NORTH SHORE GAS COMPANY

ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020

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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	
Integrys	Integrys Holding, Inc.
PELLC	Peoples Energy, LLC
PGL	The Peoples Gas Light and Coke Company
WBS	WEC Business Services LLC
WEC Energy Group	WEC Energy Group, Inc.

Federal and State Regulatory Agencies	
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
ICC	Illinois Commerce Commission
IEPA	Illinois Environmental Protection Agency
IRS	United States Internal Revenue Service
SEC	Securities and Exchange Commission

Accounting Terms	
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
LIFO	Last-In, First-Out
OPEB	Other Postretirement Employee Benefits

Environmental Terms	
CO_2	Carbon Dioxide
GHG	Greenhouse Gas
PCB	Polychlorinated Biphenyl

Measurements	
Dth	Dekatherm
MDth	One thousand Dth

Other Terms and Abbreviations	
AIA	Affiliated Interest Agreement
CDC	Centers for Disease Control and Prevention
CFR	Code of Federal Regulations
Compensation Committee	Compensation Committee of the Board of Directors
COVID-19	Coronavirus Disease – 2019
GCRM	Gas Cost Recovery Mechanism
ITC	Investment Tax Credit
LIBOR	London Interbank Offered Rate
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
SPC	COVID-19 Special Purpose Charge
Tax Legislation	Tax Cuts and Jobs Act of 2017
VITA	Variable Income Tax Adjustment Rider
WHO	World Health Organization

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

In this report, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. These statements are "forward-looking statements." Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements may be identified by reference to a future period or periods or by the use of terms such as "anticipates," "believes," "could," "estimates," "expects," "forecasts," "goals," "guidance," "intends," "may," "objectives," "plans," "possible," "potential," "projects," "seeks," "should," "targets," "will," or variations of these terms.

Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding earnings, completion of capital projects, sales and customer growth, rate actions and related filings with regulatory authorities, environmental and other regulations, including associated compliance costs, legal proceedings, effective tax rates, pension and OPEB plans, natural gas deliveries, remediation costs, climate-related matters, liquidity and capital resources, and other matters.

Forward-looking statements are subject to a number of risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in the statements. These risks and uncertainties include those described in Risk Factors and those identified below:

- Factors affecting utility operations such as catastrophic weather-related damage, environmental incidents, unplanned facility outages and repairs and maintenance, and natural gas pipeline system constraints;
- Factors affecting the demand for natural gas, including political or regulatory developments, unusual weather, changes in economic conditions, customer growth and declines, commodity prices, and energy conservation efforts;
- The timing, resolution, and impact of rate cases and negotiations, including recovery of deferred and current costs and the ability to earn a reasonable return on investment, and other regulatory decisions impacting our regulated operations;
- The impact of health pandemics, including the COVID-19 pandemic, on our business functions, financial condition, liquidity, and results of operations;
- The impact of recent and future federal, state, and local legislative and/or regulatory changes, including changes in rate-setting policies or procedures, deregulation and restructuring of the natural gas utility industry, transmission or distribution system operation, the approval process for new construction, reliability standards, pipeline integrity and safety standards, allocation of energy assistance, energy efficiency mandates, and tax laws, including the Tax Legislation as well as those that affect our ability to use ITCs;
- Federal and state legislative and regulatory changes relating to the environment, including climate change, the enforcement of these laws and regulations, changes in the interpretation of regulations or permit conditions by regulatory agencies, and the recovery of associated remediation and compliance costs;
- The ability to obtain and retain customers due to increased competition in our natural gas markets from retail choice and continued industry consolidation;
- The timely completion of capital projects within budgets and the ability to recover the related costs through rates;
- Factors affecting the implementation of WEC Energy Group's methane emission reduction goal, and opportunities and actions related to this goal, including related regulatory decisions, and the cost of materials, supplies, and labor;
- The risks associated with changing commodity prices, particularly natural gas, and the availability of sources of natural gas due to shortages, transportation problems, nonperformance by natural gas suppliers under existing natural gas supply contracts, or other developments;
- Changes in credit ratings, interest rates, and our ability to access the capital markets, caused by volatility in the global credit markets, our capitalization structure, and market perceptions of the utility industry or us;
- Changes in the method of determining LIBOR or the replacement of LIBOR with an alternative reference rate;

- Costs and effects of litigation, administrative proceedings, investigations, settlements, claims, and inquiries;
- The direct or indirect effect on our business resulting from terrorist attacks and cyber security intrusions, as well as the threat of such incidents, including the failure to maintain the security of personally identifiable information, the associated costs to protect our utility assets, technology systems, and personal information, and the costs to notify affected persons to mitigate their information security concerns and to comply with state notification laws;
- The risk of financial loss, including increases in bad debt expense, associated with the inability of our customers, counterparties, and affiliates to meet their obligations;
- Changes in the creditworthiness of the counterparties with whom we have contractual arrangements, including participants in the energy trading markets and natural gas suppliers and transporters;
- The investment performance of our employee benefit plan assets, as well as unanticipated changes in related actuarial assumptions, which could impact future funding requirements;
- Factors affecting the employee workforce, including loss of key personnel, internal restructuring, work stoppages, and collective bargaining agreements and negotiations with union employees;
- Advances in technology, and related legislation or regulation supporting the use of that technology, that result in competitive disadvantages and create the potential for impairment of existing assets;
- Potential business strategies to acquire and dispose of assets, which cannot be assured to be completed timely or within budgets;
- The timing and outcome of any audits, disputes, and other proceedings related to taxes;
- The ability to maintain effective internal controls while both continuing to integrate and consolidate WEC Energy Group's enterprise systems with those of its other utilities;
- The effect of accounting pronouncements issued periodically by standard-setting bodies; and
- Other considerations disclosed elsewhere herein and in reports WEC Energy Group files with the SEC or in other publicly disseminated written documents.

Except as may be required by law, 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.

BUSINESS

A. INTRODUCTION

In this report, when we refer to "us," "we," "our," or "ours," we are referring to North Shore Gas Company. The term "utility" refers to our regulated activities, while the term "non-utility" refers to our activities that are not regulated. Our non-utility operations are not significant. References to "Notes" are to the Notes to the Financial Statements included in this Annual Report.

We are a natural gas utility company that began operations in 1900. We are an Illinois corporation and are wholly owned by PELLC, which is an indirect wholly owned subsidiary of WEC Energy Group. Our two reportable segments are natural gas utility and other. No significant items were reported in the other segment for any of the years presented in this Annual Report.

For more information about our natural gas utility operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations. For information about our business strategy, see Management's Discussion and Analysis of Financial Condition and Results of Operations – Corporate Developments.

Available Information

WEC Energy Group's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports are made available on its website, www.wecenergygroup.com, free of charge, as soon as reasonably practicable after they are filed with or furnished to the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

WEC Energy Group has adopted a written code of ethics, referred to as its Code of Business Conduct. We are an indirect wholly owned subsidiary of WEC Energy Group, and as such, all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer, have a responsibility to comply with WEC Energy Group's Code of Business Conduct. WEC Energy Group has posted its Code of Business Conduct in the "Governance" section on its website, www.wecenergygroup.com. WEC Energy Group has not provided any waiver to the Code for any of our directors, officers or other employees.

B. NATURAL GAS UTILITY OPERATIONS

We provide natural gas utility service to residential, commercial and industrial, and transportation customers located within the northern suburbs of Chicago, Illinois. Major industries served include chemical manufacturing, education, wholesale distributors, professional services, and non-profits. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Natural Gas Utility Segment Contribution to Net Income for information on natural gas sales volumes by customer class.

Operating Statistics

Operating Revenues

For information about our operating revenues disaggregated by customer class for the years ended December 31, 2020, 2019, and 2018, see Note 3, Operating Revenues. For more information about our significant accounting policies related to the recognition of revenues, see Note 1(d), Operating Revenues.

Customers

	Year Ended December 31		
(in thousands)	**2020**	**2019**	**2018**
Customers – end of year			
Residential	**139.4**	137.4	136.2
Commercial and industrial	**10.2**	10.2	10.2
Transport	**14.1**	15.9	16.6
Total customers	**163.7**	163.5	163.0

Natural Gas Supply, Pipeline Capacity and Storage

We manage a portfolio of natural gas supply contracts, storage contracts, and pipeline transportation services designed to meet varying customer use patterns with safe, reliable natural gas supplies at the best value. For more information on our natural gas utility supply and transportation contracts, see Note 17, Commitments and Contingencies.

Pipeline Capacity and Storage

We contract with PGL, which is a utility affiliate, and other underground storage service providers for storage services. Storage allows us to manage significant changes in daily natural gas demand and to purchase steady levels of natural gas on a year-round basis, which provides a hedge against supply cost volatility. We contract with interstate pipelines and another service provider to purchase firm transportation services. Two interstate pipelines and one local distribution company's pipeline interconnect with our utility system. We believe that having multiple pipelines that serve our service territory benefits our customers by improving reliability, providing access to a diverse supply of natural gas, and fostering competition among these service providers. These benefits can lead to favorable conditions for us when negotiating new agreements for transportation and storage services.

Natural gas pipeline capacity, contracted storage capacity, and natural gas supplies under contract can be resold in secondary markets. Peak or near-peak demand generally occurs only a few times each year. The secondary markets facilitate utilization of capacity and supply during times when the contracted capacity and supply are in excess of utility demand. The proceeds from these transactions are passed through to customers, subject to our approved GCRM. For information on the GCRM, see Note 1(d), Operating Revenues.

Combined with our contracted storage capacity, management believes that the volume of natural gas under contract is sufficient to meet our forecasted firm peak-day and seasonal demand. Our forecasted design peak-day throughput is 4.5 million therms for the 2020 through 2021 heating season. Our peak daily send-out during 2020 was 2.8 million therms on February 13, 2020.

Natural Gas Supply

Our natural gas supply requirements are met through a combination of fixed-price purchases, index-priced purchases, contracted storage, a peak-shaving facility, and natural gas supply call options. We contract for fixed-term firm natural gas supply each year to meet the demand of firm system sales customers. To supplement natural gas supply and manage risk, we purchase additional natural gas supply on the monthly and daily spot markets.

Hedging Natural Gas Supply Prices

We further reduce our supply cost volatility through the use of financial instruments, such as commodity futures, swaps, and options as part of our hedging program. Our hedging program is reviewed by the ICC as part of the annual purchased gas adjustment reconciliation. We hedge between 25% and 50% of natural gas purchases, with a target of 37.5%.

Seasonality

Since the majority of our customers use natural gas for heating, customer use is sensitive to weather and is generally higher during the winter months. Accordingly, we are subject to some variations in earnings and working capital throughout the year as a result of changes in weather. The effect on earnings from these changes in weather are reduced by the decoupling mechanism included in our rates. This mechanism allows us to recover or refund the differences between actual and authorized margins for certain customer classes.

Our working capital needs are met by cash generated from operations and debt (both long-term from external sources and short-term from related parties). The seasonality of natural gas revenues causes the timing of cash collections to be concentrated from January through June. A portion of our winter natural gas supply needs is typically purchased and stored from April through November. Also, planned capital spending on our natural gas distribution facilities is concentrated in April through November. Because of these timing differences, the cash flow from customers is typically supplemented with temporary increases in short-term borrowings (from related parties) during the late summer and fall. Short-term debt is typically reduced over the January through June period.

Competition

We face varying degrees of competition from other entities and other forms of energy available to consumers. Many large commercial and industrial customers have the ability to switch between natural gas and alternative fuels. In addition, since 2002, all of our natural gas customers have had the opportunity to choose a natural gas supplier other than us. We offer natural gas transportation services for customers that elect to purchase natural gas directly from a third-party supplier. We continue to earn distribution revenues from these transportation customers for their use of our distribution systems to transport natural gas to their facilities. As such, the loss of revenue associated with the cost of natural gas that our transportation customers purchase from third-party suppliers has little impact on our net income, as it is offset by an equal reduction to natural gas costs.

For more information on competition in our service territory, see Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results, Liquidity, and Capital Resources – Competitive Markets.

C. REGULATION

In addition to the specific regulations noted below, we are also subject to various other regulations, which primarily consist of regulations, where applicable, of the EPA, the IEPA, the Illinois Department of Natural Resources, and the United States Army Corps of Engineers.

Rates

Our natural gas rates are subject to the regulations and oversight of the ICC. Decisions made by the ICC can significantly impact our liquidity, financial condition, and results of operations. The ICC has general supervisory and regulatory powers over public utilities in Illinois including, but not limited to, approval of retail utility rates and standards of service, security issuances, mergers, affiliate transactions, location and construction of natural gas facilities, and certain other additions and extensions to utility facilities.

Historically, natural gas rates approved by the ICC have been designed to provide utilities the opportunity to generate revenues to recover all prudently-incurred costs, along with a return on investment sufficient to pay interest on debt and provide a reasonable ROE. Rates charged to customers vary according to customer class. Our approved ROE and approved average common equity component during 2020 were 9.05% and 50.48%, respectively.

In addition to amounts collected from customers through approved base rates, we have certain recovery mechanisms in place that allow us to recover or refund prudently incurred costs that differ from those approved in base rates. Embedded within our rates is an amount to recover natural gas costs. We operate under a GCRM as approved by the ICC. Generally, the GCRM allows for dollar-for-dollar recovery of prudently incurred natural gas costs. See Note 1(d), Operating Revenues, for more information on the significant mechanisms we had in place during 2020 that allowed us to recover or refund changes in prudently incurred costs from rate case-approved amounts.

We file periodic requests with the ICC to request changes in natural gas rates. Our rate requests are based on forward looking test years, which reflect additions to infrastructure and changes in costs incurred or expected to be incurred. For information on our regulatory proceedings, see Note 19, Regulatory Environment. Orders from the ICC can be viewed at https://www.icc.illinois.gov/. The materials and information contained on this website are not intended to be a part of, nor are they incorporated by reference into, this Annual Report.

Other Natural Gas Regulations

Almost all of the natural gas we distribute is transported to our distribution systems by interstate pipelines. The pipelines' transportation and storage services are regulated by the FERC under the Natural Gas Act and the Natural Gas Policy Act of 1978. In addition, the Pipeline and Hazardous Materials Safety Administration and the ICC are responsible for monitoring and enforcing requirements governing our natural gas safety compliance programs for our pipelines under the United States Department of Transportation regulations. These regulations include 49 CFR Part 191 (Transportation of Natural and Other Gas by Pipeline; Annual Reports, Incident Reports, and Safety-Related Condition Reports), 49 CFR Part 192 (Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety Standards), and 49 CFR Part 195 (Transportation of Hazardous Liquids by Pipeline).

We are required to provide service and grant credit (with applicable deposit requirements) to customers in the northern suburbs of Chicago. The Illinois Public Utilities Act and ICC Administrative Code restrictions generally do not allow us to discontinue service

during winter moratorium months to residential heating customers who do not pay their bills. The Federal and Illinois governments have programs that provide for a limited amount of funding for assistance to our low-income customers.

Compliance Costs

The regulations and oversight described above significantly influence our operating environment, and may cause us to incur compliance and other related costs and may affect our ability to recover these costs from our utility customers. Any anticipated capital expenditures for compliance with government regulations for the next three years are included in the estimated capital expenditures described in Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Capital Requirements.

D. ENVIRONMENTAL COMPLIANCE

See Note 17, Commitments and Contingencies, for more information on our environmental matters.

E. HUMAN CAPITAL

We believe our employees are among our most important resources, so investing in human capital is critical to our success. We strive to foster a diverse workforce and inclusive workplace; attract, retain and develop talented personnel; and keep our employees safe and healthy.

WEC Energy Group's Board of Directors retains collective responsibility for comprehensive risk oversight of WEC Energy Group and its subsidiaries, including critical areas that could impact our sustainability, such as human capital. Management regularly reports to WEC Energy Group's Board of Directors on human capital management topics, including corporate culture, diversity and inclusion, employee development, and safety and health. WEC Energy Group's Board of Directors delegates specified duties to its committees. In addition to its responsibilities relative to executive compensation, the Compensation Committee has oversight responsibility for reviewing organizational matters that could significantly impact us, including succession planning. The Compensation Committee reviews recruiting and development programs and priorities, receives updates on key talent, and assesses workforce diversity across WEC Energy Group and its subsidiaries.

Workforce

As of December 31, 2020, we had 160 employees, including 111 that are represented under union agreements in Illinois. We believe we have very good overall relations with our workforce. In order to attract and retain talent, we provide competitive wages and benefits to our employees based on their performance, role, location, and market data.

Diversity and Inclusion

We are committed to fostering a diverse workforce and inclusive workplace. Our commitment is a core strategic competency and an integral part of our culture. As of December 31, 2020, females and minorities represented approximately 13% and 32% of our workforce, respectively. WEC Energy Group has a number of initiatives that promote diverse workforce contributions, educate employees about diversity and inclusion, and make its companies, including us, attractive employers for persons of diverse backgrounds. These initiatives include eight business resource groups (voluntary, employee-led groups organized around a particular shared background or interest), mentoring programs, and training for leaders on countering unconscious bias, building inclusive teams, and preventing workplace harassment. We also support external leadership and educational programs that support, train, and promote women and minorities in the communities we serve.

Safety and Health

WEC Energy Group's Executive Safety Committee directs our safety and health strategy, works to ensure consistency across groups, and reinforces our ongoing safety commitment that we refer to as “Target Zero.” Under our Target Zero commitment, we have an ultimate goal of zero incidents, accidents, and injuries. Our corporate safety program provides a forum for addressing employee concerns, training employees and contractors on current safety standards, and recognizing those who demonstrate a safety focus. We monitor and set goals for Occupational Safety and Health Administration (OSHA)-recordable and lost-time incidents, as well as leading indicators, which together raise awareness about employee safety and guide injury-prevention activities.

We also provide employees various benefits and resources designed to promote healthy living, both at work and at home. We encourage employees to receive preventive examinations and to proactively care for their health through free health screenings, wellness challenges, and other resources.

During 2020, in response to the COVID-19 pandemic, we implemented safety protocols and new procedures to protect our employees and customers. See Factors Affecting Results, Liquidity, and Capital Resources – Coronavirus Disease – 2019, for additional information.

Development and Training

Employee training and development of both technical and leadership skills are integral aspects of our human capital strategy. We provide employees with a wide range of development opportunities, including online training, simulations, live classes, and mentoring to assist with their career advancement. These programs include safety and technical job skill training as well as soft-skill programs focused on relevant subjects, including communication and change management. Development of leadership skills remains a top priority and is specialized for all levels of employees. We have specific leadership programs for aspiring leaders and new supervisors, managers, and directors. This development of our employees is an integral part of our succession planning and provides continuity for our senior leadership.

RISK FACTORS

We are subject to a variety of risks, many of which are beyond our control, that may adversely affect our business, financial condition, and results of operations. You should carefully consider the following risk factors, as well as the other information included in this report, when making an investment decision.

Risks Related to Legislation and Regulation

Our business is significantly impacted by governmental regulation and oversight.

We are subject to significant state, local, and federal governmental regulation, including regulation by the ICC and the FERC. These regulations significantly influence our operating environment, may affect our ability to recover costs from utility customers, and cause us to incur substantial compliance and other costs. Changes in regulations, interpretations of regulations, or the imposition of new regulations could also significantly impact us, including requiring us to change our business operations. Many aspects of our operations are regulated and impacted by government regulation, including, but not limited to: the rates we charge our retail natural gas customers; our authorized rate of return; construction and operation of natural gas distribution systems, including the ability to recover such costs; participation in the interstate natural gas pipeline capacity market; standards of service; issuance of debt securities; short-term debt obligations; transactions with affiliates; and billing practices. Failure to comply with any applicable rules or regulations may lead to customer refunds, penalties, and other payments, which could materially and adversely affect our results of operations and financial condition.

The rates, including adjustments determined under riders, we are allowed to charge our customers for retail services have the most significant impact on our financial condition, results of operations, and liquidity. Rate regulation provides us an opportunity to recover prudently incurred costs and earn a reasonable rate of return on invested capital. However, our ability to obtain rate adjustments in the future is dependent upon regulatory action, and there is no assurance that our regulators will consider all of our costs to have been prudently incurred. In addition, our rate proceedings may not always result in rates that fully recover our costs or provide for a reasonable ROE. We defer certain costs and revenues as regulatory assets and liabilities for future recovery from or refund to customers, as authorized by our regulators. Future recovery of regulatory assets is not assured and is subject to review and approval by our regulators. If recovery of regulatory assets is not approved or is no longer deemed probable, these costs would be recognized in current period expense and could have a material adverse impact on our results of operations, cash flows, and financial condition.

We believe we have obtained the necessary permits, approvals, authorizations, certificates, and licenses for our existing operations, have complied in all material respects with all of their associated terms, and that our business is conducted in accordance with applicable laws. These permits, approvals, authorizations, certificates, and licenses may be revoked or modified by the agencies that granted them if facts develop that differ significantly from the facts assumed when they were issued. In addition, approvals and licenses are often granted for a term that is less than the expected life of the associated facility. Licenses and permits may require periodic renewal, which may result in additional requirements being imposed by the granting agency. In addition, existing regulations may be revised or reinterpreted by federal, state, and local agencies, or these agencies may adopt new laws and regulations that apply to us. We cannot predict the impact on our business and operating results of any such actions by these agencies.

If we are unable to recover costs of complying with regulations or other associated costs in customer rates in a timely manner, or if we are unable to obtain, renew, or comply with these governmental permits, approvals, authorizations, certificates, or licenses, our results of operations and financial condition could be materially and adversely affected.

We face significant costs to comply with existing and future environmental laws and regulations.

Our operations are subject to extensive and evolving federal, state, and local environmental laws, regulations, and permit requirements related to, among other things, air emissions (including, but not limited to CO_2 and methane), protection of natural resources, water quality, wastewater discharges, and management of hazardous, toxic, and solid wastes and substances. For example, the EPA adopted and implemented (or is in the process of implementing) regulations governing the emission of air pollutants under the Clean Air Act through climate change regulations and other air quality regulations. Several of these rules are being challenged, which creates additional uncertainty. In addition, existing environmental laws and regulations may be revised or new laws or regulations may be adopted at the federal, state, or local level. In particular, it is uncertain how the change in the United

States presidential administration will impact the final resolution of several environmental standards or the adoption of new environmental laws and regulations.

We incur significant capital and operating resources to comply with these environmental laws, regulations, and requirements, including costs associated with limiting GHG emissions from our operations and environmental monitoring, emission fees, and permits at our facilities. Failure to comply with these laws, regulations, and requirements, even if caused by factors beyond our control, may result in the assessment of civil or criminal penalties and fines. We continue to assess the potential cost of complying, and to explore different alternatives in order to comply, with these and other environmental regulations.

We are also subject to significant liabilities related to the investigation and remediation of environmental impacts at certain of our current and former facilities and at third-party owned sites. We accrue liabilities and defer costs (recorded as regulatory assets) incurred in connection with our former manufactured gas plant sites. These costs include all costs incurred to date that we expect to recover, management's best estimates of future costs for investigation and remediation and related legal expenses, and are net of amounts recovered (or that may be recovered) from insurance or other third parties. Due to the potential for the imposition of stricter standards and greater regulation in the future, the possibility that other potentially responsible parties may not be willing or financially able to contribute to cleanup costs, a change in conditions or the discovery of additional contamination, our remediation costs could increase, and the timing of our capital and/or operating expenditures in the future may accelerate or could vary from the amounts currently accrued.

Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental laws and regulations, has become more frequent throughout the United States. In addition to claims relating to our current facilities, we may also be subject to potential liability in connection with the environmental condition of facilities that we previously owned and operated, regardless of whether the liabilities arose before, during, or after the time we owned or operated these facilities. If we fail to comply with environmental laws and regulations or cause (or caused) harm to the environment or persons, that failure or harm may result in the assessment of civil penalties and damages against us. The incurrence of a material environmental liability or a material judgment in any action for personal injury or property damage related to environmental matters could have a significant adverse effect on our results of operations and financial condition.

In the event we are not able to recover all of our environmental expenditures and related costs from our customers in the future, our results of operations and financial condition could be adversely affected. Further, increased costs recovered through rates could contribute to reduced demand for natural gas, which could adversely affect our results of operations, cash flows, and financial condition.

Our operations, capital expenditures, and financial results may be affected by the impact of greenhouse gas legislation, regulation, and emission reduction goals.

There is continued scientific and political attention to issues concerning the existence and extent of climate change. Management expects this attention to continue, particularly with the change in the United States presidential administration. President Biden has indicated that climate change will become one of his primary initiatives, with significant actions expected by his administration during his term in office. As a result, we expect the EPA and states to adopt and implement additional regulations to restrict emissions of GHGs. Costs associated with such legislation, regulation, and emission reduction goals could be significant. GHG regulations that may be adopted in the future, at either the federal or state level, may cause our environmental compliance spending to differ materially from the amounts currently estimated. These regulations could also adversely affect our future results of operations, cash flows, and financial condition. There is no guarantee that we will be allowed to fully recover costs incurred to comply with these and other federal and state regulations or that cost recovery will not be delayed or otherwise conditioned.

In addition, our natural gas delivery systems may generate fugitive gas as a result of normal operations and as a result of excavation, construction, and repair. Fugitive gas typically vents to the atmosphere and consists primarily of methane. CO_2 is also a byproduct of natural gas consumption. Certain states outside our service territory have passed legislation banning natural gas used in new construction in order to limit these GHG emissions. Future statewide or nationwide actions like these to regulate GHG emissions could increase the price of natural gas, restrict the use of natural gas, cause us to accelerate the replacement and/or updating of our natural gas delivery systems, and adversely affect our ability to operate our natural gas facilities. A significant increase in the price of natural gas may increase rates for our natural gas customers, which could reduce natural gas demand.

We also continue to monitor the financial and operational feasibility of taking more aggressive action to further reduce future GHG emissions in order to limit future global temperature increases. These efforts could impact how we operate our natural gas facilities

and lead to increased competition and regulation, all of which could have a material adverse effect on our operations and financial condition.

Changes in tax legislation, IRS audits, or our inability to use certain tax benefits and carryforwards, may adversely affect our financial condition, results of operations, and cash flows, as well as our credit ratings.

Tax legislation and regulations can adversely affect, among other things, our financial condition, results of operations, cash flows, liquidity, and credit ratings. Future changes to corporate tax rates or policies, including under the new United States presidential administration, could require us to take material charges against earnings. Such changes include, among other things, increasing the federal corporate income tax rate, disallowing use of certain tax benefits and carryforwards, limiting interest deductions, and altering the expensing of capital expenditures. Our inability to manage these changes, an adverse determination by one of the applicable taxing jurisdictions, or additional interpretations, implementing regulations, amendments, or technical corrections by the Treasury Department, the IRS, or state income tax authorities, could significantly impact our financial results and cash flows.

We have significantly reduced our federal and state income tax liabilities in the past through tax credits, net operating losses, and charitable contribution deductions. A reduction in or disallowance of these tax benefits could adversely affect our earnings and cash flows. We have not fully used these allowed tax benefits in our previous tax filings and have carried them forward to use against future taxable income. Our inability to generate sufficient taxable income in the future to fully use these tax carryforwards before they expire, could significantly affect our tax obligations and financial results.

We are also uncertain as to how credit rating agencies, capital markets, the FERC, or the ICC will treat any future changes to federal or state tax legislation. These impacts could subject us to credit rating downgrades. In addition, certain financial metrics used by credit rating agencies, such as our funds from operations-to-debt percentage, could be negatively impacted by changes in federal or state income tax legislation.

Risks Related to the Operation of Our Business

The ongoing COVID-19 pandemic could adversely affect our business functions, financial condition, liquidity, and results of operations.

The global outbreak of COVID-19 was declared a pandemic by the WHO and the CDC and has spread globally, including throughout the United States. There is still considerable uncertainty regarding the extent and duration of the COVID-19 pandemic itself, as well as the measures currently in place to try to contain the virus, such as travel bans and restrictions, quarantines, limitations on business operations, and the timing of widespread availability of the vaccines. Although the shelter-in-place orders that were in effect for Illinois have expired, other orders limiting the capacity of various businesses have been adopted at the state and local levels. In addition, similar or more restrictive orders could be adopted in the future depending on how the virus continues to spread and/or mutate. At the request of the ICC, we are continuing to temporarily suspend disconnections.

The effects of the COVID-19 pandemic and related government responses have significantly disrupted economic activity in our service territories. Such effects have included, and may continue to include, extended disruptions to supply chains and capital markets, reduced labor availability and productivity, and a prolonged reduction in economic activity. These effects could continue to have a variety of adverse impacts on us, including continued reductions in demand for energy, particularly from commercial and industrial customers; impairment of long-lived assets; increases in past due accounts receivable balances, impairment of our ability to develop, construct, and operate facilities; and impaired ability to successfully access funds from credit and capital markets.

The COVID-19 pandemic has also caused significant disruption and volatility in the United States capital markets, and any additional or lingering effects on the capital markets may significantly impact us. For example, the costs related to our pension and other post-retirement benefit plans are based in part on the value of the plans' assets. Adverse investment performance for these assets or the failure to maintain sustained growth in pension investments over time could increase our plan costs and funding requirements. Similarly, we rely on access to the capital markets to fund some of our operations and capital requirements. To the extent that access to the capital markets is adversely affected by COVID-19, we may need to consider alternative sources of funding for our operations and for working capital, which may increase our cost of, as well as adversely impact our access to, capital.

We have taken precautions with regard to employee hygiene and facility cleanliness, imposed travel limitations on our employees, provided additional employee benefits, and implemented remote work policies where appropriate. Additional protocols have been implemented for our field employees who travel to customer premises in order to protect them, our customers, and the public.

As a reaction to the COVID-19 pandemic, it is possible that federal and state fiscal spending to fund COVID-19 relief measures, coupled with a drop in tax revenue from pandemic-related reductions in economic activity, may add to the pressure to raise more tax revenue from federal and state corporate income, other taxes including payroll or property taxes, to enact new types of taxes on businesses and their customers, or to disallow certain deductions.

Despite our efforts to manage the impacts of the COVID-19 pandemic, the extent to which COVID-19 may continue to affect us depends on factors beyond our knowledge or control. Therefore, we are currently unable to determine what additional impact the COVID-19 pandemic may have on our business plans and operations, liquidity, financial condition, and results of operations, but we will continue to monitor COVID-19 developments and modify our plans as conditions change.

Our operations are subject to risks arising from the reliability of our natural gas distribution facilities, natural gas infrastructure facilities, and other facilities.

Our financial performance depends on the successful operation of our natural gas distribution facilities. The operation of these facilities involves many risks, including operator error and the breakdown or failure of equipment or processes. Potential breakdown or failure may occur due to severe weather; catastrophic events (i.e., fires, earthquakes, explosions, tornadoes, floods, droughts, pandemic health events, etc.); transportation disruptions; accidents; employee labor disputes; construction delays or cost overruns; shortages of or delays in obtaining equipment, material, and/or labor; performance below expected levels; operating limitations that may be imposed by environmental or other regulatory requirements; terrorist attacks; or cyber security intrusions. Any of these events could lead to substantial financial losses, including increased maintenance costs or unanticipated capital expenditures.

Insurance, warranties, performance guarantees, or recovery through the regulatory process may not cover any or all of these lost revenues or increased expenses, which could adversely affect our results of operations and cash flows.

Our operations are subject to various conditions that can result in fluctuations in natural gas sales to customers, including customer growth and general economic conditions in our service area, varying weather conditions, and energy conservation efforts.

Our results of operations and cash flows are affected by the demand for natural gas, which can vary greatly based upon:

- *Fluctuations in customer growth and general economic conditions in our service area.* Customer growth and natural gas use can be negatively impacted by population declines as well as economic factors in our service territory, including workforce reductions, stagnant wage growth, changing levels of support from state and local government for economic development, business closings, and reductions in the level of business investment. Our natural gas operations are impacted by economic cycles and the competitiveness of the commercial and industrial customers we serve. Any economic downturn, disruption of financial markets, or reduced incentives by state government for economic development could adversely affect the financial condition of our customers and demand for their products or services. These risks could directly influence the demand for natural gas. We could also be exposed to greater risks of accounts receivable write-offs if customers are unable to pay their bills.
- *Weather conditions*. Demand for natural gas peaks in the winter heating season. As a result, our overall results may fluctuate substantially on a seasonal basis. In addition, milder temperatures during the winter heating season, as a result of climate change or otherwise, may result in lower revenues and net income.
- *Our customers' continued focus on energy conservation*. Our customers' use of natural gas has decreased as a result of continued individual conservation efforts, including the use of more energy efficient technologies. Customers could also voluntarily reduce their consumption of natural gas in response to decreases in their disposable income and increases in natural gas prices. Conservation of energy can be influenced by certain federal and state programs that are intended to influence how consumers use energy.

As part of our planning process, we estimate the impacts of changes in customer growth and general economic conditions, weather, and customer energy conservation efforts, but risks still remain. Any of these matters, as well as any regulatory delay in adjusting rates as a result of reduced sales from effective conservation measures or the adoption of new technologies, could adversely impact our results of operations and financial condition.

We are actively involved with several significant capital projects, which are subject to a number of risks and uncertainties that could adversely affect project costs and completion of construction projects.

Our business requires substantial capital expenditures for investments in, among other things, capital improvements to our natural gas distribution infrastructure and other projects, including projects for environmental compliance.

Achieving the intended benefits of any large construction project is subject to many uncertainties, some of which we will have limited or no control over, that could adversely affect project costs and completion time. Additional risks include, but are not limited to, the ability to adhere to established budgets and time frames; the availability of labor or materials at estimated costs; the ability of contractors to perform under their contracts; strikes; adverse weather conditions; potential legal challenges; changes in applicable laws or regulations; the impact on global supply chains of pandemic health events; other governmental actions; continued public and policymaker support for such projects; and events in the global economy. In addition, certain of these projects require the approval of the ICC. If construction of ICC-approved projects should materially and adversely deviate from the schedules, estimates, and projections on which the approval was based, the ICC may deem the additional capital costs as imprudent and disallow recovery of them through rates.

To the extent that delays occur, costs become unrecoverable, or we otherwise become unable to effectively manage and complete our capital projects, our results of operations, cash flows, and financial condition may be adversely affected.

Our operations are subject to risks beyond our control, including but not limited to, cyber security intrusions, terrorist attacks, acts of war, or unauthorized access to personally identifiable information.

We have been subject to attempted cyber attacks from time to time, but these attacks have not had a material impact on our system or business operations. Despite the implementation of security measures, all assets and systems are potentially vulnerable to disability, failures, or unauthorized access due to physical or cyber security intrusions caused by human error, vendor bugs, terrorist attacks, or other malicious acts. These threats could result in a full or partial disruption of our ability to purchase or distribute natural gas or cause environmental repercussions. If our assets or systems were to fail, be physically damaged, or be breached, and were not recovered in a timely manner, we may be unable to perform critical business functions, and data, including sensitive information, could be compromised.

We operate in an industry that requires the use of sophisticated information technology systems and network infrastructure, which control an interconnected system of distribution and transmission systems shared with third parties. A successful physical or cyber security intrusion may occur despite our security measures or those that we require our vendors to take. Successful cyber security intrusions, including those targeting the electronic control systems used at our natural gas transmission and distribution systems, could disrupt our operations and result in loss of service to customers. These intrusions could result in additional maintenance expenses. The risk of such intrusions may also increase our capital and operating costs as a result of having to implement increased security measures for protection of our information technology and infrastructure.

Our continued efforts to integrate, consolidate, and streamline our operations with those of WEC Energy Group's other utilities have also resulted in increased reliance on current and recently completed projects for technology systems, including but not limited to, a customer information and billing system, automated meter reading systems, and other similar technological tools and initiatives. We implement procedures to protect our systems, but we cannot guarantee that the procedures we have implemented to protect against unauthorized access to secured data and systems are adequate to safeguard against all security breaches. The failure of any of these or other similarly important technologies, or our inability to support, update, expand, and/or integrate these technologies with those of our affiliates could materially and adversely impact our operations, diminish customer confidence and our reputation, materially increase the costs we incur to protect against these risks, and subject us to possible financial liability or increased regulation or litigation.

Our business requires the collection and retention of personally identifiable information of our customers and employees, who expect that we will adequately protect such information. Security breaches may expose us to a risk of loss or misuse of confidential and proprietary information. A significant theft, loss, or fraudulent use of personally identifiable information may lead to potentially large costs to notify and protect the impacted persons, and/or could cause us to become subject to significant litigation, costs, liability, fines, or penalties, any of which could materially and adversely impact our results of operations as well as our reputation with customers and regulators, among others. In addition, we may be required to incur significant costs associated with governmental actions in response to such intrusions or to strengthen our information and electronic control systems. We may also need to obtain additional insurance coverage related to the threat of such intrusions.

Any operational disruption or environmental repercussions caused by these on-going threats to our assets and technology systems could result in a significant decrease in our revenues or significant reconstruction or remediation costs, which could materially and adversely affect our results of operations, financial condition, and cash flows. The costs of repairing damage to our facilities, operational disruptions, protecting personally identifiable information, and notifying impacted persons, as well as related legal

claims, may also not be recoverable in rates, may exceed the insurance limits on our insurance policies, or, in some cases, may not be covered by insurance.

We transport and distribute natural gas, which involves numerous risks that may result in accidents and other operating risks and costs.

Inherent in natural gas distribution activities are a variety of hazards and operational risks, such as leaks, accidental explosions, and mechanical problems, which could materially and adversely affect our results of operations, financial condition, and cash flows. In addition, these risks could result in serious injury to employees and non-employees, loss of human life, significant damage to property, environmental pollution, impairment of operations, and substantial losses to us. The location of natural gas pipelines near populated areas, including residential areas, commercial business centers, and industrial sites, could increase the level of damages resulting from these risks. These activities may subject us to litigation and/or administrative proceedings from time to time, which could result in substantial monetary judgments, fines, or penalties against us, or be resolved on unfavorable terms.

We may fail to attract and retain an appropriately qualified workforce.

We operate in an industry that requires many of our employees to possess unique technical skill sets. Events such as an aging workforce without appropriate replacements, the mismatch of skill sets to future needs, or the unavailability of contract resources may lead to operating challenges or increased costs. These operating challenges include lack of resources, loss of knowledge, and a lengthy time period associated with skill development. In addition, current and prospective employees may determine that they do not wish to work for us. Failure to hire and obtain replacement employees, including the ability to transfer significant internal historical knowledge and expertise to the new employees, may adversely affect our ability to manage and operate our business. If we are unable to successfully attract and retain an appropriately qualified workforce, our results of operations could be adversely affected.

Our counterparties may fail to meet their obligations, including obligations under natural gas supply, natural gas pipeline capacity, and transportation agreements.

We are exposed to the risk that counterparties to various arrangements who owe us money, natural gas, or other commodities or services will not be able to perform their obligations. Should the counterparties to these arrangements fail to perform or if capacity is inadequate, we may be required to replace the underlying commitment at current market prices or we may be unable to meet all of our customers' natural gas requirements unless or until alternative supply arrangements are put in place. In such event, we may incur losses, and our results of operations, financial position, or liquidity could be adversely affected.

We have entered into several natural gas supply, natural gas pipeline capacity, and transportation agreements with non-affiliated companies. Revenues are dependent on the continued performance by the counterparties of their obligations under these agreements. Although we have a comprehensive credit evaluation process and contractual protections, it is possible that one or more counterparties could fail to perform their obligations. If this were to occur, we generally would expect that any operating and other costs that were initially allocated to a defaulting customer's natural gas supply, natural gas pipeline capacity, or transportation agreement would be reallocated among our retail customers. To the extent these costs are not allowed to be reallocated by our regulators or there is any regulatory delay in adjusting rates, a counterparty default under these agreements could have a negative impact on our results of operations and cash flows.

Risks Related to Economic and Market Volatility

Our business is dependent on our ability to successfully access capital markets.

We rely on access to credit and capital markets to support our capital requirements, including expenditures for our utility infrastructure and to comply with future regulatory requirements, to the extent not satisfied by the cash flow generated by our operations. We have historically secured funds from a variety of sources, including the issuance of short-term and long-term debt securities. Successful implementation of our long-term business strategies, including capital investment, is dependent upon our, WEC Energy Group's, or PGL's ability to access the capital markets, including the banking and commercial paper markets, on competitive terms and rates.

Access to the credit and capital markets could be limited, or our cost of capital significantly increased, due to any of the following risks and uncertainties:

- A rating downgrade;
- Failure to comply with debt covenants;
- An economic downturn or uncertainty;
- Prevailing market conditions and rules;
- Concerns over foreign economic conditions;
- Changes in tax policy;
- Changes in investment criteria of institutional investors;
- War or the threat of war;
- The overall health and view of the utility and financial institution industries; and
- Changes in the method of determining LIBOR or the replacement of LIBOR with an alternative reference rate.

The bank credit agreements of WEC Energy Group and PGL provide for interest at variable interest rates, primarily based on LIBOR. LIBOR is the subject of national, international, and other regulatory guidance and proposals for reform, which may cause LIBOR to cease to exist after June 2023 or to perform differently than in the past. While we expect that reasonable alternatives to LIBOR will be implemented prior to the 2023 target date, we cannot predict the consequences and timing of the development of alternative reference rates. Because our short-term interest rates are based upon the rates paid by PGL, the transition to alternative reference rates could include an increase in our interest expense.

If any of these risks or uncertainties limit access to the credit and capital markets or significantly increase our cost of capital, it could limit our ability to implement, or increase the costs of implementing, our business plan, which, in turn, could materially and adversely affect our results of operations, cash flows, and financial condition.

A downgrade in our credit ratings or WEC Energy Group's commercial paper credit ratings could negatively affect our ability to access capital at reasonable costs and/or require the posting of collateral.

There are a number of factors that impact our credit ratings or WEC Energy Group's commercial paper credit ratings, including, but not limited to, capital structure, regulatory environment, the ability to cover liquidity requirements, and other requirements for capital. We or WEC Energy Group could experience a downgrade in ratings if the rating agencies determine that the level of business or financial risk of us, WEC Energy Group, or the utility industry has deteriorated. Changes in rating methodologies by the rating agencies could also have a negative impact on credit ratings.

Any downgrade by the rating agencies could:

- Require the payment of higher interest rates in future financings and possibly reduce the pool of creditors;
- Limit the availability of adequate credit support for our operations; and
- Trigger collateral requirements in various contracts.

Fluctuating commodity prices could negatively impact our natural gas utility operations.

Our operating and liquidity requirements are impacted by changes in the forward and current market prices of natural gas. The cost of natural gas may increase because of disruptions in the supply of natural gas due to a curtailment in production or distribution, international market conditions, the demand for natural gas, and the availability of shale gas and potential regulations affecting its accessibility. We receive dollar-for-dollar recovery of prudently incurred natural gas costs from our natural gas customers.

Changes in commodity prices could result in:

- Higher working capital requirements, particularly related to natural gas inventory, accounts receivable, and cash collateral postings;
- Reduced profitability to the extent that lower revenues, increased bad debt, and interest expense are not recovered through rates;
- Higher rates charged to our customers, which could impact our competitive position; and
- Reduced demand for natural gas, which could impact revenues and operating expenses.

Our use of derivative contracts could result in financial losses.

We use derivative instruments such as swaps, options, futures, and forwards to manage commodity price exposure. We could recognize financial losses as a result of volatility in the market value of these contracts or if a counterparty fails to perform. These risks are managed through risk management policies, which might not work as planned and cannot entirely eliminate the risks associated with these activities. In addition, although our hedging program must be approved by the ICC, derivative contracts entered into for hedging purposes might not offset the underlying exposure being hedged as expected, resulting in financial losses. In the absence of actively quoted market prices and pricing information from external sources, the value of these financial instruments can involve management's judgment or use of estimates. Changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts.

We may experience poor investment performance of benefit plan holdings due to changes in assumptions and market conditions.

We have significant obligations related to pension and OPEB plans. If WEC Energy Group is unable to successfully manage our benefit plan assets and medical costs, our cash flows, financial condition, or results of operations could be adversely impacted. Our cost of providing these plans is dependent upon a number of factors, including actual plan experience, changes made to the plans, and assumptions concerning the future. Types of assumptions include earnings on plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plans, future government regulation, estimated withdrawals by retirees, and our required or voluntary contributions to the plans. Plan assets are subject to market fluctuations and may yield returns that fall below projected return rates. In addition, medical costs for both active and retired employees may increase at a rate that is significantly higher than we currently anticipate. Our funding requirements could be impacted by a decline in the market value of plan assets, changes in interest rates, changes in demographics (including the number of retirements), or changes in life expectancy assumptions.

General Risks

We may fail to maintain effective internal controls.

We have undertaken, and will continue to undertake, a variety of initiatives to integrate, standardize, centralize, and streamline our operations with technology, including, but not limited to, the implementation of several different enterprise resource planning systems. There is a risk that we will not discover a material weakness, with either our current controls and processes or with the implementation of new controls and processes around these new technologies. Any failure to maintain effective internal controls could cause investors to lose confidence in the accuracy or completeness of our financial reports, restrict our access to the capital markets, or subject us to investigations by regulatory authorities.

We may be unable to obtain insurance on acceptable terms or at all, and the insurance coverage we do obtain may not provide protection against all significant losses.

Our ability to obtain insurance, as well as the cost and coverage of such insurance, could be affected by developments affecting our business; international, national, state, or local events; and the financial condition of insurers and our contractors that are required to acquire and maintain insurance for our benefit. Insurance coverage may not continue to be available at all or at rates or terms similar to those presently available to us. In addition, our insurance may not be sufficient or effective under all circumstances and against all hazards or liabilities to which we may be subject. Any losses for which we are not fully insured or that are not covered by insurance at all could materially adversely affect our results of operations, cash flows, and financial position.

PROPERTIES

Most of our principal properties, other than mains, services, meters, and regulators are located on property owned in fee. Substantially all natural gas mains are located under public streets, alleys, and highways, or under property owned by others under grants of easements. Meters and house regulators in use and a portion of services are located on the premises being served. Certain portions of the transmission system are located on land held pursuant to easements or permits.

Natural Gas Facilities

At December 31, 2020, the majority of our natural gas properties were located in Illinois and consisted of the following:

- Approximately 2,400 miles of natural gas distribution mains,
- Approximately 30 miles of natural gas transmission mains located in Illinois and Wisconsin,
- Approximately 144,600 natural gas lateral services,
- 7 natural gas distribution and transmission gate stations, and
- A peak-shaving facility that can store the equivalent of approximately 80 MDth in liquefied petroleum gas.

Our natural gas distribution system included distribution mains and transmission mains connected to the pipeline transmission systems of ANR Pipeline Company, Natural Gas Pipeline Company of America, and Nicor Gas.

We also own office buildings, natural gas regulating and metering stations, and major service centers, including garage and warehouse facilities, in certain communities we serve. Where distribution lines and services and natural gas distribution mains and services occupy private property, we have in some, but not all instances, obtained consents, permits, or easements for these installations from the apparent owners or those in possession of those properties, generally without an examination of ownership records or title.

General

Substantially all of our properties are subject to the lien of our mortgage indenture for the benefit of bondholders.

NORTH SHORE GAS COMPANY
COMPARATIVE FINANCIAL DATA AND OTHER STATISTICS

As of or for Year Ended December 31 *(in millions)*	**2020**	**2019**	**2018**	**2017**	**2016**
Operating revenues	**$ 170.2**	$ 178.9	$ 191.6	$ 186.1	$ 173.3
Net income	**16.7**	14.2	14.7	13.4	13.5
Total assets	**638.4**	610.1	575.6	522.7	490.2
Long-term debt (excluding current portion)	**131.2**	131.1	131.0	81.5	81.5

CORPORATE DEVELOPMENTS

Introduction

We are a natural gas utility and an indirect wholly owned subsidiary of WEC Energy Group. We purchase, store, distribute, sell, and transport natural gas to customers in the northern suburbs of Chicago, Illinois.

Corporate Strategy

Our goal is to continue to build and sustain long-term value for customers and WEC Energy Group's shareholders by focusing on the fundamentals of our business: environmental stewardship; reliability; operating efficiency; financial discipline; exceptional customer care; and safety.

Creating a Sustainable Future

WEC Energy Group has a goal to decrease the rate of methane emissions from the natural gas distribution lines in its network, which includes our distribution 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 2020.

Reliability

We plan to continue making capital investments to further strengthen the reliability of our natural gas distribution network.

Operating Efficiency

We continually look for ways to optimize the operating efficiency of our company.

WEC Energy Group continues to focus on integrating the resources of its businesses, including us, and finding the best and most efficient processes while meeting all applicable legal and regulatory requirements.

Financial Discipline

A strong adherence to financial discipline is essential to meeting our earnings projections and maintaining a strong balance sheet, stable cash flows, and quality credit ratings.

We follow an asset management strategy that focuses on investing in and acquiring assets consistent with our strategic plans, as well as disposing of assets, including property, plants, and equipment, that are no longer strategic to operations, are not performing as intended, or have an unacceptable risk profile.

Exceptional Customer Care

Our approach is driven by an intense focus on delivering exceptional customer care every day. We strive to provide the best value for our customers by demonstrating personal responsibility for results, leveraging our capabilities and expertise, and using creative solutions to meet or exceed our customers’ expectations.

A multiyear effort is driving a standardized, seamless approach to digital customer service across all of the WEC Energy Group companies. It has moved all utilities, including us, to a common platform for all customer-facing self-service options. Using common systems and processes reduces costs, provides greater flexibility and enhances the consistent delivery of exceptional service to customers.

Safety

Across the organization, we monitor the integrity of our networks and conduct comprehensive incident response planning to enhance the safety of our operations.

Under our "Target Zero" mission, we have an ultimate goal of zero incidents, accidents, and injuries. We also set goals around injury-prevention activities that raise awareness and facilitate conversations about employee safety. Our corporate safety program provides a forum for addressing employee concerns, training employees and contractors on current safety standards, and recognizing those who demonstrate a safety focus.

RESULTS OF OPERATIONS

The following discussion and analysis of our Results of Operations includes comparisons of our results for the year ended December 31, 2020 with the year ended December 31, 2019. Effective December 31, 2020, we changed our measure of segment profitability from operating income to net income. As no items were reported in our other segment during the years ended December 31, 2019 and 2018, a similar discussion that compares our results for these years can be found in Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations in our 2019 Annual Report.

Earnings

Our earnings for the year ended December 31, 2020 were $16.7 million, compared to $14.2 million for the year ended December 31, 2019. See below for additional information on the $2.5 million increase in our earnings.

Non-GAAP Financial Measure

The discussion below addresses our natural gas utility segment's contribution to net income and includes financial information prepared in accordance with GAAP, as well as natural gas margins, which are not a measure of financial performance under GAAP. Natural gas margin (natural gas revenues less cost of natural gas sold) is a non-GAAP financial measure because it excludes other operation and maintenance expense, depreciation and amortization, and property and revenue taxes.

We believe that natural gas margins provide a useful basis for evaluating utility operations since prudently incurred natural gas costs are passed through to customers in current rates. As a result, management uses natural gas margins internally when assessing the operating performance of our natural gas utility segment as this measure excludes the majority of revenue fluctuations caused by changes in these expenses. Similarly, the presentation of natural gas margins herein is intended to provide supplemental information for investors regarding our operating performance.

Our natural gas margins may not be comparable to similar measures presented by other companies. Furthermore, this measure is not intended to replace operating income as determined in accordance with GAAP as an indicator of operating performance. Our natural gas utility segment operating income for the years ended December 31, 2020 and 2019 was $28.5 million and $24.9 million, respectively. The discussion below includes a table that provides the calculation of natural gas margins, along with a reconciliation to the most directly comparable GAAP measure, operating income.

Natural Gas Utility Segment Contribution to Net Income

Since the majority of our customers use natural gas for heating, net income is sensitive to weather and is generally higher during the winter months.

	Year Ended December 31		
(in millions)	**2020**	**2019**	**B (W)**
Operating revenues	**$ 170.2**	$ 178.9	$ (8.7)
Cost of natural gas	**75.6**	86.7	11.1
Total natural gas margins	**94.6**	92.2	2.4
Other operation and maintenance	**45.2**	47.9	2.7
Depreciation and amortization	**18.5**	17.6	(0.9)
Property and revenue taxes	**2.4**	1.8	(0.6)
Operating income	**28.5**	24.9	3.6
Other expense, net	**0.2**	0.2	—
Interest expense	**5.7**	5.9	0.2
Income before income taxes	**22.6**	18.8	3.8
Income tax expense	**5.9**	4.6	(1.3)
Net income	**$ 16.7**	$ 14.2	$ 2.5

The following table shows a breakdown of other operation and maintenance:

	Year Ended December 31		
(in millions)	**2020**	**2019**	**B (W)**
Operation and maintenance not included in the line items below	**$ 37.5**	$ 41.7	$ 4.2
Riders [(1)]	**8.0**	6.4	(1.6)
Regulatory amortizations [(1)]	**(0.4)**	(0.3)	0.1
Other	**0.1**	0.1	—
Total other operation and maintenance	**$ 45.2**	$ 47.9	$ 2.7

(1) These riders and regulatory amortizations are substantially offset in margins and therefore do not have a significant impact on net income.

The following tables provide information on delivered volumes by customer class and weather statistics:

	Therms *(in millions)*		
Natural Gas Sales Volumes	**2020**	**2019**	**B (W)**
Customer Class			
Residential	**175.2**	190.3	(15.1)
Commercial and industrial	**39.1**	44.6	(5.5)
Total retail	**214.3**	234.9	(20.6)
Transport	**132.2**	144.1	(11.9)
Total sales in therms	**346.5**	379.0	(32.5)

	Degree Days		
Weather [(1)]	**2020**	**2019**	**B (W)**
Heating (6,195 Normal)	**5,597**	6,479	(13.6)%

(1) Normal heating degree days are based on a 12-year moving average of monthly temperatures from Chicago's O'Hare Airport.

2020 Compared with 2019

Natural Gas Utility Margins

Natural gas utility segment margins, excluding the $1.6 million impact of the riders referenced in the table above, increased $0.8 million during 2020, compared with 2019.

Other Operating Expenses (includes other operation and maintenance, depreciation and amortization, and property and revenue taxes)

Other operating expenses at the natural gas utility segment decreased $2.8 million, net of the impact of the riders referenced in the table above, during 2020, compared with 2019. The significant factors impacting the decrease in operating expenses were:

- A $2.7 million decrease in benefit costs, primarily due to lower deferred compensation costs, pension settlement costs, severance costs, and stock-based compensation.

- A $1.1 million decrease in natural gas distribution maintenance costs, which reflects the benefit of warmer than normal winter weather in 2020 and the timing of performing certain services.

These decreases in operating expenses were partially offset by a $0.9 million increase in depreciation expense, primarily driven by our continued upgrades made to our natural gas distribution system.

Income Tax Expense

Income tax expense increased $1.3 million during 2020, compared with 2019, driven by an increase in income before income taxes. See Note 12, Income Taxes, for more information.

LIQUIDITY AND CAPITAL RESOURCES

The following discussion and analysis of our Liquidity and Capital Resources includes comparisons of our cash flows for the year ended December 31, 2020 with the year ended December 31, 2019. For a similar discussion that compares our cash flows for the year ended December 31, 2019 with the year ended December 31, 2018, see Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources in our 2019 Annual Report.

Cash Flows

The following table summarizes our cash flows during the years ended December 31:

(in millions)	2020	2019	Change in 2020 Over 2019
Cash provided by (used in):			
Operating activities	**$ 27.8**	$ 29.5	$ (1.7)
Investing activities	**(42.6)**	(44.6)	2.0
Financing activities	**15.0**	14.5	0.5

Operating Activities

2020 Compared with 2019

Net cash provided by operating activities decreased $1.7 million during 2020, compared with 2019. This decrease in cash was driven by $8.5 million of lower overall collections from customers, primarily due to lower sales volumes driven by warmer winter weather during 2020, compared with 2019, and a moratorium on disconnections causing an increase in past due balances during 2020. See Note 19, Regulatory Environment, for more information.

This decrease in net cash provided by operating activities was partially offset by:

- A $4.2 million increase in cash from lower payments for other operation and maintenance expenses during 2020, compared with 2019, driven by lower benefits and natural gas distribution maintenance costs.

- A $3.2 million increase in cash due to lower collateral requirements, driven by an increase in the fair value of our natural gas derivative assets, as well as a decrease in derivative liabilities during 2020, compared with 2019. See Note 14, Derivative Instruments, for more information.

Investing Activities

2020 Compared with 2019

Net cash used in investing activities decreased $2.0 million during 2020, compared with 2019, driven by a decrease in cash paid for capital expenditures.

Capital Expenditures

Capital expenditures for the years ended December 31 were as follows:

(in millions)	2020	2019	Change in 2020 Over 2019
Capital expenditures	**$ 42.8**	$ 44.7	$ (1.9)

Financing Activities

2020 Compared with 2019

Net cash provided by financing activities increased $0.5 million during 2020, compared with 2019, driven by:

- A $12.0 million increase in cash related to lower dividends paid to our parent, PELLC, during 2020, compared with 2019, to balance our capital structure.

- A $6.0 million increase in equity contributions received from our parent, PELLC, during 2020, compared with 2019, to balance our capital structure.

These increases in cash provided by financing activities were partially offset by a $17.5 million decrease in cash driven by lower short-term borrowings received from PGL during 2020, compared with 2019.

Significant Financing Activities

For more information on our financing activities, see Note 10, Short-Term Debt to Related Parties, and Note 11, Long-Term Debt.

Capital Resources and Requirements

Liquidity

We anticipate meeting our capital requirements for our existing operations through internally generated funds (net of forecasted dividend payments to our parent), the issuance of intermediate or long-term debt securities, borrowings from PGL and Integrys, and equity contributions from our parent.

We currently have access to the capital markets and have been able to generate funds internally and externally to meet our capital requirements. Our ability to attract the necessary financial capital at reasonable terms is critical to our overall strategic plan.

We currently believe that we have adequate capacity to fund our operations for the foreseeable future through our existing borrowing arrangements, access to capital markets, and internally generated cash. We have the ability to borrow up to $50.0 million from Integrys and up to $50.0 million from PGL. At December 31, 2020, we had $50.0 million of borrowings outstanding with PGL and $3.1 million outstanding with Integrys. See Note 10, Short-Term Debt to Related Parties, for more information on our short-term

credit agreements. See Factors Affecting Results, Liquidity, and Capital Resources – Coronavirus Disease – 2019, for additional information on the impacts of the COVID-19 pandemic.

At December 31, 2020, we were in compliance with all covenants related to outstanding long-term debt. We expect to be in compliance with all such debt covenants for the foreseeable future. See Note 11, Long-Term Debt, for more information.

Working Capital

As of December 31, 2020, our current liabilities exceeded our current assets by $34.5 million, as we are subject to variations in working capital throughout the year as a result of seasonal changes in weather. This is related to the seasonality of natural gas revenues, which are generally collected from January through June. Due to the COVID-19 pandemic, there was a moratorium on disconnections causing an increase in past due balances during 2020. Due to the use of short-term debt as a funding mechanism, we do not expect this to have any impact on our liquidity since we believe our ability to borrow from PGL and Integrys will be sufficient to fund ongoing operations, to the extent necessary. We also believe that we can access the capital markets to finance our construction programs, if necessary.

Credit Rating Risk

We do not have any credit agreements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. However, we have certain agreements in the form of commodity contracts that, in the event of a credit rating downgrade, could result in a reduction of our unsecured credit granted by counterparties.

In addition, access to capital markets at a reasonable cost is determined in large part by credit quality. Any credit ratings downgrade could impact our ability to access capital markets.

Subject to other factors affecting the credit markets as a whole, we believe our current ratings should provide a significant degree of flexibility in obtaining funds on competitive terms. However, these security ratings reflect the views of the rating agency only. An explanation of the significance of these ratings may be obtained from the rating agency. Such ratings are not a recommendation to buy, sell, or hold securities. Any rating can be revised upward or downward or withdrawn at any time by a rating agency.

If we are unable to successfully take actions to continue to manage any impact from the COVID-19 pandemic, the credit rating agencies could place our credit ratings on negative outlook or downgrade our credit ratings. Any such actions by credit rating agencies may make it more difficult and costly for us to issue future debt securities and certain other types of financing.

See Factors Affecting Results, Liquidity, and Capital Resources – Coronavirus Disease – 2019, for additional information.

Capital Requirements

Contractual Obligations

The following table shows our contractual obligations as of December 31, 2020:

		Payments Due By Period			
(in millions)	Total Amounts Committed	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations [1]	$ 200.9	$ 5.0	$ 10.1	$ 10.1	$ 175.7
Natural gas supply and transportation purchase obligations [2]	97.5	27.7	44.4	20.9	4.5
Purchase orders [3]	26.0	9.6	16.4	—	—
Total contractual obligations	$ 324.4	$ 42.3	$ 70.9	$ 31.0	$ 180.2

(1) Principal and interest payments on long-term debt. We record all principal obligations on the balance sheet.

(2) Natural gas supply and transportation purchase obligations under various contracts for the procurement of gas supply and associated transportation related to utility operations.

(3) Purchase obligations related to normal business operations.

The table above does not reflect estimated future payments related to the manufactured gas plant remediation liability of $35.7 million at December 31, 2020, as the amount and timing of payments are uncertain. We expect to incur costs annually to remediate these sites. See Note 17, Commitments and Contingencies, for more information about environmental liabilities.

AROs in the amount of $20.1 million are not included in the above table. Settlement of these liabilities cannot be determined with certainty, but we believe the majority of these liabilities will be settled in more than five years. See Note 7, Asset Retirement Obligations, for more information.

Obligations for utility operations have historically been included as part of the rate-making process and therefore are generally recoverable from customers.

Significant Capital Projects

We have several capital projects that will require significant capital expenditures over the next three years and beyond. All projected capital requirements are subject to periodic review and may vary significantly from estimates, depending on a number of factors. These factors include environmental requirements, regulatory restraints and requirements, changes in tax laws and regulations, acquisition and development opportunities, market volatility, economic trends, and the COVID-19 pandemic. Our estimated capital expenditures for the next three years are as follows:

(in millions)	
2021	$ 64.4
2022	64.6
2023	62.3
Total	$ 191.3

The majority of spending consists of upgrading our natural gas distribution system.

Common Stock Matters

For information related to our common stock matters, see Note 8, Common Equity.

Investments in Outside Trusts

We use outside trusts to fund our pension and certain OPEB obligations. These trusts had investments of $52.4 million as of December 31, 2020. These trusts hold investments that are subject to the volatility of the stock market and interest rates. We did not contribute to our pension or OPEB plans in 2020 or 2019. Future contributions to the plans will be dependent upon many

factors, including the performance of existing plan assets and long-term discount rates. For additional information, see Note 15, Employee Benefits.

FACTORS AFFECTING RESULTS, LIQUIDITY, AND CAPITAL RESOURCES

Coronavirus Disease – 2019

The global outbreak of COVID-19 was declared a pandemic by the WHO and the CDC and has spread globally, including throughout the United States. There is still considerable uncertainty regarding the extent and duration of the COVID-19 pandemic itself, as well as the measures currently in place to try to contain the virus, such as travel bans and restrictions, quarantines, limitations on business operations, and the timing of widespread availability of the vaccines. Although the shelter-in-place order that was in effect for Illinois has expired, other orders limiting the capacity of various businesses have been adopted at the state and local levels. In addition, similar or more restrictive orders could be adopted in the future depending on how the virus continues to spread and/or mutate. The effects of the COVID-19 pandemic and related government responses have significantly disrupted economic activity in our service territory. See Risk Factors for more information on our risks related to the COVID-19 pandemic.

Liquidity and Financial Markets

As discussed previously, in addition to internally generated cash, we fund our operations through existing borrowing arrangements with Integrys and PGL, and our access to capital markets. Volatility and uncertainty in the financial markets and global economy have impacted Integrys, PGL and us in a number of ways. Upon the initial enactment of certain COVID-19 related shelter-in-place orders in early to mid-March 2020, commercial paper markets became more expensive and related terms became less flexible. In response to these signs of market instability, the Federal Reserve implemented certain measures, including a reduction in its benchmark Federal Funds rate and the establishment of various programs to restore liquidity and stability into the short-term funding markets. These measures have had a mitigating effect on commercial paper rates and availability, and have allowed Integrys and PGL to maintain their short-term lending agreements with us. In addition, the initial disruption in the long-term debt markets as a result of the COVID-19 pandemic has subsided.

As of December 31, 2020, we had $46.9 million available under our short-term borrowing agreements with Integrys and PGL.

Pensions and Other Benefits

There has been significant volatility in global capital markets during the COVID-19 pandemic, although the market losses seen during the early stages of the pandemic in the first quarter of 2020 reversed course throughout the remainder of the year in response to government stimulus and relief efforts and the gradual reopening of businesses. During the year ended December 31, 2020, we recognized a $6.0 million increase in the value of long-term investments held in our pension and OPEB plan trusts as gains recognized during the last three quarters of 2020 more than offset first quarter losses.

We could still see earnings volatility associated with certain other benefit plans maintained by our ultimate parent, WEC Energy Group, primarily related to performance units granted to certain of our employees, and deferred compensation plans. Certain of the liabilities associated with the deferred compensation plans are indexed to mutual funds and WEC Energy Group common stock, and the liabilities associated with outstanding performance units are indexed to WEC Energy Group common stock. These liabilities are marked to fair value through earnings each period, with earnings increasing as market prices decrease.

Allowance for Credit Losses

We evaluate the collectability of our accounts receivable and unbilled revenue balances considering a combination of factors. Risks identified that we do not believe are reflected in historical reserve percentages are assessed on a quarterly basis to determine whether further adjustments are required. Economic disruptions caused by the COVID-19 pandemic, including higher unemployment rates and the inability of some businesses to recover from the pandemic, could cause a higher percentage of accounts receivable to become uncollectible. Although impacts on our results of operations related to uncollectible receivable balances are mitigated by a regulatory mechanism we have in place, the increase in past due receivables we have experienced has resulted in higher working capital requirements.

Our exposure to credit losses is mitigated by a regulatory mechanism we have in place. Specifically, our customer tariffs include a rider for cost recovery or refund of uncollectible expense based on the difference between actual uncollectible write-offs and the

amounts recovered in rates. As a result, the full amount of our net accounts receivable and unbilled revenues balance had regulatory protections in place to mitigate our exposure to credit losses.

See Note 4, Credit Losses, for more information on our accounts receivables and unbilled revenues balances and related allowance for credit losses.

Loss of Business

We have seen a decrease in the consumption of natural gas by some of our commercial and industrial customers as they continue to experience lower demand for their products and services as a result of the COVID-19 pandemic. Many businesses in our service territory still are not operating at full capacity. The extent to which this decrease in consumption will impact our results of operations and liquidity is dependent upon the duration of the COVID-19 pandemic and the ability of our customers to resume and continue normal operations.

Supply Chain and Capital Projects

We have not yet experienced a significant disruption in our supply chain as a result of the COVID-19 pandemic. However, if the pandemic significantly impacts our key suppliers' ability to manufacture or deliver critical equipment and supplies or provide services, we could experience delays in our ability to perform certain maintenance and capital project activities.

We are not currently aware of any major delays or changes related to our capital plan as a result of the COVID-19 pandemic, although we are continuing to monitor potential impacts on an ongoing basis.

Employee Safety

The health and safety of our employees during the COVID-19 pandemic is paramount and enables us to continue to provide critical services to our customers.

We are following CDC guidelines and have taken precautions with regard to employee hygiene and facility cleanliness, imposed travel limitations on our employees, provided additional employee benefits, and implemented remote work policies where appropriate. We have activated an incident management team and updated our pandemic continuity plan, which includes identifying critical work groups and ensuring safe harbor plans are in place. We have minimized the unnecessary risk of exposure to COVID-19 by implementing self-quarantine measures and have adopted additional precautionary measures for our critical work groups.

Additional protocols have been implemented for our field employees who travel to customer premises in order to protect them, our customers, and the public. We have modified our work protocols to ensure compliance with social distancing and face covering recommendations.

All of these safety measures have caused us to incur additional costs, and depending upon the duration of the COVID-19 pandemic, could have a material impact on our results of operations and liquidity.

Regulatory Environment

We have taken actions to ensure that essential utility services are available to our customers during the COVID-19 pandemic. In addition, the ICC has issued written orders requiring certain actions by all public utilities in the state of Illinois. See Note 19, Regulatory Environment, for more information on these orders and the potential recovery of expenditures incurred as a result of the measures being taken.

Market Risks and Other Significant Risks

We are exposed to market and other significant risks as a result of the nature of our business and the environment in which we operate. These risks, described in further detail below, include but are not limited to:

Regulatory Recovery

We account for our regulated operations in accordance with accounting guidance under the Regulated Operations Topic of the FASB ASC. Our rates are determined by the ICC. See Business – C. Regulation for more information.

Regulated entities are allowed to defer certain costs that would otherwise be charged to expense if the regulated entity believes the recovery of those costs is probable. We record regulatory assets pursuant to generic and/or specific orders issued by the ICC. Recovery of the deferred costs in future rates is subject to the review and approval of the ICC. We assume the risks and benefits of ultimate recovery of these items in future rates. If the recovery of the deferred costs, including those referenced below, is not approved by the ICC, the costs would be charged to income in the current period. The ICC can impose liabilities on a prospective basis for amounts previously collected from customers and for amounts that are expected to be refunded to customers. We record these items as regulatory liabilities. As of December 31, 2020, our regulatory assets were $65.5 million, and our regulatory liabilities were $68.8 million.

Due to the Tax Legislation, we deferred for return to ratepayers, through future refunds, bill credits, or riders, the estimated tax benefit of $48 million that resulted from the revaluation of deferred taxes. The ICC has approved the VITA to refund these tax benefits to ratepayers. See Note 19, Regulatory Environment, for more information.

We expect to request or have requested recovery of the costs related to the following project:

- Prior to its acquisition by WEC Energy Group, Integrys initiated an information technology project with the goal of improving the customer experience at its subsidiaries, including us. Specifically, the project is expected to provide functional and technological benefits to the billing, call center, and credit collection functions. As of December 31, 2020, we had not received any significant disallowances of the costs incurred for this project. We will be required to obtain approval for the recovery of costs incurred through the completion of this long-term project.

See Note 19, Regulatory Environment, for more information regarding our recent rate proceedings and orders.

Natural Gas Costs

In the normal course of providing natural gas utility service, we are subject to market fluctuations in the costs of natural gas. We manage our natural gas supply costs through a portfolio of short and long-term procurement contracts with various suppliers for the purchase of natural gas. In addition, we manage the risk of price volatility through natural gas hedging programs.

Embedded within our utility rates are amounts to recover natural gas costs. We have a GCRM in place that allows us to recover or refund all or a portion of the changes in prudently incurred natural gas costs from rate case-approved amounts.

Higher natural gas costs can increase our working capital requirements, result in higher gross receipts taxes, and lead to increased energy efficiency investments by our customers to reduce utility usage. Higher natural gas costs combined with slower economic conditions also expose us to greater risks of accounts receivable write-offs as more customers are unable to pay their bills. See Note 1(d), Operating Revenues, for more information on our rider that allows for cost recovery or refund of uncollectible expense.

Due to the cold temperatures, wind, snow and ice throughout the central part of the country during February 2021, the cost of gas purchased for our natural gas utility customers was temporarily driven higher than our normal winter weather expectations. We have a regulatory mechanism in place for recovering all prudently incurred gas costs. In addition, we have adequate liquidity to manage any short-term increase in working capital resulting from the lag in recovery. For information on our GCRM, see Note 1(d), Operating Revenues.

Weather

Our utility rates are based upon estimated normal temperatures. Our natural gas utility margins are unfavorably sensitive to above normal temperatures during the winter heating season. We have a decoupling mechanism in place that helps reduce the impacts of weather. Our decoupling mechanism allows us to recover or refund certain differences between actual and authorized margins. A summary of actual weather information in our service territory during 2020 and 2019, as measured by degree days, may be found in Results of Operations.

Marketable Securities Return

We use various trusts to fund our pension and OPEB obligations. These trusts invest in debt and equity securities. Changes in the market prices of these assets can affect future pension and OPEB expenses. Additionally, future contributions can also be affected by the investment returns on trust fund assets. We believe that the financial risks associated with investment returns would be partially mitigated through future rate actions by the ICC.

The fair value of our trust fund assets and expected long-term returns were approximately:

(in millions)	As of December 31, 2020	Expected Return on Assets in 2021
Pension trust funds	**$ 27.2**	7.00 %
OPEB trust funds	**$ 25.2**	7.00 %

Fiduciary oversight of the pension and OPEB trust fund investments is the responsibility of an Investment Trust Policy Committee. The Committee works with external actuaries and investment consultants on an ongoing 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 asset allocations are determined utilizing projected benefit payment cash flows and risk analyses of appropriate investments. The targeted asset allocations 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. Investment strategies utilize a wide diversification of asset types and qualified external investment managers.

WEC Energy Group consults with its investment advisors on an annual basis to help us forecast expected long-term returns on plan assets by reviewing actual historical returns and 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 funds.

Economic Conditions

We have natural gas utility operations that serve customers in Illinois. As such, we are exposed to market risks in the regional Midwest economy. In addition, any economic downturn or disruption of national or international markets could adversely affect the financial condition of our customers and demand for their products, which could affect their demand for our services.

Inflation

We continue to monitor the impact of inflation, especially with respect to the costs of medical plans, construction costs, and regulatory and environmental compliance in order to minimize its effects in future years through pricing strategies, productivity improvements, and cost reductions. We do not believe the impact of general inflation will have a material impact on our future results of operations.

For additional information concerning risk factors, including market risks, see the Cautionary Statement Regarding Forward-Looking Information at the beginning of this report and Risk Factors.

Competitive Markets

Absent extraordinary circumstances, potential competitors are not allowed to construct competing natural gas distribution systems in our service territory. The "first in the field" and public interest standards limit the ability of potential competitors to operate in an existing utility service territory. In addition, we believe it would be impractical to construct competing duplicate distribution facilities due to the high cost of installation.

Since 2002, we have, under ICC-approved tariffs, provided our customers with the option to choose a third-party natural gas supplier. There are no state laws requiring us to make this choice option available to customers, but since this option is currently provided to our customers under tariff, we would need ICC approval to eliminate it.

We offer natural gas transportation services to our customers that elect to purchase natural gas directly from a third-party supplier. Since these transportation customers continue to use our distribution systems to transport natural gas to their facilities, we earn distribution revenues from them. As such, the loss of revenue associated with the cost of natural gas that our transportation customers purchase from third-party suppliers has little impact on our net income, as it is substantially offset by a reduction to natural gas costs.

An interstate pipeline may seek to provide transportation service directly to our end users, which would bypass our natural gas transportation service. However, we have bypass tariffs approved by the ICC, which allow us to negotiate rates with customers that are potential bypass candidates to help ensure that such customers continue to use our transportation service.

Environmental Matters

See Note 17, Commitments and Contingencies, for a discussion of certain environmental matters affecting us, including rules and regulations relating to air quality and land quality.

Critical Accounting Policies and Estimates

Preparation of financial statements and related disclosures in compliance with GAAP requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events, including the likelihood of success of particular projects, legal and regulatory challenges, and anticipated recovery of costs. These judgments, in and of themselves, could materially impact the financial statements and disclosures based on varying assumptions. In addition, the financial and operating environment may also have a significant effect, not only on the operation of our business, but on our results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied have not changed.

The following is a list of accounting policies that are most significant to the portrayal of our financial condition and results of operations and that require management's most difficult, subjective, or complex judgments.

Regulatory Accounting

We follow the guidance under the Regulated Operations Topic of the FASB ASC (Topic 980). Our financial statements reflect the effects of the rate-making principles followed by the ICC. Certain items that would otherwise be immediately recognized as revenues and expenses are deferred as regulatory assets and regulatory liabilities for future recovery or refund to customers, as authorized by the ICC.

Future recovery of regulatory assets, including the timeliness of recovery and our ability to earn a reasonable return, is not assured and is generally subject to review by the ICC in rate proceedings for matters such as prudence and reasonableness. Once approved, the regulatory assets and liabilities are amortized into earnings over the rate recovery or refund period. If recovery or refund of costs is not approved or is no longer considered probable, these regulatory assets or liabilities are recognized in current period earnings. Management regularly assesses whether these regulatory assets and liabilities are probable of future recovery or refund by considering factors such as changes in the regulatory environment, earnings from our natural gas utility operations, and the status of any pending or potential deregulation legislation.

The application of the Regulated Operations Topic of the FASB ASC would be discontinued if all or a separable portion of our utility operations no longer met the criteria for application. Our regulatory assets and liabilities would be written off to income as an unusual or infrequently occurring item in the period in which discontinuation occurred. As of December 31, 2020, we had $65.5 million in regulatory assets and $68.8 million in regulatory liabilities. See Note 5, Regulatory Assets and Liabilities, for more information.

Pension and Other Postretirement Employee Benefits

The costs of providing non-contributory defined pension benefits and OPEB, described in Note 15, Employee Benefits, are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience.

Pension and OPEB costs are impacted by actual employee demographics (including age, compensation levels, and employment periods), the level of contributions made to the plans, and earnings on plan assets. Pension and OPEB costs may also be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets, mortality and discount rates, and expected health care cost trends. Changes made to the plan provisions may also impact current and future pension and OPEB costs.

Pension and OPEB plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity and fixed income market returns, as well as changes in general interest rates, may result in increased or decreased benefit costs in future periods. We believe that such changes in costs would be recovered or refunded through the rate-making process.

The following table shows how a given change in certain actuarial assumptions would impact the projected benefit obligation and the reported net periodic pension cost. Each factor below reflects an evaluation of the change based on a change in that assumption only.

Actuarial Assumption *(in millions, except percentages)*	**Percentage-Point Change in Assumption**	**Impact on Projected Benefit Obligation**	**Impact on 2020 Pension Cost**
Discount rate	(0.5)	$ 6.5	$ 0.9
Discount rate	0.5	(5.5)	(0.6)
Rate of return on plan assets	(0.5)	N/A	0.1
Rate of return on plan assets	0.5	N/A	(0.1)

The following table shows how a given change in certain actuarial assumptions would impact the accumulated OPEB obligation and the reported net periodic OPEB cost. Each factor below reflects an evaluation of the change based on a change in that assumption only.

Actuarial Assumption *(in millions, except percentages)*	**Percentage-Point Change in Assumption**	**Impact on Postretirement Benefit Obligation**	**Impact on 2020 Postretirement Benefit Cost**
Discount rate	(0.5)	$ 0.6	$ 0.1
Discount rate	0.5	(0.6)	(0.1)
Health care cost trend rate	(0.5)	(0.4)	(0.1)
Health care cost trend rate	0.5	0.4	0.1
Rate of return on plan assets	(0.5)	N/A	0.1
Rate of return on plan assets	0.5	N/A	(0.1)

The discount rates are selected based on hypothetical bond portfolios consisting of noncallable, high-quality corporate bonds across the full maturity spectrum. From the hypothetical bond portfolios, a single rate is determined that equates the market value of the bonds purchased to the discounted value of the plans' expected future benefit payments.

We establish our expected return on assets based on consideration of historical and projected asset class returns, as well as the target allocations of the benefit trust portfolios. The assumed long-term rate of return on pension plan assets was 7.00% in 2020, and 7.25% in 2019 and 2018. The actual rate of return on pension plan assets, net of fees, was 14.63%, 22.2%, and (5.9)% in 2020, 2019, and 2018, respectively.

In selecting assumed health care cost trend rates, past performance and forecasts of health care costs are considered. For more information on health care cost trend rates and a table showing future payments that we expect to make for our pension and OPEB, see Note 15, Employee Benefits.

Unbilled Revenues

We record utility operating revenues when natural gas is delivered to our customers. However, the determination of natural gas sales to individual customers is based upon the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of natural gas delivered to customers since the date of their last meter reading are estimated and corresponding unbilled revenues are calculated. This unbilled revenue is estimated each month based upon throughput volumes, recorded sales, estimated customer usage by class, weather factors, and applicable customer rates. Significant fluctuations in natural gas demand for the unbilled period or changes in the composition of customer classes could impact the accuracy of the unbilled revenue estimate. Total utility operating revenues during 2020 of approximately $170.2 million included unbilled utility revenues of $16.6 million as of December 31, 2020.

Income Tax Expense

We are required to estimate income taxes for federal and the state of Illinois as part of the process of preparing financial statements. This process involves estimating current income tax liabilities together with assessing temporary differences resulting from differing treatment of items, such as depreciation, for income tax and accounting purposes. These differences result in deferred income tax assets and liabilities, which are included within our balance sheets. We also assess the likelihood that our deferred income tax assets will be recovered through future taxable income. To the extent we believe that realization is not likely, we establish a valuation allowance, which is offset by an adjustment to income tax expense in our income statements.

Uncertainty associated with the application of tax statutes and regulations and the outcomes of tax audits and appeals requires that judgments and estimates be made in the accrual process and in the calculation of effective tax rates. Only income tax benefits that meet the "more likely than not" recognition threshold may be recognized or continue to be recognized. Unrecognized tax benefits are re-evaluated quarterly and changes are recorded based on new information, including the issuance of relevant guidance by the courts or tax authorities and developments occurring in the examinations of our tax returns.

Significant management judgment is required in determining our provision for income taxes, deferred income tax assets and liabilities, the liability for unrecognized tax benefits, and any valuation allowance recorded against deferred income tax assets. The assumptions involved are supported by historical data, reasonable projections, and interpretations of applicable tax laws and regulations for federal and the state of Illinois. Significant changes in these assumptions could have a material impact on our financial condition and results of operations. See Note 1(m), Income Taxes, and Note 12, Income Taxes, for a discussion of accounting for income taxes.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results, Liquidity, and Capital Resources – Market Risks and Other Significant Risks, as well as Note 1(n), Fair Value Measurements, and Note 1(o), Derivative Instruments, for information concerning potential market risks to which we are exposed.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

A. INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of North Shore Gas Company:

Milwaukee, Wisconsin

We have audited the accompanying financial statements of North Shore Gas Company (the "Company") (a wholly owned subsidiary of WEC Energy Group, Inc.), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2020, 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 North Shore Gas Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
March 26, 2021

NORTH SHORE GAS COMPANY

B. INCOME STATEMENTS

Year Ended December 31 *(in millions)*	2020	2019	2018
Operating revenues	**$ 170.2**	$ 178.9	$ 191.6
Operating expenses			
Cost of natural gas	**75.6**	86.7	98.6
Other operation and maintenance	**45.2**	47.9	50.3
Depreciation and amortization	**18.5**	17.6	16.4
Property and revenue taxes	**2.4**	1.8	1.9
Total operating expenses	**141.7**	154.0	167.2
Operating income	**28.5**	24.9	24.4
Other expense, net	**0.2**	0.2	0.2
Interest expense	**5.7**	5.9	4.7
Other expense	**(5.9)**	(6.1)	(4.9)
Income before income taxes	**22.6**	18.8	19.5
Income tax expense	**5.9**	4.6	4.8
Net income	**$ 16.7**	$ 14.2	$ 14.7

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

NORTH SHORE GAS COMPANY

C. BALANCE SHEETS

At December 31 *(in millions, except share amounts)*	2020	2019
Assets		
Current assets		
Cash and cash equivalents	**$ 0.5**	$ 0.3
Accounts receivable and unbilled revenues, net of reserves of $4.4 and $3.5, respectively	**35.5**	34.6
Accounts receivable from related parties	**2.0**	3.1
Materials, supplies, and inventories	**23.4**	23.4
Other	**5.2**	5.9
Current assets	**66.6**	67.3
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation and amortization of $233.2 and $221.1, respectively	**494.7**	466.3
Regulatory assets	**63.4**	64.2
Other	**13.7**	12.3
Long-term assets	**571.8**	542.8
Total assets	**$ 638.4**	$ 610.1
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	**$ 21.7**	$ 22.1
Accounts payable to related parties	**5.4**	6.2
Short-term debt to related parties	**53.1**	48.1
Accrued taxes	**5.6**	4.9
Customer credit balances	**7.5**	8.8
Other	**7.8**	12.8
Current liabilities	**101.1**	102.9
Long-term liabilities		
Long-term debt	**131.2**	131.1
Deferred income taxes	**61.3**	58.1
Regulatory liabilities	**67.5**	71.3
Environmental remediation liabilities	**35.7**	41.2
Pension obligations	**40.2**	31.5
AROs	**20.1**	19.7
Other	**5.8**	5.5
Long-term liabilities	**361.8**	358.4
Commitments and contingencies (Note 17)		
Shareholder's equity		
Common stock, without par value; 5,000,000 shares authorized; 3,625,887 shares issued and outstanding	**60.0**	46.0
Retained earnings	**115.5**	102.8
Shareholder's equity	**175.5**	148.8
Total liabilities and shareholder's equity	**$ 638.4**	$ 610.1

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

NORTH SHORE GAS COMPANY

D. STATEMENTS OF CASH FLOWS

Year Ended December 31 *(in millions)*	2020	2019	2018
Operating activities			
Net income	**$ 16.7**	$ 14.2	$ 14.7
Reconciliation to cash provided by operating activities			
Depreciation and amortization	**18.5**	17.6	16.4
Deferred income taxes and ITCs, net	**2.1**	(0.9)	2.1
Settlement of AROs	**(0.6)**	(0.6)	(0.8)
Manufactured gas plant remediation costs	**(2.8)**	(1.9)	(0.9)
Change in –			
Accounts receivable and unbilled revenues, net	**0.2**	7.2	(4.4)
Materials, supplies, and inventories	**—**	(6.4)	4.3
Other current assets	**1.5**	(1.8)	0.5
Accounts payable	**(2.4)**	(6.4)	11.9
Customer credit balances	**(1.3)**	0.6	0.2
Other current liabilities	**(2.8)**	4.8	(0.9)
Other, net	**(1.3)**	3.1	7.3
Net cash provided by operating activities	**27.8**	29.5	50.4
Investing activities			
Capital expenditures	**(42.8)**	(44.7)	(63.8)
Payments for assets transferred from WBS	**—**	—	(3.3)
Other, net	**0.2**	0.1	—
Net cash used in investing activities	**(42.6)**	(44.6)	(67.1)
Financing activities			
Issuance of long-term debt	**—**	—	50.0
Short-term debt to related parties, net	**5.0**	22.5	(37.2)
Payment of dividends to parent	**(4.0)**	(16.0)	—
Equity contribution from parent	**14.0**	8.0	5.0
Other, net	**—**	—	(0.5)
Net cash provided by financing activities	**15.0**	14.5	17.3
Net change in cash and cash equivalents	**0.2**	(0.6)	0.6
Cash and cash equivalents at beginning of year	**0.3**	0.9	0.3
Cash and cash equivalents at end of year	**$ 0.5**	$ 0.3	$ 0.9

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

NORTH SHORE GAS COMPANY

E. STATEMENTS OF EQUITY

(in millions)	Common Stock	Retained Earnings	Total Common Shareholder's Equity
Balance at December 31, 2017	$ 33.0	$ 89.9	$ 122.9
Net income	—	14.7	14.7
Equity contribution from parent	5.0	—	5.0
Balance at December 31, 2018	$ 38.0	$ 104.6	$ 142.6
Net income	—	14.2	14.2
Equity contribution from parent	8.0	—	8.0
Dividends to parent	—	(16.0)	(16.0)
Balance at December 31, 2019	$ 46.0	$ 102.8	$ 148.8
Net income	**—**	**16.7**	**16.7**
Equity contribution from parent	**14.0**	**—**	**14.0**
Dividends to parent	**—**	**(4.0)**	**(4.0)**
Balance at December 31, 2020	**$ 60.0**	**$ 115.5**	**$ 175.5**

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

F. NOTES TO FINANCIAL STATEMENTS
December 31, 2020

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 equity, unless otherwise noted.

We are a natural gas utility company that purchases, stores, distributes, sells, and transports natural gas to customers in the northern suburbs of Chicago, Illinois. We are subject to the jurisdiction of, and regulation by, the ICC, which has general supervisory and regulatory powers over public utilities in Illinois. In addition, we are subject to the standards of conduct and affiliate rules of the FERC. We are an indirect, wholly owned subsidiary of WEC Energy Group.

(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 ICC. 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 rates include a rider for cost recovery or refund of uncollectible expense based on the difference between actual uncollectible write-offs and the amounts recovered in rates. Our rates include riders for cost recovery of environmental cleanup costs, energy conservation and management program costs, and income tax expense changes resulting from the Tax Legislation. See Note 19, Regulatory Environment, for more information on how COVID-19 has affected our cost recovery mechanisms.

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.

Other Operating Revenues

Alternative Revenues

Alternative revenues are created from programs authorized by the ICC that allow us to record additional revenues by adjusting rates in the future, usually as a surcharge applied to future billings, in response to past activities or completed events. Alternative revenue programs allow compensation for the effects of weather abnormalities and other external factors. We record alternative revenues when the regulator-specified conditions for recognition have been met. We reverse these alternative revenues as the customer is billed, at which time this revenue is presented as revenues from contracts with customers.

Below is a summary of our alternative revenue programs:

- Our rates include a decoupling mechanism, which allows us to recover or refund the differences between actual and authorized margins for certain customer classes.
- We were authorized to implement a SPC rider for the recovery of incremental direct costs resulting from the COVID-19 pandemic, foregone late fees and reconnection charges, and the costs associated with the ICC's bill payment assistance programs. See Note 19, Regulatory Environment, for more information.

(e) Credit Losses—The following discussion includes our significant accounting policies related to credit losses. For additional required disclosures on credit losses, see Note 4, 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, including trade receivables. The amendment requires entities to consider a broader range of information to estimate expected credit losses, which may result in earlier recognition of loss. The cumulative effect of adopting this standard was not significant to our financial statements.

Our exposure to credit losses is related to our accounts receivable and unbilled revenue balances, which are generated from the sale of natural gas to residential, commercial and industrial, and transportation customers served under our regulated utility tariffs.

We evaluate the collectability of our accounts receivable and unbilled revenue balances considering a combination of factors. For some of our larger customers and also in circumstances where we become aware of a specific customer's inability to meet its financial obligations to us, we record a specific allowance for credit losses against amounts due in order to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we use the accounts receivable aging method to calculate an allowance for credit losses. Using this method, we classify accounts receivable into different aging buckets and calculate a reserve percentage for each aging bucket based upon historical loss rates. The calculated reserve percentages are updated on at least an annual basis, in order to ensure recent macroeconomic, political, and regulatory trends are captured in the calculation, to the extent possible. Risks identified that we do not believe are reflected in the calculated reserve percentages, are assessed on a quarterly basis to determine whether further adjustments are required.

We monitor our ongoing credit exposure through active review of counterparty accounts receivable balances against contract terms and due dates. Our activities include timely account reconciliation, dispute resolution and payment confirmation. To the extent possible, we work with customers with past due balances to negotiate payment plans, but will disconnect customers for non-payment as allowed by the ICC if necessary, and employ collection agencies and legal counsel to pursue recovery of defaulted receivables. For our larger customers, detailed credit review procedures may be performed in advance of any sales being made. We sometimes require letters of credit, parental guarantees, prepayments or other forms of credit assurance from our larger customers to mitigate credit risk. See Note 19, Regulatory Environment, for information on certain regulatory actions that were and/or are being taken for the purpose of ensuring that essential utility services are available to our customers during the COVID-19 pandemic.

(f) Materials, Supplies, and Inventories—Our inventory as of December 31 consisted of:

(in millions)	2020	2019
Natural gas in storage, primarily at LIFO	**$ 20.2**	$ 19.8
Materials and supplies	**2.9**	3.0
Liquid propane	**0.3**	0.6
Total	**$ 23.4**	$ 23.4

Inventories consist of natural gas in storage, materials and supplies, and liquid propane. Materials and supplies and liquid propane inventory are priced at average cost. We price natural gas storage injections at the calendar year average of the costs of natural gas supply purchased. Withdrawals from storage are priced on the LIFO cost method. The estimated replacement cost of our natural gas in inventory at December 31, 2020 and 2019, exceeded the LIFO cost by $5.3 million and $1.4 million, respectively. In calculating these replacement amounts, we used a Chicago city-gate natural gas price per Dth of $2.31 at December 31, 2020, and $1.95 at December 31, 2019.

(g) 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 ICC 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 5, Regulatory Assets and Liabilities, for more information.

(h) Property, Plant, and Equipment—We record property, plant, and equipment at cost. Cost includes material, labor, overhead, and capitalized interest. 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 ICC. Annual utility composite depreciation rates were 2.48% in 2020 and 2019, and 2.45% in 2018.

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 3 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 6, Property, Plant, and Equipment, for more information.

(i) Asset Impairment—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) Asset Retirement Obligations—We recognize, at fair value, legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and normal operation of the assets. An ARO liability is recorded, when incurred, for these obligations as long as the fair value can be reasonably estimated, even if the timing or method of settling

the obligation is unknown. The associated retirement costs are capitalized as part of the related long-lived asset and are depreciated over the useful life of the asset. The ARO liabilities are accreted each period using the credit-adjusted risk-free interest rates associated with the expected settlement dates of the AROs. These rates are determined when the obligations are incurred. Subsequent changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the associated capitalized retirement costs. We recognize regulatory assets or liabilities for the timing differences between when we recover an ARO in rates and when we recognize the associated retirement costs. See Note 7, Asset Retirement Obligations, for more information.

(k) 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 was 34.3 million. Officers and other key employees 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, 2020, 2019, and 2018, we recorded stock-based compensation expense of $1.0 million, $1.3 million, and $0.9 million, respectively.

Stock-based compensation costs capitalized during 2020, 2019, and 2018 were not significant.

(l) 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 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 ASC 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 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 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 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 26, 2021, we have not entered into any material leases that have not yet commenced.

(m) 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.

ITCs 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 upon our separate tax computation. See Note 12, Income Taxes, for more information.

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

(n) 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 13, Fair Value Measurements, for more information.

(o) 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 designed to mitigate risk. Our regulated hedging programs are approved by the ICC.

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 ICC 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 14, Derivative Instruments, for more information.

(p) 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 ICC allows recovery in rates for the net periodic benefit cost calculated under GAAP. See Note 15, Employee Benefits, for more information.

(q) Customer Deposits and Credit Balances—When utility customers apply for new service, they may be required to provide a deposit for the service. Customer deposits are recorded within other current liabilities on our balance sheets.

Utility 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 presented as customer credit balances on our balance sheets.

(r) 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 17, 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 ICC'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.

(s) 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 rider 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, 2020. In addition, there were no customers that accounted for more than 10% of our revenues for the year ended December 31, 2020.

(t) Subsequent Events—Due to the cold temperatures, wind, snow, and ice throughout the central part of the country during February 2021, the cost of gas purchased for our natural gas utility customers was temporarily driven higher than our normal winter weather expectations. We have a regulatory mechanism in place for recovering all prudently incurred gas costs. In addition, we have adequate liquidity and access to capital markets to manage any short-term increase in working capital resulting from the lag in recovery. For information on our GCRM, see Note 1(d), Operating Revenues.

Subsequent events were evaluated for potential recognition or disclosure through March 26, 2021, 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 ultimate parent, WEC Energy Group, and other subsidiaries of WEC Energy Group pursuant to an AIA that became effective in 2017. The AIA was approved by the appropriate regulators, including the ICC. 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:

(in millions)	2020	2019	2018
Transactions with PGL			
Natural gas related purchases from PGL[1]	**$ 2.4**	$ 5.4	$ 5.4
Charges from PGL for services and other items [2]	**5.4**	3.0	1.5
Interest expense on short-term borrowings from PGL	**0.2**	0.3	0.8
Transactions with WBS			
Charges to WBS for services and other items [2]	**2.3**	4.0	2.6
Charges from WBS for services and other items [2]	**15.6**	18.2	19.9 [3]

[1] Amounts relate to the purchase of natural gas pipeline capacity.

[2] 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.

[3] Includes $3.3 million for the transfer of certain assets to us.

We manage our liquidity in part by maintaining adequate financing commitments with related parties. We have the ability to borrow up to $50.0 million from Integrys and to loan to or borrow from PGL up to $50.0 million. See Note 10, Short-Term Debt to Related Parties, for more information on our short-term borrowings.

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 for our natural gas utility segment. We do not have any revenues associated with our other segment. We disaggregate revenues into categories that depict how the nature, amount, timing, and uncertainty of revenues and cash flows are affected by economic factors. For our natural gas utility segment, revenues are further disaggregated by customer class. Each customer class within our natural gas operations has different expectations of service, natural gas and demand requirements, and can be impacted differently by regulatory activities within Illinois.

	North Shore Gas Company		
	Year Ended December 31		
(in millions)	**2020**	**2019**	**2018**
Natural gas utility revenues from contracts with customers	**$ 166.0**	$ 177.6	$ 193.9
Other operating revenues	**4.2**	1.3	(2.3)
Total operating revenues	**$ 170.2**	$ 178.9	$ 191.6

Revenues from Contracts with Customers

Natural Gas Utility Operating Revenues

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

	Year Ended December 31		
(in millions)	**2020**	**2019**	**2018**
Residential	**$ 117.9**	$ 132.7	$ 139.3
Commercial and industrial	**21.5**	26.1	27.1
Total retail revenues	**139.4**	158.8	166.4
Transport	**22.7**	24.9	25.2
Other utility revenues [1]	**3.9**	(6.1)	2.3
Total natural gas utility operating revenues	**$ 166.0**	$ 177.6	$ 193.9

[1] Includes amounts collected from (refunded to) customers for purchased gas adjustment costs.

Other Operating Revenues

Other operating revenues consist primarily of the following:

	Year Ended December 31		
(in millions)	**2020**	**2019**	**2018**
Alternative revenues [1]	**$ 3.2**	$ (0.3)	$ (3.7)
Late payment charges [2]	**1.0**	1.6	1.4
Total other operating revenues	**$ 4.2**	$ 1.3	$ (2.3)

[1] Negative amounts can result from alternative revenues being reversed to revenues from contracts with customers as the customer is billed for these alternative revenues. Negative amounts can also result from revenues to be refunded to customers subject to our decoupling mechanism and certain late payment charges, as discussed in Note 1(d), Operating Revenues.

[2] The reduction in late payment charges is a result of a regulatory order from the ICC in response to the COVID-19 pandemic, which includes the suspension of late payment charges during a designated time period. We were authorized to implement a SPC rider for the recovery of these late payment charges related to COVID-19, thereby allowing us to record these late payment charges as alternative revenues. The total amount of late payment charges recorded as alternative revenues during the year ended December 31, 2020 was $0.5 million. See Note 19, Regulatory Environment, for more information.

NOTE 4—CREDIT LOSSES

The table below shows our gross third-party receivable balances and related allowance for credit losses at December 31, 2020.

(in millions)	
Accounts receivable and unbilled revenues	$ 39.9
Allowance for credit losses	4.4
Accounts receivable and unbilled revenues, net [1]	$ 35.5
Total accounts receivable, net – past due greater than 90 days [1]	$ 1.6
Past due greater than 90 days – collection risk mitigated by regulatory mechanisms [1]	100.0 %

[1] Our exposure to credit losses is mitigated by a regulatory mechanism we have in place. Specifically, our customer tariffs include a rider for cost recovery or refund of uncollectible expense based on the difference between actual uncollectible write-offs and the amounts recovered in rates. As a result, all of our net accounts receivable and unbilled revenues balance had regulatory protections in place to mitigate our exposure to credit losses.

A rollforward of the allowance for credit losses for the year ended December 31, 2020, is included below:

(in millions)	
Balance at December 31, 2019	$ 3.5
Provision for credit losses	2.3
Provision for credit losses deferred for future recovery or refund	0.4
Write-offs charged against the allowance	(2.3)
Recoveries of amounts previously written off	0.5
Balance at December 31, 2020	$ 4.4

The increase in the allowance for credit losses at December 31, 2020, compared to December 31, 2019, was driven by higher past due accounts receivable balances, primarily related to our residential customers. This increase in accounts receivable balances in arrears was driven by economic disruptions caused by the COVID-19 pandemic, including higher unemployment rates. Also, as a result of the COVID-19 pandemic and related regulatory orders we have received, we were unable to disconnect any of our customers during the year ended December 31, 2020. See Note 19, Regulatory Environment, for more information.

NOTE 5—REGULATORY ASSETS AND LIABILITIES

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

(in millions)	2020	2019	See Note
Regulatory assets [1] [2]			
Environmental remediation costs [3]	$ 38.0	$ 42.7	17
Pension and OPEB costs [4]	16.5	12.4	15
Uncollectible expense	3.4	3.1	4
AROs	2.6	3.2	7
Derivatives	1.1	2.4	1(o)
Other, net	3.9	1.9	
Total regulatory assets	$ 65.5	$ 65.7	
Balance sheet presentation			
Other current assets	$ 2.1	$ 1.5	
Regulatory assets	63.4	64.2	
Total regulatory assets	$ 65.5	$ 65.7	

[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, 2020, we had $8.0 million of regulatory assets not earning a return. The regulatory assets not earning a return primarily relate to uncollectible expense, our invested capital tax rider, and COVID-19 deferred costs. 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) As of December 31, 2020, we had made cash expenditures of $2.3 million related to these environmental remediation costs. The remaining $35.7 million represents our estimated future cash expenditures.

(4) 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.

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

(in millions)	2020	2019	See Note
Regulatory liabilities			
Income tax related items	**$ 42.0**	$ 43.3	12
Pension and OPEB benefits [1]	**12.2**	13.6	15
Removal costs [2]	**10.4**	9.2	
Decoupling	**1.6**	4.3	1(d)
Natural gas costs refundable through rate adjustments	**1.3**	4.6	1(d)
Other, net	**1.3**	0.9	
Total regulatory liabilities	**$ 68.8**	$ 75.9	
Balance sheet presentation			
Other current liabilities	**$ 1.3**	$ 4.6	
Regulatory liabilities	**67.5**	71.3	
Total regulatory liabilities	**$ 68.8**	$ 75.9	

(1) Primarily represents the unrecognized future pension and OPEB benefits related to our defined benefit pension and OPEB plans. We will amortize these regulatory liabilities into net periodic benefit cost over the average remaining service life of each plan.

(2) Represents amounts collected from customers to cover the future cost of property, plant, and equipment removals that are not legally required. Legal obligations related to the removal of property, plant, and equipment are recorded as AROs. See Note 7, Asset Retirement Obligations, for more information on our legal obligations.

NOTE 6—PROPERTY, PLANT, AND EQUIPMENT

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

(in millions)	2020	2019
Natural gas – distribution and transmission	**$ 668.4**	$ 632.2
Other utility property, plant, and equipment	**40.2**	36.4
Less: Accumulated depreciation	**233.2**	221.1
Net	**475.4**	447.5
Construction work in progress	**19.3**	18.8
Total property, plant, and equipment	**$ 494.7**	$ 466.3

NOTE 7—ASSET RETIREMENT OBLIGATIONS

We have recorded AROs primarily for the removal of natural gas distribution mains and service pipes (including asbestos and PCBs), asbestos and PCBs abatement in buildings, and the removal of above ground storage tanks. We establish regulatory assets and liabilities to record the differences between ongoing expense recognition under the ARO accounting rules and the rate-making practices for retirement costs authorized by the ICC.

The following table shows changes to our AROs during the years ended December 31:

(in millions)	2020	2019	2018
Balance as of January 1	**$ 19.7**	$ 19.7	$ 18.9
Accretion	**1.1**	1.1	1.1
Liabilities settled	**(0.7)**	(1.1)	(0.3)
Balance as of December 31	**$ 20.1**	$ 19.7	$ 19.7

NOTE 8—COMMON EQUITY

Various financing arrangements and regulatory requirements impose certain restrictions on our ability to transfer funds to the sole holder of our common stock, PELLC, in the form of cash dividends, loans, or advances. In addition, we are prohibited from making loans to WEC Energy Group, Integrys, PELLC, or their other subsidiaries, with the exception of PGL.

Our long-term debt obligations contain provisions and covenants restricting the payment of cash dividends and the purchase or redemption of capital stock. As of December 31, 2020, these covenants resulted in total restricted retained earnings of $6.9 million.

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

NOTE 9—PREFERRED STOCK

We have 160,000 shares of cumulative preferred stock with a $100 par value authorized for issuance, of which none were issued and outstanding at December 31, 2020.

NOTE 10—SHORT-TERM DEBT TO RELATED PARTIES

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

(in millions, except for percentages)	2020	2019
Short-term debt to related parties:		
Amount outstanding at December 31	**$ 53.1**	$ 48.1
Weighted-average interest rate on amounts outstanding at December 31	**0.18%**	1.99%

Our average amount of short-term borrowings based on daily outstanding balances during 2020, was $30.9 million with a weighted-average interest rate during the period of 0.59%.

(in millions)	December 31, 2020
Revolving short-term notes payable to related parties [1]	**$ 100.0**
Less:	
Short-term debt to related parties	**53.1**
Available capacity under existing agreements	**$ 46.9**

[1] We have the ability to borrow up to $50.0 million from Integrys and up to $50.0 million from PGL.

At December 31, 2020, our short-term debt balance with Integrys was $3.1 million. We did not have a short-term debt balance with Integrys at December 31, 2019. At December 31, 2020 and 2019, our short-term debt balance with PGL was $50.0 million and $48.1 million, respectively.

Short-term borrowings from PGL and Integrys bear interest computed at the average stated interest rate payable on commercial paper issued by PGL. Short-term debt is callable by Integrys or PGL at any time.

NOTE 11—LONG-TERM DEBT

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

(in millions)			2020	2019
Long-term debt	**Interest Rate**	**Year Due**		
First Mortgage Bonds (secured)	3.43%	2027	**$ 28.0**	$ 28.0
	3.87%	2028	**50.0**	50.0
	3.96%	2043	**54.0**	54.0
Total			**132.0**	132.0
Unamortized debt issuance costs			**(0.8)**	(0.9)
Total long-term debt			**$ 131.2**	**$ 131.1**

Our First Mortgage Bonds are subject to the terms and conditions of our First Mortgage Indenture dated April 1, 1955, as supplemented. Under the terms of the Indenture, substantially all our property is pledged as collateral for these outstanding debt securities.

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

Maturities of Long-Term Debt Outstanding

The following table shows the future maturities of our long-term debt outstanding as of December 31, 2020:

(in millions)	Payments
2021	$ —
2022	—
2023	—
2024	—
2025	—
Thereafter	132.0
Total	$ 132.0

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, 2020, we were in compliance with our covenants related to our long-term debt obligations.

NOTE 12—INCOME TAXES

Income Tax Expense

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

(in millions)	2020	2019	2018
Current tax expense	**$ 3.8**	$ 5.5	$ 2.7
Deferred income taxes, net	**2.2**	(0.8)	1.9
ITC, net	**(0.1)**	(0.1)	0.2
Total income tax expense	**$ 5.9**	$ 4.6	$ 4.8

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:

	2020		2019		2018	
(in millions)	Amount	Effective Tax Rate	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Statutory federal income tax	**$ 4.7**	**21.0 %**	$ 3.9	21.0 %	$ 4.1	21.0 %
State income taxes net of federal tax benefit	**1.7**	**7.8 %**	1.5	8.3 %	1.6	8.2 %
Federal excess deferred tax amortization [(1)]	**(0.7)**	**(3.3)%**	(1.0)	(5.1)%	(0.9)	(4.6)%
Other, net	**0.2**	**0.6 %**	0.2	0.3 %	—	— %
Total income tax expense	**$ 5.9**	**26.1 %**	$ 4.6	24.5 %	$ 4.8	24.6 %

[(1)] The Tax Legislation required us to remeasure our deferred income taxes and we began to amortize the resulting excess protected deferred income taxes beginning in 2018 in accordance with normalization requirements. The decrease in income tax expense related to the amortization of the deferred tax benefits is offset by a decrease in revenue as the benefits are returned to customers, resulting in no impact on net income. See Note 19, Regulatory Environment, for more information.

Deferred Income Tax Assets and Liabilities

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

(in millions)	2020	2019
Deferred tax assets		
Tax gross up – regulatory items	**$ 12.4**	$ 12.7
Employee benefits and compensation	**7.6**	6.5
Other	**2.8**	3.8
Total deferred tax assets	**22.8**	23.0
Deferred tax liabilities		
Property-related	**$ 81.6**	$ 80.3
Regulatory deferral	**2.0**	0.1
Other	**0.5**	0.7
Total deferred tax liabilities	**84.1**	81.1
Deferred tax liability, net	**$ 61.3**	$ 58.1

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 state tax benefit carryforwards as of December 31, 2020 and 2019 are summarized in the tables below:

2020 *(in millions)*	Deferred Tax Effect	Earliest Year of Expiration
Future tax benefits as of December 31, 2020		
Other state benefits	**$ 0.8**	**2023**
Balance as of December 31, 2020	**$ 0.8**	

2019 *(in millions)*	Deferred Tax Effect	Earliest Year of Expiration
Future tax benefits as of December 31, 2019		
Other state benefits	**$ 0.8**	**2019**
Balance as of December 31, 2019	**$ 0.8**	

Unrecognized Tax Benefits

We had no unrecognized tax benefits at December 31, 2020 and 2019.

We do not expect any unrecognized tax benefits to affect our effective tax rate in periods after December 31, 2020.

For the years ended December 31, 2020, 2019, and 2018, we recognized no interest or penalties related to unrecognized tax benefits in our income statements. At December 31, 2020 and 2019, 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 amount of unrecognized tax benefits within the next 12 months.

Our primary tax jurisdictions include federal and the state of Illinois. With a few exceptions, we are no longer subject to federal income tax examination by the IRS for years prior to 2017. At December 31, 2020, we were subject to examination by the Illinois taxing authority for tax years 2015 through 2020.

NOTE 13—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:

	December 31, 2020			
(in millions)	Level 1	Level 2	Level 3	Total
Natural gas contracts				
Derivative assets	**$ 1.1**	**$ —**	**$ —**	**$ 1.1**
Derivative liabilities	**0.3**	**—**	**—**	**0.3**

	December 31, 2019			
(in millions)	Level 1	Level 2	Level 3	Total
Natural gas contracts				
Derivative assets	$ 0.1	$ 0.1	$ —	$ 0.2
Derivative liabilities	1.9	—	—	1.9

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

NOTE 14—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.

	December 31, 2020		December 31, 2019	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Natural gas contracts				
Other current	**$ 1.0**	**$ 0.2**	$ 0.2	$ 1.8
Other long-term	**0.1**	**0.1**	—	0.1
Total	**$ 1.1**	**$ 0.3**	$ 0.2	$ 1.9

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

	December 31, 2020		December 31, 2019		December 31, 2018	
(in millions)	Volumes	Losses	Volumes	Losses	Volumes	Gains
Natural gas contracts	**8.4 Dth**	**$ (3.9)**	8.4 Dth	$ (1.1)	8.4 Dth	$ 1.2

At December 31, 2020 and 2019, we had posted cash collateral of $1.0 million and $3.2 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:

	December 31, 2020		December 31, 2019	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Gross amount recognized on the balance sheet	**$ 1.1**	**$ 0.3**	$ 0.2	$ 1.9
Gross amount not offset on the balance sheet	**(0.3)**	**(0.3)**	(0.1)	(1.9) [1]
Net amount	**$ 0.8**	**$ —**	$ 0.1	$ —

[1] Includes cash collateral posted of $1.8 million.

NOTE 15—EMPLOYEE BENEFITS

Pension and Other Postretirement Employee Benefits

We have a combined noncontributory, qualified pension plan with PGL.

We offer an OPEB plan to employees, which is sponsored by PELLC. The benefits are funded through an irrevocable trust, 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. WEC Energy Group also offers medical, dental, and life insurance benefits to our active employees and their dependents. We expense the allocated costs of these benefits as incurred.

The defined benefit pension plan is closed to all new hires. In addition, the service accruals for the defined benefit pension plan were frozen for non-union employees as of January 1, 2013. These employees receive an annual company contribution to their 401(k) savings plan, which is calculated based on age, wages, and full years of vesting service as of December 31 each year.

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 our 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:

	Pension Benefits		OPEB Benefits	
(in millions)	2020	2019	2020	2019
Benefit obligation	**$ 67.4**	$ 58.0	**$ 12.6**	$ 11.3
Fair value of plan assets	**27.2**	26.5	**25.2**	23.1
Funded status	**$ (40.2)**	$ (31.5)	**$ 12.6**	$ 11.8

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

	Pension Benefits		OPEB Benefits	
(in millions)	2020	2019	2020	2019
Participant contributions	**$ —**	$ —	**$ 0.3**	$ 0.2
Benefit payments	**(2.6)**	(10.6)	**(1.0)**	(0.7)

In 2020 and 2019, we had actuarial losses related to our pension benefit obligations of $8.1 million and $8.9 million, respectively, which were primarily due to decreases in our discount rates. The discount rate for our pension benefits was 2.75%, 3.45%, and 4.30%, in 2020, 2019, and 2018, respectively.

In 2020, we had an actuarial loss related to our OPEB benefit obligation of $1.1 million, which was primarily due to decreases in our discount rates. The discount rate for our OPEB benefits was 2.35%, 3.25%, and 4.20%, in 2020, 2019, and 2018, respectively. In 2019, we had an actuarial gain related to our OPEB benefit obligation of $1.0 million, which was primarily due to better than expected claims and premiums experience, the use of new mortality tables, and the repeal of certain health insurance related taxes. These gains were partially offset by a decrease in our discount rate as discussed above.

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

	Pension Benefits		OPEB Benefits	
(in millions)	**2020**	**2019**	**2020**	**2019**
Other long-term assets	**$ —**	$ —	**$ 12.6**	$ 11.8
Pension obligations	**40.2**	31.5	**—**	—
Total net (liabilities) assets	**$ (40.2)**	$ (31.5)	**$ 12.6**	$ 11.8

The accumulated benefit obligation for the defined benefit pension plans was $58.4 million and $49.5 million at December 31, 2020 and 2019, 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:

(in millions)	**2020**	**2019**
Accumulated benefit obligation	**$ 58.4**	$ 49.5
Fair value of plan assets	**27.2**	26.5

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

(in millions)	**2020**	**2019**
Projected benefit obligation	**$ 67.4**	$ 58.0
Fair value of plan assets	**27.2**	26.5

We had no OPEB plans with an accumulated benefit obligation in excess of plan assets as of December 31, 2020 and 2019, respectively.

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

	Pension Benefits		OPEB Benefits	
(in millions)	**2020**	**2019**	**2020**	**2019**
Net regulatory assets (liabilities)				
Net actuarial loss (gain)	**$ 16.6**	$ 12.7	**$ (10.9)**	$ (12.1)
Prior service costs (credits)	**0.2**	0.4	**(1.8)**	(2.2)
Total	**$ 16.8**	$ 13.1	**$ (12.7)**	$ (14.3)

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:

	Pension Benefits			OPEB Benefits		
(in millions)	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Net periodic benefit cost (credit)	**$ 5.0**	$ 5.7	$ 3.5	**$ (2.4)**	$ (1.4)	$ (0.7)

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	
	2020	**2019**	**2020**	**2019**
Discount rate	**2.75%**	3.45%	**2.35%**	3.25%
Rate of compensation increase	**4.00%**	4.00%	**N/A**	N/A
Interest credit rate	**2.25%**	2.25%	**N/A**	N/A
Assumed medical cost trend rate (Pre 65)	**N/A**	N/A	**5.85%**	6.00%
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**	2028
Assumed medical cost trend rate (Post 65)	**N/A**	N/A	**5.70%**	5.80%
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 the net periodic benefit cost for the plans were as follows for the years ended December 31:

	Pension Benefits		
	2020	**2019**	**2018**
Discount rate	**3.19%**	4.00%	3.84%
Expected return on assets	**7.00%**	7.25%	7.25%
Rate of compensation increase	**4.00%**	4.00%	4.00%
Interest credit rate	**2.25%**	2.25%	2.25%

	OPEB Benefits		
	2020	**2019**	**2018**
Discount rate	**3.25%**	4.20%	3.55%
Expected return on assets	**7.00%**	7.25%	7.25%
Assumed medical cost trend rate (Pre 65)	**6.00%**	6.25%	6.50%
Ultimate trend rate (Pre 65)	**5.00%**	5.00%	5.00%
Year ultimate trend rate is reached (Pre 65)	**2028**	2024	2024
Assumed medical cost trend rate (Post 65)	**5.80%**	5.90%	6.00%
Ultimate trend rate (Post 65)	**5.00%**	5.00%	5.00%
Year ultimate trend rate is reached (Post 65)	**2028**	2028	2028

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 2021, the expected return on asset assumption for the pension and OPEB plans is 7.00%.

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 plan's assets are invested in a corporate pension trust with a target asset allocation of 45% equity investments, 45% fixed income investments, and 10% private equity and real estate investments. Our OPEB trust has a target asset allocation of 45% equity investments and 55% fixed income investments. 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(n), 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 tables provide the fair values of our investments by asset class:

	December 31, 2020							
	Pension Plan Assets				OPEB Plan Assets			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Equity securities:								
United States equity	**$ 4.1**	**$ —**	**$ —**	**$ 4.1**	**$ 3.8**	**$ —**	**$ —**	**$ 3.8**
International equity	**3.3**	**—**	**—**	**3.3**	**3.2**	**—**	**—**	**3.2**
Fixed income securities: [1]								
United States bonds	**—**	**5.5**	**—**	**5.5**	**4.8**	**3.6**	**—**	**8.4**
International bonds	**—**	**0.9**	**—**	**0.9**	**—**	**0.2**	**—**	**0.2**
	$ 7.4	**$ 6.4**	**$ —**	**$ 13.8**	**$ 11.8**	**$ 3.8**	**$ —**	**$ 15.6**
Investments measured at net asset value				**$ 13.4**				**$ 9.6**
Total	**$ 7.4**	**$ 6.4**	**$ —**	**$ 27.2**	**$ 11.8**	**$ 3.8**	**$ —**	**$ 25.2**

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

	December 31, 2019							
	Pension Plan Assets				OPEB Plan Assets			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Equity securities:								
United States equity	$ 3.4	$ —	$ —	$ 3.4	$ 2.6	$ —	$ —	$ 2.6
International equity	3.3	—	—	3.3	2.8	—	—	2.8
Fixed income securities: [1]								
United States bonds	0.5	5.0	—	5.5	3.9	3.5	—	7.4
International bonds	0.2	0.8	—	1.0	0.7	0.1	—	0.8
	$ 7.4	$ 5.8	$ —	$ 13.2	$ 10.0	$ 3.6	$ —	$ 13.6
Investments measured at net asset value				$ 13.3				$ 9.5
Total	$ 7.4	$ 5.8	$ —	$ 26.5	$ 10.0	$ 3.6	$ —	$ 23.1

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

Cash Flows

We do not expect to make any contributions to our pension and OPEB plans in 2021. Contributions are dependent on various factors affecting us, including our liquidity position and possible tax law changes.

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
2021	$ 5.6	$ 0.7
2022	5.4	0.8
2023	6.5	0.8
2024	7.3	1.0
2025	7.0	1.1
2026 through 2030	26.8	5.3

Savings Plans

WEC Energy Group sponsors 401(k) savings plans that allow 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 based on the employee's wages, age, and years of service. Our share of the total costs incurred under all of these plans was $0.9 million in both 2020 and 2019, and $0.8 million in 2018.

NOTE 16—SEGMENT INFORMATION

Effective December 31, 2020, we changed our measure of segment profitability from operating income to net income. At December 31, 2020, we reported two segments. Our utility operations are reported in the natural gas utility segment. Our non-utility operations are reported in the other segment. No items were reported in the other segment for any of the years presented. All of our operations and assets are located within the United States.

NOTE 17—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, 2020.

			Payments Due By Period					
(in millions)	Date Contracts Extend Through	Total Amounts Committed	2021	2022	2023	2024	2025	Later Years
Natural gas supply and transportation	2026	$ 97.5	$ 27.7	$ 26.5	$ 17.9	$ 10.5	$ 10.4	$ 4.5

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 GHG emissions to comply with federal clean air rules;
- the remediation of former manufactured gas plant sites; and
- the reduction of methane emissions across our natural gas distribution system by upgrading infrastructure.

Air Quality

Climate Change

WEC Energy Group 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 2020.

We are required to report our CO_2 equivalent emissions related to the natural gas that we distribute and sell under the EPA Greenhouse Gases Reporting Program. Based upon our preliminary analysis of the data, we estimate that we will report CO_2 equivalent emissions of approximately 1.7 million metric tonnes to the EPA for 2020.

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, some of which are in the EPA Superfund Alternative Approach Program. We are also working with the IEPA on our investigation and remediation planning. These sites are at various stages of investigation, monitoring, remediation, and closure.

In addition, we are coordinating the investigation and cleanup of some of these sites subject to the jurisdiction of the EPA under what is called a "multisite" program. This program involves prioritizing the work to be done at the sites, preparation and approval of documents common to all of the sites, and use of a consistent approach in selecting remedies. At this time, we cannot estimate future remediation costs associated with these sites beyond those described below.

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, the ICC has 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 our manufactured gas plant sites as of December 31:

(in millions)	2020	2019
Regulatory assets	**$ 38.0**	$ 42.7
Reserves for future environmental remediation	**35.7**	41.2

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 18—SUPPLEMENTAL CASH FLOW INFORMATION

(in millions)	Year Ended December 31 2020	2019	2018
Cash paid for interest, net of amount capitalized	**$ 5.5**	$ 5.6	$ 4.1
Cash paid for income taxes, net	**3.4**	3.6	3.1
Significant non-cash investing and financing transactions:			
Accounts payable related to construction costs	**2.0**	1.4	0.5

NOTE 19—REGULATORY ENVIRONMENT

Coronavirus Disease – 2019

The global outbreak of COVID-19 was declared a pandemic by the WHO and the CDC. COVID-19 has spread globally, including throughout the United States and, in turn, our service territory. In response to the COVID-19 pandemic, Illinois declared a public health emergency and issued a shelter-in-place order, which has since expired.

On March 18, 2020, the ICC issued an order to all Illinois utilities, including us, requiring, among other things, a moratorium on disconnections of utility service and a suspension of late fees and penalties during the declared public health emergency. These provisions applied to all utility customer classes. Illinois utilities were also required to temporarily enact more flexible credit and collections procedures.

On June 18, 2020, the ICC issued a written order approving a settlement agreement negotiated by Illinois utilities, ICC staff, and certain intervenors. The key terms of the settlement agreement included the following:

- The moratorium on disconnections and the suspension of late fees and penalties were extended until July 26, 2020.
- Customers disconnected after June 18, 2019 could be reconnected without being assessed a reconnection fee if reconnection was requested prior to August 25, 2020.
- Flexible deferred payment arrangements were required to be offered to residential and commercial and industrial customers for an extended period of time and with reduced down payment requirements.
- Deposit requirements were waived until August 25, 2020 for all residential customers, and were waived for an additional four months for residential customers that verbally expressed financial hardship.
- We were required to establish a bill payment assistance program with approximately $1.2 million available for eligible residential customers to provide relief from high arrearages.

In addition to the above, the settlement agreement approved on June 18, 2020 authorized us to implement a SPC rider for the recovery of incremental direct costs resulting from COVID-19, foregone late fees and reconnection charges, and the costs associated with our bill payment assistance program. We began recovering costs under the SPC rider on October 1, 2020. Amounts deferred under the SPC rider are being recovered over 36 months and will be subject to review and reconciliation by the ICC. As of December 31, 2020, our regulatory asset related to the COVID-19 pandemic was $1.0 million.

Subsequent to the approval of the June 18, 2020 settlement agreement, and at the request of the ICC, we agreed to extend the moratorium on disconnections for qualified low-income residential customers and residential customers expressing financial hardship through March 31, 2021. The annual winter moratorium in Illinois that generally prohibits us from disconnecting residential customers for non-payment began on December 1 and ends on March 31. Additionally, we voluntarily extended the availability of deferred payment arrangements with reduced down payment requirements to residential and commercial and industrial customers until March 31, 2021.

With the expiration of the winter moratorium approaching, the ICC issued a written order approving a second settlement agreement negotiated by Illinois utilities, ICC staff, and certain intervenors on March 18, 2021. The key terms of this new settlement agreement are as follows:

- Utilities can start sending disconnection notices, on a staggered basis, as of April 1, 2021. Disconnections will follow a staggered schedule based on customer arrears and income levels (e.g. low income versus non-low income customers). Utilities are not allowed to disconnect customers for non-payment prior to June 30, 2021 if the customer's household income is below 300% of the federal poverty level and the customer is on a deferred payment plan.

- Utilities will continue to offer flexible deferred payment arrangements with reduced down payment requirements to residential customers through June 30, 2021. Deferred payment arrangements will vary based on income level.
- Reconnection fees will be waived for eligible low income customers through June 30, 2021. In addition, utilities will continue to exempt eligible low income customers from late payment fees and deposits.
- Each utility will continue, or renew, its bill payment assistance program through 2021. No additional funding is required by us due to the amount still available for assistance from our initial funding.
- Costs related to the provisions in the settlement agreement, including costs related to the bill payment assistance programs, will be recoverable through the SPC rider.

Tax Cuts and Jobs Act of 2017

Due to the Tax Legislation, we deferred for return to ratepayers, through future refunds, bill credits, or riders, the estimated tax benefit of $48 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 April 2018, the ICC approved the VITA, proposed by us and PGL, to refund these tax benefits to ratepayers. The VITA recovers or refunds changes in income tax expense resulting from differences in income tax rates and amortization of deferred tax excesses and deficiencies (in accordance with the Tax Legislation) from the amounts used in our last rate case, effective January 25, 2018.

2021 Rate Case

On October 15, 2020, we filed a request with the ICC to increase our natural gas rates. Our request is targeting a rate increase of $7.6 million (8.5%) and reflects a 10.0% ROE and a common equity component average of 52.5%. The proposed natural gas rate increase is primarily driven by our ongoing significant investment in our distribution system since the last rate review that resulted in revised base rates effective January 1, 2015. New rates are expected to be effective in September 2021.

NOTE 20—NEW ACCOUNTING PRONOUNCEMENTS

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 and related disclosures.

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 OPEB 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. We adopted the disclosure provisions of ASU 2018-14, effective December 31, 2020. These disclosure modifications are included in Note 15, Employee Benefits.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes. The new standard removes certain exceptions for performing intraperiod allocation and calculating income taxes in interim periods and also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. The adoption of ASU 2019-12, effective January 1, 2021, did not have a significant impact on our financial statements and related disclosures.