NORTH SHORE GAS COMPANY

ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2021

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TABLE OF CONTENTS

		Page
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION		1
BUSINESS		
A.	INTRODUCTION	3
B.	NATURAL GAS UTILITY OPERATIONS	3
C.	REGULATION	5
D.	ENVIRONMENTAL COMPLIANCE	6
E.	HUMAN CAPITAL	6
RISK FACTORS		8
PROPERTIES		17
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS		18
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK		32
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA		
A.	Independent Auditor's Report	33
B.	Income Statements	35
C.	Balance Sheets	36
D.	Statements of Cash Flows	37
E.	Statements of Equity	38
F.	Notes to Financial Statements	39

		Page
Note 1	Summary of Significant Accounting Policies	39
Note 2	Related Parties	44
Note 3	Operating Revenues	45
Note 4	Credit Losses	46
Note 5	Regulatory Assets and Liabilities	47
Note 6	Property, Plant, and Equipment	48
Note 7	Asset Retirement Obligations	48
Note 8	Common Equity	48
Note 9	Preferred Stock	48
Note 10	Short-Term Debt to Related Parties	49
Note 11	Long-Term Debt	49
Note 12	Income Taxes	50
Note 13	Fair Value Measurements	52
Note 14	Derivative Instruments	52
Note 15	Employee Benefits	53
Note 16	Segment Information	56
Note 17	Commitments and Contingencies	56
Note 18	Supplemental Cash Flow Information	58
Note 19	Regulatory Environment	58
Note 20	New Accounting Pronouncements	60

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
WOTUS	Waters of the United States

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 of WEC Energy Group
COVID-19	Coronavirus Disease – 2019
ESG Progress Plan	WEC Energy Group's Capital Investment Plan for Efficiency, Sustainability, and Growth for 2021-2025
Executive Order 13990	Executive Order 13990 of January 20, 2021 - Protecting Public Health and the Environment and Restoring Science To Tackle the Climate Crisis
GCRM	Gas Cost Recovery Mechanism
ITC	Investment Tax Credit
LIBOR	London Interbank Offered Rate
Omnibus Stock Incentive Plan	WEC Energy Group Omnibus Stock Incentive Plan, Amended and Restated, Effective as of May 6, 2021
RNG	Renewable Natural Gas
ROE	Return on Equity
SPC	COVID-19 Special Purpose Charge
Supreme Court	United States Supreme Court

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, the ESG Progress Plan, 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, varying, adverse, or unusually severe weather conditions, including those caused by climate change, 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 those that affect our ability to use ITCs;

- Federal and state legislative and regulatory changes relating to the environment, including climate change and other environmental regulations, 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;

- The risk of delays and shortages, and increased costs of equipment, materials, or other resources that are critical to our business operations and corporate strategy, as a result of supply chain disruptions, future inflation, and other factors;

- 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, technology advances, and the ability to execute WEC Energy Group's capital plan;

- The financial and operational feasibility of taking more aggressive action to further reduce GHG emissions in order to limit future global temperature increases;

- The risks associated with inflation and changing commodity prices, including natural gas;

- The availability and cost of sources of natural gas, due to high demand, shortages, transportation problems, nonperformance by natural gas suppliers under existing natural gas supply contracts, or other developments;

- Changes in WEC Energy Group's and PGL's 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 fuel 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 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 wholesale distributors, education, non-profits, restaurants, and governmental. 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, 2021, 2020, and 2019, 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)	**2021**	**2020**	**2019**
Customers – end of year			
Residential	**140.6**	139.4	137.4
Commercial and industrial	**10.2**	10.2	10.2
Transport	**13.3**	14.1	15.9
Total customers	**164.1**	163.7	163.5

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 4.4 million therms for the 2021 through 2022 heating season. Our peak daily send-out during 2021 was 3.2 million therms on February 14, 2021.

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.

Environmental Goals

WEC Energy Group continues to reduce methane emissions by improving its natural gas distribution systems. WEC Energy Group set a target across its natural gas distribution operations to achieve net-zero methane emissions by the end of 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 RNG throughout its utility systems.

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. The table below reflects our approved ROE and capital structure during 2021.

Regulated Retail Natural Gas Rates	Authorized ROE	Average Common Equity Component
Prior to September 15, 2021	9.05%	50.48%
Effective September 15, 2021 [1]	9.67%	51.58%

[1] See Note 19, Regulatory Environment, for more information on our most recent rate order.

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 2021 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 our service territory. 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 – Cash 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, 2021, we had 157 employees, including 111 that are represented under union agreements. 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. Our compensation package also includes a 401(k) savings plan with an employer match, an annual incentive plan based on meeting company goals, healthcare and insurance benefits, vacation and paid time off days, as well as other benefits.

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, 2021, women represented approximately 11% of our workforce, and minorities

represented approximately 32% of our workforce. WEC Energy Group has a number of initiatives that promote diverse workforce contributions, educate employees about diversity and inclusion, and ensure its companies, including us, are attractive employers for persons of diverse backgrounds. These initiatives include nine 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) lost-time incidents and days away, restricted or transferred (DART) metrics, 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.

In response to the COVID-19 pandemic, we have 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, permits and other 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 and toxic substances and solid wastes and soils. 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 or reviewed by agencies under the Biden Administration's Executive Order 13990, which creates additional uncertainty. As a result of these challenges and reviews, existing environmental laws and regulations may be revised or new laws or regulations may be adopted at the federal, state, or local level.

We incur significant capital and operating resources to comply with these environmental laws, regulations, and requirements, including costs associated with operating restrictions on our facilities, 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, occurs frequently throughout the United States. This litigation has included claims for damages alleged to have been caused by GHG and other emissions and exposure to regulated substances and/or requests for injunctive relief in connection with such matters. 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 material 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 since climate change is one of President Biden's 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. In addition, there is increasing activism from other stakeholders, including institutional investors and other sources of financing, to accelerate the transition to lower GHG emissions.

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, or other necessary changes to WEC Energy Group's ESG Progress Plan, may cause our environmental compliance spending to differ materially from the amounts currently estimated. These regulations, as well as changes in the fuel markets and advances in technology, 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 system 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 system, 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 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. Through its ESG Progress Plan, WEC Energy Group continues to reduce methane emissions by improving its natural gas distribution systems. 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 RNG throughout its natural gas utility systems. However, the ability to achieve such goals depends on many external factors, including the development of relevant energy technologies and the ability to execute our capital plan. 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.

Tax legislation and regulations can adversely affect, among other things, our financial condition, results of operations, cash flows, and liquidity. Future changes to corporate tax rates or policies, including under the Biden 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 has adversely affected, and could continue to adversely affect, our business functions, financial condition, liquidity, and results of operations.

The COVID-19 pandemic has adversely impacted the economy and financial markets, which has adversely affected our business. There are still questions regarding the extent and duration of the COVID-19 pandemic itself. Orders limiting the capacity of various businesses could be adopted in the future depending on how the virus continues to mutate and spread. The resulting effects of any future orders could have a variety of adverse impacts on us, including a decrease in revenues, increased bad debt expense; increases in past due accounts receivable balances, and access to the capital markets at unreasonable terms or rates.

The COVID-19 pandemic and any additional related government responses could impair our ability to develop, construct, and operate facilities. Risks include extended disruptions to supply chains and inflation, resulting in increased costs for labor, materials, and services, which could adversely impact WEC Energy Group's corporate strategy, which includes us. We may also be adversely impacted by reduced labor availability and productivity as a result of COVID-19 infections, although we have taken precautions with regard to employee hygiene and facility cleanliness, imposed travel limitations on our employees, implemented additional protocols for our field employees who travel to customer premises, provided additional employee benefits, and implemented remote work policies where appropriate. We could also be impacted by possible labor disruptions, employee attrition, and a reduced ability to replace departing employees as a result of employees who leave or forego employment to avoid surcharges imposed on our medical plan or other required precautionary measures.

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 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 as a result of climate change or otherwise (i.e., storms, tornadoes, floods, droughts, etc.); catastrophic events (i.e., fires, earthquakes, explosions, 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.

Our operations are subject to the effects of global climate change.

A changing climate creates uncertainty and could result in broad changes, both physical and financial in nature, to our service territory.

If climate changes occur that result in extreme temperatures in our service territory, our financial results could be adversely impacted by lower natural gas usage and higher natural gas costs. An extreme weather event could result in damage to operating equipment, which could result in us foregoing sales of natural gas and lost revenues. 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 significantly higher than our normal winter weather expectations. Although we have regulatory mechanisms in place for recovering all prudently incurred gas costs, our regulators could disallow recovery or order the refund of any costs determined to be imprudent.

In addition, our operations could be adversely affected and our facilities placed at greater risk of damage should changes in global climate produce, among other possible conditions, unusual variations in temperature and weather patterns, which could result in more intense, frequent and extreme weather events, such as wind storms, floods, tornadoes, snow and ice storms, or abnormal levels of precipitation. Any of these events could lead to substantial financial losses including increased maintenance costs or unanticipated capital expenditures. The cost of storm restoration efforts may also not be fully recoverable through the regulatory process.

Our corporate strategy may be impacted by policy and legal, technology, market, and reputational risks and opportunities that are associated with the transition to lower GHG emissions. In addition, changes in policy to combat climate change, including mitigation and adaptation efforts, and technology advancement, each of which can also accelerate the implications of a transition to lower emissions, may materially adversely impact our results of operations and cash flows through significant capital expenditures and investments in renewable generation.

Our operations and corporate strategy may be adversely affected by supply chain disruptions and inflation.

Our business is dependent on the global supply chain to ensure that equipment, materials, and other resources are available to both expand and maintain services in a safe and reliable manner. Current domestic and global supply chain disruptions are delaying the delivery, and in some cases resulting in shortages of, materials, equipment, and other resources that are critical to our business operations. Failure to eliminate or manage the constraints in the supply chain may eventually impact the availability of items that are necessary to support normal operations as well as materials that are required to implement our corporate strategy for continued infrastructure growth.

Moreover, prices of equipment, materials, and other resources have increased recently as a result of these supply chain disruptions and may continue to increase in the future, as a result of inflation. Although inflation in the United States has been relatively low in recent years, during 2021 the United States economy began experiencing a significant inflationary effect. While we cannot predict any future trends in the rate of inflation, the global COVID-19 pandemic and other factors have brought uncertainty to the near-term economic outlook. Increases in inflation raise our costs for labor, materials, and services, and failure to secure these resources on economically acceptable terms, as well as any regulatory delay in adjusting rates to account for increased costs, may adversely impact our financial condition and results of operations.

We are actively involved with multiple 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; rising interest rates; the impact 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, and will likely continue to be subject to such attempted attacks; however, these prior 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. Attacks may come through ransomware, software updates or patches, or firmware that hackers can manipulate. 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. 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.

Threats to our systems and operations continue to emerge as new ways to compromise components into our systems or networks are developed. Any operational disruption or environmental repercussions caused by on-going or future 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.

Advances in technology, and legislation or regulations supporting such technology, may impact the demand for natural gas.

We cannot predict the effect that development of alternative energy sources or new technology may have on our natural gas operations, including whether subsidies of alternative energy sources by local, state, and federal governments might be expanded, or what impact this might have on the supply of or the demand for natural gas.

If these technologies become cost competitive and achieve economies of scale, our market share could be eroded, and the value of our natural gas distribution systems could be reduced. Advances in technology, or changes in legislation or regulations, could also change the channels through which our customers purchase or use natural gas, which could reduce our sales and revenues or increase our expenses.

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. For example, we are currently subject to workforce trends occurring in the United States triggered by the decisions of employees to leave the workforce and/or their employer at higher rates as compared with prior years. This high demand for replacement employees as a result of this trend may lead to higher labor costs than currently budgeted for and adversely affect our results of operations. 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 on competitive terms and rates.

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. Interest rates may increase in the future, which may affect our results of operations and the ability to earn our approved rates of return. Rising interest rates may also impair our ability to cost-effectively finance capital expenditures and to refinance maturing debt.

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 or banks;
- War or the threat of war;
- The overall health and view of the utility and financial institution industries; and
- 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 reform, which is expected to cause LIBOR to cease to exist after June 2023. Various alternative reference rates are being evaluated by market participants, with the secured overnight financing rate being the most widely adopted alternative to date. We cannot predict the consequences and timing of the development of alternative reference rates, or the performance of LIBOR as it is being phased out through June 2023. 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 WEC Energy Group's or PGL's 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 WEC Energy Group's and PGL's credit ratings, including, but not limited to, capital structure, regulatory environment, the ability to cover liquidity requirements, and other requirements for capital. WEC Energy Group or PGL could experience a downgrade in ratings if the rating agencies determine that the level of business or financial risk of WEC Energy Group, PGL, or that of 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 has increased, and may continue to 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 and/or other government action 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 higher 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 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, 2021, the majority of our natural gas properties were located in Illinois and consisted of the following:

- Approximately 2,300 miles of natural gas distribution mains,
- Approximately 110 miles of natural gas transmission mains located in Illinois and Wisconsin,
- Approximately 145,500 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, Nicor Gas, and Northern Border Pipeline Company.

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.

CORPORATE DEVELOPMENTS

Introduction

We are a natural gas utility and an indirect wholly owned subsidiary of WEC Energy Group. We purchase, 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 continues to reduce methane emissions by improving its natural gas distribution system, which includes our distribution network. WEC Energy Group set a target across its natural gas distribution operations to achieve net-zero methane emissions by the end of 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 RNG throughout its natural gas utility systems.

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 and stable cash flows.

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

Safety is one of our core values and a critical component of our culture. We are committed to keeping our employees and the public safe through a comprehensive corporate safety program that focuses on employee engagement and elimination of at-risk behaviors.

Under our "Target Zero" mission, we have an ultimate goal of zero incidents, accidents, and injuries. Management and union leadership work together to reinforce the Target Zero culture. We set annual goals for safety results as well as measurable leading indicators, in order to raise awareness of at-risk behaviors and situations and guide injury-prevention activities. All employees are encouraged to report unsafe conditions or incidents that could have led to an injury. Injuries and tasks with high levels of risk are assessed, and findings and best practices are shared across the WEC Energy Group companies.

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, 2021 with the year ended December 31, 2020. For a similar discussion that compares our results for the year ended December 31, 2020 with the year ended December 31, 2019, see Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations in our 2020 Annual Report.

Earnings

Our earnings for the year ended December 31, 2021 were $17.5 million, compared with $16.7 million for the year ended December 31, 2020. See below for additional information on the $0.8 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) 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, 2021 and 2020 was $29.1 million and $28.5 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)	**2021**	**2020**	**B (W)**
Operating revenues	**$ 209.6**	$ 170.2	$ 39.4
Cost of natural gas	**111.1**	75.6	(35.5)
Total natural gas margins	**98.5**	94.6	3.9
Other operation and maintenance	**46.1**	45.2	(0.9)
Depreciation and amortization	**20.3**	18.5	(1.8)
Property and revenue taxes	**3.0**	2.4	(0.6)
Operating income	**29.1**	28.5	0.6
Other expense, net	**0.1**	0.2	0.1
Interest expense	**5.6**	5.7	0.1
Income before income taxes	**23.4**	22.6	0.8
Income tax expense	**5.9**	5.9	—
Net income	**$ 17.5**	$ 16.7	$ 0.8

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

	Year Ended December 31		
(in millions)	**2021**	**2020**	**B (W)**
Operation and maintenance not included in the line items below	**$ 36.8**	$ 37.5	$ 0.7
Riders [(1)]	**9.5**	8.0	(1.5)
Regulatory amortizations [(1)]	**(0.2)**	(0.4)	(0.2)
Other	**—**	0.1	0.1
Total other operation and maintenance	**$ 46.1**	$ 45.2	$ (0.9)

[(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	**2021**	**2020**	**B (W)**
Customer Class			
Residential	**171.9**	175.2	(3.3)
Commercial and industrial	**38.2**	39.1	(0.9)
Total retail	**210.1**	214.3	(4.2)
Transportation	**129.9**	132.2	(2.3)
Total sales in therms	**340.0**	346.5	(6.5)

	Degree Days		
Weather [(1)]	**2021**	**2020**	**B (W)**
Heating (6,071 Normal)	**5,468**	5,597	(2.3)%

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

Natural Gas Revenues

Natural gas revenues increased $39.4 million during 2021, compared with 2020. Because prudently incurred natural gas costs are passed through to our customers in current rates, the changes are offset by comparable changes in revenues. The average per-unit

cost of natural gas sold increased 51.3% during 2021, compared with 2020. The remaining drivers of changes in natural gas revenues are described in the discussion of margins below.

Natural Gas Utility Margins

Natural gas utility segment margins, excluding the $1.5 million impact of the riders referenced in the table above, increased $2.4 million during 2021, compared with 2020. The increase in margins was primarily driven by:

- A $1.9 million increase related to the impact of our rate order approved by the ICC, effective September 15, 2021. See Note 19, Regulatory Environment, for more information.

- A $0.2 million increase in the invested capital tax adjustment rider related to higher plant placed in service during 2021 compared with 2020, which did not impact net income as it was offset in property and revenue taxes. The invested capital tax adjustment rider is a mechanism that allows us to recover (or refund) the difference between the cost of invested capital tax incurred and the amount collected through base rates.

- A $0.2 million increase in late payment charges driven by the reinstatement of late payment charges during 2021 that were suspended by the ICC in 2020 due to the COVID-19 pandemic. See Note 19, Regulatory Environment, for more information.

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 increased $1.8 million, net of the impact of the riders referenced in the table above, during 2021, compared with 2020. The significant factors impacting the increase in operating expenses were:

- A $1.8 million increase in depreciation expense, primarily driven by our continued upgrades made to our natural gas distribution system.

- A $0.6 million increase in property and revenue taxes driven by an increase in the invested capital tax related to higher plant placed in service during 2021 , compared with 2020. This increase was offset in natural gas utility margins.

- A $0.4 million increase in natural gas distribution and maintenance costs, primarily related to maintaining the natural gas infrastructure.

- A $0.4 million increase in costs related to certain regulatory assets resulting from decisions included in our September 2021 rate order.

- A $0.3 million increase in customer service expense, primarily driven by higher call volumes and metering costs.

These increases in operating expenses were partially offset by a $2.0 million decrease in benefit costs, primarily due to lower costs related to pension, stock-based compensation, and severance.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We expect to maintain adequate liquidity to meet our cash requirements for the operation of our businesses and implementation of our corporate strategy through the internal generation of cash from operations and access to the capital markets.

The following discussion and analysis of our Liquidity and Capital Resources includes comparisons of our cash flows for the year ended December 31, 2021 with the year ended December 31, 2020. For a similar discussion that compares our cash flows for the year ended December 31, 2020 with the year ended December 31, 2019, see Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources in our 2020 Annual Report.

Cash Flows

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

(in millions)	2021	2020	Change in 2021 Over 2020
Cash provided by (used in):			
Operating activities	**$ 19.3**	$ 27.8	$ (8.5)
Investing activities	**(34.3)**	(42.6)	8.3
Financing activities	**14.9**	15.0	(0.1)

Operating Activities

Net cash provided by operating activities decreased $8.5 million during 2021, compared with 2020, driven by:

- A decrease in cash from $20.0 million of contributions and payments related to pension and OPEB plans made during 2021. There were no similar payments during 2020.
- A $9.4 million decrease in cash from higher payments for operating and maintenance expenses. During 2021, our payments were higher for natural gas distribution and maintenance costs, costs related to the September 2021 rate order, and customer service.

These decreases in net cash provided by operating activities were partially offset by:

- A $12.9 million increase in cash due to realized gains on derivative instruments as well as higher collateral received from counterparties during 2021, both driven by higher natural gas prices.
- An $8.2 million increase in cash related to higher overall collections from customers driven by the recovery of natural gas costs from our customers related to the extreme weather conditions that occurred in February 2021, as well as the impact of our rate order approved by the ICC, effective September 15, 2021. See Note 19, Regulatory Environment, for more information.

Investing Activities

Net cash used in investing activities decreased $8.3 million during 2021, compared with 2020, primarily 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)	2021	2020	Change in 2021 Over 2020
Capital expenditures	**$ 33.2**	$ 42.8	$ (9.6)

The decrease in cash paid for capital expenditures during 2021, compared with 2020, was primarily driven by the replacement of a natural gas transmission station during 2020.

See Liquidity and Capital Resources – Cash Requirements – Significant Capital Projects for more information.

Financing Activities

Net cash provided by financing activities decreased $0.1 million during 2021, compared with 2020, driven by:

- A $14.8 million decrease in cash related to $9.8 million of net repayments of short-term debt to related parties during 2021, compared with $5.0 million of net borrowings of short-term debt from related parties during 2020.
- A decrease in cash related to $14.0 million of equity contributions received from our parent, PELLC, during 2020, to balance our capital structure. There were no equity contributions received from our parent during 2021.

These decreases in net cash provided by financing activities were partially offset by a $25.0 million increase in cash due to the issuance of long-term debt during 2021. There were no issuances of long-term debt during 2020.

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.

Cash Requirements

We require funds to support and grow our business. Our significant cash requirements primarily consist of capital and investment expenditures, payments to retire and pay interest on long-term debt, the payment of common stock dividends to our parent, and the funding of our ongoing operations. Our significant cash requirements are discussed in further detail below.

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, supply chain disruptions, the COVID-19 pandemic, inflation, and interest rates. Our estimated capital expenditures for the next three years are reflected below. These amounts include anticipated expenditures for environmental compliance and certain remediation issues. For a discussion of certain environmental matters affecting us, see Note 17, Commitments and Contingencies.

(in millions)	
2022	$ 52.0
2023	48.8
2024	54.6
Total	$ 155.4

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

Long-Term Debt

A significant amount of cash is required to retire and pay interest on our long-term debt obligations. See Note 11, Long-Term Debt, for more information on our outstanding long-term debt, including a schedule of our long-term debt maturities over the next five years. The following table summarizes our required interest payments on long-term debt as of December 31, 2021:

	Interest Payments Due by Period				
(in millions)	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Interest payments on long-term debt	$ 67.7	$ 5.6	$ 11.2	$ 11.2	$ 39.7

Common Stock Matters

During the years ended December 31, 2020 and 2019, we paid common stock dividends of $4.0 million and $16.0 million, respectively, to the sole holder of our common stock, PELLC. We did not pay any common stock dividends during the year ended December 31, 2021. Any payment of future dividends is subject to approval by our Board of Directors and is dependent upon future earnings, capital requirements, and financial and other business conditions. Various financing arrangements and regulatory requirements impose certain restrictions on our ability to transfer funds to PELLC in the form of cash dividends, loans, or advances. We do not believe that these restrictions will materially affect our operations or limit any dividend payments in the foreseeable future. See Note 8, Common Equity, for more information related to these restrictions and our other common stock matters.

Other Significant Cash Requirements

Our utility operations have purchase obligations under various contracts for the procurement of gas supply, as well as the related transportation. These costs are a significant component of funding our ongoing operations. See Note 17, Commitments and Contingencies, for more information, including our minimum future commitments related to these purchase obligations.

In addition to our energy-related purchase obligations, we have commitments for other costs incurred in the normal course of business, including costs related to information technology services, meter reading services, maintenance and other service agreements for certain generating facilities, and various engineering agreements. Our estimated future cash requirements related to these purchase obligations are reflected below.

	Payments Due by Period				
(in millions)	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Purchase orders	$ 3.9	$ 2.4	$ 1.5	$ —	$ —

We make contributions to our pension and OPEB plans based upon various factors affecting us, including our liquidity position and tax law changes. See Note 15, Employee Benefits, for our expected contributions in 2022 and our expected pension and OPEB payments for the next 10 years. We expect the majority of our pension and OPEB payments during this time period to be paid from our outside trusts. See Sources of Cash–Investments in Outside Trusts below for more information.

In addition to the above, our balance sheet at December 31, 2021 included various other liabilities that, due to the nature of the liabilities, the amount and timing of future payments cannot be determined with certainty. These liabilities include AROs and liabilities for the remediation of manufactured gas plant sites. For additional information on these liabilities, see Note 7, Asset Retirement Obligations, Note 17, Commitments and Contingencies, and Note 12, Income Taxes, respectively.

Off-Balance Sheet Arrangements

We are a party to various financial instruments with off-balance sheet risk as a part of our normal course of business, including financial guarantees and letters of credit that support construction projects, commodity contracts, and other payment obligations. We believe that these agreements do not have, and are not reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Sources of Cash

Liquidity

We anticipate meeting our short-term and long-term cash requirements to operate our business and implement our corporate strategy through internal generation of cash from operations, borrowings from PGL and Integrys, equity contributions from our parent, and access to the capital markets, which allows us to obtain intermediate or long-term debt securities. Cash generated from operations is primarily driven by sales of natural gas to our utility customers, reduced by costs of operations. Our access to the capital markets is critical to our overall strategic plan and allows us to supplement cash flows from operations with external borrowings to manage seasonal variations, working capital needs, commodity price fluctuations, unplanned expenses, and unanticipated events.

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

We have the ability to borrow up to $50.0 million from PGL and up to $50.0 million from Integrys. At December 31, 2021, we had $43.3 million of borrowings outstanding with PGL and no amounts outstanding with Integrys.

The amount, type, and timing of any financings in 2022, as well as in subsequent years, will be contingent on investment opportunities and our cash requirements and will depend upon prevailing market conditions, ICC approval, and other factors. We plan to maintain a capital structure consistent with that approved by the ICC. For more information on our approved capital structure, see Business – C. Regulation.

At December 31, 2021, our current liabilities exceeded our current assets by $17.2 million. We do not expect this to have any impact on our liquidity as we currently believe that our cash and cash equivalents, our available capacity of $56.7 million under our existing short-term credit agreements, cash generated from ongoing operations, and access to the capital markets are adequate to meet our short-term and long-term cash requirements.

See Note 10, Short-Term Debt to Related Parties, and Note 11, Long-Term Debt, for more information about our short-term credit agreements and debt securities.

Investments in Outside Trusts

We maintain investments in outside trusts to fund the obligation to provide pension and certain OPEB benefits to current and future retirees. As of December 31, 2021, these trusts had investments of approximately $69.7 million, consisting of fixed income and equity securities, that are subject to the volatility of the stock market and interest rates. The performance of existing plan assets, long-term discount rates, changes in assumptions, and other factors could affect our future contributions to the plans, our financial position if our accumulated benefit obligation exceeds the fair value of the plan assets, and future results of operations related to changes in pension and OPEB expense and the assumed rate of return. For additional information, see Note 15, Employee Benefits.

Debt Covenants

At December 31, 2021, 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.

FACTORS AFFECTING RESULTS, LIQUIDITY, AND CAPITAL RESOURCES

Coronavirus Disease – 2019

The COVID-19 pandemic has adversely impacted the economy and financial markets, which has adversely affected our business. There are still questions regarding the extent and duration of the COVID-19 pandemic itself. Orders limiting the capacity of various businesses could be adopted again in the future depending on how the virus continues to mutate and spread. The resulting effects of any future orders could have a variety of adverse impacts on us, including a decrease in revenues, increased bad debt expense, increases in past due accounts receivable balances, and access to the capital markets at unreasonable terms or rates.

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. 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 had an almost immediate mitigating effect on commercial paper rates and availability in 2020. As of December 31, 2021, the disruptions in the commercial paper markets have subsided, allowing 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.

Allowance for Credit Losses

Economic disruptions caused by the COVID-19 pandemic, including higher unemployment rates and the inability of some businesses to recover from the pandemic, caused a higher percentage of our accounts receivable balances to become uncollectible. Although impacts on our results of operations related to higher uncollectible receivable balances were mitigated by regulatory mechanisms and certain COVID-19 specific regulatory orders we received, the increase in past due receivables we experienced resulted in higher working capital requirements. However, with normal collection practices now underway, we continue to see an improvement in our past due receivable balances, as evidenced by a decrease in our allowance for credit losses.

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

Many of the commercial and industrial customers in our service territories have recovered, or are recovering, from the COVID-19 pandemic. However, we are still seeing a decrease in the consumption of natural gas by some of our customers as they continue to experience lower demand for their products and services, or are not operating at full capacity. The extent to which the pandemic related decrease in consumption will continue to impact our results of operations and liquidity is dependent upon the duration of the COVID-19 pandemic and the ability of our customers to continue, or to resume, normal operations.

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 taking into consideration 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 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. We have developed return-to-the workplace strategies for those employees who were working remotely, taking into consideration factors such as any updated CDC guidelines, new variants, any increases in COVID-19 cases in our service territory, and the overall level of risk to our employees and customers.

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

We continue to provide our employees with educational information regarding the COVID-19 vaccine and are providing incentives and imposing surcharges on our medical plan to encourage employees to obtain the vaccine. Enforcement of these surcharges and precautionary measures may adversely impact our operations, including possible labor disruptions, employee attrition, and a reduced ability to replace departing employees.

Competitive Markets

We offer both natural gas transportation service and interruptible natural gas sales to enable customers to better manage their energy costs. Customers continue to switch between firm system supply, interruptible system supply, and transportation service each year as the economics and service options change.

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.

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.

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 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.

We are currently unable to predict the impact, if any, of potential future industry restructuring on our results of operations or financial position.

Regulatory, Legislative, and Legal Matters

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

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 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, 2021, our regulatory assets were $70.0 million, and our regulatory liabilities were $70.2 million.

Climate and Equitable Jobs Act

On September 15, 2021, the state of Illinois signed into law the Climate and Equitable Jobs Act. This new legislation includes, among other things, a path for Illinois to move towards 100% clean energy, expanded commitments to energy efficiency and renewable energy, additional consumer protections, and expanded ethics reform. The provisions in this legislation with the potential to have the most significant financial impact on us relate to the new consumer protection requirements. Effective January 1, 2023, natural gas utilities will no longer be allowed to charge late payment fees to low-income residential customers. In addition, effective September 15, 2021, the new legislation prohibits utilities from charging customers a fee when they elect to pay for service with a credit card. Instead, utilities will be required to seek recovery of costs incurred to process credit card payments through a rate proceeding or by establishing a recovery mechanism. We are recovering costs related to these third-party transaction fees through our recently established base rates.

We continue to evaluate the impact this legislation may have on our future results of operations.

Infrastructure Investment and Jobs Act

In November 2021, President Biden signed into law the Infrastructure Investment and Jobs Act, which provides for approximately $1.2 trillion of federal spending over the next five years, including approximately $85 billion for investments in power, utilities, and renewables infrastructure across the United States. We expect funding from this Act will support the work we are doing to reduce GHG emissions. Funding in the Act should also help to expand emerging technologies, like hydrogen, as we continue the transition to a clean energy future. We believe the Infrastructure Investment and Jobs Act will accelerate investment in projects that will help us meet our net zero emission goals to the benefit of our customers, the communities we serve, and our company.

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.

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:

Commodity 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 4, Credit Losses, 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 and access to capital markets to manage any short-term increase in working capital resulting from the lag in recovery. See Note 19, Regulatory Environment, for more information on these costs.

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 2021 and 2020, as measured by degree days, may be found in Results of Operations.

Interest Rates

We are exposed to interest rate risk resulting from our short-term borrowings from PGL and Integrys, and our projected near-term debt financing needs. We manage exposure to interest rate risk by limiting the amount of our variable rate obligations and continually monitoring the effects of market changes on interest rates. When it is advantageous to do so, we enter into long-term fixed rate debt.

Based on the variable rate debt outstanding at December 31, 2021 and 2020, a hypothetical increase in market interest rates of one percentage point would have increased annual interest expense by $0.4 million and $0.5 million in 2021 and 2020, respectively. This sensitivity analysis was performed assuming a constant level of variable rate debt during the period and an immediate increase in interest rates, with no other changes for the remainder of the period.

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, 2021	Expected Return on Assets in 2022
Pension trust funds	$ 43.1	7.00 %
OPEB trust funds	$ 26.6	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 and Supply Chain Disruptions

We continue to monitor the impact of inflation and supply chain disruptions. We monitor the costs of medical plans, natural gas, construction costs, regulatory and environmental compliance costs, and other costs in order to minimize inflationary effects in future years, to the extent possible, through pricing strategies, productivity improvements, and cost reductions. We monitor the global supply chain, and related disruptions, in order to ensure we are able to procure the necessary materials and other resources necessary to both maintain our energy services in a safe and reliable manner and to grow our infrastructure in accordance with our capital plan. For additional information concerning risks related to inflation and supply chain disruptions, see Risk Factors – Risks Related to the Operation of Our Business – Our operations and corporate strategy may be adversely affected by supply chain disruptions and inflation.

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.

Critical Accounting Policies and Estimates

The preparation of financial statements in compliance with GAAP requires the application of accounting policies, as well as the use of estimates, assumptions, and judgements that could have a material impact on our financial statements and related disclosures. Judgments regarding future events may include the likelihood of success of particular projects, legal and regulatory challenges, and anticipated recovery of costs. Actual results may differ significantly from estimated amounts based on varying assumptions.

Our significant accounting policies are described in Note 1, Summary of Significant Accounting Policies. The following is a list of accounting policies and estimates that require management's most difficult, subjective, or complex judgments and may change in subsequent periods.

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, rate orders issued by the ICC, historical decisions by the ICC regarding regulatory assets and liabilities, 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, 2021, we had $70.0 million in regulatory assets and $70.2 million in regulatory liabilities. See Note 5, Regulatory Assets and Liabilities, for more information.

Long-Lived Assets

In accordance with ASC 980-360, Regulated Operations – Property, Plant, and Equipment, we periodically assess the recoverability of certain long-lived assets when events or changes in circumstances indicate that the carrying amount of those long-lived assets may not be recoverable. Examples of events or changes in circumstances include, but are not limited to, a significant decrease in the market price, a significant change in use, a regulatory decision related to recovery of assets from customers, adverse legal factors or a change in business climate, operating or cash flow losses, or an expectation that the asset might be sold or abandoned.

Performing an impairment evaluation involves a significant degree of estimation and judgement by management in areas such as identifying circumstances that indicate an impairment may exist, identifying and grouping affected assets, and developing the undiscounted future cash flows. An impairment loss is measured as the excess of the carrying amount of the asset in comparison to the fair value of the asset. The fair value of the asset is assessed using various methods, including internally developed discounted cash flow analysis, expected recovery of regulated assets, and analysis from outside advisors.

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 2021 Pension Cost
Discount rate	(0.5)	$ 5.9	$ 1.2
Discount rate	0.5	(5.1)	(1.1)
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 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 2021 Postretirement Benefit Cost
Discount rate	(0.5)	$ 0.6	$ 0.1
Discount rate	0.5	(0.5)	(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 2021 and 2020, and 7.25% in 2019. The actual rate of return on pension plan assets, net of fees, was 10.19%, 14.63%, and 22.2% in 2021, 2020, and 2019, 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 energy 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 energy delivered to customers since the date of their last meter reading are estimated and corresponding unbilled revenues are calculated.

Unbilled revenues are estimated each month based upon actual generation and throughput volumes, recorded sales, estimated customer usage by class, weather factors, estimated line losses, and applicable customer rates. Energy demand for the unbilled period or changes in rate mix due to fluctuations in usage patterns of customer classes could impact the accuracy of the unbilled revenue estimate. Total unbilled utility revenues were $18.5 million and $16.6 million as of December 31, 2021 and 2020, respectively. The changes in unbilled revenues are primarily due to changes in the cost of natural gas, weather, and customer rates.

Income Tax Expense

Significant management judgment is required in determining our provision for income taxes, deferred income tax assets and liabilities, any 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.

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, the outcomes of tax audits and appeals, changes in income tax law, enacted tax rates or amounts subject to income tax, and changes in the regulatory treatment of any tax reform benefits 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. Any 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.

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 AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of North Shore Gas Company (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.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
March 25, 2022

NORTH SHORE GAS COMPANY

B. INCOME STATEMENTS

Year Ended December 31 *(in millions)*	2021	2020	2019
Operating revenues	**$ 209.6**	$ 170.2	$ 178.9
Operating expenses			
Cost of natural gas	**111.1**	75.6	86.7
Other operation and maintenance	**46.1**	45.2	47.9
Depreciation and amortization	**20.3**	18.5	17.6
Property and revenue taxes	**3.0**	2.4	1.8
Total operating expenses	**180.5**	141.7	154.0
Operating income	**29.1**	28.5	24.9
Other expense, net	**0.1**	0.2	0.2
Interest expense	**5.6**	5.7	5.9
Other expense	**(5.7)**	(5.9)	(6.1)
Income before income taxes	**23.4**	22.6	18.8
Income tax expense	**5.9**	5.9	4.6
Net income	**$ 17.5**	$ 16.7	$ 14.2

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)*	2021	2020
Assets		
Current assets		
Cash and cash equivalents	**$ 0.4**	$ 0.5
Accounts receivable and unbilled revenues, net of reserves of $3.2 and $4.4, respectively	**50.3**	35.5
Accounts receivable from related parties	**3.5**	2.0
Materials, supplies, and inventories	**22.3**	23.4
Derivative assets	**4.6**	1.0
Amounts recoverable from customers	**7.7**	2.1
Other	**1.1**	2.1
Current assets	**89.9**	66.6
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation and amortization of $246.1 and $233.2, respectively	**518.7**	494.7
Regulatory assets	**62.3**	63.4
OPEB assets	**14.1**	12.6
Other	**1.8**	1.1
Long-term assets	**596.9**	571.8
Total assets	**$ 686.8**	$ 638.4
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	**$ 32.6**	$ 21.7
Accounts payable to related parties	**6.7**	5.4
Short-term debt to related parties	**43.3**	53.1
Accrued taxes	**5.5**	5.6
Customer credit balances	**7.8**	7.5
Other	**11.2**	7.8
Current liabilities	**107.1**	101.1
Long-term liabilities		
Long-term debt	**156.0**	131.2
Deferred income taxes	**71.3**	61.3
Regulatory liabilities	**69.6**	67.5
Environmental remediation liabilities	**34.5**	35.7
Pension obligations	**21.2**	40.2
AROs	**28.4**	20.1
Other	**5.7**	5.8
Long-term liabilities	**386.7**	361.8
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**	60.0
Retained earnings	**133.0**	115.5
Shareholder's equity	**193.0**	175.5
Total liabilities and shareholder's equity	**$ 686.8**	$ 638.4

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)*	2021	2020	2019
Operating activities			
Net income	**$ 17.5**	$ 16.7	$ 14.2
Reconciliation to cash provided by operating activities			
Depreciation and amortization	**20.3**	18.5	17.6
Deferred income taxes and ITCs, net	**8.9**	2.1	(0.9)
Contribution to pension plan	**(20.0)**	—	—
Settlement of AROs	**(0.6)**	(0.6)	(0.6)
Manufactured gas plant remediation costs	**(5.6)**	(2.8)	(1.9)
Change in –			
Accounts receivable and unbilled revenues, net	**(16.3)**	0.2	7.2
Materials, supplies, and inventories	**1.1**	—	(6.4)
Amounts recoverable from customers	**(5.6)**	0.5	1.5
Other current assets	**1.0**	1.0	(3.3)
Accounts payable	**10.1**	(2.4)	(6.4)
Customer credit balances	**0.3**	(1.3)	0.6
Other current liabilities	**2.6**	(2.8)	4.8
Other, net	**5.6**	(1.3)	3.1
Net cash provided by operating activities	**19.3**	27.8	29.5
Investing activities			
Capital expenditures	**(33.2)**	(42.8)	(44.7)
Other, net	**(1.1)**	0.2	0.1
Net cash used in investing activities	**(34.3)**	(42.6)	(44.6)
Financing activities			
Issuance of long-term debt	**25.0**	—	—
Short-term debt to related parties, net	**(9.8)**	5.0	22.5
Payment of dividends to parent	**—**	(4.0)	(16.0)
Equity contribution from parent	**—**	14.0	8.0
Other, net	**(0.3)**	—	—
Net cash provided by financing activities	**14.9**	15.0	14.5
Net change in cash and cash equivalents	**(0.1)**	0.2	(0.6)
Cash and cash equivalents at beginning of year	**0.5**	0.3	0.9
Cash and cash equivalents at end of year	**$ 0.4**	$ 0.5	$ 0.3

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, 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
Net income	**—**	**17.5**	**17.5**
Balance at December 31, 2021	**$ 60.0**	**$ 133.0**	**$ 193.0**

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

F. NOTES TO FINANCIAL STATEMENTS
December 31, 2021

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 wholly by PELLC, which is 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. 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 19, Regulatory Environment, for more information on the recovery of these high natural gas costs.

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 both environmental

cleanup costs and energy conservation and management program costs. 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 our bill payment assistance program. 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)	2021	2020
Natural gas in storage, primarily at LIFO	**$ 18.7**	$ 20.2
Materials and supplies	**2.9**	2.9
Liquid propane	**0.7**	0.3
Total	**$ 22.3**	$ 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, 2021 and 2020, exceeded the LIFO cost by $19.7 million and $5.3 million, respectively. In calculating these replacement amounts, we used a Chicago city-gate natural gas price per Dth of $3.67 at December 31, 2021, and $2.31 at December 31, 2020.

(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 2.52% in 2021, and 2.48% in 2020 and 2019.

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—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 $0.5 million, $1.0 million, and $1.3 million, respectively.

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

(l) 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 25, 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.

(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 the benefit for loss method, where attributes are realized when WEC Energy Group is able to realize them. 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, and cash collateral received is reflected in other current liabilities. 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, 2021. In addition, there were no customers that accounted for more than 10% of our revenues for the year ended December 31, 2021.

(t) Subsequent Events—Subsequent events were evaluated for potential recognition or disclosure through March 25, 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 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)	2021	2020	2019
Transactions with PGL			
Natural gas related purchases from PGL [1]	**$ —**	$ 2.4	$ 5.4
Charges from PGL for services and other items [2]	**5.8**	5.4	3.0
Interest expense on short-term borrowings from PGL	**0.1**	0.2	0.3
Transactions with WBS			
Charges to WBS for services and other items [2]	**1.6**	2.3	4.0
Charges from WBS for services and other items [2]	**15.5** [3]	15.6	18.2

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

(2) 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.

(3) Includes $1.1 million for the transfer of certain software 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.

	Year Ended December 31		
(in millions)	**2021**	**2020**	**2019**
North Shore Gas Company			
Natural gas utility revenues from contracts with customers	**$ 206.6**	$ 166.0	$ 177.6
Other operating revenues	**3.0**	4.2	1.3
Total operating revenues	**$ 209.6**	$ 170.2	$ 178.9

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	**$ 148.9**	$ 117.9	$ 132.7
Commercial and industrial	**27.9**	21.5	26.1
Total retail revenues	**176.8**	139.4	158.8
Transportation	**25.3**	22.7	24.9
Other utility revenues (1)	**4.5**	3.9	(6.1)
Total natural gas utility operating revenues	**$ 206.6**	$ 166.0	$ 177.6

(1) Includes the revenues subject to our purchased gas recovery mechanism. The amounts for 2021 reflect the higher natural gas costs that were incurred as a result of the extreme winter weather conditions in February 2021. As these amounts are billed to customers, they are reflected in retail revenues with an offsetting decrease in other utility revenues. See Note 19, Regulatory Environment, for more information. In addition to costs related to the extreme weather event, we incurred higher natural gas costs throughout 2021, compared with 2020, as a result of an increase in the price of natural gas.

Other Operating Revenues

Other operating revenues consist primarily of the following:

	Year Ended December 31		
(in millions)	**2021**	**2020**	**2019**
Alternative revenues [1]	**$ 1.5**	$ 3.2	$ (0.3)
Late payment charges [2]	**1.5**	1.0	1.6
Total other operating revenues	**$ 3.0**	**$ 4.2**	**$ 1.3**

[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 increase in late payment charges during 2021, compared with 2020, was a result of the expiration of a regulatory order from the ICC in response to the COVID-19 pandemic, which included the suspension of late payment charges during a designated time period. See Note 19, Regulatory Environment, for more information.

The reduction in late payments charges in 2020, compared with 2019, was a result of a regulatory order from the ICC in response to the COVID-19 pandemic, which included 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.

(in millions)	**December 31, 2021**	**December 31, 2020**
Accounts receivable and unbilled revenues	**$ 53.5**	$ 39.9
Allowance for credit losses	**3.2**	4.4
Accounts receivable and unbilled revenues, net [1]	**$ 50.3**	$ 35.5
Total accounts receivable, net – past due greater than 90 days [1]	**$ 1.3**	$ 1.6
Past due greater than 90 days – collection risk mitigated by regulatory mechanisms [1]	**100.0 %**	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 is included below:

	Year Ended December 31	
(in millions)	**2021**	**2020**
Balance at December 31	$ 4.4	$ 3.5
Provision for credit losses	**1.5**	2.3
Provision for credit losses deferred for future recovery or refund	**(1.1)**	0.4
Write-offs charged against the allowance	**(2.2)**	(2.3)
Recoveries of amounts previously written off	**0.6**	0.5
Balance at December 31	**$ 3.2**	$ 4.4

The decrease in the allowance for credit losses at December 31, 2021, compared to December 31, 2020, primarily related to normal collection practices resuming in June 2021. Higher year-over-year natural gas prices drove an increase in gross accounts receivable balances, partially offsetting the decrease in the allowance for credit losses attributed to collection efforts. See Note 19, 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 were unable to disconnect any of our 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]	**$ 39.7**	$ 38.0	17
Pension and OPEB costs [4]	**12.9**	16.5	15
Derivatives [5]	**4.3**	1.1	1(o)
Energy costs recoverable through rate adjustments [6]	**4.0**	—	1(d)
AROs	**2.3**	2.6	7
Uncollectible expense	**1.0**	3.4	4
Other, net	**5.8**	3.9	
Total regulatory assets	**$ 70.0**	$ 65.5	
Balance sheet presentation			
Amounts recoverable from customers	**$ 7.7**	$ 2.1	
Regulatory assets	**62.3**	63.4	
Total regulatory assets	**$ 70.0**	$ 65.5	

(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 $11.2 million of regulatory assets not earning a return. The regulatory assets not earning a return relate to energy costs recoverable through rate adjustments, uncollectible expense, and certain other assets. 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 $5.2 million related to these environmental remediation costs. The remaining $34.5 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) For most energy-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.

(6) The increase in this regulatory asset is due, in part, to the high natural gas costs that were incurred as a result of the extreme winter weather conditions in February 2021. See Note 19, Regulatory Environment, for more information on our recovery efforts associated with these costs.

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

(in millions)	2021	2020	See Note
Regulatory liabilities			
Income tax related items	**$ 40.9**	$ 42.0	12
Removal costs [1]	**11.7**	10.4	
Pension and OPEB benefits [2]	**11.5**	12.2	15
Derivatives [3]	**5.3**	1.0	1(o)
Other, net	**0.8**	3.2	
Total regulatory liabilities	**$ 70.2**	$ 68.8	
Balance sheet presentation			
Other current liabilities	**$ 0.6**	$ 1.3	
Regulatory liabilities	**69.6**	67.5	
Total regulatory liabilities	**$ 70.2**	$ 68.8	

(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.

(3) For most energy-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.

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 and transmission	**$ 707.3**	$ 668.4
Other utility property, plant, and equipment	**51.8**	40.2
Less: Accumulated depreciation	**246.1**	233.2
Net	**513.0**	475.4
Construction work in progress	**5.7**	19.3
Total property, plant, and equipment	**$ 518.7**	$ 494.7

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)	2021	2020	2019
Balance as of January 1	**$ 20.1**	$ 19.7	$ 19.7
Accretion	**1.1**	1.1	1.1
Additions and revisions to estimated cash flows	**7.5** (1)	—	—
Liabilities settled	**(0.3)**	(0.7)	(1.1)
Balance as of December 31	**$ 28.4**	$ 20.1	$ 19.7

(1) AROs increased $5.9 million in 2021, due to revisions made to estimated cash flows primarily for changes in the cost to retire natural gas distribution pipe. Also in 2021, AROs increased $1.7 million due to new natural gas distribution lines being placed into service.

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, 2021, 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, 2021.

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)	2021	2020
Short-term debt to related parties:		
Amount outstanding at December 31	**$ 43.3**	$ 53.1
Weighted-average interest rate on amounts outstanding at December 31	**0.23%**	0.18%

Our average amount of short-term borrowings based on daily outstanding balances during 2021, was $36.5 million with a weighted-average interest rate during the period of 0.16%.

(in millions)	December 31, 2021
Revolving short-term notes payable to related parties [(1)]	**$ 100.0**
Less:	
Short-term debt to related parties	**43.3**
Available capacity under existing agreements	**$ 56.7**

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

We did not have a short-term debt balance with Integrys at December 31, 2021. At December 31, 2020, our short-term debt balance with Integrys was $3.1 million. At December 31, 2021 and 2020, our short-term debt balance with PGL was $43.3 million and $50.0 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)			2021	2020
Long-term debt	**Interest Rate**	**Year Due**		
First Mortgage Bonds (secured)	3.43%	2027	**$ 28.0**	$ 28.0
	2.20%	2028	**25.0**	—
	3.87%	2028	**50.0**	50.0
	3.96%	2043	**54.0**	54.0
Total			**157.0**	132.0
Unamortized debt issuance costs			**(1.0)**	(0.8)
Total long-term debt			**$ 156.0**	**$ 131.2**

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.

In November 2021, we issued $25.0 million of 2.20% Bonds, Series S due November 15, 2028, and used the net proceeds for general corporate purposes, including capital expenditures and the refinancing of short-term debt.

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	—
2026	—
Thereafter	157.0
Total	$ 157.0

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 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)	2021	2020	2019
Current tax expense (benefit)	**$ (2.9)**	$ 3.8	$ 5.5
Deferred income taxes, net	**8.9**	2.2	(0.8)
ITCs, net	**(0.1)**	(0.1)	(0.1)
Total income tax expense	**$ 5.9**	$ 5.9	$ 4.6

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	**$ 4.9**	**21.0 %**	$ 4.7	21.0 %	$ 3.9	21.0 %
State income taxes net of federal tax benefit	**1.8**	**7.7 %**	1.7	7.8 %	1.5	8.3 %
Federal excess deferred tax amortization [(1)]	**(0.8)**	**(3.5)%**	(0.7)	(3.3)%	(1.0)	(5.1)%
Other, net	**—**	**— %**	0.2	0.6 %	0.2	0.3 %
Total income tax expense	**$ 5.9**	**25.2 %**	$ 5.9	26.1 %	$ 4.6	24.5 %

(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 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)	2021	2020
Deferred tax assets		
Tax gross up – regulatory items	**$ 12.1**	$ 12.4
Employee benefits and compensation	**2.6**	7.6
Other	**3.1**	2.8
Total deferred tax assets	**17.8**	22.8
Deferred tax liabilities		
Property-related	**$ 84.4**	$ 81.6
Regulatory deferral	**4.2**	2.0
Other	**0.5**	0.5
Total deferred tax liabilities	**89.1**	84.1
Deferred tax liability, net	**$ 71.3**	$ 61.3

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, 2021 and 2020 are summarized in the tables below:

2021 *(in millions)*	Deferred Tax Effect	Earliest Year of Expiration
Future tax benefits as of December 31, 2021		
State benefits	**$ 0.8**	**2024**
Balance as of December 31, 2021	**$ 0.8**	

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

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 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 2018. At December 31, 2021, we were subject to examination by the Illinois taxing authority for tax years 2017 through 2021.

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, 2021			
(in millions)	Level 1	Level 2	Level 3	Total
Natural gas contracts				
Derivative assets	**$ 4.4**	**$ 0.7**	**$ —**	**$ 5.1**
Derivative liabilities	**0.5**	**0.7**	**—**	**1.2**

	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

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

None of our derivatives are designated as hedging instruments. Derivative assets and liabilities not shown separately on our balance sheets are included in the other current and other long-term line items. 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	**$ 4.6**	**$ 1.1**	$ 1.0	$ 0.2
Long-term	**0.5**	**0.1**	0.1	0.1
Total	**$ 5.1**	**$ 1.2**	$ 1.1	$ 0.3

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, 2021		December 31, 2020		December 31, 2019	
(in millions)	Volumes	Gains	Volumes	Losses	Volumes	Losses
Natural gas contracts	**8.4 Dth**	**$ 8.2**	8.4 Dth	$ (3.9)	8.4 Dth	$ (1.1)

At December 31, 2021, we had received cash collateral of $3.5 million, and at December 31, 2020, we had posted cash collateral of $1.0 million.

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	**$ 5.1**	**$ 1.2**	$ 1.1	$ 0.3
Gross amount not offset on the balance sheet	**(1.8)** [1]	**(0.6)**	(0.3)	(0.3)
Net amount	**$ 3.3**	**$ 0.6**	$ 0.8	$ —

[1] Includes cash collateral received of $1.2 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)	**2021**	**2020**	**2021**	**2020**
Benefit obligation	**$ 64.3**	$ 67.4	**$ 12.5**	$ 12.6
Fair value of plan assets	**43.1**	27.2	**26.6**	25.2
Funded status	**$ (21.2)**	$ (40.2)	**$ 14.1**	$ 12.6

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	**$ 20.0**	$ —	**$ —**	$ —
Participant contributions	**—**	—	**0.3**	0.3
Benefit payments	**(6.8)**	(2.6)	**(0.9)**	(1.0)

The 2021 actuarial gain related to our pension benefit obligations was not significant. In 2020, we had an actuarial loss related to our pension benefit obligations of $8.1 million, which was primarily due to decreases in our discount rates. The discount rate for our pension benefits was 2.75% and 3.45%, in 2020 and 2019, respectively.

The 2021 actuarial gain related to our OPEB benefit obligations was not significant. 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% and 3.25%, in 2020 and 2019, respectively.

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)	**2021**	**2020**	**2021**	**2020**
OPEB assets	**$ —**	$ —	**$ 14.1**	$ 12.6
Pension obligations	**21.2**	40.2	**—**	—
Total net (liabilities) assets	**$ (21.2)**	$ (40.2)	**$ 14.1**	$ 12.6

The accumulated benefit obligation for the defined benefit pension plans was $55.2 million and $58.4 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. Amounts presented are as of December 31:

(in millions)	2021	2020
Accumulated benefit obligation	**$ 55.2**	$ 58.4
Fair value of plan assets	**43.1**	27.2

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)	2021	2020
Projected benefit obligation	**$ 64.3**	$ 67.4
Fair value of plan assets	**43.1**	27.2

We had no OPEB plans with an accumulated benefit obligation in excess of plan assets as of December 31, 2021 and 2020, 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)	2021	2020	2021	2020
Net regulatory assets (liabilities)				
Net actuarial loss (gain)	**$ 12.5**	$ 16.6	**$ (10.3)**	$ (10.9)
Prior service costs (credits)	**0.1**	0.2	**(1.4)**	(1.8)
Total	**$ 12.6**	$ 16.8	**$ (11.7)**	$ (12.7)

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)	**$ 5.3**	$ 5.0	$ 5.7	**$ (2.5)**	$ (2.4)	$ (1.4)

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%**	2.75%	**2.80%**	2.35%
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	**5.70%**	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 the net periodic benefit cost for the plans were as follows for the years ended December 31:

	Pension Benefits		
	2021	2020	2019
Discount rate	**2.91%**	3.19%	4.00%
Expected return on assets	**7.00%**	7.00%	7.25%
Rate of compensation increase	**4.00%**	4.00%	4.00%
Interest credit rate	**2.25%**	2.25%	2.25%

	OPEB Benefits		
	2021	**2020**	**2019**
Discount rate	**2.35%**	3.25%	4.20%
Expected return on assets	**7.00%**	7.00%	7.25%
Assumed medical cost trend rate (Pre 65)	**5.85%**	6.00%	6.25%
Ultimate trend rate (Pre 65)	**5.00%**	5.00%	5.00%
Year ultimate trend rate is reached (Pre 65)	**2028**	2028	2024
Assumed medical cost trend rate (Post 65)	**5.70%**	5.80%	5.90%
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 2022, 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 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(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, 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	**$ 6.2**	**$ —**	**$ —**	**$ 6.2**	**$ 3.7**	**$ —**	**$ —**	**$ 3.7**
International equity	**4.8**	**—**	**—**	**4.8**	**3.0**	**—**	**—**	**3.0**
Fixed income securities: [1]								
United States bonds	**—**	**8.3**	**—**	**8.3**	**5.4**	**3.9**	**—**	**9.3**
International bonds	**—**	**1.3**	**—**	**1.3**	**—**	**0.3**	**—**	**0.3**
	$ 11.0	**$ 9.6**	**$ —**	**$ 20.6**	**$ 12.1**	**$ 4.2**	**$ —**	**$ 16.3**
Investments measured at net asset value				**$ 22.5**				**$ 10.3**
Total	**$ 11.0**	**$ 9.6**	**$ —**	**$ 43.1**	**$ 12.1**	**$ 4.2**	**$ —**	**$ 26.6**

[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	$ 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.

Cash Flows

We do not expect to make any contributions to our pension and OPEB plans in 2022. 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
2022	$ 5.5	$ 0.8
2023	6.6	0.9
2024	7.3	1.0
2025	7.2	1.1
2026	6.3	1.1
2027-2031	25.7	5.5

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 2021 and $0.9 million in both 2020 and 2019.

NOTE 16—SEGMENT INFORMATION

We use net income to measure segment profitability and to allocate resources to our businesses. At December 31, 2021, 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, 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	$ 83.5	$ 28.0	$ 18.6	$ 11.1	$ 11.1	$ 8.0	$ 6.7

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 RNG 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 1.7 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, 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)	2021	2020
Regulatory assets	**$ 39.7**	$ 38.0
Reserves for future environmental remediation	**34.5**	35.7

Enforcement and Litigation Matters

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

NOTE 18—SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31		
(in millions)	2021	2020	2019
Cash paid for interest	**$ 5.2**	$ 5.5	$ 5.6
Cash paid (received) for income taxes, net	**(3.0)**	3.4	3.6
Significant non-cash investing and financing transactions:			
Accounts payable related to construction costs	**1.3**	2.0	1.4

NOTE 19—REGULATORY ENVIRONMENT

Recovery of Natural Gas Costs

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 significantly higher than our normal winter weather expectations. We have a regulatory mechanism in place for recovering all prudently incurred gas costs.

We incurred approximately $10 million of natural gas costs in February 2021 in excess of the amounts included in our rates. These costs are being recovered over a period of 12 months, which started on April 1, 2021. Our natural gas costs will be reviewed for prudency by the ICC as part of our annual natural gas cost reconciliation, which we expect to file with the ICC in April 2022. The ICC could order the refund of any costs determined to be imprudent as part of the reconciliation.

Coronavirus Disease – 2019

The global outbreak of COVID-19 was declared a pandemic by the World Health Organization 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.

In March 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.

In June 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 in June 2020 authorized us to implement a SPC rider to recover incremental direct costs resulting from COVID-19, foregone late fees and reconnection charges, and the costs associated with our bill payment assistance program incurred between March 1, 2020 and December 31, 2021. 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, 2021, our regulatory asset related to the COVID-19 pandemic was $1.6 million.

Subsequent to the approval of the June 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, 2020 and ended on March 31, 2021.

In March 2021, the ICC issued a written order approving a second settlement agreement negotiated by Illinois utilities, ICC staff, and certain intervenors. The key terms of this new settlement agreement were as follows:

- Utilities could start sending disconnection notices, on a staggered basis, as of April 1, 2021. Disconnections were done on a staggered schedule based on customer arrears and income levels (e.g. low income versus non-low income customers). Utilities were not allowed to disconnect customers for non-payment prior to June 30, 2021 if the customer's household income was below 300% of the federal poverty level and the customer was on a deferred payment plan.
- Utilities were required to continue offering flexible deferred payment arrangements with reduced down payment requirements to residential customers through June 30, 2021.
- Reconnection fees were 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 was required to continue, or renew, its bill payment assistance program through 2021. We were not required to provide any additional funding to our bill payment assistance program due to the amount still available for assistance from our initial funding. Our bill payment assistance program ended in August 2021 when its funds were exhausted.
- Costs related to the provisions in the settlement agreement, including costs related to the bill payment assistance program, were recoverable through the SPC rider.

2021 Rate Order

In October 2020, we filed a request with the ICC to increase our natural gas rates. In September 2021, the ICC issued a written order authorizing a rate increase of $4.1 million (4.5%). The rate increase reflects a 9.67% ROE and a common equity component average

of 51.58%. The natural gas rate increase is primarily driven by our ongoing significant investment in our distribution system since our last rate review that resulted in revised base rates effective January 28, 2015. The new base rates also include amounts for the recovery of third-party transaction fees that we are now incurring when customers elect to pay for service with a credit card. In accordance with the Climate and Equitable Jobs Act that was signed into law in Illinois, effective September 15, 2021, utilities are prohibited from charging customers a fee when they elect to pay for service with a credit card. Utilities are now required to incur these expenses. The new rates were effective September 15, 2021.

NOTE 20—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.