MICHIGAN GAS UTILITIES CORPORATION

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

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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.
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
MPSC	Michigan Public Service Commission

Accounting Terms	
ARO	Asset Retirement Obligation
ASU	Accounting Standards Update
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
OPEB	Other Postretirement Employee Benefits

Environmental Terms	
CO_2	Carbon Dioxide
GHG	Greenhouse Gas
WOTUS	Waters of the United States

Measurements	
Dth	Dekatherm

Other Terms and Abbreviations	
AIA	Affiliated Interest Agreement
COVID-19	Coronavirus Disease – 2019
Omnibus Stock Incentive Plan	WEC Energy Group Omnibus Stock Incentive Plan, Amended and Restated, Effective as of May 6, 2021
Supreme Court	United States Supreme Court

FINANCIAL STATEMENTS AND NOTES

A. INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of Michigan Gas Utilities Corporation:

Opinion

We have audited the financial statements of Michigan Gas Utilities Corporation (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
March 30, 2022

MICHIGAN GAS UTILITIES CORPORATION

B. INCOME STATEMENTS

Year Ended December 31 *(in millions)*	2021	2020	2019
Operating revenues	**$ 151.9**	$ 128.2	$ 144.5
Operating expenses			
Cost of natural gas sold	**77.8**	53.1	65.0
Other operation and maintenance	**32.2**	32.2	34.4
Depreciation and amortization	**17.2**	15.5	12.9
Property and revenue taxes	**7.3**	5.9	5.8
Total operating expenses	**134.5**	106.7	118.1
Operating income	**17.4**	21.5	26.4
Other income, net	**0.8**	0.5	—
Interest expense	**0.1**	4.7	3.7
Other income (expense)	**0.7**	(4.2)	(3.7)
Income before income taxes	**18.1**	17.3	22.7
Income tax expense	**3.7**	3.6	4.4
Net income	**$ 14.4**	$ 13.7	$ 18.3

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

MICHIGAN GAS UTILITIES CORPORATION

C. BALANCE SHEETS

At December 31 *(in millions, except share amounts)*	2021	2020
Assets		
Current assets		
Cash and cash equivalents	**$ 0.6**	$ 0.3
Accounts receivable and unbilled revenues, net of reserves of $4.7 and $2.9, respectively	**31.3**	27.6
Accounts receivable from related parties	**1.3**	2.2
Materials, supplies, and inventories:		
Natural gas in storage	**18.2**	11.3
Materials and supplies	**0.9**	0.9
Deferred property taxes	**7.4**	6.4
Prepaid taxes	**—**	6.6
Amounts recoverable from customers	**11.8**	1.0
Other	**3.7**	1.5
Current assets	**75.2**	57.8
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation and amortization of $202.7 and $193.1, respectively	**382.2**	357.7
Regulatory assets	**45.0**	46.7
Goodwill	**34.5**	34.5
Pension and OPEB assets	**22.3**	16.1
Other	**7.0**	7.2
Long-term assets	**491.0**	462.2
Total assets	**$ 566.2**	$ 520.0
Liabilities and Equity		
Current liabilities		
Short-term debt to parent	**$ 18.8**	$ 17.1
Accounts payable	**28.8**	17.5
Accounts payable to related parties	**3.0**	4.2
Accrued taxes	**9.6**	7.2
Customer credit balances	**6.0**	7.5
Other	**4.6**	5.0
Current liabilities	**70.8**	58.5
Long-term liabilities		
Long-term debt	**149.2**	149.1
Deferred income taxes	**63.3**	55.5
Regulatory liabilities	**74.7**	69.6
Environmental remediation liabilities	**18.0**	17.4
Other	**4.7**	4.8
Long-term liabilities	**309.9**	296.4
Commitments and contingencies (Note 15)		
Common shareholder's equity		
Common stock – without par value, 100 shares authorized; 100 shares issued and outstanding	**162.6**	156.6
Retained earnings	**22.9**	8.5
Common shareholder's equity	**185.5**	165.1
Total liabilities and equity	**$ 566.2**	$ 520.0

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

MICHIGAN GAS UTILITIES CORPORATION

D. STATEMENTS OF CASH FLOWS

Year Ended December 31 *(in millions)*	2021	2020	2019
Operating activities			
Net income	**$ 14.4**	$ 13.7	$ 18.3
Reconciliation to cash provided by operating activities			
Depreciation and amortization	**17.2**	15.5	12.9
Deferred income taxes, net	**6.4**	9.7	4.5
Change in –			
Accounts receivable and unbilled revenues, net	**(2.8)**	(0.8)	7.7
Materials, supplies, and inventories	**(6.9)**	1.3	2.0
Prepaid taxes	**6.6**	(6.2)	(0.5)
Amounts recoverable from customers	**(10.8)**	0.9	(1.5)
Other current assets	**(0.7)**	(1.0)	(0.8)
Accounts payable	**10.6**	3.4	(7.4)
Other current liabilities	**0.9**	(1.7)	4.0
Other, net	**(4.0)**	0.7	1.5
Net cash provided by operating activities	**30.9**	35.5	40.7
Investing activities			
Capital expenditures	**(37.0)**	(43.4)	(56.9)
Other, net	**(1.3)**	(0.1)	(0.1)
Net cash used in investing activities	**(38.3)**	(43.5)	(57.0)
Financing activities			
Short-term debt to parent, net	**1.7**	(10.5)	4.7
Issuance of long-term debt	**—**	60.0	—
Payment of dividends to parent	**—**	(47.0)	(14.0)
Equity contribution from parent	**6.0**	6.0	25.0
Other, net	**—**	(0.5)	(0.1)
Net cash provided by (used in) financing activities	**7.7**	8.0	15.6
Net change in cash and cash equivalents	**0.3**	—	(0.7)
Cash and cash equivalents at beginning of year	**0.3**	0.3	1.0
Cash and cash equivalents at end of year	**$ 0.6**	$ 0.3	$ 0.3

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

MICHIGAN GAS UTILITIES CORPORATION

E. STATEMENTS OF EQUITY

(in millions)	Common Stock	Retained Earnings	Total Common Shareholder's Equity
Balance at December 31, 2018	$ 125.6	$ 37.5	$ 163.1
Net income	—	18.3	18.3
Equity contribution from parent	25.0	—	25.0
Payment of dividends to parent	—	(14.0)	(14.0)
Balance at December 31, 2019	$ 150.6	$ 41.8	$ 192.4
Net income	—	13.7	13.7
Equity contribution from parent	6.0	—	6.0
Payment of dividends to parent	—	(47.0)	(47.0)
Balance at December 31, 2020	$ 156.6	$ 8.5	$ 165.1
Net income	**—**	**14.4**	**14.4**
Equity contribution from parent	**6.0**	**—**	**6.0**
Balance at December 31, 2021	$ 162.6	$ 22.9	$ 185.5

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

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. In this report, when we refer to "us," "we," "our," or "ours," we are referring to Michigan Gas Utilities Corporation.

We are a natural gas utility company that distributes, sells, and transports natural gas to customers in southern and western Michigan. We are subject to the jurisdiction of, and regulation by, the MPSC, which has general supervisory and regulatory powers over public utilities in Michigan. In addition, we are subject to the standards of conduct and affiliate rules of the FERC. We are a wholly owned subsidiary of Integrys, which is wholly owned by 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 MPSC. 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. Under normal circumstances, 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. However, as a result of the extreme weather in the Midwest in February 2021, the cost of gas purchased for our natural gas customers was temporarily driven significantly higher than our normal winter weather expectations. See Note 17, Regulatory Environment, for more information on the recovery of these high natural gas costs.

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

(e) 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 MPSC 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 17, 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—We record substantially all materials, supplies, and natural gas in storage inventories using the weighted-average cost method of accounting.

(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 MPSC 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 MPSC. Annual utility composite depreciation rates were 2.70%, 2.67%, and 2.54% in 2021, 2020, and 2019, respectively.

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

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

See Note 6, Property, Plant, and Equipment, for more information.

(i) Asset Impairment—Goodwill and other intangible assets with indefinite lives are subject to an annual impairment test. Interim impairment tests are performed when impairment indicators are present. During the third quarter of each year, we perform an annual goodwill impairment test. The carrying amount of our goodwill is considered not recoverable if the carrying amount of our net assets exceeds our fair value. An impairment loss is recorded for the excess of the carrying amount of the goodwill over its implied fair value. See Note 8, Goodwill and Other Intangible Asset, for more information.

We periodically assess the recoverability of certain long-lived assets when factors indicate the carrying value of such assets may be impaired or such assets are planned to be sold. 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. In addition to those shares of WEC Energy Group common stock that were subject to awards outstanding as of May 6, 2021, 9.0 million shares of WEC Energy Group common stock are reserved for issuance under the plan. 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, 2021, 2020, and 2019, we recorded stock-based compensation expense of $0.3 million, $0.7 million, and $0.8 million, respectively.

Stock-based compensation costs capitalized during 2021, 2020, and 2019 were not significant.

(l) Common Equity—We do not have any restrictions imposed on us that affect our ability to pay dividends to the sole holder of our common stock, Integrys.

(m) Leases—We recognize a right of use asset and lease liability for operating and finance leases with a term of greater than one year. At December 31, 2021 and 2020, we had not recorded any right of use assets and lease liabilities on our balance sheets.

As of March 30, 2022, we have not entered into any material leases that have not yet commenced.

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.

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

Investment tax credits associated with regulated operations are deferred and amortized over the life of the assets. We are included in WEC Energy Group's consolidated federal and state income tax returns. In accordance with our tax allocation agreement with WEC Energy Group, we are allocated income tax payments and refunds based upon the benefit for loss method, where attributes are realized when WEC Energy Group is able to realize them. See Note 11, Income Taxes, for more information.

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

(o) 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 12, Fair Value Measurements, for more information.

(p) 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 MPSC.

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 MPSC 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 13, Derivative Instruments, for more information.

(q) 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 MPSC allows recovery in rates for the net periodic benefit cost calculated under GAAP. See Note 14, Employee Benefits, for more information.

(r) 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.

(s) 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 15, 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 MPSC'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.

(t) 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. As a result, we did not have any significant

concentrations of credit risk at December 31, 2021. In addition, there were no customers that accounted for more than 10% of our revenues for the year ended December 31, 2021.

(u) Subsequent Events—Subsequent events were evaluated for potential recognition or disclosure through March 30, 2022, 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 MPSC. 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 related party transactions for the years ended December 31:

(in millions)	2021	2020	2019
Transactions with WBS			
Charges to WBS for services and other items [1]	**$ 1.2**	$ 1.6	$ 2.8
Charges from WBS for services and other items [1]	**9.6** [3]	9.2	11.4
Transactions with Parent			
Interest expense on short-term debt [2]	**—**	0.1	0.7

[1] Includes amounts charged 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. Services provided by any regulated subsidiary to another regulated subsidiary or WBS are priced at cost.

[2] See Note 9, Short-Term Debt to Parent, for additional information on our short-term borrowing from Integrys.

[3] Includes $1.2 million for the transfer of certain software assets to us.

NOTE 3—OPERATING REVENUES

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

Disaggregation of Operating Revenues

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

	Year Ended December 31		
(in millions)	2021	2020	2019
Michigan Gas Utilities Corporation			
Natural gas utility revenues from contracts with customers	**$ 150.6**	$ 127.2	$ 143.6
Other operating revenues [1]	**1.3**	1.0	0.9
Total operating revenues	**$ 151.9**	$ 128.2	$ 144.5

[1] Other operating revenues consist primarily of late payment charges.

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)	**2021**	**2020**	**2019**
Residential	**$ 86.4**	$ 76.5	$ 86.4
Commercial and industrial	**33.0**	30.4	35.4
Total retail revenues	**119.4**	106.9	121.8
Transportation	**20.3**	21.0	19.6
Other utility revenues [(1)]	**10.9**	(0.7)	2.2
Total natural gas utility operating revenues	**$ 150.6**	$ 127.2	$ 143.6

(1) Includes the revenues subject to our purchased gas recovery mechanism. As these amounts are billed to customers, they are reflected in retail revenues with an offsetting decrease in other utility revenues. We incurred higher natural gas costs throughout 2021, compared with 2020, as a result of an increase in the price of natural gas.

NOTE 4—CREDIT LOSSES

The table below shows our gross third-party receivable balances and related allowance for credit losses.

(in millions)	**December 31, 2021**	**December 31, 2020**
Accounts receivable and unbilled revenues	**$ 36.0**	$ 30.5
Allowance for credit losses	**4.7**	2.9
Accounts receivable and unbilled revenues, net	**$ 31.3**	$ 27.6
Total accounts receivable, net – past due greater than 90 days	**$ 2.0**	$ 1.8

A rollforward of the allowance for credit losses is included below:

	Year Ended December 31	
(in millions)	**2021**	**2020**
Balance at December 31	$ 2.9	$ 1.6
Provision for credit losses	**2.5**	2.2
Write-offs charged against the allowance	**(1.2)**	(1.5)
Recoveries of amounts previously written off	**0.5**	0.6
Balance at December 31	**$ 4.7**	$ 2.9

The increase in the allowance for credit losses at December 31, 2021, compared to December 31, 2020, was driven by higher past due accounts receivable balances, primarily related to our residential customers, associated with the COVID-19 pandemic. Although our accounts receivable balances in arrears increased, we did begin to see improvement in the second half of the year as we were allowed to resume our normal collection practices in August 2021. Higher year-over-year natural gas prices drove an increase in gross accounts receivable balances, also contributing to the increase in our allowance for credit losses. See Note 17, Regulatory Environment, for more information.

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 received, we did not disconnect any of our residential customers during the year ended December 31, 2020.

NOTE 5—REGULATORY ASSETS AND LIABILITIES

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

(in millions)	2021	2020	See Note
Regulatory assets [1] [2]			
Environmental remediation costs [3]	**$ 21.9**	$ 21.8	15
Pension and OPEB costs [4]	**13.7**	20.1	14
Energy costs recoverable through rate adjustments	**11.8**	0.7	1(d)
Depreciation and interest expense related to capital investment [5]	**5.0**	—	17
Income tax related items	**2.0**	2.1	11
Other, net	**2.4**	3.0	
Total regulatory assets	**$ 56.8**	$ 47.7	
Balance sheet presentation			
Amounts recoverable from customers	**$ 11.8**	$ 1.0	
Regulatory assets	**45.0**	46.7	
Total regulatory assets	**$ 56.8**	$ 47.7	

[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, 2021, we had $10.7 million of regulatory assets not earning a return. The regulatory assets not earning a return primarily relate to depreciation and interest expense related to capital investment, certain environmental remediation costs, and certain income tax related items. 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, 2021, we had made cash expenditures of $3.9 million related to these environmental remediation costs. The remaining $18.0 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.

[5] As approved by the MPSC, we deferred $5.0 million of depreciation and interest expense in 2021 related to capital investments made since our last rate case. See Note 17, Regulatory Environment, for more information.

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

(in millions)	2021	2020	See Note
Regulatory liabilities			
Removal costs [1]	**$ 41.7**	$ 37.9	
Income tax related items	**25.4**	26.6	11
Pension and OPEB benefits [2]	**4.9**	5.0	14
Derivatives	**2.7**	0.1	1(p)
Total regulatory liabilities	**$ 74.7**	$ 69.6	

[1] 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.

[2] 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.

NOTE 6—PROPERTY, PLANT, AND EQUIPMENT

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

(in millions)	2021	2020
Natural gas – distribution, storage, and transmission	**$ 504.3**	$ 478.9
Other utility property, plant, and equipment	**69.2**	62.9
Less: Accumulated depreciation	**202.7**	193.1
Net	**370.8**	348.7
Construction work in progress	**11.4**	9.0
Total property, plant, and equipment	**$ 382.2**	$ 357.7

NOTE 7—ASSET RETIREMENT OBLIGATIONS

We have recorded AROs primarily for the removal of asbestos-coated natural gas distribution mains and asbestos abatement at office buildings and service centers. 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 MPSC. On our balance sheets, AROs are recorded within other long-term liabilities.

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

(in millions)	2021	2020	2019
Balance as of January 1	**$ 2.2**	$ 2.1	$ 2.1
Accretion	**0.2**	0.1	0.1
Liabilities settled	**—**	—	(0.1)
Balance as of December 31	**$ 2.4**	$ 2.2	$ 2.1

NOTE 8—GOODWILL AND OTHER INTANGIBLE ASSET

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired. We had no changes to the carrying amount of goodwill during the years ended December 31, 2021 and 2020.

(in millions)	Gross Carrying Amount	Accumulated Impairment Losses	Net Carrying Amount
Goodwill	**$ 122.7**	**$ (88.2)**	**$ 34.5**

We completed our annual goodwill impairment test as of July 1, 2021. No impairment resulted from this test.

Intangible Asset

At December 31, 2021 and 2020, we had a $5.2 million indefinite-lived intangible asset related to our trade name obtained through an acquisition, which is included in other long-term assets on our balance sheets. We had no changes to the carrying amount of this intangible asset during the years ended December 31, 2021 and 2020.

NOTE 9—SHORT-TERM DEBT TO PARENT

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

(in millions, except for percentages)	2021	2020
Short-term debt to parent:		
Amount outstanding at December 31	**$ 18.8**	$ 17.1
Weighted-average interest rate on amounts outstanding at December 31	**0.35%**	0.25%

Our average amount of short-term borrowings based on daily outstanding balances during 2021, was $9.1 million with a weighted-average interest rate during the period of 0.21%.

(in millions)	December 31, 2021
Revolving short-term notes payable to parent	**$ 50.0**
Less:	
Short-term debt to parent outstanding	**18.8**
Available capacity under existing agreement	**$ 31.2**

Our short-term borrowing capacity with Integrys is $50.0 million. Short-term borrowings bear interest computed at the average stated interest rate payable on commercial paper issued by WEC Energy Group. Short-term debt is callable by Integrys at any time.

NOTE 10—LONG-TERM DEBT

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

(in millions)			2021	2020
Long-term debt	**Interest Rate**	**Year Due**		
Senior Notes (unsecured)	2.69%	2025	**$ 60.0**	$ 60.0
	3.11%	2027	**30.0**	30.0
	3.41%	2032	**30.0**	30.0
	4.01%	2047	**30.0**	30.0
Total			**150.0**	150.0
Unamortized debt issuance costs			**(0.8)**	(0.9)
Total long-term debt			**$ 149.2**	$ 149.1

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, 2021:

(in millions)	Payments
2022	$ —
2023	—
2024	—
2025	60.0
2026	—
Thereafter	90.0
Total	**$ 150.0**

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, 2021, we were in compliance with our covenants related to our long-term debt obligations.

NOTE 11—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)	2021	2020	2019
Current tax benefit	**$ (2.7)**	$ (6.1)	$ (0.1)
Deferred income taxes, net	**6.4**	9.7	4.5
Total income tax expense	**$ 3.7**	$ 3.6	$ 4.4

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:

	2021		2020		2019	
(in millions)	Amount	Effective Tax Rate	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Statutory federal income tax	**$ 3.8**	**21.0 %**	$ 3.6	21.0 %	$ 4.8	21.0 %
State income taxes net of federal tax benefit	**1.0**	**5.5 %**	0.8	4.6 %	1.2	5.2 %
Federal excess deferred tax amortization [(1)]	**(1.1)**	**(6.1)%**	(0.8)	(4.8)%	(1.6)	(6.8)%
Total income tax expense	**$ 3.7**	**20.4 %**	$ 3.6	20.8 %	$ 4.4	19.4 %

(1) The Tax Cuts and Jobs Act of 2017 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 17, 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)	2021	2020
Deferred tax assets		
Tax gross up – regulatory items	**$ 6.0**	$ 6.4
Other	**2.7**	2.1
Total deferred tax assets	**$ 8.7**	$ 8.5
Deferred tax liabilities		
Property-related	**$ 59.1**	$ 53.5
Employee benefits and compensation	**7.3**	7.2
Regulatory deferrals	**2.5**	2.8
Other	**3.1**	0.5
Total deferred tax liabilities	**72.0**	64.0
Deferred tax liability, net	**$ 63.3**	$ 55.5

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

At December 31, 2021 and 2020, we had no federal or state deferred tax assets related to tax benefit carryforwards.

Unrecognized Tax Benefits

We had no unrecognized tax benefits at December 31, 2021 and 2020.

We do not expect any unrecognized tax benefits to affect our effective tax rate in periods after December 31, 2021.

For the years ended December 31, 2021, 2020, and 2019, we recognized no interest expense or penalties related to unrecognized tax benefits in our income statements. At December 31, 2021 and 2020, we had no interest accrued and no penalties accrued related to unrecognized tax benefits on our balance sheets.

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

Our primary tax jurisdictions include federal and the state of Michigan. With a few exceptions, we are no longer subject to federal income tax examinations by the United States Internal Revenue Service for years prior to 2018. At December 31, 2021, we were subject to examination by the Michigan taxing authority for tax years 2017 through 2021.

NOTE 12—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, 2021			
(in millions)	Level 1	Level 2	Level 3	Total
Natural gas contracts				
Derivative assets	**$ 0.5**	**$ 2.1**	**$ —**	**$ 2.6**
Derivative liabilities	**0.2**	**0.1**	**—**	**0.3**

	December 31, 2020			
(in millions)	Level 1	Level 2	Level 3	Total
Natural gas contracts				
Derivative assets	$ —	$ 0.1	$ —	$ 0.1
Derivative liabilities	0.2	0.5	—	0.7

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

NOTE 13—DERIVATIVE INSTRUMENTS

None of our derivatives are designated as hedging instruments. Derivative assets and liabilities are included in the other current line items on our balance sheets. The following table shows our derivative assets and derivative liabilities.

	December 31, 2021		December 31, 2020	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Natural gas contracts - current	**$ 2.6**	**$ 0.3**	$ 0.1	$ 0.7

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

	December 31, 2021		December 31, 2020		December 31, 2019	
(in millions)	Volumes	Gains	Volumes	Losses	Volumes	Losses
Natural gas contracts	**4.0 Dth**	**$ 2.9**	4.0 Dth	$ (1.3)	3.8 Dth	$ (0.7)

At December 31, 2021 and 2020, we had posted cash collateral of $0.4 million and $0.6 million, respectively.

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

	December 31, 2021		December 31, 2020	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Gross amount recognized on the balance sheet	**$ 2.6**	**$ 0.3**	$ 0.1	$ 0.7
Gross amount not offset on the balance sheet	**(0.3)**	**(0.3)**	—	(0.1) [1]
Net amount	**$ 2.3**	**$ —**	$ 0.1	$ 0.6

[1] Includes cash collateral posted of $0.1 million.

NOTE 14—EMPLOYEE BENEFITS

Pension and Other Postretirement Employee Benefits

We have our own noncontributory, qualified pension plan. We also have our own unfunded, non-qualified retirement plan. In addition, we maintain an unfunded, non-qualified Supplemental Employee Retirement Plan.

We offer OPEB plans to employees, which are sponsored by Wisconsin Public Service Corporation. We are responsible for our share of the plan assets and obligations for all of these plans. Our balance sheets reflect only the liabilities associated with our past and current employees and our share of the plan assets. 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)	**2021**	**2020**	**2021**	**2020**
Benefit obligation	**$ 53.9**	$ 57.6	**$ 8.4**	$ 8.8
Fair value of plan assets	**66.5**	65.0	**16.3**	15.6
Funded status	**$ 12.6**	$ 7.4	**$ 7.9**	$ 6.8

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

	Pension Benefits		OPEB Benefits	
(in millions)	**2021**	**2020**	**2021**	**2020**
Employer contributions	**$ —**	$ —	**$ 0.1**	$ 0.1
Participant contributions	**—**	—	**0.1**	0.1
Benefit payments	**(3.4)**	(3.8)	**(0.7)**	(0.8)

In 2021 we had actuarial gains related to our pension obligations of $2.6 million and in 2020 we had actuarial losses of $3.7 million, both of which were primarily driven by changes in our discount rates. The discount rate for our pension benefits was 3.00%, 2.70%, and 3.40%, in 2021, 2020, and 2019, respectively.

The actuarial gains and losses related to our OPEB benefit obligations were not significant for 2021 or 2020.

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

	Pension Benefits		OPEB Benefits	
(in millions)	**2021**	**2020**	**2021**	**2020**
Pension and OPEB assets	**$ 13.0**	$ 7.8	**$ 9.3**	$ 8.3
Other long-term liabilities	**0.4**	0.4	**1.4**	1.5
Total net assets	**$ 12.6**	$ 7.4	**$ 7.9**	$ 6.8

The accumulated benefit obligation for the qualified pension plans was $51.0 million and $54.1 million at December 31, 2021 and 2020, respectively.

The following table shows information for pension plans with an accumulated benefit obligation in excess of plan assets. There were no plan assets related to these pension plans. Amounts presented are as of December 31:

(in millions)	**2021**	**2020**
Accumulated benefit obligation	**$ 0.4**	$ 0.4

The following table shows information for pension plans with a projected benefit obligation in excess of plan assets. There were no plan assets related to these pension plans. Amounts presented are as of December 31:

(in millions)	2021	2020
Projected benefit obligation	**$ 0.4**	$ 0.4

The following table shows information for OPEB plans with an accumulated benefit obligation in excess of plan assets. There were no plan assets related to these OPEB plans. Amounts presented are as of December 31:

(in millions)	2021	2020
Accumulated benefit obligation	**$ 1.4**	$ 1.5

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)	2021	2020	2021	2020
Net regulatory assets (liabilities)				
Net actuarial loss (gain)	**$ 10.5**	$ 15.9	**$ (0.5)**	$ 0.5
Prior service credits	**—**	—	**(1.2)**	(1.5)
Total	**$ 10.5**	$ 15.9	**$ (1.7)**	$ (1.0)

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)	2021	2020	2019	2021	2020	2019
Net periodic benefit cost (credit)	**$ 0.2**	$ 0.4	$ 0.5	**$ (0.3)**	$ (0.1)	$ 0.4

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	
	2021	2020	2021	2020
Discount rate	**3.00%**	2.70%	**2.91%**	2.58%
Rate of compensation increase	**4.00%**	4.00%	**N/A**	N/A
Assumed medical cost trend rate (Pre 65)	**N/A**	N/A	**5.70%**	5.85%
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	**5.60%**	5.70%
Ultimate trend rate (Post 65)	**N/A**	N/A	**5.00%**	5.00%
Year ultimate trend rate is reached (Post 65)	**N/A**	N/A	**2028**	2028

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

	Pension Benefits			OPEB Benefits		
	2021	2020	2019	2021	2020	2019
Discount rate	**2.70%**	3.40%	4.30%	**2.72%**	3.39%	4.24%
Expected return on assets	**7.00%**	7.00%	7.25%	**7.00%**	7.00%	7.25%
Rate of compensation increase	**4.00%**	4.00%	4.00%	**N/A**	N/A	N/A
Assumed medical cost trend rate (Pre 65)	**N/A**	N/A	N/A	**5.85%**	6.00%	6.25%
Ultimate trend rate (Pre 65)	**N/A**	N/A	N/A	**5.00%**	5.00%	5.00%
Year ultimate trend rate is reached (Pre 65)	**N/A**	N/A	N/A	**2028**	2028	2024
Assumed medical cost trend rate (Post 65)	**N/A**	N/A	N/A	**5.70%**	5.80%	5.90%
Ultimate trend rate (Post 65)	**N/A**	N/A	N/A	**5.00%**	5.00%	5.00%
Year ultimate trend rate is reached (Post 65)	**N/A**	N/A	N/A	**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 2022, the expected return on assets 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 trust target asset allocations are 45% equity investments, 45% fixed income investments, and 10% private equity and real estate investments. The OPEB trust has target asset allocations 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(o), 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, 2021							
	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	$ 9.6	$ —	$ —	$ 9.6	$ 2.2	$ —	$ —	$ 2.2
International equity	7.3	—	—	7.3	1.8	—	—	1.8
Fixed income securities: [1]								
United States bonds	—	12.8	—	12.8	2.6	2.5	—	5.1
International bonds	—	2.1	—	2.1	—	0.3	—	0.3
	$ 16.9	$ 14.9	$ —	$ 31.8	$ 6.6	$ 2.8	$ —	$ 9.4
Investments measured at net asset value				$ 34.7				$ 6.9
Total	$ 16.9	$ 14.9	$ —	$ 66.5	$ 6.6	$ 2.8	$ —	$ 16.3

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

	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	$ 9.9	$ —	$ —	$ 9.9	$ 2.3	$ —	$ —	$ 2.3
International equity	7.8	—	—	7.8	2.0	—	—	2.0
Fixed income securities: [1]								
United States bonds	—	13.2	—	13.2	2.3	2.4	—	4.7
International bonds	—	2.1	—	2.1	—	0.2	—	0.2
	$ 17.7	$ 15.3	$ —	$ 33.0	$ 6.6	$ 2.6	$ —	$ 9.2
Investments measured at net asset value				$ 32.0				$ 6.4
Total	$ 17.7	$ 15.3	$ —	$ 65.0	$ 6.6	$ 2.6	$ —	$ 15.6

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

Cash Flows

We expect to contribute $0.1 million to the OPEB plans in 2022, dependent upon various factors affecting us, including our liquidity position and possible tax law changes. We do not expect to make any contributions to the pension plans in 2022.

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
2022	$ 3.1	$ 0.8
2023	2.9	0.8
2024	3.0	0.8
2025	3.1	0.8
2026	3.0	0.7
2027-2031	15.3	3.2

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. Total costs incurred under all of these plans were $1.0 million in each of 2021, 2020, and 2019.

NOTE 15—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, 2021.

			Payments Due By Period					
(in millions)	Date Contracts Extend Through	Total Amounts Committed	2022	2023	2024	2025	2026	Later Years
Natural gas supply and transportation	2028	$ 86.9	$ 16.1	$ 15.1	$ 14.1	$ 11.7	$ 12.0	$ 17.9

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, biodiversity including threatened and endangered species, and cultural resources associated with utility construction projects;
- the remediation of former manufactured gas plant sites;
- the reduction of methane emissions across our natural gas distribution system by upgrading infrastructure; and
- the reporting of GHG emissions to comply with federal clean air rules.

Air Quality

Climate Change

WEC Energy Group continues to reduce methane emissions by improving its natural gas distribution system. WEC Energy Group set a target across its natural gas distribution operations to achieve net-zero methane emissions by 2030. WEC Energy Group plans to achieve its net-zero goal through an effort that includes both continuous operational improvements and equipment upgrades, as well as the use of renewable natural gas throughout its utility systems.

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 1.6 million metric tonnes to the EPA for 2021.

Water Quality

Waters of the United States

In December 2021, the EPA and the United States Army Corps of Engineers together released a proposed rule to repeal the April 2020 Navigable Waters Protection Rule that defined WOTUS. The purpose of this proposed rule will be to restore regulations defining WOTUS that were in place prior to 2015 and to update certain provisions to be consistent with relevant Supreme Court decisions. The pre-2015 approach involves applying factors established through case law and agency precedents to determine whether a wetland or surface drainage feature is subject to federal jurisdiction. In January 2022, the Supreme Court granted certiorari in a case to evaluate the proper test for determining whether wetlands are WOTUS. At this point, our projects requiring federal permits are moving ahead, but we are monitoring to better understand potential future impacts.

Land Quality

Manufactured Gas Plant Remediation

We have identified sites at which we or a predecessor company owned or operated a manufactured gas plant or stored manufactured gas. We have also identified other sites that may have been impacted by historical manufactured gas plant activities. We are responsible for the environmental remediation of these sites. We are also working with the Michigan Department of

Environment, Great Lakes, and Energy on our investigation and remediation planning. These sites are at various stages of investigation, monitoring, remediation, and closure.

The future costs for detailed site investigation, future remediation, and monitoring are dependent upon several variables including, among other things, the extent of remediation, changes in technology, and changes in regulation. Historically, the MPSC 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)	2021	2020
Regulatory assets	**$ 21.9**	$ 21.8
Reserves for future environmental remediation	**18.0**	17.4

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 impact on our financial condition or results of operations.

NOTE 16—SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31		
(in millions)	2021	2020	2019
Cash paid for interest, net of amount capitalized	**$ 4.8**	$ 4.3	$ 3.7
Cash paid (received) for income taxes, net	**(11.4)**	0.2	0.3
Significant non-cash investing and financing transactions:			
Accounts receivable related to construction costs	**(1.0)**	(0.5)	(0.6)

NOTE 17—REGULATORY ENVIRONMENT

Coronavirus Disease – 2019

The global outbreak of COVID-19 was declared a pandemic by the World Health Organization and the Centers for Disease Control and Prevention. COVID-19 has spread globally, including throughout the United States and, in turn, our service territory. In response to the COVID-19 pandemic, Michigan declared a public health emergency and issued a shelter-in-place order, which has since expired.

In April 2020, the MPSC issued a written order requiring Michigan utilities, including us, to put certain minimum protections in place during the COVID-19 pandemic. The minimum protections required by the order included the suspension of disconnections, late payment fees, deposits, and reconnection fees for certain vulnerable customers. In addition, utilities were required to extend access to and enhance the flexibility of payment plans to customers financially impacted by COVID-19.

As required in the MPSC order, we filed a response with the MPSC in April 2020 affirming the actions being taken to protect customers. These actions provided protections to more customers than required by the MPSC order, and included suspending disconnections for all residential customers, waiving deposit requirements for new service, suspending the assessment of late fees for customers that entered into payment plans, and enhancing payment plan options for all customers.

The April 2020 MPSC order also authorized all Michigan utilities to defer, for potential future recovery, uncollectible expense incurred on or after March 24, 2020 that exceeded the amounts being recovered in rates. In July 2020, the MPSC issued an order denying Michigan utilities' ability to defer additional COVID-19 related expenses and certain foregone revenues. The MPSC indicated that utilities could still seek recovery of these costs and foregone revenues by filing additional information on the specifics of their request. We filed comments with the MPSC in November 2020 indicating we had not experienced any material additional COVID-19

related expenses or foregone revenues, but will continue to monitor them and will notify the MPSC if they become material. At December 31, 2021, we had not recorded any deferrals related to the COVID-19 pandemic.

In June 2021, we worked with MPSC staff to develop a transition plan to resume collections and disconnections, while continuing to assist customers in managing their arrears balances. In accordance with the agreed upon transition plan, we resumed pre-pandemic collection activities and residential service disconnections on August 2, 2021. Flexible deferred payment arrangements will continue to be available to customers.

2021 Rate Order

In February 2020, we provided notification to the MPSC of our intent to file an application requesting an increase to our natural gas rates to be effective January 1, 2021. However, we decided that we would delay our filing of the rate case as a result of the COVID-19 pandemic.

In May 2020, we filed an application with the MPSC requesting approval to defer $5.0 million of depreciation and interest expense during 2021 related to capital investments we made since our last rate case. In July 2020, the MPSC issued a written order approving our request. The deferral of these costs helped to mitigate the impacts from delaying the filing of the rate case.

In March 2021, we filed our request with the MPSC to increase our natural gas rates. In July 2021, we filed with the MPSC, a settlement agreement we reached with certain intervenors, which the MPSC approved in a written order in September 2021. The order authorizes a rate increase of $9.3 million (6.35%) and reflects a 9.85% return on equity and a common equity component average of 51.5%. The natural gas rate increase was primarily driven by our significant investment in capital infrastructure since our last rate review that resulted in revised base rates effective January 1, 2016. The order also allows us to implement a rider for our Main Replacement Program that will support recovery of planned capital investment related to pipeline replacements to maintain system safety and reliability between 2023 and 2027, without having to file a rate case. We expect approximately $31.7 million of costs to be recovered through this rider. All costs recovered through the rider are subject to a prudence review by the MPSC. The new rates became effective January 1, 2022.

NOTE 18—NEW ACCOUNTING PRONOUNCEMENTS

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.

Government Assistance

In November 2021, the FASB issued ASU No. 2021-10, Government Assistance (Topic 832). The amendments in this update increase the transparency surrounding government assistance by requiring disclosure of 1) the types of assistance received, 2) an entity's accounting for the assistance, and 3) the effect of the assistance on the entity's financial statements. The update is effective for annual periods beginning after December 15, 2021. We plan to adopt this pronouncement for our fiscal year ending on December 31, 2022, and we are currently evaluating the impact this guidance may have on our financial statements and related disclosures.