State of Incorporation Address; and Telephone Number	IRS Employer Identification No.
001-09057	WISCONSIN ENERGY CORPORATION (A Wisconsin Corporation) 231 West Michigan Street P.O. Box 1331 Milwaukee, WI 53201 (414) 221-2345	39-1391525

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (March 31, 2014):

Common Stock, \$.01 Par Value,

225,519,455 shares outstanding.

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WISCONSIN ENERGY CORPORATION

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FORM 10-Q REPORT FOR THE QUARTER ENDED MARCH 31, 2014

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DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

The abbreviations and terms set forth below are used throughout this report and have the meanings assigned to them below:

Primary Subsidiaries

We Power	W.E. Power, LLC
Wisconsin Electric	Wisconsin Electric Power Company
Wisconsin Gas	Wisconsin Gas LLC

Significant Assets

PIPP	Presque Isle Power Plant
PSGS	Paris Generating Station
VAPP	Valley Power Plant

Affiliates

ATC	American Transmission Company LLC
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Federal and State Regulatory Agencies

EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
WDNR	Wisconsin Department of Natural Resources

Environmental Terms

BART	Best Available Retrofit Technology
BTA	Best Technology Available
CAIR	Clean Air Interstate Rule
CSAPR	Cross-State Air Pollution Rule
MATS	Mercury and Air Toxics Standards
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO <sub>x</sub>	Nitrogen Oxide
SIP	State Implementation Plan
SO <sub>2</sub>	Sulfur Dioxide

Other Terms and Abbreviations

Bechtel	Bechtel Power Corporation
Compensation Committee	Compensation Committee of the Board of Directors
Exchange Act	Securities Exchange Act of 1934, as amended
FTRs	Financial Transmission Rights
GCRM	Gas Cost Recovery Mechanism
Junior Notes	Wisconsin Energy's 2007 Series A Junior Subordinated Notes due 2067
MISO	Midcontinent Independent System Operator, Inc.
MISO Energy Markets	MISO Energy and Operating Reserves Market
OTC	Over-the-Counter
PTF	Power the Future
SSR	System Support Resource

Treasury Grant

Section 1603 Renewable Energy Treasury Grant

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DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

The abbreviations and terms set forth below are used throughout this report and have the meanings assigned to them below:

Measurements

Btu	British Thermal Unit(s)
Dth	Dekatherm(s) (One Dth equals one million Btu)
MW	Megawatt(s) (One MW equals one million Watts)
MWh	Megawatt-hour(s)
Watt	A measure of power production or usage

Accounting Terms

AFUDC	Allowance for Funds Used During Construction
GAAP	Generally Accepted Accounting Principles
OPEB	Other Post-Retirement Employee Benefits

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). These statements are based upon management's current expectations and are subject to risks and uncertainties that could cause our actual results to differ materially from those contemplated in the statements. Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding earnings, completion of construction projects, retail sales and customer growth, rate actions and related filings with the appropriate regulatory authorities, current and proposed environmental regulations and other regulatory matters and related estimated expenditures, on-going legal proceedings, dividend payout ratios, projections related to the pension and other post-retirement benefit plans, fuel costs, sources of electric energy supply, coal and gas deliveries, remediation costs, capital expenditures, liquidity and capital resources and other matters. In some cases, forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology such as "anticipates," "believes," "could," "estimates," "expects," "forecasts," "goals," "guidance," "intends," "may," "objectives," "plans," "possible," "potential," "projects," "seeks," "should," "targets" or similar terms or variations of these terms.

Actual results may differ materially from those set forth in forward-looking statements. In addition to the assumptions and other factors referred to specifically in connection with these statements, factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements or otherwise affect our future results of operations and financial condition include, among others, the following:

Factors affecting utility operations such as catastrophic weather-related or terrorism-related damage; cyber security threats and disruptions to our technology network; availability of electric generating facilities; unscheduled generation outages, or unplanned maintenance or repairs; unanticipated events causing scheduled generation outages to last longer than expected; unanticipated changes in fossil fuel, purchased power, coal supply, gas supply or water supply costs or availability due to higher demand, shortages, transportation problems or other developments; unanticipated changes in the cost or availability of materials needed to operate environmental controls at our electric generating facilities or replace and/or repair our electric and gas distribution systems; nonperformance by electric energy or natural gas suppliers under existing power purchase or gas supply contracts; environmental incidents; electric transmission or gas pipeline system constraints; unanticipated organizational structure or key personnel changes; or collective bargaining agreements with union employees or work stoppages.

- Factors affecting the demand for electricity and natural gas, including weather and other natural phenomena; general economic conditions and, in particular, the economic climate in our service territories; customer growth and declines; customer business conditions, including demand for their products and services; energy conservation efforts; and customers moving to self-generation.

Timing, resolution and impact of rate cases and negotiations, including recovery of costs associated with environmental compliance, renewable generation, transmission service, distribution system upgrades, fuel and the Midcontinent Independent System Operator, Inc. (MISO) Energy Markets, as well as any costs incurred as a result of customers moving to an alternative electric supplier.

- The impact across our service territories of the continued adoption of distributed generation by our electric customers, and our ability to design and implement an appropriate rate structure to mitigate these impacts.

Increased competition in our electric and gas markets, including retail choice and alternative electric suppliers, and continued industry consolidation.

Our ability to continue to mitigate the impact of Michigan customers switching to an alternative electric supplier.

The ability to control costs and avoid construction delays during the development and construction of new electric generation facilities, as well as upgrades to our generation fleet and electric and natural gas distribution systems.

The impact of recent and future federal, state and local legislative and regulatory changes, including any changes in rate-setting policies or procedures; regulatory initiatives regarding deregulation and restructuring of

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION -- (CONT'D) Form 10-Q

the electric and/or gas utility industry; transmission or distribution system operation and/or administration initiatives; any required changes in facilities or operations to reduce the risks or impacts of potential terrorist activities or cyber security threats; the regulatory approval process for new generation and transmission facilities and new pipeline construction; adoption of new, or changes in existing, environmental, federal and state energy, tax and other laws and regulations to which we may become, or are, subject; changes in allocation of energy assistance, including state public benefits funds; changes in the application or enforcement of existing laws and regulations; and changes in the interpretation or enforcement of permit conditions by the permitting agencies.

Restrictions imposed by various financing arrangements and regulatory requirements on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances.

Current and future litigation, regulatory investigations, proceedings or inquiries, including Federal Energy Regulatory Commission (FERC) matters and Internal Revenue Service and state tax audits and other tax matters.

Events in the global credit markets that may affect the availability and cost of capital.

Other factors affecting our ability to access the capital markets, including general capital market conditions; our capitalization structure; market perceptions of the utility industry, us or any of our subsidiaries; and our credit ratings.

Inflation rates.

The investment performance of our pension and other post-retirement benefit trusts.

The financial performance of American Transmission Company LLC (ATC) and its corresponding contribution to our earnings, as well as the ability of ATC and the Duke-American Transmission Company to obtain the required approvals for their transmission projects.

The effect of accounting pronouncements issued periodically by standard setting bodies.

Advances in technology that result in competitive disadvantages and create the potential for impairment of existing assets.

Changes in the creditworthiness of the counterparties with whom we have contractual arrangements, including participants in the energy trading markets and fuel suppliers and transporters.

The ability to obtain and retain short- and long-term contracts with wholesale customers.

Potential strategic business opportunities, including acquisitions and/or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to us.

Incidents affecting the U.S. electric grid or operation of generating facilities.

The cyclical nature of property values that could affect our real estate investments.

Changes to the legislative or regulatory restrictions or caps on non-utility acquisitions, investments or projects, including the State of Wisconsin's public utility holding company law.

Foreign governmental, economic, political and currency risks.

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Other business or investment considerations that may be disclosed from time to time in our Securities and Exchange Commission (SEC) filings or in other publicly disseminated written documents, including the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2013.

We expressly disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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INTRODUCTION

Wisconsin Energy Corporation is a diversified holding company which conducts its operations primarily in two reportable segments: a utility energy segment and a non-utility energy segment. Unless qualified by their context when used in this document, the terms Wisconsin Energy, the Company, our, us or we refer to the holding company and all of its subsidiaries. Our primary subsidiaries are Wisconsin Electric Power Company (Wisconsin Electric), Wisconsin Gas LLC (Wisconsin Gas) and W.E. Power, LLC (We Power).

**Utility Energy Segment:** Our utility energy segment consists of: Wisconsin Electric, which serves electric customers in Wisconsin and the Upper Peninsula of Michigan, gas customers in Wisconsin and steam customers in metropolitan Milwaukee, Wisconsin; and Wisconsin Gas, which serves gas customers in Wisconsin. Wisconsin Electric and Wisconsin Gas operate under the trade name of "We Energies."

**Non-Utility Energy Segment:** Our non-utility energy segment consists primarily of We Power, which owns and leases to Wisconsin Electric the new generating capacity included in our Power the Future (PTF) strategy. See Item 1. Business and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2013 Annual Report on Form 10-K for more information on PTF.

We have prepared the unaudited interim financial statements presented in this Form 10-Q pursuant to the rules and regulations of the SEC. We have condensed or omitted some information and note disclosures normally included in financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) pursuant to these rules and regulations. This Form 10-Q, including the financial statements contained herein, should be read in conjunction with our 2013 Annual Report on Form 10-K, including the financial statements and notes therein.

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## PART I -- FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

WISCONSIN ENERGY CORPORATION  
CONSOLIDATED CONDENSED INCOME STATEMENTS  
(Unaudited)

	Three Months Ended March 31	
	2014	2013
	(Millions of Dollars, Except Per Share Amounts)	
Operating Revenues	\$1,695.0	\$1,275.2
Operating Expenses		
Fuel and purchased power	318.6	271.0
Cost of gas sold	591.5	270.1
Other operation and maintenance	275.4	288.1
Depreciation and amortization	100.6	95.5
Property and revenue taxes	30.6	29.5
Total Operating Expenses	1,316.7	954.2
Treasury Grant	3.5	—
Operating Income	381.8	321.0
Equity in Earnings of Transmission Affiliate	17.3	16.6
Other Income, net	1.1	4.4
Interest Expense, net	62.3	65.0
Income Before Income Taxes	337.9	277.0
Income Tax Expense	130.3	100.4
Net Income	\$207.6	\$176.6
Earnings Per Share		
Basic	\$0.92	\$0.77
Diluted	\$0.91	\$0.76
Weighted Average Common Shares Outstanding (Millions)		
Basic	225.8	228.9
Diluted	227.7	231.2
Dividends Per Share of Common Stock	\$0.39	\$0.34

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



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WISCONSIN ENERGY CORPORATION  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(Unaudited)

	March 31, 2014 (Millions of Dollars)	December 31, 2013
<b>Assets</b>		
Property, Plant and Equipment		
In service	\$15,043.7	\$14,966.3
Accumulated depreciation	(4,323.8	) (4,257.1
	10,719.9	10,709.2
Construction work in progress	175.4	149.6
Leased facilities, net	46.4	47.8
Net Property, Plant and Equipment	10,941.7	10,906.6
Investments		
Equity investment in transmission affiliate	409.6	402.7
Other	35.8	36.1
Total Investments	445.4	438.8
Current Assets		
Cash and cash equivalents	27.6	26.0
Accounts receivable, net	605.8	406.0
Accrued revenues	289.2	321.1
Materials, supplies and inventories	234.9	329.4
Current deferred tax asset, net	261.4	310.0
Prepayments and other	126.1	158.6
Total Current Assets	1,545.0	1,551.1
Deferred Charges and Other Assets		
Regulatory assets	1,098.0	1,108.5
Goodwill	441.9	441.9
Other	328.8	322.5
Total Deferred Charges and Other Assets	1,868.7	1,872.9
Total Assets	\$14,800.8	\$14,769.4
<b>Capitalization and Liabilities</b>		
Capitalization		
Common equity	\$4,322.0	\$4,233.0
Preferred stock of subsidiary	30.4	30.4
Long-term debt	4,348.8	4,363.2
Total Capitalization	8,701.2	8,626.6
Current Liabilities		
Long-term debt due currently	343.8	342.2
Short-term debt	422.2	537.4
Accounts payable	435.0	342.6
Accrued payroll and benefits	73.3	96.9
Other	150.3	177.3
Total Current Liabilities	1,424.6	1,496.4
Deferred Credits and Other Liabilities		
Regulatory liabilities	874.4	879.1
Deferred income taxes - long-term	2,699.0	2,634.0

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Deferred revenue, net	651.9	664.2
Pension and other benefit obligations	169.5	173.2
Other	280.2	295.9
Total Deferred Credits and Other Liabilities	4,675.0	4,646.4
Total Capitalization and Liabilities	\$ 14,800.8	\$ 14,769.4

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

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WISCONSIN ENERGY CORPORATION  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Three Months Ended March 31	
	2014	2013
	(Millions of Dollars)	
Operating Activities		
Net income	\$207.6	\$176.6
Reconciliation to cash		
Depreciation and amortization	103.7	98.2
Deferred income taxes and investment tax credits, net	111.6	101.8
Change in - Accounts receivable and accrued revenues	(184.8	) (84.3
Inventories	94.5	93.9
Other current assets	28.9	28.2
Accounts payable	94.7	(104.5
Accrued income taxes, net	1.4	(12.8
Other current liabilities	(33.5	) 35.6
Other, net	(39.0	) (2.4
Cash Provided by Operating Activities	385.1	330.3
Investing Activities		
Capital expenditures	(129.2	) (133.6
Investment in transmission affiliate	(3.9	) (1.3
Other, net	(6.0	) (10.4
Cash Used in Investing Activities	(139.1	) (145.3
Financing Activities		
Exercise of stock options	15.2	27.3
Purchase of common stock	(52.6	) (66.5
Dividends paid on common stock	(88.1	) (77.8
Retirement of long-term debt	(8.9	) (8.5
Change in short-term debt	(115.2	) (77.9
Other, net	5.2	7.5
Cash Used in Financing Activities	(244.4	) (195.9
Change in Cash and Cash Equivalents	1.6	(10.9
Cash and Cash Equivalents at Beginning of Period	26.0	35.6
Cash and Cash Equivalents at End of Period	\$27.6	\$24.7

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



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WISCONSIN ENERGY CORPORATION  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
 (Unaudited)

## 1 -- GENERAL INFORMATION

Our accompanying unaudited consolidated condensed financial statements should be read in conjunction with Item 8. Financial Statements and Supplementary Data, in our 2013 Annual Report on Form 10-K. In the opinion of management, we have included all adjustments, normal and recurring in nature, necessary for a fair presentation of the results of operations, cash flows and financial position in the accompanying income statements, statements of cash flows and balance sheets. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results which may be expected for the entire fiscal year 2014 because of seasonal and other factors.

Reclassifications and Adjustments: For the three months ended March 31, 2014, we have presented the tax effect of net operating loss carryforwards within deferred income taxes and investment tax credits, net on the consolidated condensed cash flows. For the three months ended March 31, 2013, \$59.0 million representing the tax effect of net operating loss carryforwards were included in accrued income taxes, net. This \$59.0 million amount has been adjusted in the consolidated condensed cash flows as of March 31, 2013 to conform to the March 31, 2014 presentation. For additional information related to our deferred tax assets, see Note G -- Income Taxes in our 2013 Annual Report on Form 10-K.

## 2 -- COMMON EQUITY

Stock Option Activity: The following table identifies non-qualified stock options granted by the Compensation Committee of the Board of Directors (Compensation Committee):

	2014	2013	
Non-qualified stock options granted year to date	899,500	1,418,560	
Estimated fair value per non-qualified stock option	\$4.18	\$3.45	
Assumptions used to value the options using a binomial option pricing model:			
Risk-free interest rate	0.1% - 3.0%	0.1% - 1.9%	
Dividend yield	3.8	% 3.7	%
Expected volatility	18.0	% 18.0	%
Expected forfeiture rate	2.0	% 2.0	%
Expected life (years)	5.8	5.9	

The risk-free interest rate is based on the U.S. Treasury interest rate whose term is consistent with the expected life of the stock options. Dividend yield, expected volatility, expected forfeiture rate and expected life assumptions are based on our historical experience.



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The following is a summary of our stock option activity for the three months ended March 31, 2014:

Stock Options	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (Millions)
Outstanding as of January 1, 2014	8,089,710	\$26.84		
Granted	899,500	\$41.03		
Exercised	(705,831)	) \$30.47		
Forfeited	(6,385)	) \$36.55		
Outstanding as of March 31, 2014	8,276,994	\$28.82	5.8	\$146.7
Exercisable as of March 31, 2014	5,337,979	\$23.80	4.1	\$121.5

The intrinsic value of options exercised was \$15.3 million and \$24.4 million for the three months ended March 31, 2014, and 2013, respectively. Cash received from options exercised was \$15.2 million and \$27.3 million for the three months ended March 31, 2014 and 2013, respectively. The actual tax benefit realized for the tax deductions from option exercises for the same periods was \$6.1 million and \$9.7 million, respectively.

All outstanding stock options to purchase shares of common stock were included in the computation of diluted earnings per share during the first quarter of 2014.

The following table summarizes information about stock options outstanding as of March 31, 2014:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number of Options	Weighted-Average Exercise Price	Remaining Contractual Life (Years)	Number of Options	Weighted-Average Exercise Price	Remaining Contractual Life (Years)
\$17.10 to \$21.11	1,724,864	\$20.65	4.0	1,724,864	\$20.65	4.0
\$23.88 to \$29.35	3,404,195	\$24.68	4.0	3,404,195	\$24.68	4.0
\$34.87 to \$41.03	3,147,935	\$37.78	8.8	208,920	\$35.39	7.9
	8,276,994	\$28.82	5.8	5,337,979	\$23.80	4.1

The following table summarizes information about our non-vested options during the three months ended March 31, 2014:

Non-Vested Stock Options	Number of Options	Weighted-Average Fair Value
Non-vested as of January 1, 2014	2,380,790	\$3.38
Granted	899,500	\$4.18
Vested	(334,890)	) \$3.20
Forfeited	(6,385)	) \$3.41
Non-vested as of March 31, 2014	2,939,015	\$3.65

As of March 31, 2014, total compensation costs related to non-vested stock options not yet recognized was approximately \$4.8 million, which is expected to be recognized over the next 21 months on a weighted-average basis.



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Restricted Shares: The following restricted stock activity occurred during the three months ended March 31, 2014:

Restricted Shares	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of January 1, 2014	150,698	
Granted	71,504	\$40.96
Released	(63,509	) \$33.02
Forfeited	(1,098	) \$38.04
Outstanding as of March 31, 2014	157,595	

We record the market value of the restricted stock awards on the date of grant, and then we charge their value to expense over the vesting period of the awards. The intrinsic value of restricted stock vesting was \$2.7 million and \$3.2 million for the three months ended March 31, 2014, and 2013, respectively. The actual tax benefit realized for the tax deductions from released restricted shares was \$1.0 million and \$1.1 million for the three months ended March 31, 2014, and 2013, respectively.

As of March 31, 2014, total compensation cost related to restricted stock not yet recognized was approximately \$4.8 million, which is expected to be recognized over the next 26 months on a weighted-average basis.

Performance Units: In January 2014 and 2013, the Compensation Committee granted 233,735 and 239,120 performance units, respectively, to officers and other key employees under the Wisconsin Energy Performance Unit Plan. Performance units earned as of December 31, 2013 and 2012 vested and were settled during the first quarter of 2014 and 2013, and had a total intrinsic value of \$14.8 million and \$19.3 million, respectively. The actual tax benefit realized for the tax deductions from the settlement of performance units was approximately \$5.3 million and \$7.0 million, respectively. As of March 31, 2014, total compensation cost related to performance units not yet recognized was approximately \$21.8 million, which is expected to be recognized over the next 24 months on a weighted-average basis.

Restrictions: Wisconsin Energy's ability as a holding company to pay common dividends primarily depends on the availability of funds received from its non-utility subsidiary, We Power, and its utility subsidiaries. Various financing arrangements and regulatory requirements impose certain restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances. In addition, under Wisconsin law, Wisconsin Electric and Wisconsin Gas are prohibited from loaning funds, either directly or indirectly, to Wisconsin Energy. See Note H -- Common Equity in our 2013 Annual Report on Form 10-K for additional information on these and other restrictions.

We do not believe that these restrictions will materially affect our operations or limit any dividend payments in the foreseeable future.

Share Repurchase Program: In December 2013, our Board of Directors authorized a share repurchase program that allows us to purchase up to \$300 million of our common stock through open market purchases or privately negotiated transactions from January 1, 2014 through the end of 2017. The previous share repurchase program authorized by our Board of Directors expired at the end of 2013. Through March 31, 2014, we have repurchased \$18.6 million of our common stock pursuant to the new program at an average cost of \$43.66 per share. The share repurchase program does not obligate Wisconsin Energy to acquire any specific number of shares and may be suspended or terminated by the Board of Directors at any time. In addition, through our independent agents, we purchase shares on the open market to fulfill exercised stock options and restricted stock awards. The following table identifies the shares purchased by the Company in the following periods:



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	Three Months Ended March 31			
	2014		2013	
	Shares	Cost	Shares	Cost
	(In Millions)			
Under share repurchase programs	0.4	\$ 18.6	0.3	\$ 11.1
To fulfill exercised stock options and restricted stock awards	0.8	34.0	1.4	55.4
Total	1.2	\$ 52.6	1.7	\$ 66.5

### 3 -- FAIR VALUE MEASUREMENTS

Fair value measurements require enhanced disclosures about assets and liabilities that are measured and reported at fair value and establish a hierarchical disclosure framework which prioritizes and ranks the level of observable inputs used in measuring fair value.

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We primarily apply the market approach for recurring fair value measurements and attempt to utilize the best available information. Accordingly, we also utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We are able to classify fair value balances based on the observability of those inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 -- Pricing inputs are unadjusted quoted prices 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. Instruments in this category consist of financial instruments such as exchange-traded derivatives, cash equivalents and restricted cash investments.

Level 2 -- Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Instruments in this category include non-exchange-traded derivatives such as Over-the-Counter (OTC) forwards and options.

Level 3 -- Pricing inputs include significant inputs that are generally less observable from objective sources. The inputs in the determination of fair value require significant management judgment or estimation. At each balance sheet date, we perform an analysis of all instruments subject to fair value reporting and include in Level 3 all instruments whose fair value is based on significant unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the instrument.





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The following tables summarize our financial assets and liabilities by level within the fair value hierarchy:

Recurring Fair Value Measures	As of March 31, 2014			
	Level 1	Level 2	Level 3	Total
	(Millions of Dollars)			
Assets:				
Derivatives	\$3.6	\$3.9	\$1.7	\$9.2
Total	\$3.6	\$3.9	\$1.7	\$9.2
Liabilities:				
Derivatives	\$—	\$0.1	\$—	\$0.1
Total	\$—	\$0.1	\$—	\$0.1

  

Recurring Fair Value Measures	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(Millions of Dollars)			
Assets:				
Derivatives	\$5.7	\$2.6	\$3.5	\$11.8
Total	\$5.7	\$2.6	\$3.5	\$11.8
Liabilities:				
Derivatives	\$—	\$0.3	\$—	\$0.3
Total	\$—	\$0.3	\$—	\$0.3

Derivatives reflect positions we hold in exchange-traded derivative contracts and OTC derivative contracts. Exchange-traded derivative contracts, which include futures and exchange-traded options, are generally based on unadjusted quoted prices in active markets and are classified within Level 1. Some OTC derivative contracts are valued using broker or dealer quotations, or market transactions in either the listed or OTC markets utilizing a mid-market pricing convention (the mid-point between bid and ask prices), as appropriate. In such cases, these derivatives are classified within Level 2. Certain OTC derivatives may utilize models to measure fair value. Generally, we use a similar model to value similar instruments. Valuation models utilize various inputs which include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs (i.e., inputs derived principally from or corroborated by observable market data by correlation or other means). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain OTC derivatives are in less active markets with a lower availability of pricing information which might not be observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3.

The following table summarizes the changes to derivatives classified as Level 3 in the fair value hierarchy:

	2014	2013
	(Millions of Dollars)	
Balance as of January 1	\$3.5	\$4.7
Realized and unrealized gains (losses)	—	—
Purchases	—	—
Issuances	—	—
Settlements	(1.8	) (3.1
Transfers in and/or out of Level 3	—	—
Balance as of March 31	\$1.7	\$1.6

Change in unrealized gains (losses) relating to instruments still held as of March 31      \$—                      \$—

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Derivative instruments reflected in Level 3 of the hierarchy include MISO Financial Transmission Rights (FTRs) that are measured at fair value each reporting period using monthly or annual auction shadow prices from relevant auctions. Changes in fair value for Level 3 recurring items are recorded on our balance sheet. See Note 4 -- Derivative Instruments, for further information on the offset to regulatory assets and liabilities.

The carrying amount and estimated fair value of certain of our recorded financial instruments are as follows:

Financial Instruments	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions of Dollars)			
Preferred stock, no redemption required	\$30.4	\$25.4	\$30.4	\$26.0
Long-term debt, including current portion	\$4,617.8	\$4,954.2	\$4,626.7	\$4,911.8

The carrying value of net accounts receivable, accounts payable and short-term borrowings approximates fair value due to the short-term nature of these instruments. The fair value of our preferred stock is estimated based upon the quoted market value for the same or similar issues. The fair value of our long-term debt, including the current portion of long-term debt, but excluding capitalized leases and unamortized discount on debt, is estimated based upon quoted market value for the same or similar issues or upon the quoted market prices of U.S. Treasury issues having a similar term to maturity, adjusted for the issuing company's bond rating and the present value of future cash flows.

#### 4 -- DERIVATIVE INSTRUMENTS

We utilize derivatives as part of our risk management program to manage the volatility and costs of purchased power, generation and natural gas purchases for the benefit of our customers and shareholders. Our approach is non-speculative and designed to mitigate risk and protect against price volatility. Regulated hedging programs require prior approval by the Public Service Commission of Wisconsin (PSCW).

We record derivative instruments on the balance sheet as an asset or liability measured at its fair value, and 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 energy related physical and financial contracts in our regulated operations that qualify as derivatives, the PSCW allows the effects of the fair market value accounting to be offset to regulatory assets and liabilities. As of March 31, 2014, we recognized \$0.1 million in regulatory assets and \$8.5 million in regulatory liabilities related to derivatives in comparison to \$0.3 million in regulatory assets and \$9.6 million in regulatory liabilities as of December 31, 2013.

We record our current derivative assets on the balance sheet in prepayments and other current assets and the current portion of the liabilities in other current liabilities. As of March 31, 2014, none of our derivative assets or derivative liabilities were considered long-term. Our Consolidated Condensed Balance Sheets as of March 31, 2014 and December 31, 2013 include: