

WISCONSIN GAS LLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

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For the Year Ended December 31, 2019
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GLOSSARY OF TERMS AND ABBREVIATIONS

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

Subsidiaries and Affiliates

Bluewater	Bluewater Natural Gas Holding, LLC
WBS	WEC Business Services LLC
WE	Wisconsin Electric Power Company
WEC Energy Group	WEC Energy Group, Inc.
WPS	Wisconsin Public Service Corporation

Federal and State Regulatory Agencies

EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
PSCW	Public Service Commission of Wisconsin

Accounting Terms

AFUDC	Allowance for Funds Used During Construction
ASU	Accounting Standards Update
CWIP	Construction Work in Progress
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
OPEB	Other Postretirement Employee Benefits
SAB	Staff Accounting Bulletin

Environmental Terms

CO ₂	Carbon Dioxide
GHG	Greenhouse Gas

Measurements

Dth	Dekatherm
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Other Terms and Abbreviations

AIA	Affiliated Interest Agreement
LNG	Liquefied Natural Gas
Omnibus Stock Incentive Plan	WEC Energy Group 1993 Omnibus Stock Incentive Plan, Amended and Restated Effective as of January 1, 2016
ROE	Return on Equity
Tax Legislation	Tax Cuts and Jobs Act of 2017

FINANCIAL STATEMENTS AND NOTES

A. INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Member of Wisconsin Gas LLC:

Milwaukee, Wisconsin

We have audited the accompanying financial statements of Wisconsin Gas LLC (the "Company") (a wholly owned subsidiary of WEC Energy Group), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, changes in member's equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wisconsin Gas LLC as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
March 18, 2020

WISCONSIN GAS LLC

B. INCOME STATEMENTS

Year Ended December 31 (in millions)	2019	2018	2017
Operating revenues	\$ 636.1	\$ 649.6	\$ 614.3
Operating expenses			
Cost of natural gas sold	329.7	353.1	316.4
Other operation and maintenance	111.4	115.1	114.2
Depreciation and amortization	54.9	51.8	48.6
Property and revenue taxes	7.3	6.8	6.2
Total operating expenses	503.3	526.8	485.4
Operating income	132.8	122.8	128.9
Other income, net	3.1	1.9	6.9
Interest expense	26.2	24.8	21.9
Other expense	(23.1)	(22.9)	(15.0)
Income before income taxes	109.7	99.9	113.9
Income tax expense	27.8	24.8	60.7
Net income	\$ 81.9	\$ 75.1	\$ 53.2

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

WISCONSIN GAS LLC

C. BALANCE SHEETS

At December 31 (in millions)	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 0.4	\$ 0.5
Accounts receivable and unbilled revenues, net of reserves of \$16.8 and \$18.3, respectively	112.8	125.6
Accounts receivable from related parties	43.2	72.4
Materials, supplies, and inventory:		
Natural gas in storage	50.2	56.8
Materials and supplies	4.9	4.8
Prepayments	13.7	9.2
Other	3.0	1.1
Current assets	228.2	270.4
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation and amortization of \$757.2 and \$740.6, respectively	1,829.0	1,683.2
Regulatory assets	244.3	250.7
Pension and OPEB assets	202.2	169.0
Goodwill	95.9	95.9
Other	13.8	14.3
Long-term assets	2,385.2	2,213.1
Total assets	\$ 2,613.4	\$ 2,483.5
Liabilities and Member's Equity		
Current liabilities		
Short-term debt	\$ 195.2	\$ 277.3
Accounts payable	39.6	55.7
Accounts payable to related parties	44.5	69.7
Other	43.2	36.9
Current liabilities	322.5	439.6
Long-term liabilities		
Long-term debt	635.8	486.3
Regulatory liabilities	401.9	402.5
Deferred income taxes	232.7	203.2
Environmental remediation liabilities	76.7	77.7
Other	22.6	29.9
Long-term liabilities	1,369.7	1,199.6
Commitments and contingencies (Note 14)		
Member's equity	921.2	844.3
Total liabilities and member's equity	\$ 2,613.4	\$ 2,483.5

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

WISCONSIN GAS LLC

D. STATEMENTS OF CASH FLOWS

Year Ended December 31				
(in millions)		2019	2018	2017
Operating activities				
Net income	\$	81.9	\$ 75.1	\$ 53.2
Reconciliation to cash provided by operating activities				
Depreciation and amortization		54.9	51.8	48.6
Deferred income taxes, net		26.0	15.3	40.8
Contributions and payments related to pension and OPEB plans		(2.1)	(3.2)	(2.7)
Change in –				
Accounts receivable and unbilled revenues		42.0	(64.6)	(12.4)
Materials, supplies, and inventories		6.5	(11.5)	(3.5)
Other current assets		(6.7)	0.4	1.2
Accounts payable		(41.4)	74.4	4.7
Other current liabilities		5.1	(16.7)	15.5
Other, net		(35.0)	0.3	(1.8)
Net cash provided by operating activities		131.2	121.3	143.6
Investing activities				
Capital expenditures		(198.4)	(159.8)	(154.3)
Proceeds from the sale of assets		4.9	—	—
Payments for assets transferred from affiliates		—	(15.6)	—
Proceeds on cash surrender value of life insurance		0.2	4.3	—
Other, net		—	0.1	(1.3)
Net cash used in investing activities		(193.3)	(171.0)	(155.6)
Financing activities				
Change in short-term debt		(82.1)	71.4	54.4
Issuance of long-term debt		150.0	—	—
Equity contributions from parent		55.0	27.0	—
Payment of distributions to parent		(60.0)	(50.0)	(45.0)
Other, net		(0.9)	—	—
Net cash provided by financing activities		62.0	48.4	9.4
Net change in cash and cash equivalents		(0.1)	(1.3)	(2.6)
Cash and cash equivalents at beginning of year		0.5	1.8	4.4
Cash and cash equivalents at end of year	\$	0.4	\$ 0.5	\$ 1.8

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

WISCONSIN GAS LLC

E. STATEMENTS OF CHANGES IN MEMBER'S EQUITY

<i>(in millions)</i>	2019	2018	2017
Member's Equity at January 1	\$ 844.3	\$ 792.2	\$ 783.9
Net income	81.9	75.1	53.2
Equity contributions from parent	55.0	27.0	—
Payment of distributions to parent	(60.0)	(50.0)	(45.0)
Other	—	—	0.1
Member's Equity at December 31	\$ 921.2	\$ 844.3	\$ 792.2

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

F. NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations—As used in these notes, the term "financial statements" includes the income statements, balance sheets, statements of cash flows, and statements of changes in member's equity, unless otherwise noted. In this report, when we refer to "us," "we," "our," or "ours," we are referring to Wisconsin Gas LLC.

We are a public utility engaged in the distribution of natural gas throughout Wisconsin and are a wholly owned subsidiary of WEC Energy Group. We are subject to the jurisdiction of, and regulation by, the PSCW, which has general supervisory and regulatory powers over virtually all phases of the public utility industry in Wisconsin. In addition, we are subject to the standards of conduct and affiliate rules of the FERC. We have combined many common functions with WE, another utility subsidiary of WEC Energy Group, and operate together under the trade name "We Energies".

(b) Basis of Presentation—We prepare our financial statements in conformity with GAAP. We make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

(c) Cash and Cash Equivalents—Cash and cash equivalents include marketable debt securities with an original maturity of three months or less.

(d) Operating Revenues—The following discussion includes our significant accounting policies related to operating revenues. For additional required disclosures on disaggregation of operating revenues, see Note 3, Operating Revenues.

Revenues from Contracts with Customers

Natural Gas Utility Operating Revenues

We recognize natural gas utility operating revenues under requirements contracts with residential, commercial and industrial, and transportation customers served under our tariffs. Tariffs provide our customers with the standard terms and conditions, including rates, related to the services offered. Requirements contracts provide for the delivery of as much natural gas as the customer needs. These requirements contracts represent discrete deliveries of natural gas and constitute a single performance obligation satisfied over time. Our performance obligation is both created and satisfied with the transfer of control of natural gas upon delivery to the customer. For most of our customers, natural gas is delivered and consumed by the customer simultaneously. A performance obligation can be bundled to consist of both the sale and the delivery of the natural gas commodity. Our customers can purchase the commodity from a third party. In this case, the performance obligation only includes the delivery of the natural gas to the customer.

The transaction price of the performance obligations for our natural gas customers is valued using the rates, charges, terms, and conditions of service included in our tariffs, which have been approved by the PSCW. These rates often have a fixed component customer charge and a usage-based variable component charge. We recognize revenue for the fixed component customer charge monthly using a time-based output method. We recognize revenue for the usage-based variable component charge using an output method based on natural gas delivered each month.

Our tariffs include various rate mechanisms that allow us to recover or refund changes in prudently incurred costs from rate case-approved amounts. Our rates include a one-for-one recovery mechanism for natural gas commodity costs. We defer any difference between actual natural gas costs incurred and costs recovered through rates as a current asset or liability. The deferred balance is returned to or recovered from customers at intervals throughout the year. In addition, our residential tariffs include a mechanism for cost recovery or refund of uncollectible expense based on the difference between actual uncollectible write-offs and the amounts recovered in rates.

Consistent with the timing of when we recognize revenue, customer billings generally occur on a monthly basis, with payments typically due in full within 30 days.

(e) Materials, Supplies, and Inventories—We record substantially all materials, supplies, and natural gas in storage inventories using the weighted-average cost method of accounting.

(f) Regulatory Assets and Liabilities—The economic effects of regulation can result in regulated companies recording costs and revenues that are allowed in the rate-making process in a period different from the period they would have been recognized by a nonregulated company. When this occurs, regulatory assets and regulatory liabilities are recorded on the balance sheet. Regulatory assets represent deferred costs probable of recovery from customers that would have otherwise been charged to expense. Regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or future costs already collected from customers in rates.

The recovery or refund of regulatory assets and liabilities is based on specific periods determined by the PSCW or occurs over the normal operating period of the related assets and liabilities. If a previously recorded regulatory asset is no longer probable of recovery, the regulatory asset is reduced to the amount considered probable of recovery, and the reduction is charged to expense in the current period. See Note 4, Regulatory Assets and Liabilities, for more information.

(g) Property, Plant, and Equipment—We record property, plant, and equipment at cost. Cost includes material, labor, overhead, and both debt and equity components of AFUDC. Additions to and significant replacements of property are charged to property, plant, and equipment at cost; minor items are charged to other operation and maintenance expense. The cost of depreciable utility property less salvage value is charged to accumulated depreciation when property is retired.

We record straight-line depreciation expense over the estimated useful life of utility property using depreciation rates approved by the PSCW. Annual utility composite depreciation rates were 2.29% in 2019, and 2.30% in 2018 and 2017.

We capitalize certain costs related to software developed or obtained for internal use and record these costs to amortization expense over the estimated useful life of the related software, which ranges from 5 to 15 years. If software is retired prior to being fully amortized, the difference is recorded as a loss on the income statement.

Third parties reimburse us for all or a portion of expenditures for certain capital projects. Such contributions in aid of construction costs are recorded as a reduction to property, plant, and equipment.

See Note 5, Property, Plant, and Equipment, for more information.

(h) Allowance for Funds Used During Construction—AFUDC is included in utility plant accounts and represents the cost of borrowed funds (AFUDC – Debt) used during plant construction and a return on member's equity (AFUDC – Equity) used for construction purposes. AFUDC – Debt is recorded as a reduction of interest expense and AFUDC – Equity is recorded in other income, net.

Approximately 50% of our retail jurisdictional CWIP expenditures are subject to the AFUDC calculation. Our average AFUDC retail rate was 8.33% in 2019, 2018 and 2017.

(i) Asset Impairment—Goodwill is subject to an annual impairment test. Interim impairment tests are also performed when impairment indicators are present. We perform an annual goodwill impairment test in the third quarter of each year. The carrying amount of our goodwill is considered not recoverable if the carrying amount of our net assets exceeds our fair value. An impairment loss is recorded for the excess of the carrying amount of goodwill over its implied fair value. See Note 6, Goodwill, for more information.

We periodically assess the recoverability of certain long-lived assets when factors indicate the carrying value of such assets may be impaired or such assets are planned to be sold. These assessments require significant assumptions and judgments by management. Long-lived assets that would be subject to an impairment assessment generally include any assets within regulated operations that may not be fully recovered from our customers as a result of regulatory decisions that will be made in the future. An impairment loss is recognized when the carrying amount of an asset is not recoverable and exceeds the fair value of the asset. The carrying amount of an asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. An impairment loss is measured as the excess of the carrying amount of the asset in comparison to the fair value of the asset.

(j) Stock-Based Compensation—Our employees participate in the WEC Energy Group stock-based compensation plans. In accordance with the WEC Energy Group shareholder approved Omnibus Stock Incentive Plan, WEC Energy Group provides long-term incentives through its equity interests to its non-employee directors, officers, and other key employees. The plan provides for the granting of stock options, restricted stock, performance shares, and other stock-based awards. Awards may be paid in WEC Energy Group common stock, cash, or a combination thereof. The number of shares of WEC Energy Group common stock authorized for issuance under the plan is 34.3 million. Officers and other key employees of WEC Energy Group are also granted performance units under the WEC Energy Group Performance Unit Plan. All grants of performance units are settled in cash.

Stock-based compensation expense is allocated to us based on the outstanding awards held by our employees and our allocation of labor costs. For the years ended December 31, 2019, 2018, and 2017, we recorded stock-based compensation expense of \$2.9 million, \$1.8 million, and \$1.2 million, respectively.

Stock-based compensation costs capitalized during 2019, 2018, and 2017 were not significant.

(k) Leases—In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which revised the previous guidance (Topic 840) regarding accounting for leases. Revisions include requiring a lessee to recognize a lease asset and a lease liability on its balance sheet for each lease, including operating leases with an initial term greater than 12 months. In addition, required quantitative and qualitative disclosures related to lease agreements were expanded.

We adopted Topic 842 effective January 1, 2019. We utilized the following practical expedients, which were available under ASU 2016-02, in our adoption of the new lease guidance.

- We did not reassess whether any expired or existing contracts were leases or contained leases.
- We did not reassess the lease classification for any expired or existing leases.
- We did not reassess the accounting for initial direct costs for any existing leases.

We did not elect the practical expedient allowing entities to account for the nonlease components in lease contracts as part of the single lease component to which they were related. Instead, in accordance with Accounting Standards Codification 842-10-15-31, our policy is to account for each lease component separately from the nonlease components of the contract.

We did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment of our right of use assets. No impairment losses were included in the measurement of our right of use assets upon our adoption of Topic 842.

In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842, which is an amendment to ASU 2016-02. Land easements (also commonly referred to as rights of way) represent the right to use, access or cross another entity's land for a specified purpose. This new guidance permits an entity to elect a transitional practical expedient, to be applied consistently, to not evaluate under Topic 842 land easements that were already in existence or had expired at the time of the entity's adoption of Topic 842. Once Topic 842 is adopted, an entity is required to apply Topic 842 prospectively to all new (or modified) land easements to determine whether the arrangement should be accounted for as a lease. We elected this practical expedient, resulting in none of our land easements being treated as leases upon our adoption of Topic 842.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which amends ASU 2016-02 and allows entities the option to initially apply Topic 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, if required. We used the optional transition method to apply the new guidance as of January 1, 2019, rather than as of the earliest period presented. We identified no significant operating or finance leases as a result of our implementation of the new lease guidance. As a result, the adoption of Topic 842 did not result in us recording any right of use assets or related lease liabilities related to operating leases, and we had no finance leases upon adoption.

Significant Judgments and Other Information

We are currently party to several easement agreements that allow us access to land we do not own for the purpose of constructing and maintaining certain natural gas equipment. We have not classified our easements as leases because we view the entire parcel of land specified in our easement agreements to be the identified asset, not just that portion of the parcel that contains our easement. As such, we have concluded that we do not control the use of an identified asset related to our easement agreements, nor do we obtain substantially all of the economic benefits associated with these shared-use assets.

As of March 18, 2020, we have not entered into any material leases that have not yet commenced.

(l) Income Taxes—We follow the liability method in accounting for income taxes. Accounting guidance for income taxes requires the recording of deferred assets and liabilities to recognize the expected future tax consequences of events that have been reflected in our financial statements or tax returns and the adjustment of deferred tax balances to reflect tax rate changes. We are required to assess the likelihood that our deferred tax assets would expire before being realized. If we conclude that certain deferred tax assets are likely to expire before being realized, a valuation allowance would be established against those assets. GAAP requires that, if we conclude in a future period that it is more likely than not that some or all of the deferred tax assets would be realized before expiration, we reverse the related valuation allowance in that period. Any change to the allowance, as a result of a change in judgment about the realization of deferred tax assets, is reported in income tax expense.

Investment tax credits associated with regulated operations are deferred and amortized over the life of the assets. We are included in WEC Energy Group's consolidated federal and state income tax returns. In accordance with our tax allocation agreement with WEC Energy Group, we are allocated income tax payments and refunds based on our separate tax computation. See Note 10, Income Taxes, for more information.

We recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense in our income statements.

(m) Fair Value Measurements—Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

Fair value accounting rules provide a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted prices are 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.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs within models or other valuation methods.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methods that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. We use a mid-market pricing convention (the mid-point price between bid and ask prices) as a practical measure for valuing certain derivative assets and liabilities. We primarily use a market approach for recurring fair value measurements and attempt to use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

When possible, we base the valuations of our derivative assets and liabilities on quoted prices for identical assets and liabilities in active markets. These valuations are classified in Level 1. The valuations of certain contracts not classified as Level 1 may be based on quoted market prices received from counterparties and/or observable inputs for similar instruments. Transactions valued using these inputs are classified in Level 2. Certain derivatives are categorized in Level 3 due to the significance of unobservable or internally-developed inputs.

See Note 11, Fair Value Measurements, for more information.

(n) Derivative Instruments—We use derivatives as part of our risk management program to manage the risks associated with the price volatility of natural gas costs for the benefit of our customers. Our approach is non-speculative and is designed to mitigate risk. Our regulated hedging program is approved by the PSCW.

We record derivative instruments on our balance sheets as an asset or liability measured at fair value, unless they qualify for the normal purchases and sales exception, and are so designated. We continually assess our contracts designated as normal and will discontinue the treatment of these contracts as normal if the required criteria are no longer met. 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 of our natural gas-related physical and financial contracts that qualify as derivatives, the PSCW allows the effects of fair value accounting to be offset to regulatory assets and liabilities.

We classify derivative assets and liabilities as current or long-term on our balance sheets based on the maturities of the underlying contracts. Cash flows from derivative activities are presented in the same category as the item being hedged within operating activities on our statements of cash flows.

Derivative accounting rules provide the option to present certain asset and liability derivative positions net on the balance sheets and to net the related cash collateral against these net derivative positions. We elected not to net these items. On our balance sheets, cash collateral provided to others is reflected in other current assets. See Note 12, Derivative Instruments, for more information.

(o) Employee Benefits—The costs of pension and OPEB plans are expensed over the periods during which employees render service. These costs are distributed among WEC Energy Group's subsidiaries based on current employment status and actuarial calculations, as applicable. The PSCW allows recovery in rates for our net periodic benefit cost calculated under GAAP. See Note 13, Employee Benefits, for more information.

(p) Customer Credit Balances—Customers can elect to be on a budget plan. Under this type of plan, a monthly installment amount is calculated based on estimated annual usage. During the year, the monthly installment amount is reviewed by comparing it to actual usage. If necessary, an adjustment is made to the monthly amount. Annually, the budget plan is reconciled to actual annual usage. Payments in excess of actual customer usage are recorded within other current liabilities on our balance sheets.

(q) Environmental Remediation Costs—We are subject to federal and state environmental laws and regulations that in the future may require us to pay for environmental remediation at sites where we have been, or may be, identified as a potentially responsible party. Loss contingencies may exist for the remediation of hazardous substances at various potential sites, including manufactured gas plant sites. See Note 14, Commitments and Contingencies, for more information.

We record environmental remediation liabilities when site assessments indicate remediation is probable, and we can reasonably estimate the loss or a range of losses. The estimate includes both our share of the liability and any additional amounts that will not be paid by other potentially responsible parties or the government. When possible, we estimate costs using site-specific information but also consider historical experience for costs incurred at similar sites. Remediation efforts for a particular site generally extend over a period of several years. During this period, the laws governing the remediation process may change, as well as site conditions, potentially affecting the cost of remediation.

We have received approval to defer certain environmental remediation costs, as well as estimated future costs, through a regulatory asset. The recovery of deferred costs is subject to the PSCW's approval.

We review our estimated costs of remediation annually for our manufactured gas plant sites. We adjust the liabilities and related regulatory assets, as appropriate, to reflect the new cost estimates. Any material changes in cost estimates are adjusted throughout the year.

(r) Customer Concentrations of Credit Risk—The geographic concentration of our customers did not contribute significantly to our overall exposure to credit risk. We periodically review customers' credit ratings, financial statements, and historical payment performance and require them to provide collateral or other security as needed. Our credit risk exposure is mitigated by our recovery mechanism for uncollectible expense discussed in Note 1(d), Operating Revenues. As a result, we did not have any significant concentrations of credit risk at December 31, 2019. In addition, there were no customers that accounted for more than 10% of our revenues for the year ended December 31, 2019.

(s) Subsequent Events—Subsequent events were evaluated for potential recognition or disclosure through March 18, 2020, which is the date the financial statements were available to be issued.

NOTE 2—RELATED PARTIES

We routinely enter into transactions with related parties, including WEC Energy Group and its other subsidiaries.

We provide and receive services, property, and other items of value to and from our parent, WEC Energy Group, and other subsidiaries of WEC Energy Group pursuant to an AIA that became effective January 1, 2017. The AIA was approved by the appropriate regulators, including the PSCW. During 2017, all of the applicable state commissions approved modifications to the AIA to incorporate WEC Energy Group's acquisition of Bluewater. See below for more information on the acquisition. In accordance with the AIA, WBS provides several categories of services to us (including financial, human resource, and administrative services).

The following table shows activity associated with our related party transactions for the years ended December 31:

<i>(in millions)</i>	2019	2018	2017
Transactions with WBS			
Billings to WBS ⁽¹⁾	\$ 13.3	\$ 7.9	\$ 0.1
Billings from WBS ⁽¹⁾	39.4	40.1 ⁽⁴⁾	20.2
Billings from WEC Energy Group ⁽¹⁾	—	—	10.3
Transactions with WE			
Natural gas related sales to WE ⁽²⁾	5.4	5.3	5.3
Other billings to WE ⁽¹⁾	30.1	32.6	23.1
Billings from WE ⁽¹⁾	41.1	59.0 ⁽⁴⁾	64.0
Transactions with Bluewater ⁽³⁾			
Storage service fees	19.7	20.9	2.1
Natural gas related sales to Bluewater ⁽²⁾	2.8	—	—

⁽¹⁾ Includes amounts billed for services, pass through costs, asset and liability transfers, and other items in accordance with the approved AIA. As required by FERC regulations for centralized service companies, WBS renders services at cost. In addition, all services provided by any regulated subsidiary to another regulated subsidiary or WBS are priced at cost.

⁽²⁾ Includes amounts related to the sale of natural gas and/or pipeline capacity.

⁽³⁾ WEC Energy Group's acquisition of Bluewater was completed on June 30, 2017. See below for more information.

⁽⁴⁾ Includes \$10.3 million and \$5.3 million for the transfer of certain software assets to us from WBS and WE, respectively.

Parent Company's Acquisition of Natural Gas Storage Facilities in Michigan

In June 2017, our parent company completed its acquisition of Bluewater for \$226.0 million. Bluewater owns natural gas storage facilities in Michigan that provide a portion of the current storage needs for our natural gas utility operations. In September 2017, we entered into a long-term service agreement with a wholly owned subsidiary of Bluewater to take a portion of the storage, which was then approved by the PSCW in November 2017. See Note 16, Regulatory Environment, for more information.

NOTE 3—OPERATING REVENUES

For more information about our significant accounting policies related to operating revenues, see Note 1(d), Operating Revenues.

Disaggregation of Operating Revenues

The following tables present our operating revenues disaggregated by revenue source. We disaggregate revenues into categories that depict how the nature, amount, timing, and uncertainty of revenues and cash flows are affected by economic factors. Natural gas revenues are further disaggregated by customer class. Each customer class has different expectations of service, natural gas and demand requirements, and can be impacted differently by regulatory activities within Wisconsin.

Comparable amounts have not been presented for the year ended December 31, 2017, due to our adoption of ASU 2014-09, Revenues from Contracts with Customers, under the modified retrospective method.

<i>(in millions)</i>	Natural Gas Utility Operating Revenues	
	Year Ended December 31	
	2019	2018
Natural gas utility revenues from contracts with customers	\$ 632.8	\$ 646.3
Other operating revenues	3.3	3.3
Total natural gas operating revenues	\$ 636.1	\$ 649.6

Revenues from Contracts with Customers

Natural Gas Utility Operating Revenues

The following table disaggregates natural gas utility operating revenues into customer class:

(in millions)	Year Ended December 31	
	2019	2018
Residential	\$ 395.3	\$ 390.2
Commercial and industrial	193.6	203.6
Total retail revenues	588.9	593.8
Transport	46.8	45.6
Other utility revenues *	(2.9)	6.9
Total natural gas utility operating revenues	\$ 632.8	\$ 646.3

* Includes amounts collected from (refunded to) customers for purchased gas adjustment costs.

Other Operating Revenues

Other operating revenues consist primarily of the following:

(in millions)	Year Ended December 31	
	2019	2018
Late payment charges	\$ 3.2	\$ 3.2
Rental revenues	0.1	0.1
Total other operating revenues	\$ 3.3	\$ 3.3

NOTE 4—REGULATORY ASSETS AND LIABILITIES

The following regulatory assets were reflected on our balance sheets as of December 31:

(in millions)	2019	2018	See Note
Regulatory assets ^{(1) (2)}			
Pension and OPEB costs ⁽³⁾	\$ 132.8	\$ 164.4	13
Environmental remediation costs ⁽⁴⁾	106.0	85.6	14
Other, net	5.5	0.7	
Total regulatory assets	\$ 244.3	\$ 250.7	

⁽¹⁾ Based on prior and current rate treatment, we believe it is probable that we will continue to recover from customers the regulatory assets in this table.

⁽²⁾ As of December 31, 2019, we had \$29.3 million of regulatory assets not earning a return. The regulatory assets not earning a return relate to certain environmental remediation costs, the recovery of which depends on the timing of the actual expenditures. The other regulatory assets in the table either earn a return at our weighted average cost of capital or the cash has not yet been expended, in which case the regulatory assets are offset by liabilities.

⁽³⁾ Primarily represents the unrecognized future pension and OPEB costs related to our defined benefit pension and OPEB plans. We are authorized recovery of these regulatory assets over the average remaining service life of each plan.

⁽⁴⁾ As of December 31, 2019, we had made cash expenditures of \$29.3 million related to these environmental remediation costs. The remaining \$76.7 million represents our estimated future cash expenditures.

The following regulatory liabilities were reflected on our balance sheets as of December 31:

<i>(in millions)</i>	2019	2018	See Note
Regulatory liabilities			
Income tax related items ⁽¹⁾	\$ 195.7	\$ 198.1	10
Removal costs ⁽²⁾	186.5	180.3	
Natural gas costs refundable through rate adjustments	13.9	9.8	1(d)
Uncollectible expense ⁽³⁾	10.3	14.1	1(d)
Other, net	9.4	10.0	
Total regulatory liabilities	\$ 415.8	\$ 412.3	
Balance sheet presentation			
Other current liabilities	\$ 13.9	\$ 9.8	
Regulatory liabilities	401.9	402.5	
Total regulatory liabilities	\$ 415.8	\$ 412.3	

⁽¹⁾ For information on the regulatory treatment of the impacts of the Tax Legislation, see Note 16, Regulatory Environment.

⁽²⁾ Represents amounts collected from customers to cover the future cost of property, plant, and equipment removals that are not legally required.

⁽³⁾ Represents amounts refundable to customers related to our uncollectible expense tracking mechanism. This mechanism allows us to recover or refund the difference between actual uncollectible write-offs and the amounts recovered in rates.

NOTE 5—PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following utility and non-utility assets at December 31:

<i>(in millions)</i>	2019	2018
Natural gas – distribution, storage, and transmission	\$ 2,400.1	\$ 2,254.6
Other	135.2	136.3
Less: Accumulated depreciation	757.2	740.6
Net	1,778.1	1,650.3
CWIP	46.9	28.9
Net utility property, plant, and equipment	1,825.0	1,679.2
Non-utility property, plant, and equipment	4.0	4.0
Total property, plant, and equipment	\$ 1,829.0	\$ 1,683.2

NOTE 6—GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired. We had no changes to the carrying amount of goodwill during the years ended December 31, 2019 and 2018.

<i>(in millions)</i>	December 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Impairment Losses	Net Carrying Amount	Gross Carrying Amount	Accumulated Impairment Losses	Net Carrying Amount
Goodwill	\$ 441.9	\$ (346.0)	\$ 95.9	\$ 441.9	\$ (346.0)	\$ 95.9

As of July 1, 2019, we completed our annual goodwill impairment test, and no impairments resulted from this test.

NOTE 7—MEMBER'S EQUITY

Various financing arrangements and regulatory requirements impose certain restrictions on our ability to transfer funds to WEC Energy Group in the form of cash distributions, loans, or advances. In addition, Wisconsin law prohibits us from making loans to or guaranteeing obligations of WEC Energy Group.

In accordance with our most recent rate order, we may not pay distributions above the test year forecasted amount reflected in our rate case, if it would cause our average common equity ratio, on a financial basis, to fall below our authorized level of 52.5%. A return of capital in excess of the test year amount can be paid by us at the end of the year provided that our average common equity ratio does not fall below the authorized level.

See Note 8, Short-Term Debt and Lines of Credit, for discussion of certain financial covenants related to our short-term debt obligations.

Our regulated member's equity is lower than our GAAP equity as it includes adjustments for purchase accounting and other factors. As of December 31, 2019, approximately \$803 million of our regulated member's equity, on a financial basis, was restricted.

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

NOTE 8—SHORT-TERM DEBT AND LINES OF CREDIT

The following table shows our short-term borrowings and their corresponding weighted-average interest rates as of December 31:

<i>(in millions, except percentages)</i>	2019	2018
Commercial paper		
Amount outstanding at December 31	\$ 195.2	\$ 277.3
Average interest rate on amounts outstanding at December 31	1.94%	2.76%

Our average amount of commercial paper borrowings based on daily outstanding balances during 2019 was \$206.2 million, with a weighted-average interest rate during the period of 2.39%.

We have entered into a bank back-up credit facility to maintain short term credit liquidity which, among other terms, requires us to maintain, subject to certain exclusions, a total funded debt to capitalization ratio of 65% or less. As of December 31, 2019, we were in compliance with our financial covenants.

The information in the table below relates to our revolving credit facility used to support our commercial paper borrowing program, including remaining available capacity under this facility as of December 31:

<i>(in millions)</i>	Maturity	2019
Revolving credit facility	October 2022	\$ 350.0
Less:		
Commercial paper outstanding		195.2
Available capacity under existing agreement		\$ 154.8

This facility has a renewal provision for two one-year extensions, subject to lender approval.

Our bank back-up credit facility contains customary covenants, including certain limitations on our ability to sell assets. The credit facility also contains customary events of default, including payment defaults, material inaccuracy of representations and warranties, covenant defaults, bankruptcy proceedings, certain judgments, Employee Retirement Income Security Act of 1974 defaults and change of control.

NOTE 9—LONG-TERM DEBT

The following table is a summary of our long-term debt outstanding as of December 31:

<i>(in millions)</i>			2019	2018
Long-term debt	Interest Rate	Year Due		
Debentures (unsecured)	2.38%	2024	\$ 150.0	\$ —
	3.53%	2025	200.0	200.0
	5.90%	2035	90.0	90.0
	3.71%	2046	200.0	200.0
Total			640.0	490.0
Unamortized debt issuance costs			(3.7)	(3.1)
Unamortized discount, net			(0.5)	(0.6)
Total long-term debt			\$ 635.8	\$ 486.3

We amortize debt premiums, discounts and debt issuance costs over the lives of the debt using the straight-line method and we include the costs in interest expense.

In October 2019, we issued \$150.0 million of 2.38% Debentures due November 1, 2024, and used the net proceeds to repay short-term debt and for working capital and other corporate purposes.

The following table shows the future maturities of our long-term debt outstanding as of December 31, 2019:

<i>(in millions)</i>	Payments
2020	\$ —
2021	—
2022	—
2023	—
2024	150.0
Thereafter	490.0
Total	\$ 640.0

Our long-term debt obligations contain covenants related to payment of principal and interest when due and various other obligations. Failure to comply with these covenants could result in an event of default, which could result in the acceleration of outstanding debt obligations. As of December 31, 2019, we were in compliance with our covenants related to our long-term debt obligations.

NOTE 10—INCOME TAXES

Income Tax Expense

The following table is a summary of income tax expense for each of the years ended December 31:

<i>(in millions)</i>	2019	2018	2017
Current tax expense	\$ 1.8	\$ 9.5	\$ 19.9
Deferred income taxes, net	26.0	15.3	40.8
Total income tax expense	\$ 27.8	\$ 24.8	\$ 60.7

Statutory Rate Reconciliation

The provision for income taxes for each of the years ended December 31 differs from the amount of income tax determined by applying the applicable United States statutory federal income tax rate to income before income taxes as a result of the following:

(in millions)	2019		2018		2017	
	Amount	Effective Tax Rate	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Expected tax at statutory federal tax rates	\$ 23.0	21.0 %	\$ 21.0	21.0 %	\$ 39.9	35.0 %
State income taxes net of federal tax benefit	6.9	6.3 %	6.2	6.2 %	5.8	5.1 %
Federal excess deferred tax amortization	(2.3)	(2.1)%	(2.3)	(2.3)%	—	— %
Tax Legislation	—	— %	—	— %	15.1	13.3 %
Other, net	0.2	0.1 %	(0.1)	(0.1)%	(0.1)	(0.1)%
Total income tax expense	\$ 27.8	25.3 %	\$ 24.8	24.8 %	\$ 60.7	53.3 %

Deferred Income Tax Assets and Liabilities

On December 22, 2017, the Tax Legislation was signed into law. For businesses, the Tax Legislation reduced the corporate federal tax rate from a maximum of 35% to a 21% rate effective January 1, 2018. In December 2017, we recorded a net tax benefit related to the re-measurement of our deferred taxes in the amount of \$175 million. Accordingly, the tax benefit related to our regulated operations was recorded as both an increase to regulatory liabilities as well as a decrease to certain existing regulatory assets at December 31, 2017. The effects of the Tax Legislation related to certain non-regulated items resulted in the recording of income tax expense in the amount of \$15.1 million for the year ended December 31, 2017. This amount was primarily due to a re-measurement of deferred tax assets and liabilities.

On December 22, 2017, the Securities and Exchange Commission staff issued guidance in SAB 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, which provided for a measurement period of up to one year from the enactment date to complete accounting under GAAP for the tax effects of the legislation. Due to the complex and comprehensive nature of the enacted tax law changes, and their application under GAAP, certain amounts related to bonus depreciation and future tax benefit utilization recorded in the financial statements as a result of the Tax Legislation were considered "provisional" and subject to revision at December 31, 2017, and through 2018, as discussed in SAB 118.

In 2018, we considered all available guidance from industry and income tax authorities related to these tax items, analyzed the impact on Alternative Minimum Tax Credit carryforwards, and revised our estimates for re-measurement of deferred income taxes related to guidance on bonus depreciation. See Note 16, Regulatory Environment, for more information on the re-measurement of deferred income taxes. At December 31, 2018, we no longer considered any amounts related to bonus depreciation and future tax benefit utilization "provisional," subject to any additional amendments or technical corrections to the Tax Legislation.

In 2019, we considered all available guidance from industry and income tax authorities related to these tax items and did not have any changes to our prior interpretations. Any further amendments or technical corrections to the Tax Legislation could subject these tax items to revision.

The components of deferred income taxes at December 31 were as follows:

<i>(in millions)</i>	2019	2018
Deferred tax assets		
Tax gross up – regulatory items	\$ 50.6	\$ 51.6
Uncollectible account expense	7.4	8.8
Other	11.7	11.4
Total deferred tax assets	\$ 69.7	\$ 71.8
Deferred tax liabilities		
Property-related	\$ 208.0	\$ 185.4
Pension benefits	64.8	64.1
Post-retirement benefits	23.6	21.9
Other	6.0	3.6
Total deferred tax liabilities	\$ 302.4	\$ 275.0
Deferred tax liability, net	\$ 232.7	\$ 203.2

Consistent with rate-making treatment, deferred taxes in the table above are offset for temporary differences that have related regulatory assets and liabilities.

The components of net deferred tax assets associated with federal and state tax benefit carryforwards as of December 31, 2019 and 2018 are summarized in the tables below:

2019 <i>(in millions)</i>	Gross Value	Deferred Tax Effect	Earliest Year of Expiration
Future tax benefits as of December 31, 2019			
State net operating loss	\$ 4.1	\$ 0.3	2035
Other state benefits	—	0.1	2021
Balance as of December 31, 2019	\$ 4.1	\$ 0.4	

2018 <i>(in millions)</i>	Gross Value	Deferred Tax Effect	Earliest Year of Expiration
Future tax benefits as of December 31, 2018			
Federal tax credit	\$ —	\$ 0.1	2022
State net operating loss	4.3	0.2	2035
Balance as of December 31, 2018	\$ 4.3	\$ 0.3	

Unrecognized Tax Benefits

We had no unrecognized tax benefits at December 31, 2019 and 2018.

We do not expect any unrecognized tax benefits to affect our effective tax rate in periods after December 31, 2019.

For the years ended December 31, 2019, 2018, and 2017, we recognized no interest and no penalties related to unrecognized tax benefits in our income statements. At December 31, 2019 and 2018, we had no interest accrued and no penalties accrued related to unrecognized tax benefits on our balance sheets.

We do not anticipate any significant increases in the total amounts of unrecognized tax benefits within the next 12 months.

Our primary tax jurisdictions include federal and the state of Wisconsin. With a few exceptions, we are no longer subject to federal income tax examinations by the United States Internal Revenue Service for years prior to 2015. At December 31, 2019, we were subject to examination by the Wisconsin taxing authority for tax years 2015 through 2019.

NOTE 11—FAIR VALUE MEASUREMENTS

The following tables summarize our financial assets and liabilities that were accounted for at fair value on a recurring basis, categorized by level within the fair value hierarchy:

(in millions)	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Natural gas contracts				
Derivative assets	\$ 0.1	\$ —	\$ —	\$ 0.1
Derivative liabilities	1.6	0.4	—	2.0

(in millions)	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Natural gas contracts				
Derivative assets	\$ 0.4	\$ 0.1	\$ —	\$ 0.5
Derivative liabilities	0.4	0.2	—	0.6

The derivative assets and liabilities listed in the tables above include options, futures, and physical commodity contracts used to manage market risks related to changes in natural gas supply costs.

Fair Value of Financial Instruments

The following table shows the financial instruments included on our balance sheets that were not recorded at fair value at December 31:

(in millions)	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 635.8	\$ 681.1	\$ 486.3	\$ 479.8

The fair value of our long-term debt is categorized within Level 2 of the fair value hierarchy.

NOTE 12—DERIVATIVE INSTRUMENTS

The following table shows our derivative assets and derivative liabilities, along with their classification on our balance sheets. None of our derivatives are designated as hedging instruments.

(in millions)	December 31, 2019		December 31, 2018	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Natural gas contracts				
Other current	\$ 0.1	\$ 1.9	\$ 0.5	\$ 0.6
Other long-term	—	0.1	—	—
Total	\$ 0.1	\$ 2.0	\$ 0.5	\$ 0.6

Realized gains (losses) on derivatives are primarily recorded in cost of natural gas sold on our income statements. Our estimated notional sales volumes and realized gains (losses) were as follows for the years ended:

(in millions)	December 31, 2019		December 31, 2018		December 31, 2017	
	Volumes	Losses	Volumes	Gains	Volumes	Losses
Natural gas contracts	29.0 Dth	\$ (2.8)	23.8 Dth	\$ 3.0	19.0 Dth	\$ (1.1)

At December 31, 2019 and 2018, we had posted cash collateral of \$2.9 million and \$0.5 million, respectively, in our margin accounts.

The following table shows derivative assets and derivative liabilities if derivative instruments by counterparty were presented net on our balance sheets:

<i>(in millions)</i>	December 31, 2019		December 31, 2018	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Gross amount recognized on the balance sheet	\$ 0.1	\$ 2.0	\$ 0.5	\$ 0.6
Gross amount not offset on the balance sheet	(0.1)	(1.6) *	(0.4)	(0.4)
Net amount	\$ —	\$ 0.4	\$ 0.1	\$ 0.2

* Includes cash collateral posted of \$1.5 million.

NOTE 13—EMPLOYEE BENEFITS

Pension and Other Postretirement Employee Benefits

We participate in WEC Energy Group's defined benefit pension plans and OPEB plans that cover substantially all of our employees. We are responsible for our share of the plan assets and obligations. The benefits for a portion of these plans are funded through irrevocable trusts, as allowed for income tax purposes. Our balance sheets reflect only the liabilities associated with our past and current employees and our share of the plan assets and obligations. We also offer medical, dental, and life insurance benefits to active employees and their dependents. We expense the costs of these benefits as incurred.

Generally, employees who started with us after 1997 receive a benefit based on a percentage of their annual salary plus an interest credit, while employees who started before 1998 receive a benefit based upon years of service and final average salary. New management employees hired after December 31, 2014 receive an annual company contribution to their 401(k) savings plan instead of being enrolled in the defined benefit plans.

We use a year-end measurement date to measure the funded status of all of the pension and OPEB plans. Due to the regulated nature of our business, we have concluded that substantially all of the unrecognized costs resulting from the recognition of the funded status of the pension and OPEB plans qualify as a regulatory asset.

The following table shows information relating to our share of the plans' benefit obligations and fair value of assets. Amounts presented are as of December 31:

<i>(in millions)</i>	Pension Benefits		OPEB Benefits	
	2019	2018	2019	2018
Benefit obligation	\$ 139.2	\$ 136.6	\$ 53.3	\$ 55.7
Fair value of plan assets	254.5	232.1	130.5	112.8
Funded status	\$ 115.3	\$ 95.5	\$ 77.2	\$ 57.1

The amount of contributions and benefit payments for the years ended December 31 was as follows:

<i>(in millions)</i>	Pension Benefits		OPEB Benefits	
	2019	2018	2019	2018
Employer contributions	\$ 0.9	\$ 1.0	\$ 1.2	\$ 2.2
Participant contributions	—	—	0.3	0.4
Benefit payments	(11.5)	(11.5)	(3.4)	(5.4)

The amounts recognized on our balance sheets as of December 31 related to the funded status of the benefit plans were as follows:

<i>(in millions)</i>	Pension Benefits		OPEB Benefits	
	2019	2018	2019	2018
Pension and OPEB assets	\$ 125.0	\$ 111.9	\$ 77.2	\$ 57.1
Other long-term liabilities	9.7	16.4	—	—
Total net assets	\$ 115.3	\$ 95.5	\$ 77.2	\$ 57.1

The accumulated benefit obligation for all defined benefit plans was \$139.2 million and \$136.6 million as of December 31, 2019 and 2018, respectively.

The following table shows information for pension plans with an accumulated benefit obligation in excess of plan assets. Amounts presented are as of December 31:

<i>(in millions)</i>	2019	2018
Projected benefit obligation	\$ 9.7	\$ 38.3
Accumulated benefit obligation	9.7	38.3
Fair value of plan assets	—	21.9

The following table shows the amounts that have not yet been recognized in our net periodic benefit cost as of December 31:

<i>(in millions)</i>	Pension Benefits		OPEB Benefits	
	2019	2018	2019	2018
Net regulatory assets				
Net actuarial loss	\$ 122.6	\$ 140.3	\$ 10.2	\$ 24.5
Prior service costs (credits)	(0.3)	(0.3)	0.1	(0.1)
Total	\$ 122.3	\$ 140.0	\$ 10.3	\$ 24.4

The following table shows the estimated amounts that will be amortized into net periodic benefit cost during 2020:

<i>(in millions)</i>	Pension Benefits	OPEB Benefits
Net actuarial loss	\$ 8.9	\$ —
Total 2020 – estimated amortization	\$ 8.9	\$ —

The amount of net periodic benefit cost (credit) recognized (including amounts capitalized to our balance sheets) for the years ended December 31 was as follows:

<i>(in millions)</i>	Pension Benefits			OPEB Benefits		
	2019	2018	2017	2019	2018	2017
Net periodic benefit cost (credit)	\$ (1.2)	\$ (0.5)	\$ 1.2	\$ (5.1)	\$ (5.4)	\$ (4.6)

The weighted-average assumptions used to determine benefit obligations for the plans were as follows for the years ended December 31:

	Pension Benefits		OPEB Benefits	
	2019	2018	2019	2018
Discount rate	3.38%	4.29%	3.40%	4.30%
Rate of compensation increase	4.00%	3.40%	N/A	N/A
Assumed medical cost trend rate (Pre 65)	N/A	N/A	6.00%	6.25%
Ultimate trend rate (Pre 65)	N/A	N/A	5.00%	5.00%
Year ultimate trend rate is reached (Pre 65)	N/A	N/A	2028	2024
Assumed medical cost trend rate (Post 65)	N/A	N/A	5.97%	6.11%
Ultimate trend rate (Post 65)	N/A	N/A	5.00%	5.00%
Year ultimate trend rate is reached (Post 65)	N/A	N/A	2028	2028

The weighted-average assumptions used to determine net periodic benefit cost for the plans were as follows for the years ended December 31:

	Pension Benefits		
	2019	2018	2017
Discount rate	4.29%	3.64%	4.09%
Expected return on assets	7.00%	7.00%	7.00%
Rate of compensation increase	3.40%	3.40%	3.20%

	OPEB Benefits		
	2019	2018	2017
Discount rate	4.30%	3.65%	4.10%
Expected return on assets	7.25%	7.25%	7.25%
Assumed medical cost trend rate (Pre 65)	6.25%	6.50%	7.00%
Ultimate trend rate (Pre 65)	5.00%	5.00%	5.00%
Year ultimate trend rate is reached (Pre 65)	2024	2024	2021
Assumed medical cost trend rate (Post 65)	6.11%	6.18%	7.00%
Ultimate trend rate (Post 65)	5.00%	5.00%	5.00%
Year ultimate trend rate is reached (Post 65)	2028	2028	2021

WEC Energy Group consults with its investment advisors on an annual basis to help forecast expected long-term returns on plan assets by reviewing historical returns as well as calculating expected total trust returns using the weighted-average of long-term market returns for each of the major target asset categories utilized in the fund. For 2020, the expected return on assets assumption is 6.75% for the pension plans and 7.00% for the OPEB plans.

Plan Assets

Current pension trust assets and amounts which are expected to be contributed to the trusts in the future are expected to be adequate to meet pension payment obligations to current and future retirees.

The Investment Trust Policy Committee oversees investment matters related to all of our funded benefit plans. The Committee works with external actuaries and investment consultants on an on-going basis to establish and monitor investment strategies and target asset allocations. Forecasted cash flows for plan liabilities are regularly updated based on annual valuation results. Target allocations are determined using projected benefit payment cash flows and risk analyses of appropriate investments. They are intended to reduce risk, provide long-term financial stability for the plans and maintain funded levels which meet long-term plan obligations while preserving sufficient liquidity for near-term benefit payments.

Our pension trust asset allocation of 35% equity investments, 55% fixed income investments, and 10% private equity and real estate investments. The two OPEB trusts' target asset allocations are 50% equity investments and 50% fixed income investments, and 70% equity investments and 30% fixed income investments, respectively. Equity securities include investments in large-cap, mid-cap, and small-cap companies. Fixed income securities include corporate bonds of companies from diversified industries, mortgage and other asset backed securities, commercial paper, and United States Treasuries.

Pension and OPEB plan investments are recorded at fair value. See Note 1(m), Fair Value Measurements, for more information regarding the fair value hierarchy and the classification of fair value measurements based on the types of inputs used.

The following table summarizes the fair values of our investments by asset class:

(in millions)	As of December 31, 2019							
	Pension Plan Assets				OPEB Assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Equity securities:								
United States equity	\$ 24.0	\$ —	\$ —	\$ 24.0	\$ 15.5	\$ —	\$ —	\$ 15.5
International equity	22.9	—	—	22.9	15.8	—	—	15.8
Fixed income securities: *								
United States bonds	11.4	102.0	—	113.4	14.7	29.3	—	44.0
International bonds	6.5	6.8	—	13.3	3.5	1.5	—	5.0
	\$ 64.8	\$ 108.8	\$ —	\$ 173.6	\$ 49.5	\$ 30.8	\$ —	\$ 80.3
Investments measured at net asset value				\$ 80.9				\$ 50.2
Total	\$ 64.8	\$ 108.8	\$ —	\$ 254.5	\$ 49.5	\$ 30.8	\$ —	\$ 130.5

* This category represents investment grade bonds of United States and foreign issuers denominated in United States dollars from diverse industries.

As of December 31, 2018

(in millions)	Pension Plan Assets				OPEB Assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Equity securities:								
United States equity	\$ 20.2	\$ —	\$ —	\$ 20.2	\$ 13.9	\$ —	\$ —	\$ 13.9
International equity	19.5	—	—	19.5	13.6	—	—	13.6
Fixed income securities: *								
United States bonds	15.1	99.3	—	114.4	13.9	25.9	—	39.8
International bonds	1.9	7.2	—	9.1	0.9	1.6	—	2.5
	\$ 56.7	\$ 106.5	\$ —	\$ 163.2	\$ 42.3	\$ 27.5	\$ —	\$ 69.8
Investments measured at net asset value				\$ 68.9				\$ 43.0
Total	\$ 56.7	\$ 106.5	\$ —	\$ 232.1	\$ 42.3	\$ 27.5	\$ —	\$ 112.8

* This category represents investment grade bonds of United States and foreign issuers denominated in United States dollars from diverse industries.

The following table sets forth a reconciliation of changes in the fair value of pension and OPEB plan assets categorized as Level 3 in the fair value hierarchy:

(in millions)	Private Equity and Real Estate	
	Pension	OPEB
Beginning balance at January 1, 2018	\$ 12.1	\$ 2.0
Realized and unrealized gains	1.4	0.3
Purchases	2.2	0.4
Liquidations	(0.2)	—
Transfers out of level 3	(15.5)	(2.7)
Ending balance at December 31, 2018	\$ —	\$ —

Cash Flows

We expect to contribute \$0.9 million to the pension plans in 2020, dependent upon various factors affecting us, including our liquidity position and the effects of the Tax Legislation. We expect to contribute an insignificant amount to the OPEB plans in 2020.

The following table shows the payments, reflecting expected future service, that we expect to make for pension and OPEB over the next 10 years:

(in millions)	Pension Benefits	OPEB Benefits
2020	\$ 9.8	\$ 4.3
2021	10.7	4.0
2022	9.7	3.8
2023	9.4	3.6
2024	9.0	3.3
2025-2029	40.1	14.1

Savings Plans

WEC Energy Group sponsors a 401(k) savings plan which allows substantially all of our full-time employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan-specified guidelines. A percentage of employee contributions are matched by us through a contribution into the employee's savings plan account, up to certain limits. The 401(k) savings plan includes an Employee Stock Ownership Plan. Certain employees receive an employer retirement contribution, which amounts are contributed to an employee's savings plan account. Total costs incurred under all of these plans were \$1.6 million, \$1.5 million, and \$1.3 million in 2019, 2018, and 2017, respectively.

NOTE 14—COMMITMENTS AND CONTINGENCIES

We have significant commitments and contingencies arising from our operations, including those related to unconditional purchase obligations, environmental matters, and enforcement and litigation matters.

Unconditional Purchase Obligations

We have obligations to distribute and sell natural gas to our customers and expect to recover costs related to these obligations in future customer rates. In order to meet these obligations, we routinely enter into long-term purchase and sale commitments for various quantities and lengths of time.

The following table shows our minimum future commitments related to these purchase obligations as of December 31, 2019.

(in millions)	Date Contracts Extend Through	Total Amounts Committed	Payments Due By Period					Later Years
			2020	2021	2022	2023	2024	
Natural gas supply and transportation	2048	\$ 696.3	\$ 108.6	\$ 92.1	\$ 67.3	\$ 45.2	\$ 31.1	\$ 352.0

Environmental Matters

Consistent with other companies in the natural gas utility industry, we face significant ongoing environmental compliance and remediation obligations related to current and past operations. Specific environmental issues affecting us include, but are not limited to, current and future regulation of GHG emissions and remediation of impacted properties, including former manufactured gas plant sites.

We have continued to pursue a proactive strategy to manage our environmental compliance obligations, including:

- the protection of wetlands and waterways, threatened and endangered species, and cultural resources associated with utility construction projects;
- the reporting of CO₂ emissions to comply with federal clean air rules; and
- the remediation of former manufactured gas plant sites.

Air Quality

Climate Change

In April 2019, WEC Energy Group issued a climate report, which analyzes its GHG reduction goals with respect to international efforts to limit future global temperature increases to less than two degrees Celsius. WEC Energy Group will evaluate potential GHG reduction pathways as climate change policies and relevant technologies evolve over time.

WEC Energy Group continues to evaluate opportunities and actions that preserve fuel diversity, lower costs for our customers, and contribute toward long-term GHG emissions reductions. WEC Energy Group's current plan, which includes us, is to work with its industry peers, environmental groups, public policy makers, and customers, with goals of reducing CO₂ emissions. In 2019, WEC Energy Group met and exceeded its 2030 goal of reducing CO₂ emissions by 40% below 2005 levels, and is re-evaluating its longer-term CO₂ reduction goals. WEC Energy Group also has a goal to decrease the rate of methane emissions from the natural gas distribution lines in its network by 30% per mile by the year 2030 from a 2011 baseline. WEC Energy Group was over half way toward meeting that goal at the end of 2019.

We are required to report our CO₂ equivalent emissions related to the natural gas that we distribute and sell under the EPA Greenhouse Gases Reporting Program. Based upon our analysis of the data, we reported CO₂ equivalent emissions of 6.4 million metric tonnes to the EPA for 2019 and 2018.

Land Quality

Manufactured Gas Plant Remediation

We have identified sites at which we or a predecessor company owned or operated a manufactured gas plant or stored manufactured gas. We have also identified other sites that may have been impacted by historical manufactured gas plant activities. We are responsible for the environmental remediation of these sites. We are also working with the Wisconsin Department of Natural Resources and the EPA on our investigation and remediation planning. These sites are at various stages of investigation, monitoring, remediation, and closure.

The future costs for detailed site investigation, future remediation, and monitoring are dependent upon several variables including, among other things, the extent of remediation, changes in technology, and changes in regulation. Historically, our regulators have allowed us to recover incurred costs, net of insurance recoveries and recoveries from potentially responsible parties, associated with the remediation of manufactured gas plant sites. Accordingly, we have established regulatory assets for costs associated with these sites.

We have established the following regulatory assets and reserves for manufactured gas plant sites as of December 31:

<i>(in millions)</i>	2019	2018
Regulatory assets	\$ 106.0	\$ 85.6
Reserves for future environmental remediation	76.7	77.7

Enforcement and Litigation Matters

We are involved in legal and administrative proceedings before various courts and agencies with respect to matters arising in the ordinary course of business. Although we are unable to predict the outcome of these matters, management believes that appropriate reserves have been established and that final settlement of these actions will not have a material effect on our financial condition or results of operations.

NOTE 15—SUPPLEMENTAL CASH FLOW INFORMATION

<i>(in millions)</i>	2019	2018	2017
Cash paid for interest, net of amount capitalized	\$ 25.0	\$ 24.5	\$ 21.6
Cash paid (received) for income taxes, net	8.0	18.9	(5.0)
Significant non-cash investing and financing transactions:			
Accounts payable related to construction costs	8.2	3.3	—

NOTE 16—REGULATORY ENVIRONMENT

Tax Cuts and Jobs Act of 2017

Due to the Tax Legislation, we deferred for return to ratepayers, through future refunds, bill credits, or reductions in other regulatory assets, the estimated tax benefit of \$200 million that resulted from the revaluation of deferred taxes. The Tax Legislation also reduced the corporate federal tax rate from a maximum of 35% to a 21% rate, effective January 1, 2018.

In May 2018, the PSCW issued an order regarding the benefits associated with the Tax Legislation. The PSCW order required 100% of the current 2018 and 2019 tax benefits be returned to our customers in the form of bill credits. Regarding the net tax benefit associated with the revaluation of deferred taxes, amortization required in accordance with normalization accounting was deferred. The timing and method of returning the remaining net tax benefit associated with the revaluation of deferred taxes was addressed in our rate order issued by the PSCW in December 2019. See the 2020 and 2021 Rates discussion below for more information.

2020 and 2021 Rates

In March 2019, we filed an application with the PSCW to adjust our retail natural gas rates, effective January 1, 2020. In August 2019, we filed an application with the PSCW for approval of a settlement agreement entered into with certain intervenors to resolve several outstanding issues in our rate case. On December 19, 2019, the PSCW issued a written order that approved the settlement

agreement without material modification and addressed the remaining outstanding issues that were not included in the settlement agreement. The new rates became effective January 1, 2020. The final order reflects the following:

2020 Effective rate decrease *	\$ (1.5) million / (0.2)%
ROE	10.2%
Common equity component average on a financial basis	52.5%

* Amount is net of certain deferred tax benefits from the Tax Legislation that were utilized to reduce near-term rate impact. The rate order reflects all of the unprotected deferred tax benefits from the Tax Legislation being amortized evenly over four years, which results in approximately \$3 million of previously deferred tax benefits being amortized each year. Unprotected deferred tax benefits by their nature are eligible to be returned to customers in a manner and timeline determined to be appropriate by the PSCW.

We will continue having an earnings sharing mechanism through 2021. The earnings sharing mechanism was modified from its previous structure to one that is consistent with other Wisconsin investor-owned utilities. Under the new earnings sharing mechanism, if we earn above our authorized ROE: (i) we retain 100.0% of earnings for the first 25 basis points above the authorized ROE; (ii) 50.0% of the next 50 basis points is refunded to customers; and (iii) 100.0% of any remaining excess earnings is refunded to customers. In addition, the rate order also requires us to maintain residential and small commercial natural gas customer fixed charges at previously authorized rates through 2021.

2018 and 2019 Rates

During April 2017, we, along with WE and WPS, filed an application with the PSCW for approval of a settlement agreement we made with several of our commercial and industrial customers regarding 2018 and 2019 base rates. In September 2017, the PSCW issued an order that approved the settlement agreement, which froze base rates through 2019 for our natural gas customers. Based on the PSCW order, our authorized ROE remained at 10.3%, and our capital cost structure remained unchanged through 2019.

Pursuant to the settlement agreement, we also agreed to keep our earnings sharing mechanism in place through 2019. Under this earnings sharing mechanism, if we earned above our authorized ROE, 50% of the first 50 basis points of additional utility earnings were required to be refunded to customers. All utility earnings above the first 50 basis points were also required to be refunded to customers.

Liquefied Natural Gas Facility

On November 1, 2019, we filed an application with the PSCW requesting approval to construct a LNG facility. If approved, the facility would provide us with approximately one billion cubic feet of natural gas supply to meet anticipated peak demand without requiring the construction of additional interstate pipeline capacity. This facility is expected to reduce the likelihood of constraints on our natural gas system during the highest demand days of winter. The project is estimated to cost approximately \$185 million. Commercial operation of the LNG facility is targeted for the end of 2023.

Natural Gas Storage Facilities in Michigan

In June 2017, WEC Energy Group acquired Bluewater. Bluewater owns natural gas storage facilities in Michigan that provide a portion of the current storage needs for our natural gas utility operations. In February 2017, we, along with WE and WPS, filed a request with the PSCW for a declaratory ruling on various items associated with the storage facilities. In the filing, we requested that the PSCW review and confirm the reasonableness and prudence of our potential long-term storage service agreement and interstate natural gas transportation contract related to the storage facilities. We, along with WE and WPS, also requested approval to amend WEC Energy Group's AIA to ensure WBS and WEC Energy Group's other subsidiaries could provide services to the storage facilities. During June 2017, the PSCW granted, subject to various conditions, these declarations and approvals. In September 2017, we entered into the long-term service agreement for the natural gas storage, which was then approved by the PSCW in November 2017.

NOTE 17—OTHER INCOME, NET

Total other income, net was as follows for the years ended December 31:

<i>(in millions)</i>	2019	2018	2017
Non-service components of net periodic benefit costs	\$ 1.3	\$ 0.4	\$ 5.4
AFUDC – Equity	1.3	0.6	0.9
Other, net	0.5	0.9	0.6
Total other income, net	\$ 3.1	\$ 1.9	\$ 6.9

NOTE 18—NEW ACCOUNTING PRONOUNCEMENTS

Financial Instruments Credit Losses

Effective January 1, 2020, we adopted FASB ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," using the modified retrospective transition method. This ASU amends the impairment model to utilize an expected loss methodology in place of the incurred loss methodology for financial instruments. The amendment requires entities to consider a broader range of information to estimate expected credit losses, which may result in earlier recognition of loss. Our exposure to credit losses is related to our accounts receivable and unbilled revenue balances, which are primarily generated from the sale of electricity and natural gas by our regulated utility operations.

Because our exposure to credit losses for many of our customers is mitigated by regulatory mechanisms we have in place, the noncash cumulative effect adjustment we recorded to retained earnings on January 1, 2020, as a result of our adoption of this standard, was not significant. The most significant impact of implementing this ASU will be in the form of additional disclosures that will be required in our financial statements for the year ended December 31, 2020. These disclosures are intended to provide information that will help users of our financial statements analyze our exposure to credit risk and understand how we estimate our allowance for credit losses.

Cloud Computing

In August 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The standard allows entities who are customers in hosting arrangements that are service contracts to apply the existing internal-use software guidance to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The guidance specifies classification for capitalizing implementation costs and related amortization expense within the financial statements and requires additional disclosures. The adoption of ASU 2018-15, effective January 1, 2020, did not have a significant impact on our financial statements.

Disclosure Requirements for Defined Benefit Plans

In August 2018, the FASB issued ASU 2018-14, Disclosure Framework: Changes to the Disclosure Requirements for Defined Benefit Plans. The pronouncement modifies the disclosure requirements for defined benefit pension and other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures and adds disclosure requirements identified as relevant. The modifications affect annual period disclosures and must be applied on a retrospective basis to all periods presented. The guidance will be effective for annual reporting periods ending after December 15, 2021, with early adoption permitted. We are currently evaluating the effects of this pronouncement on the notes to our financial statements.