THE PEOPLES GAS LIGHT AND COKE COMPANY

ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2023

THE PEOPLES GAS LIGHT AND COKE COMPANY
ANNUAL REPORT
For the Year Ended December 31, 2023
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	7
E.	HUMAN CAPITAL	7
RISK FACTORS		9
PROPERTIES		19
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS		20
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK		34
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA		
A.	Independent Auditor's Report	35
B.	Consolidated Income Statements	37
C.	Consolidated Balance Sheets	38
D.	Consolidated Statements of Cash Flows	39
E.	Consolidated Statements of Equity	40
F.	Notes to Consolidated Financial Statements	41

		Page
Note 1	Summary of Significant Accounting Policies	41
Note 2	Disposition	46
Note 3	Related Parties	46
Note 4	Operating Revenues	47
Note 5	Credit Losses	48
Note 6	Regulatory Assets and Liabilities	49
Note 7	Property, Plant, and Equipment	50
Note 8	Asset Retirement Obligations	50
Note 9	Common Equity	51
Note 10	Preferred Stock	51
Note 11	Short-Term Debt and Lines of Credit	51
Note 12	Long-Term Debt	52
Note 13	Income Taxes	53
Note 14	Fair Value Measurements	55
Note 15	Derivative Instruments	56
Note 16	Employee Benefits	56
Note 17	Segment Information	60
Note 18	Commitments and Contingencies	61
Note 19	Supplemental Cash Flow Information	62
Note 20	Regulatory Environment	63
Note 21	Other Income, Net	64
Note 22	New Accounting Pronouncements	64

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.
NSG	North Shore Gas Company
PELLC	Peoples Energy, LLC
WBS	WEC Business Services LLC
WE	Wisconsin Electric Power Company
WEC Energy Group	WEC Energy Group, Inc.

Federal and State Regulatory Agencies	
Army Corps	United States Army Corps of Engineers
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	
Bcf	Billion Cubic Feet
Dth	Dekatherm

Other Terms and Abbreviations	
AIA	Affiliated Interest Agreement
CABO	Clean and Affordable Buildings Ordinance
CFR	Code of Federal Regulations
Compensation Committee	Compensation Committee of the Board of Directors of WEC Energy Group
ESG Progress Plan	WEC Energy Group's Capital Investment Plan for Efficiency, Sustainability, and Growth for 2024-2028
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
PHMSA	Pipeline and Hazardous Materials Safety Administration
QIP	Qualifying Infrastructure Plant
RNG	Renewable Natural Gas

ROE	Return on Equity
S&P	Standard & Poor's
SMP	Safety Modernization Program
Supreme Court	United States Supreme Court
Tax Legislation	Tax Cuts and Jobs Act of 2017
TPTFA	Third-Party Transaction Fee Adjustment
UEA	Uncollectible Expense Adjustment

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 federal, state, and local legislative and/or regulatory changes, including changes in rate-setting policies or procedures, the results of recent rate orders, 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 or other efforts to reduce the use of natural gas, and tax laws, including those that affect our ability to use ITCs, as well as changes in the interpretation and/or enforcement of any laws or regulations by regulatory agencies;

- Federal, state, and local 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, including wholesale 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 impact of changing expectations and demands of our customers, regulators, investors, and other stakeholders, including focus on environmental, social, and governance concerns;

- 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, inflation, and other factors;

- The impact of public health crises, including epidemics and pandemics, on our business functions, financial condition, liquidity, and results of operations;

- Factors affecting the implementation of WEC Energy Group's methane emission reduction goals and opportunities and actions related to those goals, including related regulatory decisions, 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;

- Any impacts on the global economy, including from sanctions, and impacts on supply chains and fuel prices, generally, from ongoing, expanding, or escalating regional conflicts, including those in Ukraine, Israel, and parts of the Middle East;

- Changes in credit ratings, interest rates, and our ability to access the capital markets, caused by volatility in the global credit markets, our capitalization structure, and market perceptions of the utility industry or us;

- Costs and effects of litigation, administrative proceedings, investigations, settlements, claims, and inquiries;

- The direct or indirect effect on our business resulting from terrorist or other physical attacks and cybersecurity 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 The Peoples Gas Light and Coke Company. The term "utility" refers to our regulated activities, while the term "non-utility" refers to our activities that are not regulated, as well as the activities of our subsidiary, Peoples Gas Neighborhood Development Corporation, which are not significant. References to "Notes" are to the Notes to the Consolidated Financial Statements included in this Annual Report.

We are a natural gas utility company that began operations in 1855. 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 in Chicago, Illinois. Major industries served include real estate, education, non-profits, wholesale distributors and food manufacturing. 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 Revenues

For information about our operating revenues disaggregated by customer class for the years ended December 31, 2023, 2022, and 2021, see Note 4, 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)	**2023**	**2022**	**2021**
Customers – end of year			
Residential	**780.5**	769.8	763.8
Commercial and industrial	**61.1**	61.0	61.3
Transportation	**49.5**	53.1	55.1
Total customers	**891.1**	883.9	880.2

Natural Gas Supply, Pipeline Capacity and Storage

We manage portfolios of natural gas supply contracts, storage services, and pipeline transportation services designed to meet varying customer use patterns. For more information on our natural gas utility supply and transportation contracts, see Note 18, Commitments and Contingencies.

Pipeline Capacity and Storage

The interstate pipelines serving Illinois access supply from natural gas producing areas in the Southern and Eastern United States, along with western Canada. We have contracted for long-term firm capacity from a number of these sources. This strategy reflects management's belief that overall supply security is enhanced by geographic diversification of the supply portfolio.

We own a 38.8 Bcf storage field (Manlove Field in central Illinois) and contract with various other underground storage service providers for additional 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 also own a natural gas pipeline system that connects Manlove Field to Chicago and nine major interstate pipelines. These assets are directed primarily to serving rate-regulated retail customers and are included in our regulatory rate base. We also use a portion of these company-owned storage and pipeline assets as a natural gas hub, which consists of providing transportation and storage services in interstate commerce to our wholesale customers. Customers deliver natural gas to us for storage through an injection into the storage reservoir, and we return the natural gas to the customers under an agreed schedule through a withdrawal from the storage reservoir. Title to the natural gas does not transfer to us. We recognize service fees associated with the natural gas hub services provided to wholesale customers. These service fees reduce the cost of natural gas and services charged to retail customers in rates.

Natural gas pipeline capacity and storage 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 storage capability, 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 21.0 million therms for the 2023 through 2024 heating season. Our peak daily send-out during 2023 was 13.1 million therms on January 31, 2023.

Natural Gas Supply

Our natural gas supply requirements are met through a combination of fixed-price purchases, index-priced purchases, storage, peak-shaving facilities, 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

As part of our hedging programs, we further reduce our supply cost volatility through the use of a mix of financial instruments, such as NYMEX-based natural gas options and futures contracts. Our hedging programs are 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%.

Natural Gas Safety Modernization Program

During 2023, we continued work on the SMP, a project to replace approximately 2,000 miles of Chicago's aging natural gas pipeline infrastructure that began in 2011. Prior to December 1, 2023, we recovered these costs through a surcharge on customer bills pursuant to an ICC approved QIP rider. Beginning December 1, 2023, recovery of SMP costs are included in our base rates. As part of the ICC's November 16, 2023 rate order issued in our rate case, the ICC ordered us to pause spending on the SMP until the ICC has a proceeding to determine the optimal method of pipeline replacement and a prudent investment level. The ICC initiated the proceeding on January 31, 2024, and the proceeding is expected to last twelve months. We, along with NSG, subsequently filed an application for rehearing with the ICC requesting reconsideration of various issues in the ICC's November 16, 2023 written orders.

On January 3, 2024, the ICC granted us and NSG a limited-scope rehearing, which includes the authorized spending for the completion of SMP projects that started in 2023 and the authorized spending for emergency repairs needed to ensure the safety and reliability of our delivery system.

For information on regulatory proceedings related to the SMP and future recovery of SMP costs see Note 20, Regulatory Environment, and Factors Affecting Results, Liquidity, and Capital Resources – Regulatory, Legislative, and Legal Matters – Future Illinois Proceedings.

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 and short-term). 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 external sources) 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. Electrification initiatives or mandates are being considered or proposed by local and state governments. In addition, all of our natural gas customers have 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 and Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results, Liquidity, and Capital Resources – Regulatory, Legislative, and Legal Matters – Future Illinois Proceedings.

Environmental Goals

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.

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 Army Corps.

Rates

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

Historically, natural gas rates approved by the ICC have been designed to provide utilities the opportunity to generate revenues to recover all prudently-incurred costs, along with a return on investment sufficient to pay interest on debt and provide a reasonable ROE. Rates charged to customers vary according to customer class. Our approved ROE and approved average common equity component were as follows during 2023:

Regulated Retail Rates	Regulatory Commission	Authorized ROE	Average Common Equity Component
Prior to December 1, 2023	ICC	9.05%	50.33%
Effective December 1, 2023	ICC	9.38%	50.79%

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 2023 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 20, 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, including our natural gas hub, are regulated by the FERC under the Natural Gas Act and the Natural Gas Policy Act of 1978. In addition, the PHMSA 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 also continue to monitor the progress of the PHMSA’s proposed rulemaking titled "Gas Pipeline Leak Detection and Repair," which could have a significant impact on us. A final rule is expected to be released in 2024.

We are required to provide service and grant credit (with applicable deposit requirements) to customers within 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 18, 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, equity, 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, 2023, we had 1,221 employees, including 830 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, Equity, 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, 2023, women and racial minorities represented approximately 18% and 68%, respectively, of our workforce. WEC Energy Group has a number of initiatives that promote diverse workforce contributions, educate employees about diversity, equity, 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 days away, restricted or transferred metrics, and measurable 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.

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 regulations, including regulations by the ICC and the FERC. These regulations significantly influence our operating environment, may affect our ability to recover costs from utility customers, affect our ability to implement WEC Energy Group's corporate strategy, 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, the outcome of which can be influenced by the level of opposition by intervening parties; potential rate impacts; increasing levels of regulatory review; and changes in the political, regulatory, or legislative environments. 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 the ICC. Future recovery of regulatory assets is not assured and is subject to review and approval by the ICC. 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.

Changes in the local and national political, regulatory, and economic environment have had, and may in the future have, an adverse effect on regulatory decisions, which could impair our ability to recover costs historically collected from customers. These decisions, which may come from any level of government, may cause us to cancel or delay current or planned projects, to reduce or delay other planned capital expenditures, or to pay for investments or otherwise incur costs that we may not be able to recover through rates or otherwise. In November 2023, the ICC issued a final rate order, with rates effective December 1, 2023. In the rate order, the ICC disallowed certain previously incurred capital costs, which resulted in us recording an impairment loss in the fourth quarter of 2023. In addition, the ICC paused spending on the SMP for at least one year, causing uncertainty of recovery of costs for existing and future projects. Due to the expiration of the QIP rider in December 2023, we had included the costs of necessary infrastructure improvements related to the SMP in our rate case. In January 2024, the ICC granted us a rehearing with a limited scope. Disallowance of our capital costs will not be part of the rehearing. Subsequent to the rehearing, we anticipate appealing the ICC's disallowance of these capital costs to the Illinois Appellate Court, which may result in extended uncertainty related to the recovery of existing and future investments in capital expenditures and our natural gas infrastructure in Illinois, and may impact future capital plans.

Prior to its expiration, the QIP rider provided us with recovery of, and a return on, qualifying natural gas infrastructure investments that are placed in service between regulatory rate reviews. This rider continues to be subject to an annual reconciliation whereby costs are reviewed for accuracy and prudency. There can be no assurance that all costs incurred under the QIP rider during the open reconciliation years, which include 2016 through 2023, will be deemed recoverable by the ICC. Regulatory lag, as well as the risk of costs being deemed unrecoverable during the review of the outstanding reconciliations, could have a material adverse impact on our results of operations, financial position, and liquidity.

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. The EPA has recently adopted and implemented (or is in the process of implementing) new environmental regulations, with more in the proposal process. These include regulations that govern the emission of air pollutants under the Clean Air Act, climate change, other air quality regulations, and water quality regulations. For example, the EPA, along with the Army Corps, released a final rule revising the definition of WOTUS that may impact projects requiring federal permits. Several of these rules were 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 environmental laws, regulations, and requirements, including costs associated with operating restrictions on our facilities; and environmental monitoring, emission fees, and permits at our facilities. Failure to comply with these laws, regulations, and requirements, even if caused by factors beyond our control, may result in the assessment of civil or criminal penalties and fines. We continue to assess the potential cost of complying, and to explore different alternatives in order to comply, with these and other environmental regulations.

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

Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental laws and regulations, 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 significant attention to issues concerning climate change. Management expects this attention to continue since climate change is one of President Biden's primary initiatives, with significant actions being taken by his administration. As a result, we expect the EPA and states to finalize and implement additional regulations to restrict emissions of GHGs. There have also been increasing efforts to introduce and adopt electrification initiatives and/or mandates and other efforts to reduce or eliminate reliance on natural gas as an energy source. 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 within our natural gas operations. GHG regulations that may be finalized in the future, at either the federal or state level, may cause our environmental compliance spending to differ materially from the amounts currently estimated. 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. 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. In addition, our natural gas delivery system and natural gas storage field 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.

In a movement toward electrification certain states and municipalities near or in our service territory have passed legislation or are considering ordinances banning natural gas used in new construction in order to limit GHG emissions. For example, the city of Chicago is considering an ordinance that would ban the use of natural gas in most new buildings, and the ICC is exploring the role of natural gas in the future and issues related to decarbonization of the natural gas distribution system in Illinois. There have also been efforts to restrict residential natural gas-fired appliances. Future local, statewide, or nationwide actions like these to regulate GHG emissions could increase the price of natural gas, reduce the demand for 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 and revenues. The adoption of electrification initiatives and/or mandates could also result in increased costs associated with permitting and siting of new technologies and delayed installation and start-up timelines.

We continue to monitor the financial and operational feasibility of taking more aggressive action to further reduce GHG emissions in order to limit future global temperature increases. 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.

The ability to achieve these reductions in methane emissions depends on many external factors, including the ability to make operating refinements, the development of relevant energy technologies, the use of RNG throughout WEC Energy Group's natural gas utility systems, and the ability of WEC Energy Group to execute its 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, as well as our credit ratings.

Tax legislation and regulations can adversely affect, among other things, our financial condition, results of operations, cash flows, liquidity, and credit ratings. Future changes to corporate tax rates or policies, including under Treasury Regulations and guidance issued, could require us to take material charges against earnings. Such changes include, among other things, increasing the federal corporate income tax rate, disallowing or limiting the 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 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

Public health crises, including epidemics and pandemics, could adversely affect our business functions, financial condition, liquidity, and results of operations.

Public health crises, including epidemics and pandemics, and any related government responses may adversely impact the economy and financial markets and 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.

Public health crises, including epidemics and pandemics, and any related government responses could also 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. We may also be adversely impacted by labor disruptions and productivity as a result of infections, employee attrition, and a reduced ability to replace departing employees as a result of employees who leave or forego employment to avoid any required precautionary measures.

Despite our efforts to manage the impacts of public health crises, including epidemics and pandemics, that may occur in the future, the extent to which they may affect us depends on factors beyond our knowledge or control. As a result, we are unable to determine the potential impact any such public health crises, including epidemics and pandemics, may have on our business plans and operations, liquidity, financial condition, and results of operations.

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

Our financial performance depends on the successful operation of our natural gas distribution facilities and natural gas storage field. 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 (i.e., storms, tornadoes, floods, droughts, etc.); catastrophic events (i.e., fires, earthquakes, and explosions); public health crises, including epidemics and pandemics; transportation disruptions; accidents; employee labor disputes; construction delays or cost overruns; delays in the replacement of aging infrastructure, 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 or other physical attacks; or cybersecurity 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 natural gas operations depend upon the availability of adequate interstate pipeline transportation capacity and natural gas.

We purchase almost all of our natural gas supply from interstate sources that must be transported to our service territory. Interstate pipeline companies transport the natural gas to our natural gas system under firm service agreements that are designed to meet the requirements of our core market. A significant disruption to interstate pipelines capacity or reduction in natural gas supply due to events including, but not limited to, operational failures or disruptions, hurricanes, tornadoes, floods, freeze off of natural gas wells, terrorist or physical attacks, cyberattacks, other acts of war, or legislative or regulatory actions or requirements, including remediation related to integrity inspections or regulations and laws enacted to address climate change or other environmental matters, could reduce the normal interstate supply of natural gas and thereby significantly disrupt our operations and/or reduce earnings.

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 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, and could be further reduced by new building codes, distributed energy resources, energy storage technology, and private solar. 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 incurring significant restoration costs and foregoing sales of natural gas and lost revenues. Additionally, an extreme weather event could also cause the cost of gas purchased for our customers to be temporarily driven significantly higher than our normal winter weather expectations. Although we have a regulatory mechanism in place for recovering all prudently incurred natural gas costs, the ICC 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 including derecho events, 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.

WEC Energy Group's 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 transition to lower GHG emissions, and may materially adversely impact our results of operations and cash flows.

Our operations and future results may be impacted by changing expectations and demands of our customers, regulators, investors, and other stakeholders, including heightened emphasis on environmental, social, and governance concerns.

Our ability to execute WEC Energy Group's strategy and achieve anticipated financial outcomes are influenced by the expectations of our customers, regulators, investors, and other stakeholders. Those expectations are based in part on the core fundamentals of affordability and reliability but are also increasingly focused on our ability to meet rapidly changing demands for new and varied products, services, and offerings. Additionally, the risks of global climate change continue to shape our customers' sustainability goals and energy needs, as well as the investment and financing criteria of investors. Failure to meet these increasing expectations or to adequately address the risks and external pressures from regulators, customers, investors, and other stakeholders may impact our reputation and affect our ability to achieve favorable outcomes in future rate cases or our results of operations. Furthermore, the increasing use of social media may accelerate and increase the potential scope of negative publicity we might receive and could increase the negative impact on our reputation, business, results of operations, and financial condition. Furthermore, with this heightened emphasis on environmental, social, and governance concerns, and climate change in particular, there is an increased risk of litigation.

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. Protracted, expanding or escalating regional conflicts, including conflicts in Ukraine, Israel, and parts of the Middle East, as well as strained relationships between the United States and other countries related to such conflicts, could further contribute to current domestic and global supply chain disruptions that 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 continued 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. 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, natural gas storage, 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 public health crises, including epidemics and pandemics; other governmental actions; continued public and policymaker support for such projects; and events in the global economy. 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/or projections on which the approval was based, the ICC may deem the additional capital costs as imprudent and disallow recovery of them through rates. In addition, the ICC, in a future rate proceeding, may alter the timing or amount of certain costs for which recovery is allowed, such as the case in its November 2023 rate order.

We sometimes enter into equipment purchase orders and construction contracts and incur engineering and design service costs in advance of receiving necessary regulatory approvals and/or siting or environmental permits. If any of these projects are canceled for any reason, including failure to receive necessary regulatory approvals and/or siting or environmental permits, significant cancellation penalties under the equipment purchase orders and construction contracts could occur. In addition, if any construction work or investments have been recorded as an asset, an impairment may need to be recorded in the event the project is canceled.

To the extent that delays occur, costs become unrecoverable, or we otherwise become unable to effectively manage and complete 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, cybersecurity intrusions, terrorist or other physical 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 cybersecurity intrusions caused by human error, vendor bugs, terrorist or other physical attacks, acts of war, 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. Cybersecurity attacks, including attacks targeting utility systems and other critical infrastructure may increase during periods of heightened or escalating geopolitical tensions.

We operate in an industry that requires the use of sophisticated information technology systems and network infrastructure, which in turn control an interconnected network of distribution and transmission systems shared with third parties. A successful physical or cybersecurity intrusion may occur despite our security measures or those we require of our vendors. Successful cybersecurity intrusions, including those targeting the electronic control systems used at our natural gas transmission, distribution, and storage 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 subsidiaries have also resulted in increased reliance on current and recently completed projects for technology systems. The failure to enhance existing information technology systems and implement new technology, could adversely affect our operations. 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. In some cases, we rely on third-party hosted services to support our business operations. Malicious actors may target these providers to disrupt the services they provide to us, or to use those third parties to attack us. Security breaches of our or our third-party service providers' systems 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 system 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, distribute, and store natural gas, which involves numerous risks that may result in accidents and other operating risks and costs.

Inherent in natural gas distribution and storage 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 and storage facilities 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. Further, delays in the replacement of aging infrastructure as a result of the ICC order in our rate case may lead to increased costs and disruptions in operations that could also negatively impact our financial results.

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. 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. In addition, we rely on a committed bank credit agreement as back-up liquidity, which allows us to access the low cost commercial paper markets. The availability of credit depends upon the ability of banks providing commitments under the facility to provide funds when their obligations to do so arise. Systemic risk of the banking system and the financial markets could prevent a bank from meeting its obligations under the credit agreement.

Successful implementation of our long-term business strategies, including capital investment, is dependent upon our ability to access the capital markets, including the banking and commercial paper markets, on competitive terms and rates. Continued elevation of, or further increases in, interest rates may adversely affect our results of operations and the ability to earn our approved rate of return. High interest rates may also impair our ability to cost-effectively finance capital expenditures and to refinance maturing debt.

Our 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;
- Political tensions, including civil unrest and election volatility;
- Concerns over foreign economic conditions;
- Changes in tax policy;
- Changes in investment criteria of institutional investors or banks;
- War or the threat of war; and
- The overall health and view of the utility and financial institution industries.

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

A downgrade in our credit ratings could negatively affect our ability to access capital at reasonable costs and/or require the posting of collateral.

There are a number of factors that impact our credit ratings, including, but not limited to, capital structure, regulatory environment, the ability to cover liquidity requirements, and other requirements for capital. We could experience a downgrade in ratings if the rating agencies determine that our level of business or financial risk, 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:

- Increase borrowing costs under our existing credit facility;
- Require the payment of higher interest rates in future financings and possibly reduce the pool of creditors;
- Decrease funding sources by limiting our access to the commercial paper market;
- Limit the availability of adequate credit support for our operations; and
- Trigger collateral requirements in various contracts.

Fluctuating commodity prices could negatively impact our operations.

Our operating and liquidity requirements are impacted by changes in the forward and current market prices of natural gas. The cost of natural gas may increase because of disruptions in the supply of natural gas due to a curtailment in production or distribution, international market conditions, the demand for natural gas, and the availability of shale gas and potential regulations 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.

Volatility in the securities markets, interest rates, changes in assumptions, market conditions, and other factors may impact the performance of our benefit plan holdings.

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, regulators, and cushion gas in underground storage 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, 2023, our natural gas properties were located in Illinois and consisted of the following:

- Approximately 4,700 miles of natural gas distribution mains,
- Approximately 340 miles of natural gas transmission mains,
- Approximately 536,800 natural gas lateral services,
- 22 natural gas distribution and transmission gate stations,
- 38.8 Bcf of working gas capacities in an underground natural gas storage field located in central Illinois, and
- A 2.0 Bcf liquefied natural gas plant located in central Illinois.

We own and operate a reservoir in central Illinois (Manlove Field), and a natural gas pipeline system that connects Manlove Field to Chicago with nine major interstate pipelines. The underground storage reservoir also serves NSG, a public utility affiliate, under a contractual arrangement. We use our natural gas storage and pipeline assets as a natural gas hub in the Chicago area. Our natural gas distribution and storage systems includes distribution mains and transmission mains connected to the pipeline transmission systems of Alliance Pipeline, ANR Pipeline Company, Guardian Pipeline, Kinder Morgan Illinois Pipeline, Midwestern Gas Pipeline Company, Natural Gas Pipeline Company of America, Northern Border Pipeline Company, Trunkline Gas Pipeline, and Vector Pipeline.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CORPORATE DEVELOPMENTS

Introduction

We are a natural gas utility and an indirect wholly owned subsidiary of WEC Energy Group. We purchase, store, distribute, sell, and transport natural gas to customers in Chicago, Illinois. We use our natural gas storage and pipeline supply assets as a natural gas hub. This activity consists of providing wholesale transportation and natural gas storage services in interstate commerce.

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 systems, 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 have made significant reliability-related investments in recent years, and expect to continue strengthening and modernizing our natural gas distribution network to further improve reliability. Through the SMP, we had been working to replace old iron pipes and facilities in Chicago’s natural gas delivery system with modern polyethylene pipes to reinforce the long-term safety and reliability of the system. In November 2023, the ICC ordered us to pause spending on the SMP until the ICC completes a proceeding to determine the optimal method for replacing aging natural gas infrastructure and a prudent investment level. The ICC initiated the proceeding on January 31, 2024, and the proceeding is expected to last 12 months. For more information, see Factors Affecting Results, Liquidity, and Capital Resources - Regulatory, Legislative, and Legal Matters - Future Illinois Proceedings.

On January 3, 2024, the ICC granted us a limited-scope rehearing, which is limited to the authorized spending for the completion of SMP projects that started in 2023 and the authorized spending for emergency repairs needed to ensure the safety and reliability of our delivery system. As a result, we have suspended neighborhood work, pending the results of the limited rehearing. See Note 20, Regulatory Environment, for more information.

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.

Financial Discipline

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

We follow an asset management strategy that focuses on investing in and acquiring assets consistent with our strategic plans, as well as disposing of assets, including property, plants, and equipment, that are no longer strategic to operations, are not performing as intended, or have an unacceptable risk profile. See Note 2, Disposition, for information on a recent real estate sale.

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, 2023 with the year ended December 31, 2022. For a similar discussion that compares our results for the year ended December 31, 2022 with the year ended December 31, 2021, see Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations in our 2022 Annual Report.

Consolidated Earnings

Our consolidated earnings for the year ended December 31, 2023 were $120.1 million, compared with $208.3 million for the year ended December 31, 2022. See below for additional information on the $88.2 million decrease in our consolidated 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, 2023 and 2022 was $236.8 million and $340.0 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)	**2023**	**2022**	**B (W)**
Natural gas revenues	**$ 1,356.9**	$ 1,628.0	$ (271.1)
Cost of natural gas	**352.1**	645.1	293.0
Total natural gas margins	**1,004.8**	982.9	21.9
Other operation and maintenance	**347.6**	399.6	52.0
Impairment related to ICC disallowances	**177.2**	—	(177.2)
Depreciation and amortization	**216.8**	210.4	(6.4)
Property and revenue taxes	**26.4**	32.9	6.5
Operating income	**236.8**	340.0	(103.2)
Other income, net	**7.1**	12.6	(5.5)
Interest expense	**82.4**	67.8	(14.6)
Income before income taxes	**161.5**	284.8	(123.3)
Income tax expense	**41.4**	76.5	35.1
Net income	**$ 120.1**	$ 208.3	$ (88.2)

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

	Year Ended December 31		
(in millions)	**2023**	**2022**	**B (W)**
Operation and maintenance not included in the line items below	**$ 262.8**	$ 275.3	$ 12.5
Riders [(1)]	**85.4**	112.5	27.1
Regulatory amortizations [(1)]	**(0.6)**	(2.7)	(2.1)
Other	**—**	14.5	14.5
Total other operation and maintenance	**$ 347.6**	$ 399.6	$ 52.0

[(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 sales volumes by customer class and weather statistics:

	Therms *(in millions)*		
Natural Gas Sales Volumes	**2023**	**2022**	**B (W)**
Customer Class			
Residential	**612.4**	716.0	(103.6)
Commercial and industrial	**266.8**	310.1	(43.3)
Total retail	**879.2**	1,026.1	(146.9)
Transportation	**619.7**	702.8	(83.1)
Total sales in therms	**1,498.9**	1,728.9	(230.0)

	Degree Days		
Weather [(1)]	**2023**	**2022**	**B (W)**
Heating (6,005 Normal)	**5,097**	6,140	(17.0)%

[(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 decreased $271.1 million during 2023, compared with 2022. 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 decreased approximately 36% during 2023, compared with 2022. 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, net of the $27.1 million impact of the riders referenced in the table above, increased $49.0 million during 2023, compared with 2022. The increase in margins was primarily driven by:

- A $29.5 million increase in margins related to the impact of our rate order issued by the ICC, effective December 1, 2023.
- A $23.9 million increase in revenues due to continued capital investment in the SMP project under our QIP rider. We recovered the costs related to the SMP through a surcharge on customer bills pursuant to the QIP rider, which was in effect for most of 2023.

For information on our rate order, the QIP rider, our plan to recover SMP costs after 2023, and the pause in spending on the SMP, see Note 20, Regulatory Environment.

Other Operating Expenses (includes other operation and maintenance, impairment related to ICC disallowances, depreciation and amortization, and property and revenue taxes)

Other operating expenses at the natural gas utility segment increased $152.2 million, net of the $27.1 million impact of the riders referenced in the table above, during 2023, compared with 2022. The significant factors impacting the increase in operating expenses were:

- A $177.2 million impairment associated with the ICC order received in November 2023 related to our rate review, which included the disallowance of previously incurred capital costs. See Note 20, Regulatory Environment, for more information on the ICC disallowance.
- A $54.5 million pre-tax gain on the sale of certain real estate in Chicago during 2022. See Note 2, Disposition, for more information.
- A $10.8 million increase in expense driven by an ICC order received in May 2023 related to an annual prudency review of our UEA rider, which required refunds to ratepayers starting in September 2023. See Factors Affecting Results, Liquidity, and Capital Resources – Regulatory, Legislative, and Legal Matters – Regulatory Recovery for more information.

These increases in operating expenses were partially offset by:

- A $39.6 million decrease in natural gas distribution and maintenance costs, primarily related to maintaining the natural gas infrastructure during 2023, compared with 2022.
- A $24.5 million decrease in expenses related to contributions to charitable projects during 2023, compared with 2022.
- A $9.5 million decrease in expenses associated with the settlement of legal claims during 2022.
- A $6.5 million decrease in property and revenue taxes, driven by lower property and use taxes.
- A $3.4 million decrease in customer service expense due to lower call center expense and metering costs.
- A $2.1 million decrease in benefit costs, primarily due to lower stock-based compensation expense related to plan performance during 2023.

Other Income, Net

Other income, net decreased $5.5 million during 2023, compared with 2022, driven by lower net credits from the non-service components of our net periodic pension and OPEB costs. See Note 16, Employee Benefits, for more information on our benefit costs. This negative impact was partially offset by higher interest income. See Note 21, Other Income, Net, for more information.

Interest Expense

Interest expense increased $14.6 million during 2023, compared with 2022, driven by higher long-term debt balances related to incremental borrowings in both 2023 and 2022, primarily related to additional capital investment. Also contributing to the increase was higher short-term debt interest rates. See Note 11, Short-Term Debt and Lines of Credit, and Note 12, Long-Term Debt, for more information.

Income Tax Expense

Income tax expense decreased $35.1 million during 2023, compared with 2022, driven by a decrease in pre-tax income.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We expect to maintain adequate liquidity to meet our cash requirements for the operation of our business 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, 2023 with the year ended December 31, 2022. For a similar discussion that compares our cash flows for the year ended December 31, 2022 with the year ended December 31, 2021, see Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources in our 2022 Annual Report.

Cash Flows

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

(in millions)	2023	2022	Change in 2023 Over 2022
Cash provided by (used in):			
Operating activities	**$ 466.0**	$ 428.8	$ 37.2
Investing activities	**(431.0)**	(398.4)	(32.6)
Financing activities	**(35.0)**	(32.3)	(2.7)

Operating Activities

Net cash provided by operating activities increased $37.2 million during 2023, compared with 2022, driven by:

- A $169.5 million increase in cash from lower payments for natural gas related to natural gas sold to our customers during 2023, compared with 2022.
- A $38.6 million increase in cash related to lower cash paid for income taxes during 2023, compared with 2022, driven by lower taxable income during 2023.

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

- A $158.6 million decrease in cash driven by collateral paid to counterparties during 2023, compared with collateral received from counterparties during 2022, as well as realized losses on derivative instruments recognized during 2023, compared with realized gains recognized during 2022.

- A $13.6 million decrease in cash from higher payments for interest, driven by the issuance of long-term debt in December 2022 and November 2023, and higher average short-term debt interest rates during 2023, compared with 2022.

Investing Activities

Net cash used in investing activities increased $32.6 million during 2023, compared with 2022, driven by a $56.9 million decrease in proceeds from the sale of assets during 2023, compared with 2022, primarily related to the sale of real estate. See Note 2, Disposition, for more information. This increase in net cash used in investing activities was partially offset by a $21.6 million net increase in cash due to $18.5 million of repayments received from NSG during 2023, compared with $3.1 million of borrowings provided to NSG during 2022 related to a note receivable. See Note 3, Related Parties, for more information.

Financing Activities

Net cash used in financing activities increased $2.7 million during 2023, compared with 2022, driven by:

- A $30.0 million decrease in cash related to lower equity contributions received from our parent, PELLC, during 2023, compared with 2022, to balance our capital structure.

- A $10.0 million decrease in cash related to higher dividends paid to our parent, PELLC, during 2023, compared with 2022, to balance our capital structure.

These decreases in cash were partially offset by a $36.7 million increase in cash due to $30.5 million of net borrowings of commercial paper during 2023, compared with $6.2 million of net repayments of commercial paper during 2022.

Significant Financing Activities

For more information on our financing activities, see Note 11, Short-Term Debt and Lines of Credit, and Note 12, 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, 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 18, Commitments and Contingencies.

(in millions)		
2024	$	379.7
2025		330.8
2026		457.6
Total	$	1,168.1

During 2023, we continued work on the SMP, a project under which we are replacing approximately 2,000 miles of Chicago's aging natural gas pipeline infrastructure. In November 2023, the ICC ordered us to pause spending on the SMP until the ICC has a proceeding to determine the optimal method of pipeline replacement and a prudent investment level. The ICC initiated the proceeding on January 31, 2024, and the proceeding is expected to last twelve months. For more information, see Factors Affecting Results, Liquidity, and Capital Resources - Regulatory, Legislative, and Legal Matters - Future Illinois Proceedings. On January 3, 2024, the ICC granted us a limited-scope rehearing, which includes the authorized spending for the completion of SMP projects that

started in 2023 and the authorized spending for emergency repairs needed to ensure the safety and reliability of our delivery system. As a result, we have suspended neighborhood work pending the results of the limited hearing. See Note 20, Regulatory Environment, for more information on the SMP.

Long-Term Debt

A significant amount of cash is required to retire and pay interest on our long-term debt obligations. See Note 12, 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, 2023:

	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	$ 897.0	$ 72.7	$ 142.0	$ 134.8	$ 547.5

Common Stock Matters

During the years ended December 31, 2023, 2022, and 2021, we paid common stock dividends of $335.0 million, $325.0 million, and $180.0 million, respectively, to the sole holder of our common stock, PELLC. 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. In addition, 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 9, 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 18, 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, excluding energy-related 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	$ 98.3	$ 44.3	$ 47.7	$ 6.3	$ —

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 16, Employee Benefits, for our expected contributions in 2024 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, 2023 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 8, Asset Retirement Obligations, and Note 18, Commitments and Contingencies, 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. See Note 11, Short-Term Debt and Lines of Credit, for more information.

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, equity contributions from our parent, and access to the capital markets, which allows us to obtain external short-term borrowings, including commercial paper, and 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.

We maintain a bank back-up credit facility, which provides liquidity support for our obligations with respect to commercial paper and for general corporate purposes. We review our bank back-up credit facility needs on an ongoing basis and expect to be able to maintain adequate credit facilities to support our operations.

We also have the ability to borrow up to $150.0 million from Integrys and up to $50.0 million from NSG. At December 31, 2023, we had no borrowings outstanding with Integrys or NSG.

The amount, type, and timing of any financings in 2024, 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, 2023, our current liabilities exceeded our current assets by $272.4 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 under existing revolving credit facilities, 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 11, Short-Term Debt and Lines of Credit, and Note 12, Long-Term Debt, for more information about our credit facility 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, 2023, these trusts had investments of approximately $458.5 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 16, Employee Benefits.

Debt Covenants

At December 31, 2023, we were in compliance with all covenants related to outstanding short-term and long-term debt. We expect to be in compliance with all such debt covenants for the foreseeable future. See Note 11, Short-Term Debt and Lines of Credit, and Note 12, Long-Term Debt, for more information.

Credit Rating Risk

Cash collateral postings and prepayments made with external parties, including postings related to exchange-traded contracts, and cash collateral posted by external parties were immaterial as of December 31, 2023. From time to time, we may enter into commodity contracts that could require collateral or a termination payment in the event of a credit rating change to below BBB- at S&P Global Ratings, a division of S&P Global Inc., and/or Baa3 at Moody's Investors Service, Inc. We also have other commodity

contracts that, in the event of a credit rating downgrade, could result in a reduction of our unsecured credit granted by counterparties.

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

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

FACTORS AFFECTING RESULTS, LIQUIDITY, AND CAPITAL RESOURCES

Competitive Markets

We offer natural gas transportation service as an option for customers to manage their energy costs. Customers continue to switch between 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. A charter from the State of Illinois gives us the right to provide natural gas distribution service in the City of Chicago as a public utility. Further, 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 anti-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 utility 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 choice option available to customers, but since this option is currently provided to our customers under tariff, ICC approval would be needed to withdraw those tariffs.

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 system 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.

Regulated entities are allowed to defer certain costs that would otherwise be charged to expense if the regulated entity believes the recovery of those costs is probable. We record regulatory assets pursuant to generic and/or specific orders issued by the ICC. Recovery of the deferred costs in future rates is subject to the review and approval of the ICC. We assume the risks and benefits of ultimate recovery of these items in future rates. If the recovery of the deferred costs, including those referenced below, is not approved by the ICC, the costs would be charged to income in the current period. The ICC can impose liabilities on a prospective basis for amounts previously collected from customers and for amounts that are expected to be refunded to customers. We record these items as regulatory liabilities. See Note 6, Regulatory Assets and Liabilities, for more information on our regulatory assets and liabilities.

Our rates include a UEA rider for cost recovery or refund of uncollectible expense based on the difference between actual uncollectible write-offs and the amounts recovered in rates. The UEA rider is subject to an annual reconciliation whereby costs are reviewed for accuracy and prudency by the ICC. In May 2023, the ICC issued a written order on our 2018 UEA rider reconciliation. The order requires a $15.4 million refund to our ratepayers. This amount is being refunded over a period of nine months, which began on September 1, 2023. In June 2023, the ICC denied our application requesting a rehearing of the ICC's May 2023 order. In July 2023, we petitioned the Illinois Appellate Court for review of the ICC orders. Our appeal is still pending. As of December 31, 2023, there can be no assurance that all costs incurred under the UEA rider during the open reconciliation years, which include 2019 through 2023, will be deemed recoverable by the ICC. Annual costs included in the rider, which reflect uncollectible write-offs in excess of what is recovered in base rates, have ranged from $10 million to $38 million during these open reconciliation years. Disallowances by the ICC, if any, could be material and have a material adverse impact on our results of operations.

In January 2014, the ICC approved our use of the QIP rider as a recovery mechanism for costs incurred related to investments in QIP. This rider, which was in effect until December 1, 2023, continues to be subject to an annual reconciliation whereby costs are reviewed for accuracy and prudency. In March 2024, we filed our 2023 reconciliation with the ICC, which, along with the reconciliations from 2016 through 2022, are still pending. Annual costs included in our QIP rider have ranged from $192 million to $348 million. As of December 31, 2023, there can be no assurance that all costs incurred under the QIP rider during the open reconciliation years, which include 2016 through 2023, will be deemed recoverable by the ICC. Disallowances by the ICC, if any, could be material and have a material adverse impact on our results of operations.

See Note 20, Regulatory Environment, for more information regarding our recent and pending rate proceedings, orders, and investigations.

Future Illinois Proceedings

In our rate order issued by the ICC in November 2023, the ICC ordered us to pause spending on our SMP until the ICC completes a proceeding to determine the optimal method for replacing aging natural gas infrastructure and a prudent investment level. The ICC initiated the proceeding on January 31, 2024, and the proceeding is expected to last 12 months.

On March 7, 2024, the ICC initiated a statewide "Future of Gas" proceeding. The goal of this proceeding will be to explore the issues involved with decarbonization of the gas distribution system in Illinois and recommend any future ICC action or legislative changes needed. It will include the formal exploration and consideration of the role of natural gas in the future, including in the context of the state’s environmental and energy policy goals. The proceeding will include a broad range of stakeholders, including Illinois utilities and other interested parties. The “Future of Gas” proceeding is expected to last at least one year.

At this time, we cannot predict the ultimate outcome of these proceedings or the resulting impact to our natural gas operations. Future natural gas investment opportunities could be negatively impacted depending upon the outcomes. See Note 20, Regulatory Environment, for more information regarding the November 2023 ICC rate order.

Chicago Decarbonization Efforts

The CABO was introduced at a meeting of the Chicago city council held on January 24, 2024. If approved, this ordinance would set an indoor emissions standard that would require zero-to-low-emission energy systems in newly built commercial and residential buildings and major building additions in the city of Chicago. The proposed emission standards would effectively prohibit the use of natural gas in new buildings and homes and require electric heat and appliances. The CABO would not impact existing homes and businesses. In addition, certain buildings and equipment, such as hospitals, commercial kitchens, and back-up generators, would be exempt from the new emission limits.

In response to the CABO, a resolution was also introduced that would require the formation of a working group comprised of various subject matter experts to analyze the costs of converting buildings from natural gas to electricity, the costs for additional electric generation capacity needed for future building conversions, and the impact of shifting natural gas system costs from new construction to existing buildings if electrification measures are adopted. If the resolution is passed, this analysis would need to be completed prior to the adoption of any decarbonization initiatives, such as the CABO.

If approved by the city council, the CABO is expected to become effective one year after the approval date. Our future natural gas operations could be materially adversely impacted if the CABO is passed.

Climate and Equitable Jobs Act

On September 15, 2021, the state of Illinois signed into law the Climate and Equitable Jobs Act. This 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 that had the potential to have the most significant financial impact on us related to the new consumer protection requirements.

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. Utilities are now required to incur these expenses and seek recovery through a rate proceeding or by establishing a recovery mechanism. In December 2021, the ICC approved our use of a TPTFA rider, which allowed us to recover the costs incurred for these third-party transaction fees prior to them being included in our base rates. Effective December 1, 2023, we began recovering these costs through our base rates. See Note 20, Regulatory Environment, for more information on the TPTFA rider.

In accordance with the new legislation, effective January 1, 2023, natural gas utilities are no longer allowed to charge late payment fees to certain low-income residential customers. As a result of the ICC's November 2023 rate order, we do not expect this legislation to have a significant impact on our 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 a five year period, 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 and carbon management, 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 18, Commitments and Contingencies, for a discussion of certain environmental matters affecting us, including rules and regulations relating to air quality, water 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 5, Credit Losses, for more information on our rider that allows for cost recovery or refund of uncollectible expense.

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 2023 and 2022, 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 and 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, 2023 and 2022, a hypothetical increase in market interest rates of one percentage point would have increased annual interest expense by $3.3 million and $3.0 million in 2023 and 2022, 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, 2023	Expected Return on Assets in 2024
Pension trust funds	**$ 288.1**	6.75 %
OPEB trust funds	**$ 170.4**	6.50 %

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 the four risk factors below.

- Risk Factors – Risks Related to the Operation of Our Business – Public health crises, including epidemics and pandemics, could adversely affect our business functions, financial condition, liquidity, and results of operations.

- 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.

- Risk Factors – Risks Related to the Operation of Our Business – 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.

- Risk Factors – Risks Related to Economic and Market Volatility – Fluctuating commodity prices could negatively impact our natural gas utility operations.

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

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 judgments 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 ratemaking 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. See Note 6, 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 judgment 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 16, 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 ratemaking 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 2023 Pension Cost**
Discount rate	(0.5)	$ 18.0	$ 0.4
Discount rate	0.5	(15.5)	(2.3)
Rate of return on plan assets	(0.5)	N/A	1.5
Rate of return on plan assets	0.5	N/A	(1.5)

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 2023 Postretirement Benefit Cost**
Discount rate	(0.5)	$ 2.5	$ 0.2
Discount rate	0.5	(2.4)	(0.2)
Health care cost trend rate	(0.5)	(1.5)	(0.4)
Health care cost trend rate	0.5	1.6	0.4
Rate of return on plan assets	(0.5)	N/A	0.8
Rate of return on plan assets	0.5	N/A	(0.8)

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 6.75% in 2023 and 7.00% in both 2022 and 2021. The actual rate of return on pension plan assets, net of fees, was 10.43%, (16.93)%, and 10.19% in 2023, 2022, and 2021, 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 16, 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 throughput volumes, recorded sales, estimated customer usage by class, weather factors, 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 $117.7 million and $169.3 million as of December 31, 2023 and 2022, respectively. The changes in unbilled revenues are primarily due to changes in the cost of natural gas and weather, partially offset by changes in 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 13, 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 consolidated 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 The Peoples Gas Light and Coke Company:

Opinion

We have audited the consolidated financial statements of The Peoples Gas Light and Coke Company and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the consolidated 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, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, 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 21, 2024

THE PEOPLES GAS LIGHT AND COKE COMPANY

B. CONSOLIDATED INCOME STATEMENTS

Year Ended December 31 *(in millions)*	2023	2022	2021
Operating revenues	**$ 1,356.9**	$ 1,628.0	$ 1,463.1
Operating expenses			
Cost of natural gas	**352.1**	645.1	521.3
Other operation and maintenance	**347.6**	399.6	383.5
Impairment related to ICC disallowances	**177.2**	—	—
Depreciation and amortization	**216.8**	210.4	197.8
Property and revenue taxes	**26.4**	32.9	28.1
Total operating expenses	**1,120.1**	1,288.0	1,130.7
Operating income	**236.8**	340.0	332.4
Other income, net	**7.1**	12.6	7.4
Interest expense	**82.4**	67.8	61.1
Other expense	**(75.3)**	(55.2)	(53.7)
Income before income taxes	**161.5**	284.8	278.7
Income tax expense	**41.4**	76.5	73.3
Net income	**$ 120.1**	$ 208.3	$ 205.4

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

THE PEOPLES GAS LIGHT AND COKE COMPANY

C. CONSOLIDATED BALANCE SHEETS

At December 31 *(in millions, except share amounts)*	2023	2022
Assets		
Current assets		
Accounts receivable and unbilled revenues, net of reserves of $107.4 and $108.0, respectively	**$ 332.0**	$ 454.9
Accounts receivable from related parties	**19.5**	24.8
Notes receivable from related party	**27.9**	46.4
Materials, supplies, and inventories:		
Natural gas in storage, at LIFO	**110.4**	94.9
Materials and supplies	**32.7**	30.3
Prepayments	**8.5**	7.5
Collateral on deposit	**36.7**	28.8
Other	**20.2**	32.8
Current assets	**587.9**	720.4
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation and amortization of $1,810.4 and $1,759.2, respectively	**5,080.7**	5,138.7
Regulatory assets	**711.6**	691.5
Pension and OPEB assets	**150.2**	135.1
Other	**9.4**	11.4
Long-term assets	**5,951.9**	5,976.7
Total assets	**$ 6,539.8**	$ 6,697.1
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term debt	**$ 330.8**	$ 300.3
Current portion of long-term debt	**75.0**	—
Accounts payable	**177.7**	261.8
Accounts payable to related parties	**36.2**	50.7
Accrued taxes	**34.9**	59.3
Customer credit balances	**88.8**	75.5
Other	**116.9**	111.6
Current liabilities	**860.3**	859.2
Long-term liabilities		
Long-term debt	**1,983.3**	1,957.5
Deferred income taxes	**650.6**	619.7
Deferred ITCs	**20.6**	27.1
Regulatory liabilities	**411.4**	450.3
Environmental remediation liabilities	**305.9**	305.9
AROs	**135.8**	260.9
Other	**79.5**	79.4
Long-term liabilities	**3,587.1**	3,700.8
Commitments and contingencies (Note 18)		
Shareholder's equity		
Common stock – without par value, 40,000,000 shares authorized; 25,357,566 shares issued and outstanding	**1,318.0**	1,147.8
Retained earnings	**774.4**	989.3
Shareholder's equity	**2,092.4**	2,137.1
Total liabilities and shareholder's equity	**$ 6,539.8**	$ 6,697.1

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

THE PEOPLES GAS LIGHT AND COKE COMPANY

D. CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 *(in millions)*	2023	2022	2021
Operating activities			
Net income	**$ 120.1**	$ 208.3	$ 205.4
Reconciliation to cash provided by operating activities			
Depreciation and amortization	**216.8**	210.4	197.8
Deferred income taxes and ITCs, net	**17.2**	1.8	46.4
Impairment related to ICC disallowances	**177.2**	—	—
Contributions and payments related to pension and OPEB plans	**(0.6)**	(0.2)	(30.1)
Settlement of AROs	**(10.7)**	(9.6)	(18.1)
Manufactured gas plant remediation costs	**(25.4)**	(29.3)	(22.0)
Net gain on disposition of assets	**(2.0)**	(58.0)	(4.1)
Change in –			
Accounts receivable and unbilled revenues, net	**128.2**	(90.5)	(111.6)
Materials, supplies, and inventories	**(17.9)**	3.1	(11.1)
Amounts recoverable from customers	**0.8**	50.3	(53.6)
Prepayment	**(1.0)**	(1.1)	1.9
Collateral on deposit	**(7.9)**	(28.8)	3.7
Accounts payable	**(78.4)**	30.7	27.2
Accrued taxes	**(24.4)**	2.5	15.0
Customer credit balances	**13.3**	31.0	2.3
Amounts refundable to customers	**—**	12.2	(10.0)
Other current liabilities	**1.6**	8.0	(1.4)
Other, net	**(40.9)**	88.0	68.1
Net cash provided by operating activities	**466.0**	428.8	305.8
Investing activities			
Capital expenditures	**(451.8)**	(451.0)	(502.0)
Short-term notes receivable from related party, net	**18.5**	(3.1)	6.7
Proceeds from the sale of assets	**2.3**	59.2	7.9
Payments for assets transferred from WBS	**—**	—	(6.1)
Other, net	**—**	(3.5)	(0.3)
Net cash used in investing activities	**(431.0)**	(398.4)	(493.8)
Financing activities			
Change in short-term debt	**30.5**	(6.2)	95.5
Issuance of long-term debt	**100.0**	100.0	200.0
Retirement of long-term debt	**—**	—	—
Equity contribution from parent	**170.0**	200.0	75.0
Payment of dividends to parent	**(335.0)**	(325.0)	(180.0)
Other, net	**(0.5)**	(1.1)	(2.4)
Net cash provided by (used in) financing activities	**(35.0)**	(32.3)	188.1
Net change in cash and cash equivalents	**—**	(1.9)	0.1
Cash and cash equivalents at beginning of year	**—**	1.9	1.8
Cash and cash equivalents at end of year	**$ —**	$ —	$ 1.9

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

THE PEOPLES GAS LIGHT AND COKE COMPANY

E. CONSOLIDATED STATEMENTS OF EQUITY

(in millions)	Common Stock	Retained Earnings	Total Common Shareholder's Equity
Balance at December 31, 2020	$ 872.0	$ 1,080.6	$ 1,952.6
Net income	—	205.4	205.4
Equity contribution from parent	75.0	—	75.0
Dividends to parent	—	(180.0)	(180.0)
Other	0.4	—	0.4
Balance at December 31, 2021	$ 947.4	$ 1,106.0	$ 2,053.4
Net income	—	208.3	208.3
Equity contribution from parent	200.0	—	200.0
Dividends to parent	—	(325.0)	(325.0)
Other	0.4	—	0.4
Balance at December 31, 2022	$ 1,147.8	$ 989.3	$ 2,137.1
Net income	**—**	**120.1**	**120.1**
Equity contribution from parent	**170.0**	**—**	**170.0**
Dividends to parent	**—**	**(335.0)**	**(335.0)**
Other	**0.2**	**—**	**0.2**
Balance at December 31, 2023	**$ 1,318.0**	**$ 774.4**	**$ 2,092.4**

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations—As used in these notes, the term "financial statements" refers to the consolidated financial statements. This 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 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 jurisdiction of the FERC, which regulates the interstate services we provide. We are wholly owned by PELLC, which is an indirect wholly owned subsidiary of WEC Energy Group.

At December 31, 2023, we had one wholly owned subsidiary, Peoples Gas Neighborhood Development Corporation. The financial statements include our accounts and the accounts of our wholly owned subsidiary.

(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 4, 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 20, 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 also include riders for cost recovery of both environmental cleanup costs and energy conservation and management program costs. Finally, through the end of 2023, our rates included a rider for pass through of income tax expense changes resulting from the Tax Legislation and a cost recovery mechanism for SMP costs.

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

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.

Our only alternative revenue program is our decoupling mechanism, which allows us to recover or refund the differences between actual and authorized margins for certain customer classes.

(e) Credit Losses—The following discussion includes our significant accounting policies related to credit losses. For additional required disclosures on credit losses, see Note 5, Credit Losses.

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.

(f) Materials, Supplies, and Inventories—Inventories consist of materials and supplies and natural gas in storage. Materials and supplies are priced at average cost. We price 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, 2023 and 2022, exceeded the LIFO cost by $10.2 million and $82.9 million, respectively. In calculating these replacement amounts, we used a Chicago city-gate natural gas price per Dth of $2.13 at December 31, 2023, and $3.41 at December 31, 2022.

(g) Regulatory Assets and Liabilities—The economic effects of regulation can result in regulated companies recording costs and revenues that are allowed in the ratemaking 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 6, 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 3.13%, 3.13%, and 3.12% in 2023, 2022, and 2021, respectively.

We capitalize certain costs related to software developed or obtained for internal use and record these costs to amortization expense over the estimated useful life of the related software, which ranges from 3 to 15 years. If software is retired prior to being fully amortized, the difference is recorded as a loss on the income statement.

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

See Note 7, Property, Plant, and Equipment, for more information.

(i) Asset Impairment—Intangible assets with indefinite lives are subject to an annual impairment test. Interim impairment tests are performed when impairment indicators are present. At December 31, 2023 and 2022, we had $3.7 million of indefinite-lived intangible assets consisting of spectrum frequencies purchased in 2022. The spectrum frequencies enable us to transmit data and voice communications over a wavelength dedicated to us throughout our service territory. These indefinite-lived intangible assets are included in other long-term assets on our balance sheets. An impairment loss is recognized when the carrying amount of an asset is not recoverable and exceeds its fair value. An impairment loss is measured as the excess of the carrying amount of the intangible asset over its fair value. No impairment losses were recorded for our indefinite-lived intangible assets during the years ended December 31, 2023 and 2022. We did not have any indefinite-lived intangible assets during 2021.

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 its fair value. 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 over its fair value.

We assess the likelihood of a disallowance of part of the cost of recently completed plant by considering factors such as applicable regulatory environment changes, our own recent rate orders, as well as recent rate orders of other regulated entities in similar jurisdictions. When it becomes probable that part of the cost of recently completed plant will be disallowed for rate-making purposes, we assess whether a reasonable estimate of the amount of the disallowance can be made. The estimated amount of the probable disallowance will then be deducted from the reported cost of the plant and recognized as an impairment loss. In the fourth quarter of 2023, we recorded a non-cash impairment loss of $177.2 million related to the disallowance of certain previously incurred capital costs resulting from our November 2023 rate order from the ICC. See Note 20, Regulatory Environment, for more information.

(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 8, 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, when the plan was last approved by shareholders, 9.0 million shares of WEC Energy Group common stock were 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, 2023, 2022, and 2021, we recorded stock-based compensation expense of $2.9 million, $9.4 million, and $4.4 million, respectively.

Stock-based compensation costs capitalized during 2023, 2022, and 2021 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, 2023 and 2022, we had not recorded any right of use assets and lease liabilities on our balance sheets.

As of March 21, 2024, we have not entered into any material leases that have not yet commenced.

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 and for certain natural gas storage rights. 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 and our subsidiary 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.

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

In April 2023, the IRS issued Revenue Procedure 2023-15, which provides a safe harbor method of accounting that taxpayers may use to determine whether expenses to repair, maintain, replace, or improve natural gas transmission and distribution property must be capitalized for tax purposes. We are currently evaluating the impact this guidance may have on our financial statements and related disclosures.

See Note 13, Income Taxes, for more information.

(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 14, 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 collateral on deposit.

See Note 15, 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 16, 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 18, 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, 2023. In addition, there were no customers that accounted for more than 10% of our revenues for the year ended December 31, 2023.

(t) Subsequent Events—Subsequent events were evaluated for potential recognition or disclosure through March 21, 2024, which is the date the financial statements were available to be issued.

NOTE 2—DISPOSITION

Sale of Real Estate

In May 2022, we sold approximately 11 acres of real estate that was no longer being utilized in our operations, for $55.1 million, which is net of closing costs. The real estate was located in Chicago, Illinois. As a result of the sale, a pre-tax gain in the amount of $54.5 million was recorded within other operation and maintenance expense on our income statement. The book value of the real estate included in the sale was not material and, therefore, was not presented as held for sale.

NOTE 3—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). As required by FERC regulations for centralized service companies, WBS renders services at cost. Services provided by any regulated subsidiary of WEC Energy Group to another regulated subsidiary or WBS are provided at cost, and any services provided by a regulated subsidiary to a nonregulated subsidiary of WEC Energy Group are provided at the greater of cost or fair market value.

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

(in millions)	2023	2022	2021
Transactions with NSG			
Charges to NSG for services and other items [1]	**$ 6.6**	$ 6.5	$ 5.8
Interest income on short-term loans to NSG	**1.6**	0.4	0.1
Transactions with WBS			
Charges to WBS for services and other items [1]	**16.6**	17.4	15.4
Charges from WBS for services and other items [1]	**101.4**	108.2	119.3 [2]
Transactions with WE			
Charges from WE for services and other items [1]	**1.7**	2.0	0.5

[1] Includes amounts charged for services, pass through costs, asset and liability transfers, and other items in accordance with the approved AIA.

[2] Includes $6.0 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 $150.0 million from Integrys and to loan to or borrow from NSG up to $50.0 million. At December 31, 2023 and 2022, our short-term notes receivable balance from NSG was $27.9 million and $46.4 million, respectively. See Note 11, Short-Term Debt and Lines of Credit, for more information on our short-term borrowings.

NOTE 4—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 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)	2023	2022	2021
The Peoples Gas Light and Coke Company			
Natural gas utility revenues from contracts with customers	**$ 1,285.7**	$ 1,621.4	$ 1,423.7
Other operating revenues	**71.2**	6.6	39.4
Total operating revenues	**$ 1,356.9**	**$ 1,628.0**	**$ 1,463.1**

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)	**2023**	**2022**	**2021**
Residential	**$ 826.6**	$ 1,096.8	$ 869.0
Commercial and industrial	**240.9**	369.6	274.1
Total retail revenues	**1,067.5**	1,466.4	1,143.1
Transportation	**206.8**	230.0	206.0
Other utility revenues [(1)]	**11.4**	(75.0)	74.6
Total natural gas utility operating revenues	**$ 1,285.7**	$ 1,621.4	$ 1,423.7

(1) Includes the revenues subject to our GCRM, which fluctuate based on actual natural gas costs incurred, compared with the recovery of natural gas costs that were anticipated in rates. During 2022, we continued to recover natural gas costs we under-collected from our customers in 2021 related to the extreme weather experienced in February 2021. As these amounts are billed to customers, they are reflected in retail revenues with an offsetting decrease in other utility revenues. During 2021, in addition to costs related to the extreme weather event experienced in February 2021, we incurred higher natural gas costs as a result of an increase in the price of natural gas. See Note 20, Regulatory Environment, for more information.

Other Operating Revenues

Other operating revenues consist primarily of the following:

	Year Ended December 31		
(in millions)	**2023**	**2022**	**2021**
Alternative revenues [(1)]	**$ 39.5**	$ (24.6)	$ 10.2
Late payment charges	**30.5**	30.6	28.8
Rental revenues	**1.2**	0.6	0.4
Total other operating revenues	**$ 71.2**	$ 6.6	$ 39.4

(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, as discussed in Note 1(d), Operating Revenues.

NOTE 5—CREDIT LOSSES

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

(in millions)	**December 31, 2023**	**December 31, 2022**
Accounts receivable and unbilled revenues	**$ 439.4**	$ 562.9
Allowance for credit losses	**107.4**	108.0
Accounts receivable and unbilled revenues, net [(1)]	**$ 332.0**	$ 454.9
Total accounts receivable, net – past due greater than 90 days [(1)]	**$ 43.7**	$ 51.2
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)	**2023**	**2022**	**2021**
Balance at January 1	**$ 108.0**	$ 102.2	$ 107.2
Provision for credit losses	**24.3**	30.3	24.1
Provision for credit losses deferred for future recovery or refund	**36.9**	33.9	4.6
Write-offs charged against the allowance	**(82.8)**	(79.6)	(50.4)
Recoveries of amounts previously written off	**21.0**	21.2	16.7
Balance at December 31	**$ 107.4**	$ 108.0	$ 102.2

The allowance for credit losses decreased during the year ended December 31, 2023, primarily related to lower customer energy costs (driven by the warmer weather during the fourth quarter of 2023 when compared to the same quarter in 2022 and lower natural gas prices), which contributed to a reduction in past due accounts receivable balances and a related decrease in the allowance for credit losses. Customer write-offs also contributed to the decrease in the allowance for credit losses. After a customer is disconnected for a period of time without payment on their account, we will write off that customer balance. The decrease in allowance for credit losses was partially offset by higher past due accounts receivable balances.

The allowance for credit losses increased during the year ended December 31, 2022. We believe that high natural gas prices contributed to higher past due accounts receivable balances and a related increase in the allowance for credit losses. The increase was partially offset by customer write-offs related to collection practices returning to pre-pandemic levels, including the restoration of our ability to disconnect customers.

The allowance for credit losses decreased during the year ended December 31, 2021, 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.

NOTE 6—REGULATORY ASSETS AND LIABILITIES

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

(in millions)	**2023**	**2022**	**See Note**
Regulatory assets [1] [2]			
Environmental remediation costs [3]	**$ 329.3**	$ 324.4	18
Pension and OPEB costs [4]	**141.2**	157.5	16
AROs	**90.4**	101.9	1(j), 8
Uncollectible expense	**56.8**	47.2	5
Derivatives	**41.6**	43.2	1(o)
Invested capital tax rider [5]	**27.7**	25.5	
Decoupling	**20.7**	—	1(d)
Other, net	**22.0**	10.6	
Total regulatory assets	**$ 729.7**	$ 710.3	
Balance sheet presentation			
Other current assets	**$ 18.1**	$ 18.8	
Regulatory assets	**711.6**	691.5	
Total regulatory assets	**$ 729.7**	$ 710.3	

(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, 2023, we had $130.6 million of regulatory assets not earning a return. The regulatory assets not earning a return primarily relate to uncollectible expense, our invested capital tax rider, our decoupling mechanism, unamortized losses on reacquired debt, and rate case costs. The other regulatory assets in the table either earn a return at our weighted average cost of capital or the cash has not yet been expended, in which case the regulatory assets are offset by liabilities.

(3) As of December 31, 2023, we had made cash expenditures of $23.4 million related to these environmental remediation costs. The remaining $305.9 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) Represents amounts recoverable from customers related to our invested capital tax rider. This rider allows us to recover or refund the difference between our actual invested capital tax and the amounts collected in rates.

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

(in millions)	2023	2022	See Note
Regulatory liabilities			
Income tax related items	**$ 333.2**	$ 341.1	13
Pension and OPEB benefits [1]	**55.3**	54.4	16
Removal costs [2]	**16.7**	15.1	
Natural gas costs refundable through rate adjustments	**14.3**	14.3	1(d)
Derivatives	**5.7**	15.7	1(o)
Decoupling	**—**	18.7	1(d)
Other, net	**0.5**	5.3	
Total regulatory liabilities	**$ 425.7**	$ 464.6	
Balance sheet presentation			
Other current liabilities	**$ 14.3**	$ 14.3	
Regulatory liabilities	**411.4**	450.3	
Total regulatory liabilities	**$ 425.7**	$ 464.6	

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

(2) Represents amounts collected from customers to cover the future cost of property, plant, and equipment removals that are not legally required. Legal obligations related to the removal of property, plant, and equipment are recorded as AROs. See Note 8, Asset Retirement Obligations, for more information on our legal obligations.

NOTE 7—PROPERTY, PLANT, AND EQUIPMENT

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

(in millions)	2023	2022
Natural gas – distribution, storage, and transmission	**$ 6,519.9**	$ 6,503.8
Other	**312.0**	334.9
Less: Accumulated depreciation	**1,810.4**	1,759.2
Net	**5,021.5**	5,079.5
Construction work in progress	**59.2**	59.2
Total property, plant, and equipment	**$ 5,080.7**	$ 5,138.7

Impairment Related to Illinois Commerce Commission Disallowance

In November 2023, the ICC issued a written rate order that disallowed certain previously incurred capital costs related to the construction and improvement of our service centers. As a result of the disallowance, we recorded a $177.2 million non-cash impairment of our property, plant, and equipment in 2023. We anticipate appealing the ICC's disallowance of these capital costs to the Illinois Appellate Court. See Note 20, Regulatory Environment, for more information.

NOTE 8—ASSET RETIREMENT OBLIGATIONS

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

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

(in millions)	2023	2022	2021
Balance as of January 1	**$ 260.9**	$ 256.2	$ 365.5
Accretion	**9.6**	9.4	15.1
Additions	**1.4**	—	—
Revisions to estimated cash flows	**(128.3)** [1]	2.5	(108.8) [2]
Liabilities settled	**(7.8)**	(7.2)	(15.6)
Balance as of December 31	**$ 135.8**	$ 260.9	$ 256.2

[1] AROs decreased primarily due to revisions made to estimated cash flows for changes in removal cost estimates and settlements dates for mains and services.

[2] AROs decreased due to revisions made to estimated cash flows primarily for changes in the cost to retire natural gas distribution lines.

NOTE 9—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 NSG.

See Note 11, Short-Term Debt and Lines of Credit, for discussion of certain financial covenants related to our short-term debt obligations.

As of December 31, 2023, none of our retained earnings were restricted.

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

NOTE 10—PREFERRED STOCK

We have 430,000 shares of cumulative preferred stock with a $100 par value authorized for issuance, of which none were issued and outstanding at December 31, 2023.

NOTE 11—SHORT-TERM DEBT AND LINES OF CREDIT

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

(in millions, except for percentages)	2023	2022
Commercial paper		
Amount outstanding at December 31	**$ 330.8**	$ 300.3
Average interest rate on amount outstanding at December 31	**5.47 %**	4.66 %

Our average amount of commercial paper borrowings based on daily outstanding balances during 2023, was $172.5 million with a weighted-average interest rate during the period of 5.29%.

We have entered into a bank back-up credit facility to maintain short-term credit liquidity which, among other terms, requires us to maintain, subject to certain exclusions, a total funded debt to capitalization ratio of 65% or less. As of December 31, 2023, we were in compliance with our financial covenants.

The information in the table below relates to our short-term debt, our revolving credit facility used to support our commercial paper borrowing program, and financing commitments with related parties, including remaining available capacity under these arrangements as of December 31:

(in millions)	Maturity	2023
Revolving credit facility	September 2026	**$ 350.0**
Revolving short-term notes payable to related parties [(1)]		**200.0**
Total short-term credit capacity		**$ 550.0**
Less:		
Commercial paper outstanding		**330.8**
Available capacity under existing agreements		**$ 219.2**

[(1)] We have the ability to borrow up to $150.0 million from Integrys and up to $50.0 million from NSG. At December 31, 2023, we had no borrowings outstanding with Integrys or NSG.

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

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

NOTE 12—LONG-TERM DEBT

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

(in millions)			2023	2022
Long-term debt	**Interest Rate**	**Year Due**		
First and Refunding Mortgage Bonds (secured)	2.64%	2024	**$ 75.0**	$ 75.0
	5.23%	2027	**100.0**	100.0
	3.87%	2028	**150.0**	150.0
	2.20%	2028	**200.0**	200.0
	5.82%	2029	**100.0**	—
	2.96%	2029	**275.0**	275.0
	3.90%	2030	**50.0**	50.0
	1.98%	2030	**200.0**	200.0
	3.06%	2031	**50.0**	50.0
	4.00%	2033	**50.0**	50.0
	3.98%	2042	**100.0**	100.0
	3.96%	2043	**220.0**	220.0
	4.21%	2044	**200.0**	200.0
	3.65%	2046	**50.0**	50.0
	3.65%	2046	**150.0**	150.0
	3.77%	2047	**100.0**	100.0
Total			**2,070.0**	1,970.0
Unamortized debt issuance costs			**(11.7)**	(12.5)
Total long-term debt, including current portion			**2,058.3**	1,957.5
Current portion of long-term debt			**(75.0)**	—
Total long-term debt			**$ 1,983.3**	$ 1,957.5

Our First Mortgage Bonds are subject to the terms and conditions of our First Mortgage Indenture dated January 2, 1926, as supplemented. Under the terms of the Indenture, substantially all our property is pledged as collateral for these outstanding debt securities.

We have used certain First Mortgage Bonds to secure tax-exempt interest rates. The Illinois Finance Authority has issued Tax-Exempt Bonds, and the proceeds from the sale of these bonds were loaned to us. In return, we issued $100 million of collateralized First Mortgage Bonds.

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 2023, we issued $100.0 million of 5.82% First and Refunding Mortgage Bonds, Series NNN due April 1, 2029, 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, 2023:

(in millions)	Payments
2024	$ 75.0
2025	—
2026	—
2027	100.0
2028	350.0
Thereafter	1,545.0
Total	$ 2,070.0

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, 2023, we were in compliance with our covenants related to our long-term debt obligations.

NOTE 13—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)	2023	2022	2021
Current tax expense	**$ 24.2**	$ 73.1	$ 30.5
Deferred income taxes, net	**18.3**	4.7	44.1
ITCs, net	**(1.1)**	(1.3)	(1.3)
Total income tax expense	**$ 41.4**	$ 76.5	$ 73.3

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:

	2023		2022		2021	
(in millions)	Amount	Effective Tax Rate	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Statutory federal income tax	**$ 33.9**	**21.0 %**	$ 59.8	21.0 %	$ 58.5	21.0 %
State income taxes net of federal tax benefit	**12.3**	**7.6 %**	21.7	7.6 %	21.2	7.6 %
Federal excess deferred tax amortization [1]	**(4.8)**	**(3.0)%**	(5.0)	(1.7)%	(5.0)	(1.7)%
Other, net	**—**	**— %**	—	— %	(1.4)	(0.6)%
Total income tax expense	**$ 41.4**	**25.6 %**	$ 76.5	26.9 %	$ 73.3	26.3 %

[1] The Tax Legislation required us to remeasure our deferred income taxes and we began to amortize the resulting excess protected deferred income taxes beginning in 2018 in accordance with normalization requirements. The decrease in income tax expense related to the

amortization of the deferred tax benefits is offset by a decrease in revenue as the benefits are returned to customers, resulting in no impact on net income.

Deferred Income Tax Assets and Liabilities

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

(in millions)	2023	2022
Deferred tax assets		
Tax gross up – regulatory items	**$ 96.0**	$ 99.9
Uncollectible account expense	**14.4**	17.3
Future tax benefits	**3.5**	6.1
Other	**22.6**	28.1
Total deferred tax assets	**136.5**	151.4
Valuation allowance	**(3.5)**	—
Net deferred tax assets	**$ 133.0**	$ 151.4
Deferred tax liabilities		
Property-related	**$ 688.8**	$ 696.9
Employee benefits and compensation	**55.8**	56.2
Regulatory deferrals	**28.8**	11.0
Other	**10.2**	7.0
Total deferred tax liabilities	**783.6**	771.1
Deferred tax liability, net	**$ 650.6**	$ 619.7

Consistent with ratemaking 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, 2023 and 2022 are summarized in the tables below:

2023 *(in millions)*	Deferred Tax Effect	Valuation Allowance	Earliest Year of Expiration
Future tax benefits as of December 31, 2023			
State benefits	**$ 3.5**	**$ (3.5)**	**2024**
Balance as of December 31, 2023	**$ 3.5**	**$ (3.5)**	

2022 *(in millions)*	Deferred Tax Effect	Earliest Year of Expiration
Future tax benefits as of December 31, 2022		
State benefits	6.1	**2024**
Balance as of December 31, 2022	$ 6.1	

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(in millions)	2023	2022	2021
Balance as of January 1	**$ —**	$ —	$ 1.4
Reductions for tax positions of prior years associated with statutes of limitations	**—**	—	(1.4)
Balance as of December 31	**$ —**	$ —	$ —

Interest accrued related to unrecognized tax benefits is as follows:

(in millions)	2023	2022	2021
Balance as of January 1	$ —	$ —	$ 0.2
Reduction of interest expense related to unrecognized tax benefits	—	—	(0.2)
Balance as of December 31	$ —	$ —	$ —

For the years ended December 31, 2023, 2022, and 2021, we recognized no penalties related to unrecognized tax benefits in our consolidated income statements. At December 31, 2023 and 2022, we had no amounts accrued for penalties related to unrecognized tax benefits.

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. We are no longer subject to federal income tax examination by the IRS for years prior to 2020. At December 31, 2023, we were subject to examination by the Illinois taxing authority for tax years 2019 through 2023.

NOTE 14—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, 2023			
(in millions)	Level 1	Level 2	Level 3	Total
Natural gas contracts				
Derivative assets	**$ 0.3**	**$ 1.9**	**$ —**	**$ 2.2**
Derivative liabilities	**31.0**	**3.2**	**—**	**34.2**

	December 31, 2022			
(in millions)	Level 1	Level 2	Level 3	Total
Natural gas contracts				
Derivative assets	$ 10.0	$ 3.9	$ —	$ 13.9
Derivative liabilities	23.4	6.8	—	30.2

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

Fair Value of Financial Instruments

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

	2023		2022	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion	**$ 2,058.3**	**$ 1,828.0**	$ 1,957.5	$ 1,660.8

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

NOTE 15—DERIVATIVE INSTRUMENTS

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

	December 31, 2023		December 31, 2022	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Natural gas contracts				
Current	**$ 2.2**	**$ 29.3**	$ 13.9	$ 25.6
Long-term	**—**	**4.9**	—	4.6
Total	**$ 2.2**	**$ 34.2**	$ 13.9	$ 30.2

Realized gains and losses on derivatives are recorded in cost of natural gas upon settlement; however, they may be subsequently deferred for future rate recovery or refund as the gains and losses are included in our GCRM. Our estimated notional sales volumes and realized gains and losses were as follows for the years ended:

	December 31, 2023		December 31, 2022		December 31, 2021	
(in millions)	Volumes	Losses	Volumes	Gains	Volumes	Gains
Natural gas contracts	**38.6 Dth**	**$ (63.3)**	38.6 Dth	$ 117.8	39.8 Dth	$ 40.2

At December 31, 2023 and 2022, we had posted cash collateral of $36.7 million and $28.8 million, respectively.

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

	December 31, 2023		December 31, 2022	
(in millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Gross amount recognized on the balance sheet	**$ 2.2**	**$ 34.2**	$ 13.9	$ 30.2
Gross amount not offset on the balance sheet	**(0.3)**	**(31.1)** [1]	(10.0)	(23.3) [2]
Net amount	**$ 1.9**	**$ 3.1**	$ 3.9	$ 6.9

[1] Includes cash collateral posted of $30.8 million.

[2] Includes cash collateral posted of $13.3 million.

NOTE 16—EMPLOYEE BENEFITS

Pension and Other Postretirement Employee Benefits

We have a combined noncontributory, qualified pension plan with NSG. We also participate in unfunded, non-qualified retirement plans sponsored by PELLC and WEC Energy Group.

We offer an OPEB plan to employees, which is also 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 tables provide a reconciliation of the changes in 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)	**2023**	**2022**	**2023**	**2022**
Change in benefit obligation				
Obligation at January 1	**$ 242.9**	$ 414.2	**$ 65.6**	$ 87.0
Service cost	**5.6**	8.6	**2.0**	3.0
Interest cost	**12.8**	12.4	**3.5**	2.4
Net transfer to affiliates	**—**	(0.2)	**—**	(0.1)
Actuarial (gain) loss	**5.7**	(99.2)	**(1.9)**	(20.5)
Participant contributions	**—**	—	**2.7**	2.4
Benefit payments	**(23.0)**	(92.9)	**(7.1)**	(8.6)
Obligation at December 31	**$ 244.0**	$ 242.9	**$ 64.8**	$ 65.6
Change in fair value of plan assets				
Fair value at January 1	**$ 283.6**	$ 440.9	**$ 159.2**	$ 191.6
Actual return on plan assets	**27.4**	(64.4)	**15.2**	(26.4)
Employer contributions	**0.1**	—	**0.4**	0.2
Participant contributions	**—**	—	**2.7**	2.4
Benefit payments	**(23.0)**	(92.9)	**(7.1)**	(8.6)
Fair value at December 31	**$ 288.1**	$ 283.6	**$ 170.4**	$ 159.2
Funded status at December 31	**$ 44.1**	$ 40.7	**$ 105.6**	$ 93.6

In 2023, we had an actuarial loss related to our pension benefit obligations of $5.7 million and an actuarial gain of $99.2 million in 2022. The primary driver for the actuarial loss was a lower discount rate in 2023. Partially offsetting the loss in 2023, was higher than expected asset returns. The primary driver for the actuarial gain in 2022, was the change in discount rate. The discount rate for our pension benefits was 5.20%, 5.45%, and 3.00%, in 2023, 2022, and 2021, respectively.

In 2023 and 2022, we had actuarial gains related to our OPEB benefit obligations of $1.9 million and $20.5 million, respectively. The primary driver for the 2023 actuarial gain was higher than expected asset returns partially offset by changes to medical trend assumptions and a lower discount rate. The primary driver for the actuarial gain in 2022, was the change in discount rate. The discount rate for our OPEB benefits was 5.20%, 5.50%, and 2.80%, in 2023, 2022, and 2021, respectively.

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

	Pension Benefits		OPEB Benefits	
(in millions)	**2023**	**2022**	**2023**	**2022**
Pension and OPEB assets	**$ 44.6**	$ 41.5	**$ 105.6**	$ 93.6
Other long-term liabilities	**0.5**	0.8	**—**	—
Total net assets	**$ 44.1**	$ 40.7	**$ 105.6**	$ 93.6

The accumulated benefit obligation for the defined benefit pension plans was $218.5 million and $220.5 million at December 31, 2023 and 2022, respectively.

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

(in millions)	**2023**	**2022**
Accumulated benefit obligation	**$ 0.5**	$ 0.8

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

(in millions)	**2023**	**2022**
Projected benefit obligation	**$ 0.5**	$ 0.8

We had no OPEB plans with an accumulated benefit obligation in excess of plan assets as of December 31, 2023 and 2022, 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)	2023	2022	2023	2022
Net regulatory assets (liabilities)				
Net actuarial loss (gain)	**$ 139.0**	$ 153.5	**$ (49.9)**	$ (46.6)
Prior service costs (credits)	**—**	0.2	**(5.2)**	(7.7)
Total	**$ 139.0**	$ 153.7	**$ (55.1)**	$ (54.3)

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

	Pension Benefits			OPEB Benefits		
(in millions)	2023	2022	2021	2023	2022	2021
Service cost	**$ 5.6**	$ 8.6	$ 11.8	**$ 2.0**	$ 3.0	$ 3.3
Interest cost	**12.8**	12.4	12.5	**3.5**	2.4	2.1
Expected return on plan assets	**(20.7)**	(25.5)	(25.9)	**(10.1)**	(13.2)	(12.5)
Plan settlement	**—**	2.2	3.1	**—**	—	—
Amortization of prior service costs (credits)	**0.2**	1.6	1.6	**(2.5)**	(2.9)	(2.9)
Amortization of net actuarial loss (gain)	**13.5**	15.7	19.9	**(3.7)**	(7.6)	(7.8)
Net periodic benefit cost (credit)	**$ 11.4**	$ 15.0	$ 23.0	**$ (10.8)**	$ (18.3)	$ (17.8)

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	
	2023	2022	2023	2022
Discount rate	**5.20%**	5.45%	**5.20%**	5.50%
Rate of compensation increase	**4.00%**	4.00%	**N/A**	N/A
Interest credit rate	**4.50%**	4.00%	**N/A**	N/A
Assumed medical cost trend rate (Pre 65)	**N/A**	N/A	**6.25%**	6.50%
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	**2031**	2031
Assumed medical cost trend rate (Post 65)	**N/A**	N/A	**6.25%**	6.00%
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	**2030**	2031

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

	Pension Benefits		
	2023	2022	2021
Discount rate	**5.45%**	4.01%	2.91%
Expected return on plan assets	**6.75%**	7.00%	7.00%
Rate of compensation increase	**4.00%**	4.00%	4.00%
Interest credit rate	**4.00%**	2.50%	2.25%

	OPEB Benefits		
	2023	**2022**	**2021**
Discount rate	**5.50%**	2.80%	2.35%
Expected return on plan assets	**6.50%**	7.00%	7.00%
Assumed medical cost trend rate (Pre 65)	**6.50%**	5.70%	5.85%
Ultimate trend rate (Pre 65)	**5.00%**	5.00%	5.00%
Year ultimate trend rate is reached (Pre 65)	**2031**	2028	2028
Assumed medical cost trend rate (Post 65)	**6.00%**	5.60%	5.70%
Ultimate trend rate (Post 65)	**5.00%**	5.00%	5.00%
Year ultimate trend rate is reached (Post 65)	**2031**	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 trust. For 2024, the expected return on asset assumption is 6.75% for the pension plan and 6.50% for the OPEB plan.

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.

WEC Energy Group's 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 25% equity investments, 55% fixed income investments, and 20% private equity and real estate investments. The OPEB trust has target asset allocations of 45% equity investments, 45% fixed income investments, and 10% real estate 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, 2023							
	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	**$ 21.0**	**$ —**	**$ —**	**$ 21.0**	**$ 20.7**	**$ —**	**$ —**	**$ 20.7**
International equity	**21.7**	**—**	**—**	**21.7**	**18.8**	**—**	**—**	**18.8**
Fixed income securities: [1]								
United States bonds	**—**	**71.3**	**—**	**71.3**	**27.9**	**28.0**	**—**	**55.9**
International bonds	**—**	**9.2**	**—**	**9.2**	**—**	**1.4**	**—**	**1.4**
	$ 42.7	**$ 80.5**	**$ —**	**$ 123.2**	**$ 67.4**	**$ 29.4**	**$ —**	**$ 96.8**
Investments measured at net asset value:								
Equity securities				**45.4**				**40.2**
Fixed income securities				**26.7**				**14.3**
Other				**92.8**				**19.1**
Total				**$ 288.1**				**$ 170.4**

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

	December 31, 2022							
	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	$ 29.1	$ —	$ —	$ 29.1	$ 18.1	$ —	$ —	$ 18.1
International equity	25.4	—	—	25.4	16.8	—	—	16.8
Fixed income securities: (1)								
United States bonds	—	54.1	—	54.1	31.0	20.6	—	51.6
International bonds	—	9.8	—	9.8	—	1.9	—	1.9
	$ 54.5	$ 63.9	$ —	$ 118.4	$ 65.9	$ 22.5	$ —	$ 88.4
Investments measured at net asset value:								
Equity securities				58.6				35.7
Fixed income securities				21.9				15.2
Other				84.7				19.9
Total				$ 283.6				$ 159.2

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

Cash Flows

We expect to contribute $0.1 million to the pension plans and $0.4 million to the OPEB plans in 2024, dependent upon 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
2024	$ 28.1	$ 6.7
2025	28.4	6.6
2026	30.1	6.5
2027	25.3	6.4
2028	23.5	6.1
2029-2033	93.0	27.4

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 plans include 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 $9.6 million, $9.5 million, and $9.6 million in 2023, 2022, and 2021, respectively.

NOTE 17—SEGMENT INFORMATION

We use net income to measure segment profitability and to allocate resources to our businesses. At December 31, 2023, 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 18—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, 2023.

			Payments Due By Period					
(in millions)	Date Contracts Extend Through	Total Amounts Committed	2024	2025	2026	2027	2028	Later Years
Natural gas supply and transportation	2029	$ 317.9	$ 68.9	$ 64.0	$ 60.7	$ 58.0	$ 48.0	$ 18.3

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 systems and has 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 distribution systems.

Water Quality

Waters of the United States

In January 2023, the EPA and the Army Corps (the agencies) together released a final rule effective in March 2023 that established standards for identifying which wetland or surface drainage features qualify as WOTUS based on its pre-2015 definition. The pre-2015 approach involved applying factors established through case law and agency precedents to determine whether a wetland or surface drainage feature is subject to federal jurisdiction.

In May 2023, in *Sackett v. EPA,* the Supreme Court issued a decision significantly narrowing federal jurisdiction over wetlands to "traditional navigable waters" and wetlands or other waters that have a "continuous surface connection" with a traditional navigable water.

In August 2023, the agencies revised the final rule to conform the definition of WOTUS to the Supreme Court's May 2023 *Sackett* decision. The conforming rule became effective upon publication in the Federal Register on September 8, 2023.

We anticipate this final rule revision based on the *Sackett* decision may lead to a decreased number of projects that require Army Corps federal wetland permits. This decision also may affect the administration of some state programs. At this point, our projects requiring federal permits are moving ahead, but we are monitoring these recent developments 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)	2023	2022
Regulatory assets	**$ 329.3**	$ 324.4
Reserves for future environmental remediation	**305.9**	305.9

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 19—SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31		
(in millions)	2023	2022	2021
Cash paid for interest	**$ 79.0**	$ 65.4	$ 58.4
Cash paid for income taxes, net	**34.0**	72.6	18.8
Significant non-cash investing and financing transactions:			
Accounts payable related to construction costs	**32.2**	39.1	51.6

NOTE 20—REGULATORY ENVIRONMENT

2023 Rate Order

On January 6, 2023, we filed a request with the ICC to increase our natural gas base rates. The requested rate increase was primarily driven by capital investments made to strengthen the safety and reliability of our natural gas distribution system. We were also seeking to recover costs incurred to upgrade our natural gas storage field and operations facilities and to continue improving customer service. We did not request an extension of the QIP rider as we have returned to the traditional rate making process to recover the costs of necessary infrastructure improvements.

On November 16, 2023, the ICC issued a final written order, which was subsequently amended for various technical corrections, approving a base rate increase for our natural gas customers. The amended written order authorized:

- a $304.6 million (43.5%) base rate increase, effective December 1, 2023, which includes the recovery of costs related to our SMP that were previously being recovered under our QIP rider;
- an ROE of 9.38%,
- and a common equity component average of 50.79%.

As part of its decision, the ICC, among other things, disallowed $236.2 million of capital costs related to the construction and improvement of our shops and facilities. In addition, the ICC ordered us to pause spending on our SMP until the ICC has a proceeding to determine the optimal method for replacing aging natural gas infrastructure and a prudent investment level. In accordance with the written order, the ICC initiated the proceeding on January 31, 2024.

On December 15, 2023, we and NSG filed an application for rehearing with the ICC requesting reconsideration of various issues in the ICC's November 16, 2023 written orders issued to us. On January 3, 2024, the ICC granted us a limited-scope rehearing. The rehearing will be limited to the authorized spending for the completion of SMP projects that started in 2023 and the authorized spending for emergency repairs needed to ensure the safety and reliability of our delivery system.

As the ICC did not grant a rehearing on the disallowance of our capital costs, we recorded a $177.2 million non-cash impairment of our property, plant, and equipment in 2023. This amount includes the previously incurred disallowed costs related to our shops and facilities. The remaining disallowance of capital costs related to our expected future spend. We anticipate appealing the ICC’s disallowance of our capital costs to the Illinois Appellate Court after the rehearing process is complete.

An ICC decision on our limited-scope rehearing is expected in the second quarter of 2024.

Uncollectible Expense Adjustment Rider

Our rates include a UEA rider for cost recovery or refund of uncollectible expense based on the difference between actual uncollectible write-offs and the amounts recovered in rates. The UEA rider is subject to an annual reconciliation whereby costs are reviewed for accuracy and prudency by the ICC. In May 2023, the ICC issued a written order on our 2018 UEA rider reconciliation. The order requires a $15.4 million refund to our ratepayers. This amount is being refunded over a period of nine months, which began on September 1, 2023. In June 2023, the ICC denied our application requesting a rehearing of the ICC's May 2023 order. In July 2023, we petitioned the Illinois Appellate Court for review of the ICC orders. Our appeal is still pending.

As of December 31, 2023, there can be no assurance that all costs incurred under the UEA rider during the open reconciliation years, which include 2019 through 2023, will be deemed recoverable by the ICC. Annual costs included in the rider, which reflect uncollectible write-offs in excess of what is recovered in base rates, have ranged from $10 million to $38 million during these open reconciliation years. Disallowances by the ICC, if any, could be material and have a material adverse impact on our results of operations.

Third-Party Transaction Fee Adjustment Rider

In accordance with the Climate and Equitable Jobs Act that was signed into law in Illinois, effective September 15, 2021, Illinois 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 and seek recovery through a rate proceeding or by establishing a recovery mechanism. In December 2021, the ICC approved our use of a TPTFA rider. The TPTFA rider allowed us to recover the costs incurred for these third-party transaction

fees prior to them being included in base rates. We began recovering costs under the rider on February 1, 2022. Amounts deferred under the rider were being recovered over a period of 12 months and are subject to an annual reconciliation whereby costs are reviewed by the ICC for accuracy and prudency. Effective December 1, 2023, we discontinued our use of the TPTFA rider and began recovering costs related to these third-party transaction fees through our base rates.

Qualifying Infrastructure Plant Rider

In July 2013, Illinois Public Act 98-0057, The Natural Gas Consumer, Safety & Reliability Act, became law. This law provides natural gas utilities with a cost recovery mechanism that allows collection, through a surcharge on customer bills, of prudently incurred costs to upgrade Illinois natural gas infrastructure. In January 2014, the ICC approved a QIP rider for us, which was in effect until December 1, 2023. As discussed above, we have returned to the traditional rate-making process for recovery of these costs, and they are now included in our base rates.

Costs previously incurred under our QIP rider are still subject to an annual reconciliation whereby costs are reviewed for accuracy and prudency. In March 2024, we filed our 2023 reconciliation with the ICC, which, along with the reconciliations from 2016 through 2022, are still pending. Annual costs included in the rider have ranged from $192 million to $348 million.

As of December 31, 2023, there can be no assurance that all costs incurred under our QIP rider during the open reconciliation years, which include 2016 through 2023, will be deemed recoverable by the ICC. Disallowances by the ICC, if any, could be material and have a material adverse impact on our results of operations.

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 natural gas purchased for our 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 $131 million of natural gas costs in February 2021 in excess of the amounts included in our rates. These costs were recovered over a period of 12 months, which started on April 1, 2021. Our natural gas costs were reviewed for prudency by the ICC as part of our annual natural gas cost reconciliation. In January 2023, the ICC issued a written order approving our 2021 reconciliation.

NOTE 21—OTHER INCOME, NET

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

(in millions)	2023	2022	2021
Non-service components of net periodic benefit costs	**$ 4.0**	$ 12.4	$ 7.4
Interest income	**3.2**	0.7	0.1
Other, net	**(0.1)**	(0.5)	(0.1)
Other income, net	**$ 7.1**	$ 12.6	$ 7.4

NOTE 22—NEW ACCOUNTING PRONOUNCEMENTS

Improvements to Income Tax Disclosures

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The amendments require additional disclosures, primarily related to income taxes paid and the rate reconciliation table. The amendments require disclosures on specific categories in the rate reconciliation table, as well as additional information for reconciling items that meet a quantitative threshold. For income taxes paid, additional disclosures are required to disaggregate federal, state, and foreign income taxes paid, with additional disclosures for income taxes paid that meet a quantitative threshold. The amendments are effective for annual periods beginning after December 15, 2024, with early adoption permitted. We plan to adopt these amendments beginning with our fiscal year ending on December 31, 2025, and are currently evaluating the impact this guidance may have on our financial statements and related disclosures.

Improvements to Reportable Segment Disclosures

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The amendments require additional disclosures about reportable segments on an annual and interim basis. The amendments require disclosure of significant segment expenses that are (1) regularly provided to the chief operating decision maker and (2) included in the reported measure of segment profit or loss. The amendments also require disclosure of an amount for other segment items and a description of its composition. The new standard also allows companies to disclose multiple measures of segment profit or loss if those measures are used to assess performance and allocate resources. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. We plan to adopt these amendments beginning with our fiscal year ending on December 31, 2024, and are currently evaluating the impact this guidance may have on our financial statements and related disclosures.

Reference Rate Reform

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting and in January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope. These pronouncements provide temporary optional expedients and exceptions for applying GAAP principles to contract modifications and hedging relationships to ease the financial reporting burdens of the market transition from LIBOR and other interbank offered rates to alternative reference rates. These pronouncements were effective upon issuance on March 12, 2020 through December 31, 2022. In December 2022, the FASB issued ASU No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, to extend the temporary accounting rules under Topic 848 from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. An entity may elect to apply the amendments prospectively from March 12, 2020 through December 31, 2024 by accounting topic. We do not anticipate this guidance having a significant impact on our financial statements and related disclosures.