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SHERRI A. WELLMAN
TEL (517) 483-4954
FAX (517) 374-6304
E-MAIL wellmans@millercanfield.com

Miller, Canfield, Paddock and Stone, P.L.C.
One Michigan Avenue, Suite 900
Lansing, Michigan 48933
TEL (517) 487-2070
FAX (517) 374-6304
www.millercanfield.com

July 1, 2019

Mr. Kirk Forbes
Manager
Analytical Support Section
Michigan Public Service Commission
7109 West Saginaw Street, 3rd Floor
Lansing, MI 48917

Re: WEC Energy Group
Affiliate Interest Agreement Annual Audit

Dear Mr. Forbes:

WEC Energy Group ("WEC") on behalf of Wisconsin Electric Power Company, Upper Michigan Energy Resources Corporation and Michigan Gas Utilities Corporation, submits this Compliance Filing pursuant to the terms of the WEC Energy Affiliated Interest Agreement ("WEC Energy AIA") between WEC Energy Group, Inc. and its regulated and non-regulated subsidiaries. Article V, Section 5 of the WEC Energy AIA includes the following requirement:

> Every year there will be an internal audit of transactions under this Agreement for the purpose of testing compliance with this Agreement. Such audit may be either a discrete audit solely of Services under this Agreement or may be an audit of the Services under this Agreement and other affiliated interest services agreements. The internal audit will include, the following: (i) the accuracy of the derivations of costs billed by the Providing Parties; (ii) the determination that the costs billed to the Regulated Parties are priced at the lesser of cost or fair market value, based on the studies and updates required by Sections V.6; (iii) the determination that Services provided by the Regulated Parties to the Non-Regulated Parties, except WBS, are billed at the greater of cost or fair market value, based on the studies and updates required by Section V.6; and (iv) the accuracy of charges billed under this Agreement during the year. The Regulated Parties will submit a copy of the audit report to the person or department designated by the

> audit report to the person or department designated by the Commissions or the Commissions' staffs no later than July 1 of each year. The first such audit report will pertain to the period ending December 31 of the year in which this Agreement is effective, and will be due on or before July 1 of the following year. Subsequent audit reports will be due July 1 following the calendar year that is the subject of the audit.

WEC submits the attached audit report for the year ending December 31, 2018, in accordance with the requirements of the Agreement and the Commission's Order.

Please contact me with any questions or concerns.

Very truly yours,

Miller, Canfield, Paddock and Stone, P.L.C.

By: [signature]
Sherri A. Wellman

SAW/kf
Enclosure
cc w/enc.: Kate Phillips
Colleen Sipiorski

WEC Energy Group

Affiliated Interest Agreement Annual Audit

Prepared by Audit Services
June 21, 2019

June 21, 2019

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Affiliated Interest Agreement Annual Audit

INTRODUCTION

A review of the Affiliated Interest Agreement (AIA) was performed by MaryBeth Moureau. The AIA applies to transactions between the affiliates within WEC Energy Group. The objective of this review was to verify WEC Energy Group's compliance with the AIA in effect for 2018 based on the audit requirements contained within. WEC Energy Group is required to submit an audit report to the Commissions including the Illinois Commerce Commission (ICC), Public Service Commission of Wisconsin (PSCW), Michigan Public Service Commission (MPSC), and the Minnesota Public Utilities Commission (MPUC) annually by July 1.

BACKGROUND

WEC Energy Group and its subsidiaries entered into a revised AIA on August 1, 2017. This agreement includes services between:

- Regulated parties, including Bluewater Gas Storage, LLC, Michigan Gas Utilities Corporation, Minnesota Energy Resources Corporation, North Shore Gas Company, The Peoples Gas Light and Coke Company, Upper Michigan Energy Resources Corporation, Wisconsin Electric Power Company, Wisconsin Gas LLC, and Wisconsin Public Service Corporation.
- Non-regulated parties, including WEC Energy Group and its subsidiaries not listed above, and WEC Business Services LLC (WBS).

The AIA allows WBS to recover all of its costs of doing business. In addition to identifying services that affiliates may provide and receive, the AIA includes provisions allowing for cost allocations to occur in cases where one company bears costs for which more than one company benefits (e.g., a company owns a system used by more than one company, a company pays an invoice for goods or services used by more than one company, or benefit plans).

SCOPE

The scope of the audit included affiliate transactions governed by the AIA for 2018. In accordance with the audit requirements in the AIA and the ICC Rider, we performed testing to verify:

- Transactions were in compliance with the AIA,
- Cost allocators were accurately calculated and entered into SAP,
- The required market study updates were completed and communicated to the appropriate parties, and
- Transactions involving The Peoples Gas Light and Coke Company (PGL) and North Shore Gas Company (NSG) were in compliance with the ICC Rider to the AIA.

CONCLUSION

Based on our review of the 2018 intercompany transactions sampled, we concluded that the services were in accordance with the provisions of the AIA and were billed at appropriate amounts. We also determined that cost allocators were accurately calculated and input into SAP.

In addition, WBS completed the new market study and communicated those results to the various commisions on May 1, 2019. The Michigan filing occurred on May 8, 2019.

We performed additional testing related to the ICC Rider to the AIA. Based on our testing of PGL/NSG's summary of ICC Rider related transactions, we determined that the transactions reviewed were allowable, appropriate, and in compliance with the AIA.

A summary of the transactions reviewed compared to the total population of this audit is provided in the table below.

AIA Transaction Testing	
Total population of intercompany transactions for 2018 (1)	$3,198,637,143
Sampled intercompany transactions reviewed in detail (2)	$16,961,551
Cost allocator review coverage (2)	$688,665,946
ICC Rider Testing (2)	
Total PGL/NSG transactions with affiliates for 2018	$4,876,593
Total population of ICC Rider related transactions for 2018 – charges into PGL/NSG	$1,266,957
Total population of ICC Rider related transactions for 2018 – charges out from PGL/NSG	$3,609,636
Sampled and reviewed transactions	$1,244,658

(1)These amounts are presented as the NET value
(2)These amounts are presented as the ABS value

Appendix A is attached to detail the specific approach used to execute each of the steps that passed testing. We thank all those involved in this audit for their assistance and support.

June 21, 2019

APPENDIX A
This Appendix provides additional details and results of the steps performed during the audit.

1. **Intercompany Transaction Testing**
For the 2018 intercompany transactions selected in our sample, we performed the following detailed tests:
   - Validated that the transaction was an appropriate charge between the companies and was in compliance with the AIA;
   - Agreed the transaction to appropriate supporting documentation to ensure it was supported, accurate, and appropriate;
   - For direct charges, verified they were appropriate per the steps above; and
   - For allocated charges, we ensured that they were based on an approved allocation method, and that the allocator was applied accurately.

2. **Cost Allocation Testing**
Cost Allocation Factors are determined based on different combinations of affiliate companies and allocation bases, such as number of customers. The Cost Allocation Factors are entered into SAP where they are applied to intercompany transactions. We selected a sample of six Cost Allocation Factors. For each sampled Cost Allocation Factor, we determined that calculations were accurate and correctly entered into SAP. The application of Cost Allocation Factors was reviewed during intercompany transaction testing.

3. **Market Study**
WEC Energy Group is required to conduct a triennial market study to determine whether costs fall above, below, or at fair market value. An annual update of the study is due by May 1 of each year. As a result of the revised AIA effective August 1, 2017, the first full new study was required to be completed on May 1, 2019 related to 2018 costs.

   We noted that WEC Energy Group performed the 2018 WBS labor and transactional market study updates and notified the Commissions of their availability for review on May 1, 2019, with the exception of the MPSC filing which occurred on May 8, 2019. Based on the analysis performed, WEC Energy Group determined that labor and transactional costs between WBS and client companies were at or below cost. These results demonstrate compliance with the AIA.

4. **ICC Rider to the AIA Specific Testing**
Additional audit provisions were added as part of the ICC Rider to the AIA. PGL and NSG transactions are categorized into five groups, four of which require additional review:
   - E.II.A: PGL and NSG may provide incidental services to WBS, and provide to and receive incidental services from WEC Energy Group. A sample of these transactions must be reviewed to verify the services were allowable, incidental, and at the appropriate cost.
   - E.II.B: PGL and NSG may provide or receive incidental services to or from non-regulated companies, except WBS and WEC Energy Group which are included in category E.II.A. A sample of these transactions must be reviewed to verify the services were allowable, incidental, and at the appropriate cost. No transactions occurred for this category during 2018.

- E.III.A: Cost allocations, such as a company pays an invoice for goods or services used by more than one company, may be completed between PGL/NSG and any company. A sample of these transactions must be reviewed to verify the services were allowable and at the appropriate cost.
- E.III.B: PGL and NSG may transfer assets to WBS. A sample of these transactions must be reviewed to verify the transfer was allowable and at the appropriate cost. No transactions occurred for this category during 2018.

For the transactions summarized in the chart below, we verified that PGL/NSG Accounting grouped transactions into the categories as specified by the Rider requirements. For each category, we selected a sample of transactions as required by the Rider. We concluded the transactions reviewed were allowable, appropriate, and in compliance with the Rider. These transactions were also included in the population for the overall testing of compliance with the AIA.

The following table summarizes the transactions within each category and the amount reviewed during the audit.

ICC Rider Testing	Population	Amount Tested	% Tested
Total 2018 PGL/NSG Transactions in and out	$4,876,593	$1,244,658	26%
Section E.II.A 1. Administrative & Maintenance, 2. Customer, 3. Fleet, 4. Operational Support, 5. Project Assistance (IT), 6. Union Employees, 7. Warehousing	$1,629,636	$472,860	29%
Section E.II.B 1. Administrative – reporting assistance, regulatory support, limited IT support 2. Operational Support – operate & maintain CNG facilities, Division Street shop	$0	$0	N/A
Section E.III.A.1 Cost Allocations per Rider	$2,968,568	$680,989	23%
Section E.III.A.2 Transition (employee moving between companies)	$278,389	$90,809	33%
Section E.III.A.3 Short Term Assignments (duties for one company while still employed by other company)	$0	$0	N/A
Section E.III.B Asset Transfers from PGL/NSG to WBS	$0	$0	N/A