

***Northern Illinois Gas Company***  
***(doing business as Nicor Gas Company)***

*Consolidated Financial Statements as of December 31, 2024 and 2023  
and for the Years Then Ended, and Independent Auditor's Report*

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Stockholder of  
Northern Illinois Gas Company

### **Opinion**

We have audited the consolidated financial statements of Northern Illinois Gas Company and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, stockholder's equity, and cash flows for the years then ended, 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, 2024 and 2023, and the results of its operations and its cash flows for the years then ended 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.

Deloitte & Touche LLP

March 7, 2025

**CONSOLIDATED STATEMENTS OF INCOME**  
**For the Years Ended December 31, 2024 and 2023**  
**Nicor Gas Company**

	2024	2023
	<i>(in millions)</i>	
<b>Operating Revenues:</b>		
Natural gas revenues (includes revenue taxes of \$115 and \$133, respectively)	\$ 2,326	\$ 2,593
<b>Operating Expenses:</b>		
Cost of natural gas	782	1,171
Other operations and maintenance	557	529
Depreciation and amortization	353	306
Estimated loss on regulatory disallowance	—	88
Taxes other than income taxes	179	192
<b>Total operating expenses</b>	<b>1,871</b>	<b>2,286</b>
<b>Operating Income</b>	<b>455</b>	<b>307</b>
<b>Other Income and (Expense):</b>		
Interest expense, net of amounts capitalized	(105)	(88)
Other income (expense), net	(5)	1
<b>Total other income and (expense)</b>	<b>(110)</b>	<b>(87)</b>
<b>Earnings Before Income Taxes</b>	<b>345</b>	<b>220</b>
Income taxes	89	52
<b>Net Income</b>	<b>\$ 256</b>	<b>\$ 168</b>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the Years Ended December 31, 2024 and 2023**  
**Nicor Gas Company**

	2024	2023
	<i>(in millions)</i>	
<b>Net Income</b>	<b>\$ 256</b>	<b>\$ 168</b>
Other comprehensive income:		
Qualifying hedges:		
Changes in fair value, net of tax	—	(2)
Reclassification adjustment for amounts included in net income, net of tax	1	2
<b>Comprehensive Income</b>	<b>\$ 257</b>	<b>\$ 168</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2024 and 2023**  
**Nicor Gas Company**

	2024	2023
	<i>(in millions)</i>	
<b>Operating Activities:</b>		
Net income	\$ 256	\$ 168
Adjustments to reconcile consolidated net income to net cash provided from operating activities —		
Depreciation and amortization, total	354	306
Deferred income taxes	85	72
Mark-to-market adjustments	(8)	(17)
Estimated loss on regulatory disallowances	—	96
Other, net	28	7
Changes in certain current assets and liabilities —		
—Receivables	25	342
—Natural gas for sale, net of temporary LIFO liquidation	(2)	(16)
—Natural gas under recovery	—	84
—Other current assets	(53)	(22)
—Accrued and prepaid taxes	39	(79)
—Accounts payable	15	(187)
—Natural gas over recovery	(12)	200
—Other current liabilities	(33)	(49)
Net cash provided from operating activities	694	905
<b>Investing Activities:</b>		
Property additions	(712)	(713)
Cost of removal, net of salvage	(67)	(83)
Change in construction payables, net	(14)	(30)
Other investing activities	2	—
Net cash used for investing activities	(791)	(826)
<b>Financing Activities:</b>		
Increase (decrease) in notes payable, net	(220)	109
Proceeds - First mortgage bonds	275	275
Capital contributions from parent company	50	50
Redemptions and repurchases — short-term borrowings	—	(200)
Redemptions and repurchases — First mortgage bonds	—	(50)
Payment of common stock dividends	—	(300)
Other financing activities	(8)	(4)
Net cash provided from (used for) financing activities	97	(120)
<b>Net Change in Cash and Cash Equivalents</b>	<b>—</b>	<b>(41)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>4</b>	<b>45</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 4</b>	<b>\$ 4</b>
<b>Supplemental Cash Flow Information:</b>		
Cash paid during the period for —		
Interest, net of amounts capitalized	\$ 96	\$ 81
Income taxes, net	(41)	46
Noncash transactions — Accrued property additions at end of period	48	50

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED BALANCE SHEETS**  
**At December 31, 2024 and 2023**  
**Nicor Gas Company**

Assets	2024	2023
	<i>(in millions)</i>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4	\$ 4
Receivables —		
Customer accounts	255	273
Unbilled revenues	150	147
Other accounts and notes receivable	28	33
Accumulated provision for uncollectible accounts	(27)	(35)
Materials and supplies	52	52
Natural gas for sale	188	186
Assets from risk management activities, net of collateral	4	4
Prepaid taxes	4	48
Prepaid expenses	12	6
Other regulatory assets	139	95
<b>Total current assets</b>	<b>809</b>	<b>813</b>
<b>Property, Plant, and Equipment:</b>		
In service	11,142	10,465
Less: Accumulated depreciation	2,979	2,810
Plant in service, net of depreciation	8,163	7,655
Construction work in progress	219	229
<b>Total property, plant, and equipment</b>	<b>8,382</b>	<b>7,884</b>
<b>Other Property and Investments:</b>		
Miscellaneous property and investments	6	6
<b>Deferred Charges and Other Assets:</b>		
Regulatory assets, deferred	221	223
Prepaid pension costs	100	89
Operating leases right-of-use assets, net of amortization	23	25
Other deferred charges and assets	4	5
<b>Total deferred charges and other assets</b>	<b>348</b>	<b>342</b>
<b>Total Assets</b>	<b>\$ 9,545</b>	<b>\$ 9,045</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED BALANCE SHEETS**  
**At December 31, 2024 and 2023**  
**Nicor Gas Company**

<b>Liabilities and Stockholder's Equity</b>	<b>2024</b>	<b>2023</b>
	<i>(in millions)</i>	
<b>Current Liabilities:</b>		
Securities due within one year	\$ 50	\$ —
Notes payable	172	392
Accounts payable —		
Other	213	198
Affiliated	3	3
Customer deposits	71	95
Accrued taxes	28	32
Accrued compensation	28	25
Regulatory liabilities	2	13
Accrued environmental remediation, current	23	29
Natural gas over recovery	188	200
Other current liabilities	54	45
<b>Total current liabilities</b>	<b>832</b>	<b>1,032</b>
<b>Long-term Debt</b>	<b>2,709</b>	<b>2,485</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	746	647
Employee benefit obligations	87	106
Operating lease obligations	21	23
Other cost of removal obligations	1,448	1,381
Accrued environmental remediation, deferred	188	177
Deferred credits related to income taxes	255	267
Other regulatory liabilities	74	57
Other deferred credits and liabilities	36	20
<b>Total deferred credits and other liabilities</b>	<b>2,855</b>	<b>2,678</b>
<b>Total Liabilities</b>	<b>6,396</b>	<b>6,195</b>
<b>Common Stockholder's Equity (See accompanying statements):</b>		
Common stock, par value \$5 per share —		
Authorized — 25,000,000 shares		
Outstanding — 15,264,779 shares	76	76
Paid-in capital	1,459	1,419
Retained earnings	1,615	1,356
Accumulated other comprehensive loss	(1)	(1)
<b>Total Common Stockholder's Equity</b>	<b>3,149</b>	<b>2,850</b>
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 9,545</b>	<b>\$ 9,045</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY**  
**For the Years Ended December 31, 2024 and 2023**  
**Nicor Gas Company**

	Number of Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	<i>(in thousands)</i>			<i>(in millions)</i>		
<b>Balance at December 31, 2022</b>	15,265	\$ 76	\$ 1,369	\$ 1,491	\$ (1)	\$ 2,935
Net income	—	—	—	168	—	168
Common stock dividends	—	—	—	(300)	—	(300)
Capital contributions from parent company	—	—	50	—	—	50
Other	—	—	—	(3)	—	(3)
<b>Balance at December 31, 2023</b>	<b>15,265</b>	<b>\$ 76</b>	<b>\$ 1,419</b>	<b>\$ 1,356</b>	<b>\$ (1)</b>	<b>\$ 2,850</b>
Net income	—	—	—	256	—	256
Capital contributions from parent company	—	—	50	—	—	50
Other	—	—	(10)	3	—	(7)
<b>Balance at December 31, 2024</b>	<b>15,265</b>	<b>\$ 76</b>	<b>\$ 1,459</b>	<b>\$ 1,615</b>	<b>\$ (1)</b>	<b>\$ 3,149</b>

The accompanying notes are an integral part of these consolidated financial statements.

## Notes to Consolidated Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### General

Northern Illinois Gas Company, doing business as Nicor Gas Company (Nicor Gas), is a natural gas distribution company that serves approximately 2.3 million customers in a territory encompassing most of the northern third of Illinois, excluding the city of Chicago, and is a wholly-owned subsidiary of Southern Company Gas, which is a wholly-owned subsidiary of The Southern Company (Southern Company).

The consolidated financial statements reflect Nicor Gas and its wholly-owned subsidiary. Intercompany transactions have been eliminated in consolidation.

Nicor Gas is subject to regulation by the Illinois Commerce Commission (Illinois Commission). As such, Nicor Gas' consolidated financial statements reflect the effects of rate regulation in accordance with accounting principles generally accepted in the United States of America (GAAP) and comply with the accounting policies and practices prescribed by the Illinois Commission. The preparation of financial statements in conformity with GAAP requires the use of estimates, and the actual results may differ from those estimates.

#### Regulatory Assets and Liabilities

Nicor Gas is subject to accounting requirements for the effects of rate regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent costs recovered that are expected to be incurred in the future or probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

In the event that a portion of its operations is no longer subject to applicable accounting rules for rate regulation, Nicor Gas would be required to write off to income or reclassify to accumulated other comprehensive income (AOCI) related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, Nicor Gas would be required to determine if any impairment to other assets, including plant, exists and write down the assets, if impaired, to their fair values. All regulatory assets and liabilities are to be reflected in rates. See Note 2 for additional information including details of regulatory assets and liabilities reflected in the balance sheets for Nicor Gas.

#### Revenues

Nicor Gas records revenues when goods or services are provided to customers. Those revenues are based on rates approved by the Illinois Commission.

The majority of the revenues of Nicor Gas are generated from contracts with natural gas distribution customers. Revenues from this integrated service to deliver gas when and if called upon by the customer is recognized as a single performance obligation satisfied over time and is recognized at a tariff rate as gas is delivered to the customer during the month.

The standalone selling price is primarily determined by the price charged to customers for the specific goods or services transferred with the performance obligations. Generally, Nicor Gas recognizes revenue as the performance obligations are satisfied over time as natural gas is delivered to the customer.

Nicor Gas has elected to recognize revenue for sales of gas using the invoice practical expedient as it generally has a right to consideration in an amount that corresponds directly with the value to the customer of Nicor Gas' performance completed to date and that may be invoiced. Payment for goods and services rendered is typically due in the subsequent month following satisfaction of Nicor Gas' performance obligation.

Nicor Gas has a rate structure that includes a volumetric rate design that allows the opportunity to recover certain costs based on gas usage. Revenues from sales and transportation services are recognized in the same period in which the related volumes are delivered to customers. Revenues from residential and certain commercial and industrial customers are recognized on the basis of scheduled meter readings. Additionally, unbilled revenues are recognized for estimated deliveries of gas not yet billed to these customers, from the last bill date to the end of the accounting period. For other commercial and industrial customers, revenues are based on actual deliveries through the end of the period.

Nicor Gas has a revenue normalization tariff that include provisions which allow for the recognition of certain revenues prior to the time such revenues are billed to customers. The provisions are referred to as an alternative revenue program, which mitigates the impact of conservation and declining customer usage, and provides for the recognition of certain revenues prior to billing, as long as the amounts recognized will be collected from customers within 24 months of recognition. Revenue related to alternative revenue programs was \$51 million and \$30 million in 2024 and 2023, respectively.

### **Concentration of Revenue**

Nicor Gas has a diversified base of customers and no single customer or industry comprises 10% or more of revenues.

### **Cost of Natural Gas**

Nicor Gas charges its customers for natural gas consumed using a natural gas cost recovery mechanism set by the Illinois Commission, under which all prudently-incurred natural gas costs are passed through to customers without markup, subject to regulatory review. Nicor Gas defers or accrues the difference between the actual cost of natural gas and the amount of commodity revenue earned in a given period such that no operating income is recognized related to these costs. The deferred or accrued amount is either billed or refunded to customers prospectively through adjustments to the commodity rate. Deferred and accrued natural gas costs are included in the balance sheets as regulatory assets and regulatory liabilities, respectively.

### **Income Taxes**

Nicor Gas uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. In accordance with regulatory requirements, deferred state investment tax credits (ITCs) are amortized over the average lives of the related property, with such amortization normally applied as a credit to reduce income tax expense in the consolidated statements of income. Taxes that are collected from customers on behalf of governmental agencies to be remitted to these agencies are presented on the balance sheets, excluding revenue taxes which are presented on the consolidated statements of income. See "Revenue Taxes" herein for additional information.

Nicor Gas recognizes tax positions that are "more likely than not" of being sustained upon examination by the appropriate taxing authorities. See Note 8 under "Unrecognized Tax Benefits" for additional information.

### **Revenue Taxes**

Taxes imposed on and collected from customers on behalf of governmental agencies are presented net on Nicor Gas' consolidated statements of income and are excluded from the transaction price in determining the revenue related to contracts with a customer.

Nicor Gas is taxed on its gas revenues by various governmental authorities, but is allowed to recover these taxes from its customers. Revenue taxes imposed on Nicor Gas are recorded at the amount charged to customers, which may include a small administrative fee, as operating revenues, and the related taxes imposed on Nicor Gas are recorded as operating expenses on the consolidated statements of income. Revenue taxes included in operating expenses were \$112 million and \$129 million for the years ended December 31, 2024 and 2023, respectively.

### **Allowance for Funds Used During Construction and Interest Capitalized (AFUDC)**

Nicor Gas records AFUDC, which represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. While cash is not realized currently, AFUDC increases the revenue requirement and is recovered over the service life of the asset through a higher rate base and higher depreciation.

The Illinois Commission has authorized a variable rate based on the Federal Energy Regulatory Commission (FERC) method of accounting for AFUDC. Nicor Gas' AFUDC composite rate was 5.6% and 4.6% for the years ended December 31, 2024 and 2023, respectively. Nicor Gas recorded an immaterial amount of AFUDC for each of the years ended December 31, 2024 and 2023.

### **Cash and Cash Equivalents**

For purposes of the consolidated financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

## **Materials and Supplies**

Materials and supplies generally include fleet fuel and other materials and supplies. Materials are recorded to inventory when purchased and then expensed or capitalized to property, plant, and equipment as appropriate, at weighted average cost when installed.

## **Natural Gas for Sale**

Nicor Gas' natural gas inventory is carried at cost on a last-in, first-out (LIFO) basis. Inventory decrements occurring during the year that are restored prior to year end are charged to cost of natural gas at the estimated annual replacement cost. Inventory decrements that are not restored prior to year end are charged to cost of natural gas at the actual LIFO cost of the inventory layers liquidated. As of December 31, 2024, inventory decrements that occurred during the year have been fully restored. The cost of natural gas, including inventory costs, is recovered from customers under a purchased gas recovery mechanism adjusted for differences between actual costs and amounts billed; therefore, LIFO liquidations have no impact on Nicor Gas' net income. At December 31, 2024, the Nicor Gas LIFO inventory balance was \$188 million. Based on the average cost of gas purchased in December 2024, the estimated replacement cost of Nicor Gas' inventory at December 31, 2024 was \$326 million.

## **Receivables and Provision for Uncollectible Accounts**

Nicor Gas' receivables consist primarily of natural gas sales and transportation services billed to residential, commercial, industrial, and other customers. The customers are billed monthly and payment is due within 30 days. For the majority of receivables, a provision for uncollectible accounts is established based on historical collection experience and other factors. For the remaining receivables, if Nicor Gas is aware of a specific customer's inability to pay, a provision for uncollectible accounts is recorded to reduce the receivable balance to the amount reasonably expected to be collected. If circumstances change, the estimate of the recoverability of accounts receivable could change as well. Circumstances that could affect this estimate include, but are not limited to, customer credit issues, customer deposits, and general economic conditions. Customers' accounts are written off once they are deemed to be uncollectible. For all periods presented, uncollectible accounts averaged less than 2% of revenues for Nicor Gas.

Credit risk exposure at Nicor Gas is mitigated by a bad debt rider approved by the Illinois Commission. The bad debt rider provides for the recovery from (or refund to) customers of the difference between Nicor Gas' actual bad debt on an annual basis and the benchmark bad debt expense used to establish its base rates for the respective year.

## **Financial Instruments**

Nicor Gas uses derivative financial instruments to limit exposure to fluctuations in natural gas prices. All derivative financial instruments are recognized as either assets or liabilities on the balance sheets and are measured at fair value. See Note 10 for additional information regarding fair value. Derivative contracts that qualify as cash flow hedges of anticipated transactions or are recoverable through the Illinois Commission approved fuel-hedging programs result in the deferral of related gains and losses in AOCI or regulatory assets and liabilities, respectively, until the hedged transactions occur. Cash flows from derivatives are classified on the consolidated statements of cash flows in the same category as the hedged item. See Note 11 for additional information regarding derivatives.

Nicor Gas offsets fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a netting arrangement. Nicor Gas had no outstanding collateral repayment obligations or rights to reclaim collateral arising from derivative instruments recognized at December 31, 2024.

## **Comprehensive Income**

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income, changes in the fair value of qualifying cash flow hedges, and reclassifications for amounts included in net income. Comprehensive income also consists of certain changes in pension and other postretirement benefit plans.

## Equity

The changes during 2024 and 2023 were primarily attributable to net income, and cash distribution to or contributions from Southern Company Gas to return capital to parent company and/or provide capital for Nicor Gas' financing needs and capital expenditures.

## 2. REGULATORY MATTERS

### Regulatory Assets and Liabilities

Details of regulatory assets and (liabilities) reflected in the balance sheets at December 31, 2024 and 2023 are provided in the following table:

	2024	2023	Note
	<i>(in millions)</i>		
Environmental remediation	\$ 218	\$ 211	(a)
Retiree benefit plans (liabilities), net	9	(19)	(b)
Bad debt rider	14	16	(c)
Vacation pay	6	8	(d)
Regulatory clauses	80	28	(e)
Other regulatory assets	25	27	(f)
Other cost of removal obligations	(1,448)	(1,381)	(g)
Deferred income tax credits	(255)	(267)	(g)
Over recovered regulatory clause revenues	(188)	(213)	(h)
Other regulatory liabilities	(68)	(10)	(i)
<b>Total regulatory assets (liabilities), net</b>	<b>\$ (1,607)</b>	<b>\$ (1,600)</b>	

Note: The recovery and amortization periods for these regulatory assets and (liabilities) have been approved by the Illinois Commission and are as follows:

- (a) Costs are recovered through environmental cost recovery mechanisms when the remediation work is performed. The environmental remediation asset is primarily offset by a corresponding liability.
- (b) Recovered and amortized over the average remaining service period, which may range up to 14 years. See Note 9 for additional information.
- (c) Bad debt is recovered in a period generally not exceeding three years.
- (d) Recorded as earned by employees and recovered as paid, generally within one year. Includes both vacation and banked holiday pay, if applicable.
- (e) Represents amounts related to Nicor Gas' volume balancing adjustment rider expected to be recovered over a period of less than two years.
- (f) Except as otherwise noted, comprised of numerous immaterial components with remaining amortization periods generally not exceeding 10 years at December 31, 2024.
- (g) Other cost of removal obligations are recorded and deferred income tax credits are amortized over the related property lives, which may range up to 80 years. Cost of removal obligations will be settled and trued up following completion of the related activities.
- (h) Balances are recorded and recovered or amortized over periods generally not exceeding two years. In addition to natural gas cost recovery mechanisms, Nicor Gas has various other cost recovery mechanisms for the recovery of costs, including those related to infrastructure replacement programs.
- (i) Comprised primarily of energy efficiency program costs and a bill pay assistance program. These amounts are refunded to customers within one year. Also comprised of Rider 7 over-collections for governmental fees and added costs, excluding franchise costs, which are amortized for up to 20 years.

### Infrastructure Replacement Program

Illinois legislation allowed Nicor Gas to provide more widespread safety and reliability enhancements to its distribution system through 2023 and stipulated that rate increases to customers as a result of any infrastructure investments did not exceed a cumulative annual average of 4.0% or, in any given year, 5.5% of base rate revenues. In 2014, the Illinois Commission approved the nine-year regulatory infrastructure program, Investing in Illinois, which concluded in 2023 and is subject to annual review, as discussed further below. In accordance with orders from the Illinois Commission, Nicor Gas recovered program costs incurred through a separate rider and base rates. See "Rate Proceedings" herein for additional information.

In June 2023, the Illinois Commission concluded its review of the Qualifying Infrastructure Plant (QIP) capital investments by Nicor Gas for calendar year 2019 under the QIP rider, also referred to as Investing in Illinois program. The Illinois Commission disallowed \$32 million of the \$415 million of capital investments commissioned in 2019, together with the related return on investment. Nicor Gas recorded a pre-tax charge to income in the second quarter 2023 of \$38 million (\$28 million after tax) associated with the disallowance of capital investments placed in service in 2019. The disallowance is reflected on the

consolidated statement of income as an \$8 million reduction to revenues and \$30 million in estimated loss on regulatory disallowance. On August 3, 2023, the Illinois Commission denied a rehearing request filed by Nicor Gas. On August 24, 2023, Nicor Gas filed a notice of appeal with the Illinois Appellate Court. On November 25, 2024, the Illinois Appellate Court agreed with the Illinois Commission's review of the QIP capital investments by Nicor Gas for calendar year 2019 under the QIP rider apart from one immaterial item. On December 24, 2024, Nicor Gas filed a petition for leave to appeal \$14 million of the 2019 QIP disallowance with the Illinois Supreme Court. Nicor Gas defends these investments in infrastructure as prudently incurred.

The following table provides a summary of QIP capital investments during the nine-year program:

Year	Status of QIP Annual Review Proceeding	Capital Investments	Disallowed	Month of Disallowance
<i>(in millions)</i>				
2015 – 2018	Complete	\$ 1,246	\$ —	
2019	Complete <sup>(a)</sup>	415	32	June 2023
2020	Filed March 2021	402 <sup>(b)</sup>		
2021	Filed March 2022	392 <sup>(b)</sup>		
2022	Filed March 2023	408 <sup>(b)</sup>	6 <sup>(c)(d)</sup>	November 2023
2023	Filed March 2024	365 <sup>(b)</sup>	25 <sup>(c)(d)</sup>	November 2023
		<u>\$ 3,228</u>	<u>\$ 63</u>	

(a) Petition for leave to appeal filed to the the Illinois Supreme Court for \$14 million.

(b) Capital investments are subject to the required QIP annual review proceeding; years 2020 through 2023 are pending with the Illinois Commission.

(c) Appealed to Illinois Appellate Court.

(d) Disallowed in Nicor Gas' 2023 general base rate case proceeding. See "Rate Proceedings – Nicor Gas" herein for additional information regarding the Illinois Commission's disallowance of certain capital investments.

Any further cost disallowances by the Illinois Commission in the pending cases could be material to the consolidated financial statements of Nicor Gas. The ultimate outcome of these matters cannot be determined at this time.

### **Natural Gas Cost Recovery**

Nicor Gas is authorized by the Illinois Commission to use natural gas cost recovery mechanisms that adjust rates to reflect changes in the wholesale cost of natural gas and ensure recovery of all costs prudently incurred in purchasing natural gas for customers. Nicor Gas defers or accrues the difference between the actual cost of natural gas and the amount of commodity revenue earned in a given period. The deferred or accrued amount is either billed or refunded to customers prospectively through adjustments to the commodity rate. Deferred natural gas costs are reflected as regulatory assets and accrued natural gas costs are reflected as regulatory liabilities. Changes in the billing factor will not have a significant effect on Nicor Gas' net income, but will affect cash flows. The over recovered balances included in natural gas cost over recovery on Nicor Gas' balance sheets were \$188 million and \$200 million at December 31, 2024 and 2023, respectively.

### **Rate Proceedings**

In November 2023, the Illinois Commission approved a \$223 million annual base rate increase for Nicor Gas, which became effective December 1, 2023. The base rate increase was based on a return on equity (ROE) of 9.51% and an equity ratio of 50.00%.

In connection with Nicor Gas' 2023 general base rate case proceeding, the Illinois Commission disallowed \$126.8 million of capital investments that have been completed or were planned to be completed through December 31, 2024. This includes \$31 million for capital investments placed in service in 2022 and 2023 under the Investing in Illinois program and \$95.9 million for other transmission and distribution capital investments. Nicor Gas recorded a pre-tax charge to income in the fourth quarter 2023 of \$58 million (\$44 million after tax) associated with the disallowances, with the remaining \$69 million related to prospective projects that will be postponed and/or reevaluated. The disallowance is reflected on the consolidated statement of income in estimated loss on regulatory disallowance. See "Infrastructure Replacement Program" herein for additional information regarding the Illinois Commission's disallowance of certain capital investments. On January 3, 2024, the Illinois Commission denied a request by Nicor Gas for rehearing on the base rate case disallowances associated with capital investment, as well as on other issues determined in the Illinois Commission's November 2023 base rate case decision. On

February 6, 2024, Nicor Gas filed a notice of appeal with the Illinois Appellate Court related to the Illinois Commission's rate case ruling.

On January 3, 2025, Nicor Gas filed a general base rate case with the Illinois Commission requesting a \$309 million increase in annual base rate revenues. The requested increase is based on a projected test year for the 12-month period ending December 31, 2026, an ROE of 10.35%, and an equity ratio of 54.6%. The Illinois Commission is expected to rule on the requested increase within the 11-month statutory time limit, after which rate adjustments will be effective.

The ultimate outcome of these matters cannot be determined at this time.

#### ***Energy Efficiency Program***

In 2021 the Illinois Commission approved Nicor Gas' energy efficiency program which outlined energy efficiency offerings and term reduction goals with spending of \$183 million over a four-year period that began in in 2022. Nicor Gas incurred approximately \$48 million expenditures in 2024 for a total amount spent of \$134 million.

#### ***Unrecognized Ratemaking Amounts***

At December 31, 2024 and 2023, Nicor Gas' authorized ratemaking amounts that are not recognized on its balance sheets were immaterial. These amounts are primarily composed of an allowed equity rate of return on assets associated with Investing in Illinois. These amounts will be recognized as revenues in Nicor Gas' consolidated financial statements in the periods they are billable to customers.

### **3. CONTINGENCIES, COMMITMENTS, AND GUARANTEES**

#### **General Litigation Matters**

Nicor Gas is involved in various legal and regulatory matters. The ultimate outcome of such pending or potential litigation or regulatory matters against Nicor Gas cannot be determined at this time; however, for current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Nicor Gas' consolidated financial statements.

#### **Environmental Remediation**

Nicor Gas must comply with environmental laws and regulations governing the handling and disposal of waste and releases of hazardous substances. Nicor Gas maintains a comprehensive environmental compliance strategy to assess upcoming requirements and compliance costs associated with these environmental laws and regulations. The costs, including capital expenditures and operations and maintenance costs, required to comply with environmental laws and regulations impact future results of operations, cash flows, and financial condition. Compliance costs may result from the installation of additional environmental controls. Compliance with these environmental requirements involves significant capital and operating costs to clean up affected sites. Nicor Gas conducts studies to determine the extent of any required cleanup and has recognized the estimated costs to clean up known impacted sites in the consolidated financial statements. A liability for environmental remediation costs is recognized only when a loss is determined to be probable and reasonably estimable and is reduced as expenditures are incurred. Under these various laws and regulations, Nicor Gas could incur substantial costs to clean up affected sites. Nicor Gas has received authority from the Illinois Commission to recover approved environmental remediation costs through regulatory mechanisms. Any difference between the liabilities accrued and costs recovered through rates is deferred as a regulatory asset or liability. These regulatory mechanisms are adjusted annually or as necessary within limits approved by the Illinois Commission.

Nicor Gas is subject to environmental remediation liabilities associated with 26 former manufactured gas plant sites in the State of Illinois, three of which have been remediated and their use is no longer restricted by the environmental condition of the property. Nicor Gas and Commonwealth Edison Company are parties to an agreement to cooperate in cleaning up residue at the 23 remaining sites. Nicor Gas' allocated share of the cleanup costs for these sites is 52%. Accrued environmental remediation costs of \$211 million and \$206 million have been recorded in the balance sheets as of December 31, 2024 and 2023, respectively, based on the estimated cost of environmental investigation and remediation associated with known current and former manufactured gas plant operating sites. These environmental remediation expenditures are generally recoverable from customers through rate mechanisms approved by the Illinois Commission.

The ultimate outcome of these matters cannot be determined at this time; however, as a result of the regulatory treatment for environmental remediation expenses described above, the final disposition of these matters is not expected to have a material impact on Nicor Gas' consolidated financial statements.

### Commitments

Nicor Gas has commitments for pipeline charges, storage capacity, and gas supply, including charges recoverable through a natural gas cost recovery mechanism. Gas supply commitments include amounts for gas commodity purchases of 21.0 billion cubic feet at floating gas prices calculated using forward natural gas prices at December 31, 2024 and valued at \$77 million.

### Contractual Obligations

Contractual obligations at December 31, 2024 were as follows:

	2025	2026	2027	2028	2029	After 2029	Total
	<i>(in millions)</i>						
Long-term debt <sup>(a)</sup>	\$ 50	\$ 150	\$ 100	\$ 150	\$ 150	\$ 2,175	\$ 2,775
Pipeline charges, storage capacity, and gas supply <sup>(b)</sup>	250	93	34	28	21	82	508
Other purchase commitments <sup>(c)</sup>	15	—	—	—	—	—	15
<b>Total</b>	<b>\$ 315</b>	<b>\$ 243</b>	<b>\$ 134</b>	<b>\$ 178</b>	<b>\$ 171</b>	<b>\$ 2,257</b>	<b>\$ 3,298</b>

(a) Secured by substantially all of Nicor Gas' properties.

(b) Includes charges recoverable through a natural gas cost recovery mechanism, subject to review by the Illinois Commission.

(c) Primarily includes contractual environmental remediation liabilities, which are recoverable through a rate rider mechanism.

### Financial Guarantees

Contingent financial commitments, such as financial guarantees, represent obligations that become payable only if certain predefined events occur. Nicor Gas believes the likelihood of payment under its guarantees is remote. No liabilities have been recorded for such guarantees and indemnifications as the fair values were inconsequential at inception.

### Indemnities

In certain instances, Nicor Gas has undertaken to indemnify current property owners and others against costs associated with the effects and/or remediation of contaminated sites for which it may be responsible under applicable federal or state environmental laws, generally with no limitation as to the amount. These indemnifications relate primarily to ongoing coal tar cleanup. See "Environmental Remediation" herein for additional information. Nicor Gas believes that the likelihood of payment under its other environmental indemnifications is remote. No liability has been recorded for such indemnifications as the fair value was inconsequential at inception.

## 4. REVENUE FROM CONTRACTS WITH CUSTOMERS

Nicor Gas generates revenues from a variety of sources, some of which are not accounted for as revenue from contracts with customers, such as late payment fees, and an alternative revenue program. See Note 1 under "Revenues" for additional information on the revenue policies of Nicor Gas.

The following table disaggregates revenue from contracts with customers for the year ended December 31, 2024 and 2023:

	2024	2023
	<i>(in millions)</i>	
<b>Operating revenues</b>		
Residential	\$ 1,426	\$ 1,648
Commercial	292	372
Transportation	289	261
Industrial	30	39
Other	219	217
<b>Total revenue from contracts with customers</b>	<b>2,256</b>	<b>2,537</b>
Other revenue sources(*)	70	56
<b>Total operating revenues</b>	<b>\$ 2,326</b>	<b>\$ 2,593</b>

(\*) Other revenue sources primarily relate to revenues from customers not accounted for under Accounting Standards Codification 606, Revenue from Contracts with Customers.

## 5. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at original cost less any regulatory disallowances and impairments. Original cost may include: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the interest capitalized and/or cost of equity funds used during construction.

Nicor Gas' property, plant, and equipment in service consisted of the following at December 31, 2024 and 2023:

	2024	2023
	<i>(in millions)</i>	
Utility plant in service	\$ 8,980	\$ 8,477
Storage facilities	1,361	1,266
Other	801	722
Total other plant in service	2,162	1,988
<b>Total plant in service</b>	<b>\$ 11,142</b>	<b>\$ 10,465</b>

The cost of replacements of property, exclusive of minor items of property, is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to other operations and maintenance expenses as incurred or performed.

### Depreciation

Depreciation of the original cost of utility plant in service is provided using composite straight-line rates, which approximated 3.3% and 3.1% for 2024 and 2023, respectively. Depreciation studies are conducted periodically to update the composite rate that is approved by the Illinois Commission. Nicor Gas implemented a new composite rate of 3.4% which became effective December 2023. When property, plant, and equipment subject to composite depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation. As such, gains or losses are not recognized; they are ultimately refunded to, or recovered from, customers through future rate adjustments. Minor items of property included in the original cost of the asset are retired when the related property unit is retired.

Accumulated depreciation for utility plant in service totaled \$2.4 billion and \$2.2 billion at December 31, 2024 and 2023, respectively. Accumulated depreciation for other plant in service totaled \$617 million and \$574 million at December 31, 2024 and 2023, respectively.

## 6. FINANCING

### Long-term Debt

Substantially all of Nicor Gas' properties are subject to the lien of the indenture securing the first mortgage bonds. The following table provides maturity dates, year-to-date weighted average interest rates, and amounts outstanding for Nicor Gas' debt securities that are included in the balance sheets.

	At December 31, 2024		Balance Outstanding at December 31,	
	Maturity	Weighted Average Interest Rate	2024	2023
			<i>(in millions)</i>	
First mortgage bonds	2025-2064	3.79%	\$ 2,775	\$ 2,500
Unamortized debt discount, net			—	(1)
Unamortized debt issuance expenses			(16)	(14)
<b>Total long-term debt</b>			<b>2,759</b>	<b>2,485</b>
Less: Amount due within one year			<b>50</b>	—
<b>Total long-term debt excluding amount due within one year</b>			<b>\$ 2,709</b>	<b>\$ 2,485</b>

### Bank Credit Arrangements

#### Credit Facilities

Bank credit arrangements under Nicor Gas' credit facilities provide liquidity support to its commercial paper borrowings and are restricted for the working capital needs of Nicor Gas. The following table outlines the committed credit arrangements as of December 31, 2024:

	Expires 2025	Expires 2029	Total	Unused	Expires within One Year
	<i>(in millions)</i>				
Credit facilities(*)	\$ 100	\$ 700	\$ 800	\$ 800	\$ 100

(\*) Pursuant to the multi-year credit arrangement expiring in 2029, the allocations between Southern Company Gas Capital and Nicor Gas may be adjusted.

In May 2024, Nicor Gas amended its credit arrangement aggregating \$100 million, which extended the maturity date from 2024 to 2025. Also in May 2024, Southern Company Gas Capital, along with Nicor Gas, extended the maturity dates of their multi-year credit arrangement from 2028 to 2029.

The bank credit arrangements require payment of commitment fees based on the unused portion of the commitments. Commitment fees average less than 1/4 of 1% for Nicor Gas. Subject to applicable market conditions, Nicor Gas expects to renew or replace its bank credit arrangement as needed, prior to expiration. In connection therewith, Nicor Gas may extend the maturity date and/or increase or decrease the lending commitments thereunder.

The credit facilities contain a covenant that limits the debt level to 70% of total capitalization, as defined in the agreements, and contain a cross-acceleration provision to other indebtedness (including guarantee obligations). At December 31, 2024, Nicor Gas was in compliance with its debt limit covenant. The credit facilities do not contain a material adverse change clause at the time of borrowing.

#### Notes Payable

Nicor Gas makes short-term borrowings primarily through its commercial paper program that consists of short-term, unsecured promissory notes that has the liquidity support of the Facility. This commercial paper program supports working capital needs. In addition, Nicor Gas has entered into bank term loan agreements. Both commercial paper and short-term bank loans are included in notes payable in the balance sheets.

Details of Nicor Gas' short-term borrowings at December 31, 2024 and 2023 were as follows:

	Notes Payable at December 31, 2024		Notes Payable at December 31, 2023	
	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
	<i>(in millions)</i>		<i>(in millions)</i>	
Commercial paper	\$ 172	4.6 %	\$ 392	5.5 %
Short-term bank debt	—	—	—	—
<b>Total</b>	<b>\$ 172</b>	<b>4.6 %</b>	<b>\$ 392</b>	<b>5.5 %</b>

### Financing Activities

In September 2024, Nicor Gas issued in a private placement \$25 million aggregate principal amount of 4.78% Series First Mortgage Bonds due September 15, 2031, \$100 million aggregate principal amount of 5.00% Series First Mortgage Bonds due September 15, 2034, and \$31 million aggregate principal amount of 5.58% Series First Mortgage Bonds due September 15, 2059. In December 2024, pursuant to the same agreement, Nicor Gas issued in a private placement \$50 million aggregate principal amount of 4.63% Series First Mortgage Bonds due December 15, 2029 and \$69 million aggregate principal amount of 5.66% Series First Mortgage Bonds due December 15, 2064.

### Dividend Restrictions

By regulation, Nicor Gas is restricted, up to its retained earnings balance as reflected on the consolidated statements of stockholders equity, in the amount it can dividend or loan to affiliates and is not permitted to make money pool loans to affiliates.

### 7. LEASES

As lessee, Nicor Gas leases certain equipment, vehicles, and space on communication towers. Lease obligations for space on communication towers amounted to approximately \$21 million at December 31, 2024. Communication towers are leased for the installation of equipment to provide cellular phone service to customers and to support the automated meter infrastructure programs at Nicor Gas. Communication tower leases have remaining terms of up to 15 years.

Leases with an initial term of 12 months or less are not recorded on the balance sheet; Nicor Gas generally recognizes lease expense for these leases on a straight-line basis over the lease term.

Renewal options exist in many of the leases. Expected term used in calculating the lease obligation generally reflects only the noncancelable period of the lease as it is not considered reasonably certain that the lease will be extended. Communication tower leases for automated meter infrastructure include renewal periods reasonably certain of exercise resulting in an expected lease term at least equal to the expected life of the automated meter infrastructure.

#### Lease and Nonlease Components

For all asset categories, Nicor Gas combines lease payments and any nonlease components, such as asset maintenance, for purposes of calculating the lease obligation and the right-of-use (ROU) asset.

Balance sheet amounts recorded for operating leases are as follows:

	2024	2023
	<i>(in millions)</i>	
<b>Operating Leases</b>		
Operating lease ROU assets, net	\$ 23	\$ 25
Operating lease obligations - current(*)	2	2
Operating lease obligations - non current	21	23
<b>Total operating lease obligations</b>	<b>\$ 23</b>	<b>\$ 25</b>

(\*) Included in other current liabilities.

Lease costs for each of the years ended December 31, 2024 and 2023 recognized as operations and maintenance expense for Nicor Gas were immaterial.

Other information with respect to cash and noncash activities related to leases, as well as weighted-average lease terms and discount rates, is as follows:

	2024	2023
	<i>(in millions)</i>	
<b>Other information</b>		
Cash paid for amounts included in the measurements of lease obligations:		
Operating cash flows from operating leases	\$ —	\$ 3
ROU assets obtained in exchange for new operating lease obligations	—	4

	2024	2023
<b>Weighted-average remaining lease term in years:</b>		
Operating leases	9.5	10.3
<b>Weighted-average discount rate:</b>		
Operating leases	3.82 %	3.51 %

Maturities of lease liabilities are as follows:

	As of December 31, 2024	
	<i>(in millions)</i>	
<b>Maturity Analysis</b>		
Operating leases:		
2025	\$	3
2026		3
2027		3
2028		3
2029		3
Thereafter		13
<b>Total</b>		<b>28</b>
Less: Present value discount		5
<b>Operating lease obligation</b>	<b>\$</b>	<b>23</b>

**Lessor**

Nicor Gas is the lessor in operating leases primarily related to gas pipelines with remaining terms of up to 7 years. Lease income for each of the years ended December 31, 2024 and 2023 was immaterial for Nicor Gas. The undiscounted cash flows to be received under operating leases and contracts accounted for as operating leases are as follows:

	As of December 31, 2024	
	<i>(in millions)</i>	
2025	\$	1
2026		1
2027		1
2028		1
2029		1
Thereafter		1
<b>Total</b>	<b>\$</b>	<b>6</b>

## 8. INCOME TAXES

Southern Company files a consolidated federal income tax return and various combined or unitary state income tax returns on behalf of Nicor Gas. Under a joint consolidated income tax allocation agreement, each Southern Company subsidiary's current and deferred tax expense is computed on a stand-alone basis and each subsidiary is allocated an amount of tax similar to that which would be paid if it filed a separate income tax return. In accordance with Internal Revenue Service (IRS) regulations, Nicor Gas is jointly and severally liable for the federal tax liability.

### Current and Deferred Income Taxes

Details of income tax provisions are as follows:

	2024	2023
	<i>(in millions)</i>	
Federal —		
Current	\$ 17	\$ (10)
Deferred	38	41
	55	31
State —		
Current	(14)	(9)
Deferred	48	31
	34	22
Amortization of investment tax credits	(1)	(1)
Total	\$ 88	\$ 52

### Effective Tax Rate

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	2024	2023
Federal statutory rate	21.0 %	21.0 %
State income tax, net of federal deduction	7.6	7.7
Tax reform legislation	(2.7)	(3.4)
Federal tax credit	(0.3)	(1.4)
Other	0.1	(0.1)
Effective income tax rate	25.7 %	23.8 %

## Deferred Tax Assets and Liabilities

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

	2024	2023
	<i>(in millions)</i>	
Deferred tax liabilities —		
Accelerated depreciation	\$ 677	\$ 657
Property basis differences	159	56
Employee benefit obligations	42	53
Inventory	21	15
Regulatory liability associated with the Tax Reform Legislation (not subject to normalization)	—	1
Regulatory assets associated with employee benefit obligations	3	—
Other	41	28
<b>Total deferred income tax liabilities</b>	<b>\$ 943</b>	<b>\$ 810</b>
Deferred tax assets —		
Employee benefit obligations	\$ 56	\$ 56
Federal effect of net state deferred tax liabilities	55	45
Estimated loss on regulatory disallowance	21	27
Regulatory liabilities associated with employee benefit obligations	—	6
CAMT carryforward	36	—
Other	29	29
<b>Total deferred income tax assets</b>	<b>197</b>	<b>163</b>
<b>Net deferred income tax liabilities</b>	<b>\$ 746</b>	<b>\$ 647</b>

Nicor Gas has tax-related regulatory liabilities (deferred income tax credits), which are primarily attributable to deferred taxes previously recognized at rates higher than the current enacted tax law and to unamortized ITCs.

For each of the years ended December 31, 2024 and 2023, credits amortized to reduce income tax expense was immaterial. At December 31, 2024, all ITCs available to reduce federal income taxes payable had been utilized.

### Unrecognized Tax Benefits

Nicor Gas did not have any unrecognized tax benefits for the years presented. Nicor Gas classifies interest on tax uncertainties as interest expense. Nicor Gas had no accrued interest or penalties for unrecognized tax benefits for the years presented.

The IRS has finalized its audits of Southern Company's consolidated federal income tax returns through 2022. Southern Company is a participant in the Compliance Assurance Process of the IRS. The audits for Nicor Gas by any state have either concluded, or the statute of limitations has expired with respect to income tax examinations, for years prior to 2021.

## 9. RETIREMENT BENEFITS

Nicor Gas participates in the Southern Company system's qualified defined benefit, trustee, pension plan. The qualified pension plan is funded in accordance with requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). No contributions to the qualified pension plan were made for the year ended December 31, 2024 and no mandatory contributions to the qualified pension plan are anticipated for the year ending December 31, 2025. The Southern Company system also provides certain non-qualified defined benefits for a select group of management and highly compensated employees, which are funded on a cash basis. In addition, the Southern Company system provides certain medical care and life insurance benefits for retired employees through other postretirement benefit plans.

The following discussions reflect Nicor Gas' pro rata portion of the balances and activity, under the multiple-employer method of accounting, of the Southern Company system's qualified defined benefit pension plan and other postretirement benefit plans as well as the Southern Company system's non-qualified retirement plan.

## Actuarial Assumptions

The weighted average rates assumed in the actuarial calculations used to determine both the net periodic costs for the pension and other postretirement benefit plans for the following year and the benefit obligations as of the measurement date are presented below.

<b>Assumptions used to determine net periodic costs:</b>	<b>2024</b>	<b>2023</b>
<b>Pension plan</b>		
Discount rate - benefit obligations	<b>5.05 %</b>	5.24 %
Discount rate - interest costs	<b>4.93</b>	5.12
Discount rate - service costs	<b>5.13</b>	5.31
Expected long-term return on plan assets	<b>8.30</b>	8.40
Annual salary increase	<b>4.60</b>	4.80
<b>Other postretirement benefit plan</b>		
Discount rate - benefit obligations	<b>4.98 %</b>	5.16 %
Discount rate - interest costs	<b>4.89</b>	5.07
Discount rate - service costs	<b>5.16</b>	5.33
Annual salary increase	<b>4.60</b>	4.80

<b>Assumptions used to determine benefit obligations:</b>	<b>2024</b>	<b>2023</b>
<b>Pension plan</b>		
Discount rate	<b>5.73 %</b>	5.05 %
Annual salary increase	<b>4.60</b>	4.60
<b>Other postretirement benefit plan</b>		
Discount rate	<b>5.62 %</b>	4.98 %
Annual salary increase	<b>4.60</b>	4.60

The expected rate of return on pension plan assets is estimated using a financial model to project the expected return on each current investment portfolio. The analysis projects an expected rate of return on each of the different asset classes in order to arrive at the expected return on the entire portfolio relying on each trust's target asset allocation and reasonable capital market assumptions. The financial model is based on four key inputs: anticipated returns by asset class (based in part on historical returns), each trust's target asset allocation, an anticipated inflation rate, and the projected impact of a periodic rebalancing of each trust's portfolio. Nicor Gas set the expected rate of return assumption using an arithmetic mean which represents the expected simple average return to be earned by the pension plan assets over any one year. Nicor Gas believes the use of the arithmetic mean is more compatible with the expected rate of return's function of estimating a single year's investment return.

An additional assumption used in measuring the accumulated other postretirement benefit obligations (APBO) was a weighted average medical care cost trend rate. The weighted average medical care cost trend rates used in measuring the APBO at December 31, 2024 were as follows:

	<b>Initial Cost Trend Rate</b>	<b>Ultimate Cost Trend Rate</b>	<b>Year That Ultimate Rate is Reached</b>
Pre-65	<b>8.00 %</b>	<b>4.50 %</b>	2033
Post-65 medical	<b>5.50</b>	<b>4.50</b>	2033
Post-65 prescription	<b>11.00</b>	<b>4.50</b>	2033

## Pension Plan

The total accumulated benefit obligation for the pension plan was \$165 million and \$172 million at December 31, 2024 and 2023, respectively.

Changes in the projected benefit obligation and the fair value of plan assets during the plan years ended December 31, 2024 and 2023 were as follows:

	2024	2023
	<i>(in millions)</i>	
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 178	\$ 204
Dispositions	—	1
Service cost	10	9
Interest cost	9	10
Benefits paid	(8)	(55)
Actuarial loss (gain)	(19)	9
Balance at end of year	170	178
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	266	298
Dispositions	—	1
Actual return (loss) on plan assets	11	21
Benefits paid	(8)	(55)
Fair value of plan assets at end of year	269	265
Accrued asset	\$ 99	\$ 87

At December 31, 2024, the projected benefit obligations for the qualified and non-qualified pension plans were \$169 million and \$1 million, respectively. All pension plan assets are related to the qualified pension plan.

Amounts recognized in the balance sheets at December 31, 2024 and 2023 to the pension plan consist of the following:

	2024	2023
	<i>(in millions)</i>	
Prepaid pension costs	\$ 100	\$ 89
Other regulatory assets, current	14	15
Regulatory assets, deferred	—	12
Regulatory liabilities, deferred	(7)	—
Employee benefit obligations	(1)	(1)

Presented below are the amounts included in regulatory assets at December 31, 2024 and 2023 related to the pension plan that had not yet been recognized in net periodic pension cost.

*(in millions)*

<b>Balance at December 31, 2024</b>	
Regulatory assets\liabilities:	
Prior service cost	\$ (3)
Net (gain) loss	(8)
Regulatory amortization	18
<b>Total regulatory assets</b>	<b>7</b>
<b>Balance at December 31, 2023</b>	
Regulatory assets/liabilities:	
Prior service cost	(5)
Net (gain) loss	(2)
Regulatory amortization	34
<b>Total regulatory assets</b>	<b>\$ 27</b>

The changes in the balance of regulatory assets related to the pension plan for the years ended December 31, 2024 and 2023 are presented in the following table:

*(in millions)*

<b>Regulatory assets:</b>	
<b>Balance at December 31, 2022</b>	<b>\$ 27</b>
Net (gain) loss	14
Reclassification adjustments:	
Amortization of prior service costs	1
Amortization of regulatory assets	(15)
<b>Total reclassification adjustments</b>	<b>(14)</b>
Total change	—
<b>Balance at December 31, 2023</b>	<b>27</b>
Net (gain) loss	(7)
Reclassification adjustments:	
Amortization of prior service costs	2
Amortization of regulatory assets	(15)
<b>Total reclassification adjustments</b>	<b>(13)</b>
<b>Total change</b>	<b>(20)</b>
<b>Balance at December 31, 2024</b>	<b>\$ 7</b>

Components of net periodic pension cost for the years ended December 31, 2024 and 2023 were as follows:

	2024	2023
	<i>(in millions)</i>	
Service cost	\$ 10	\$ 9
Interest cost	9	10
Expected return on plan assets	(23)	(25)
Amortization:		
Prior service costs	(2)	(2)
(Gain)/Loss	—	(1)
Regulatory assets	15	15
Net periodic pension cost	\$ 9	\$ 6

The service cost component of net periodic pension cost is included in operations and maintenance expenses and all other components of net periodic pension cost are included in other income (expense), net in the consolidated statements of income.

Net periodic pension cost is the sum of service cost, interest cost, and other costs netted against the expected return on plan assets. The expected return on plan assets is determined by multiplying the expected rate of return on plan assets and the market-related value of plan assets. In determining the market-related value of plan assets, Nicor Gas has elected to amortize changes in the market value of return-seeking plan assets over five years and to recognize the changes in the market value of liability-hedging plan assets immediately. Given the significant concentration in return-seeking plan assets, the accounting value of the plan assets that is used to calculate the expected return on plan assets differs from the current fair value of plan assets.

Future benefit payments reflect expected future service and are estimated based on assumptions used to measure the projected benefit obligation for the pension plan. At December 31, 2024, estimated benefit payments were as follows:

	<b>Benefit Payments</b>	
	<i>(in millions)</i>	
2025	\$	16
2026		17
2027		16
2028		16
2029		16
2030 to 2034		78

## Other Postretirement Benefits

Changes in the APBO and the fair value of plan assets during the plan years ended December 31, 2024 and 2023 were as follows:

	2024	2023
	<i>(in millions)</i>	
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 105	\$ 108
Interest cost	5	5
Benefits paid	(8)	(11)
Actuarial (gain) loss	(5)	3
Balance at end of year	97	105
<b>Change in plan assets</b>		
Employer contributions	8	11
Benefits paid	(8)	(11)
Fair value of plan assets at end of year	—	—
Accrued liability	\$ 97	\$ 105

Amounts recognized in the balance sheets at December 31, 2024 and 2023 related to the other postretirement benefit plan consist of the following:

	2024	2023
	<i>(in millions)</i>	
Other current liabilities	\$ 10	\$ —
Other regulatory liabilities, deferred	\$ (53)	\$ (47)
Employee benefit obligations(*)	87	105

(\*) These amounts are reflected as a long-term liability within the consolidated balance sheets.

Presented below are the amounts included in net regulatory assets (liabilities) at December 31, 2024 and 2023 related to the other postretirement benefit plan that had not yet been recognized in net periodic other postretirement benefit cost.

	<i>(in millions)</i>	
<b>Balance at December 31, 2024</b>		
Regulatory assets\liabilities:		
Net gain	\$	(58)
Regulatory amortization		5
Total regulatory liabilities		(53)
<b>Balance at December 31, 2023</b>		
Regulatory assets\liabilities:		
Net gain		(58)
Regulatory amortization		11
Total regulatory liabilities	\$	(47)

The changes in the balance of net regulatory assets (liabilities) related to the other postretirement benefit plan for the plan years ended December 31, 2024 and 2023 are presented in the following table:

	<i>(in millions)</i>	
<b>Balance at December 31, 2022</b>	\$	(48)
Net (gain) loss		3
Reclassification adjustments:		
Amortization of net gain (loss)		4
Amortization of regulatory assets		(6)
Total reclassification adjustments		(2)
Total change		1
<b>Balance at December 31, 2023</b>		(47)
Net (gain) loss		(4)
Reclassification adjustments:		
Amortization of net gain (loss)		5
Amortization of regulatory assets		(7)
Total reclassification adjustments		(2)
Total change		(6)
<b>Balance at December 31, 2024</b>	\$	(53)

Components of the other postretirement benefit plan's net periodic cost for the years ended December 31, 2024 and 2023 were as follows:

	2024		2023	
	<i>(in millions)</i>			
Service cost	\$	—	\$	—
Interest cost		5		5
Amortization:				
Net gain		(5)		(4)
Regulatory assets		7		7
Net periodic postretirement benefit cost	\$	7	\$	8

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the APBO for the other postretirement benefit plans. Estimated benefit payments are reduced by drug subsidy receipts expected as a result of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 as follows:

	<b>Benefit Payments</b>	
	<i>(in millions)</i>	
2025	\$	10
2026		10
2027		9
2028		9
2029		9
2030 to 2034		37

### Benefit Plan Assets

Pension plan and other postretirement benefit plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code. The investment policies for both the pension plan and the other postretirement benefit plans cover a diversified mix of assets as described below. Derivative instruments may be used to gain

efficient exposure to the various asset classes and as hedging tools. Additionally, Nicor Gas minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk.

The investment strategy for plan assets related to the qualified pension plan is to be broadly diversified across major asset classes. The asset allocation is established after consideration of various factors that affect the assets and liabilities of the pension plan including, but not limited to, historical and expected returns and interest rates, volatility, correlations of asset classes, the current level of assets and liabilities, and the assumed growth in assets and liabilities. Because a significant portion of the liability of the pension plan is long-term in nature, the assets are invested consistent with long-term investment expectations for return and risk. To manage the actual asset class exposures relative to the target asset allocation, a formal rebalancing program is employed. As additional risk management, external investment managers and service providers are subject to written guidelines to ensure appropriate and prudent investment practices. Management believes the portfolio is well-diversified with no significant concentrations of risk.

**Investment Strategies and Benefit Plan Asset Fair Values**

A description of the major asset classes that the pension and other postretirement benefit plans are comprised of, along with the valuation methods used for fair value measurement, is provided below:

Description	Valuation Methodology
<p><b>Domestic equity:</b> A mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes, managed both actively and through passive index approaches.</p> <p><b>International equity:</b> A mix of large and small capitalization growth and value stocks with developed and emerging markets exposure, managed both actively and through fundamental indexing approaches.</p>	<p>Domestic and international equities such as common stocks, American depository receipts, and real estate investment trusts that trade on public exchanges are classified as Level 1 investments and are valued at the closing price in the active market. Equity funds with unpublished prices that are comprised of publicly traded securities (such as commingled/pooled funds) are also valued at the closing price in the active market, but are classified as Level 2.</p>
<p><b>Fixed income:</b> A mix of domestic and international bonds.</p>	<p>Investments in fixed income securities, including fixed income pooled funds, are generally classified as Level 2 investments and are valued based on prices reported in the market place. Additionally, the value of fixed income securities takes into consideration certain items such as broker quotes, spreads, yield curves, interest rates, and discount rates that apply to the term of a specific instrument.</p>
<p><b>Real estate:</b> Investments in equity or debt of real properties and in publicly traded real estate securities.</p> <p><b>Special situations:</b> Investments in opportunistic strategies with the objective of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as investments in promising new strategies of a longer-term nature.</p> <p><b>Private equity:</b> Investments in private or public securities typically through privately-negotiated and/or structured transactions, including leveraged buyouts, venture capital, and distressed debt.</p> <p><b>Private credit:</b> Investments focused on debt instruments, of which returns are driven by income rather than capital appreciation.</p> <p><b>Infrastructure:</b> Investments in real assets, typically with long-term, predictable, and stable cash flows and a meaningful income component.</p>	<p>Investments in real estate, special situations, private equity, and private credit, and infrastructure are typically invested in private partnerships and/or other pooled vehicles (Funds) which are generally classified as Net Asset Value as a Practical Expedient, since the Funds and underlying assets are not publicly traded and/or often have liquidity restrictions. The Fund managers of the Fund value the assets using various inputs and techniques depending on the nature of the underlying investments. Techniques may include purchase multiples for comparable transactions, comparable public company trading multiples, discounted cash flow analysis, prevailing market capitalization rates, recent sales of comparable investments, and independent third-party appraisals. The total market value of each of the Funds is determined by aggregating the value of the underlying assets less liabilities.</p>

For purposes of determining the fair value of the pension plan and other postretirement benefit plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate. These fair values presented herein exclude purchases. There were no investments classified as Level 3 at December 31, 2024 or 2023.

The fair values, and actual allocations relative to the target allocations, of Nicor Gas' pension plans at December 31, 2023 and 2022 are presented below.

At December 31, 2024:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Assets:						
Equity:						
Domestic equity	\$ 39	\$ 15	\$ —	\$ 54	41 %	41 %
International equity	36	19	—	55		
Fixed income:	—	—			30	31
U.S. Treasury, government, and agency bonds	—	33	—	33		
Mortgage-backed securities	—	1	—	1		
Corporate bonds	—	31	—	31		
Pooled funds	—	14	—	14		
Cash equivalents and other	5	1	—	6		
Real estate investments	6	—	29	35	12	13
Special situations	—	—	4	4	3	2
Private equity	—	—	33	33	9	12
Private credit	—	—	3	3	3	1
Infrastructure	—	—	—	—	2	—
<b>Total</b>	<b>\$ 86</b>	<b>\$ 114</b>	<b>\$ 69</b>	<b>\$ 269</b>	<b>100 %</b>	<b>100 %</b>

At December 31, 2023:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Assets:						
Equity:						
Domestic equity	\$ 35	\$ 14	\$ —	\$ 49	41 %	39 %
International equity	35	19	—	54		
Fixed income:					30	34
U.S. Treasury, government, and agency bonds	—	35	—	35		
Mortgage-backed securities	—	1	—	1		
Corporate bonds	—	31	—	31		
Pooled funds	—	14	—	14		
Cash equivalents and other	7	1	—	8		
Real estate investments	7	—	30	37	12	14
Special situations	—	—	4	4	3	1
Private equity	—	—	32	32	9	12
Private credit	—	—	—	—	3	—
Infrastructure	—	—	—	—	2	—
<b>Total</b>	<b>\$ 84</b>	<b>\$ 115</b>	<b>\$ 66</b>	<b>\$ 265</b>	<b>100 %</b>	<b>100 %</b>

## Employee Savings Plan

Southern Company and its subsidiaries also sponsor 401(k) defined contribution plans covering substantially all employees and provide matching contributions up to specified percentages of an employee's eligible pay. Total matching contributions made on behalf of Nicor Gas to the plans for each of the years ended December 31, 2024 and 2023 was \$8 million.

### 10. FAIR VALUE MEASUREMENTS

Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement and reflects a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of Nicor Gas of what a market participant would use in pricing an asset or liability. If there is little available market data, then Nicor Gas' own assumptions are the best available information.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

At December 31, 2024, assets and liabilities measured at fair value on a recurring basis during the period, together with their associated level of the fair value hierarchy, were as follows:

	Fair Value Measurements Using		Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
<i>(in millions)</i>			
<b>Assets:</b>			
Energy-related derivatives(*)	\$ 3	\$ 8	\$ 11
<b>Liabilities:</b>			
Energy-related derivatives(*)	\$ —	\$ 6	\$ 6

(\*) Energy-related derivatives exclude an immaterial amount of cash collateral.

At December 31, 2023, assets and liabilities measured at fair value on a recurring basis during the period, together with their associated level of the fair value hierarchy, were as follows:

	Fair Value Measurements Using		Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
<i>(in millions)</i>			
<b>Assets:</b>			
Energy-related derivatives(*)	\$ —	\$ 1	\$ 1
<b>Liabilities:</b>			
Energy-related derivatives(*)	\$ 12	\$ 10	\$ 22

(\*) Energy-related derivatives exclude \$16 million of cash collateral.

## Valuation Methodologies

The energy-related derivatives primarily consist of exchange-traded and over-the-counter financial products. These are standard products used within the energy industry and are valued using the market approach. The inputs used are mainly from observable market sources, such as forward natural gas prices and implied volatility. See Note 11 for additional information on how these derivatives are used.

## 11. DERIVATIVES

Nicor Gas is exposed to market risks, including commodity price risk, interest rate risk, and weather risk. To manage the volatility attributable to these exposures, Nicor Gas nets its exposures, where possible, to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to Nicor Gas' policies in areas such as counterparty exposure and risk management practices. Nicor Gas' policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis. Derivative instruments are recognized at fair value in the balance sheets as either assets or liabilities and are presented on a net basis. See Note 10 for additional fair value information. In the consolidated statements of cash flow, any cash impacts of settled energy-related and interest rate derivatives are recorded as operating activities. See Note 1 under "Financial Instruments" for additional information.

### Energy-Related Derivatives

Nicor Gas enters into energy-related derivatives to hedge exposures to natural gas and other fuel price changes. However, due to cost-based rate regulations and other various cost recovery mechanisms, Nicor Gas has limited exposure to market volatility in prices of natural gas. Nicor Gas manages fuel-hedging programs, implemented per the guidelines of the Illinois Commission, through the use of financial derivative contracts, which are expected to continue to mitigate price volatility.

Energy-related derivative contracts are accounted for under one of three methods:

- *Regulatory Hedges* - Energy-related derivative contracts designated as regulatory hedges relate primarily to Nicor Gas' fuel-hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in the cost of natural gas as the underlying natural gas is used in operations and ultimately recovered through an approved cost recovery mechanism.
- *Cash Flow Hedges* - Gains and losses on energy-related derivatives designated as cash flow hedges (which are used to hedge anticipated purchases) are initially deferred in AOCI before being recognized in the consolidated statements of income in the same period and in the same line item as the earnings effect of the hedged transactions.
- *Not Designated* - Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the consolidated statements of income as incurred.

At December 31, 2024, the net volume of energy-related derivative contracts for natural gas positions totaled 38.8 million mmBtu (Million British thermal units) for Nicor Gas, together with the longest hedge date of 2026 over which Nicor Gas is hedging its exposure to the variability in future cash flows for forecasted transactions.

For cash flow hedges of energy-related derivatives, the estimated pre-tax gains (losses) expected to be reclassified from accumulated OCI to earnings for the year ending December 31, 2025 are immaterial.

### Derivative Financial Statement Presentation and Amounts

Nicor Gas enters into derivative contracts that may contain certain provisions that permit intra-contract netting of derivative receivables and payables for routine billing and offsets related to events of default and settlements. Nicor Gas also utilizes netting agreements to mitigate exposure to counterparty credit risk. These agreements may contain provisions that permit netting across product lines and against cash collateral. The fair value amounts of derivative assets and liabilities on the balance sheets are presented net to the extent that there are netting arrangements or similar agreements with the counterparties.

At December 31, 2024 and 2023, the fair value of energy-related derivatives was reflected in the balance sheets as follows:

Derivative Category	Balance Sheet Location	Assets		Liabilities	
		2024	2023	2024	2023
		<i>(in millions)</i>		<i>(in millions)</i>	
<b>Derivatives designated as hedging instruments for regulatory purposes</b>					
Energy-related derivatives:					
	Assets from risk management activities – current	\$ 11	\$ 1	Other current liabilities	\$ 6 \$ 20
	Other deferred charges and assets	—	—	Other deferred credits and liabilities	— 1
<b>Total derivatives designated as hedging instruments for regulatory purposes</b>		<b>11</b>	<b>1</b>	<b>6</b>	<b>21</b>
<b>Derivatives designated as hedging instruments in cash flow and fair value</b>					
Energy-related derivatives:					
	Assets from risk management activities - current	—	—	Liabilities from risk management activities - current	— 1
<b>Total derivatives designated as hedging instruments in cash flow and fair value</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>1</b>
<b>Gross amounts recognized</b>		<b>11</b>	<b>1</b>	<b>6</b>	<b>22</b>
<b>Gross amounts offset(*)</b>		<b>(7)</b>	<b>3</b>	<b>(5)</b>	<b>(13)</b>
<b>Net amounts recognized in the Balance Sheets</b>		<b>\$ 4</b>	<b>\$ 4</b>	<b>\$ 1</b>	<b>\$ 9</b>

(\*) Gross amounts offset include broker margin positions accounts of \$(2) million and \$16 million at December 31, 2024 and 2023, respectively.

At December 31, 2024 and 2023, the pre-tax effects of unrealized derivative gains (losses) arising from energy-related derivative instruments designated as regulatory hedging instruments and deferred were as follows:

Derivative Category	Balance Sheet Location	Unrealized (Losses)		Unrealized Gains	
		2024	2023	2024	2023
		<i>(in millions)</i>		<i>(in millions)</i>	
Energy-related derivatives(*):					
	Regulatory assets, current	\$ (1)	\$ (9)	Regulatory liabilities, current	\$ 4 \$ 4
<b>Total energy-related derivative gains (losses)</b>		<b>\$ (1)</b>	<b>\$ (9)</b>	<b>\$ 4</b>	<b>\$ 4</b>

(\*) Fair value gains and losses recorded in regulatory assets and liabilities include cash collateral held on deposit in broker margin accounts of \$(2) million and \$16 million at December 31, 2024 and December 31, 2023, respectively.

For the years ended December 31, 2024 and 2023, the pre-tax effects of energy-related derivatives designated as cash flow hedging instruments recognized in AOCI were immaterial.

The pre-tax effects of energy-related derivatives designated as cash flow hedging instruments reclassified from AOCI into earnings were immaterial for the years ended December 31, 2024, and 2023.

### Contingent Features

Nicor Gas does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain derivatives that could require collateral, but not accelerated payment, in the event of various credit rating changes. At December 31, 2024, Nicor Gas had no collateral posted with derivative counterparties to satisfy these arrangements.

At December 31, 2024, the fair value of energy-related derivative liabilities with contingent features and the maximum potential collateral requirements arising from the credit-risk-related contingent features was zero.

Generally, collateral may be provided by a guaranty, letter of credit, or cash. If collateral is required, fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral are not offset against fair value amounts recognized for derivatives executed with the same counterparty.

Nicor Gas is exposed to losses related to financial instruments in the event of counterparties' nonperformance. Nicor Gas only enters into agreements and material transactions with counterparties that have investment grade credit ratings by Moody's Investors Service, Inc. and S&P Global Ratings, a division of S&P Global Inc. or with counterparties who have posted collateral to cover potential credit exposure. Nicor Gas has also established risk management policies and controls to determine and monitor the creditworthiness of counterparties in order to mitigate its exposure to counterparty credit risk.

Nicor Gas also utilizes netting agreements whenever possible to mitigate exposure to counterparty credit risk. When Nicor Gas is engaged in more than one outstanding derivative transaction with the same counterparty and it also has a legally enforceable netting agreement with that counterparty, the "net" mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty and a reasonable measure of Nicor Gas' credit risk. Nicor Gas also uses other netting agreements with certain counterparties with whom it conducts significant transactions. Netting agreements enable Nicor Gas to net certain assets and liabilities by counterparty. Nicor Gas also nets across product lines and against cash collateral, provided the master netting and cash collateral agreements include such provisions. Nicor Gas may require counterparties to pledge additional collateral when deemed necessary.

Nicor Gas does not anticipate a material adverse effect on the consolidated financial statements as a result of counterparty nonperformance.

## **12. AFFILIATE TRANSACTIONS**

In the ordinary course of business, in accordance with the terms authorized under the Public Utilities Act, Nicor Gas enters into transactions with its affiliates. The charges for these transactions are cost-based, market-based, or at a prevailing price.

### **Facilities and Services**

Nicor Gas is covered by Southern Company Gas' agreement with Southern Company Services, Inc. under which various services are currently being rendered to Nicor Gas as direct or allocated cost. These costs are primarily included in other operations and maintenance expenses. Additionally, Nicor Gas engages in transactions with Southern Company Gas' affiliates consistent with its services and tax allocation agreement. Nicor Gas had net charges from affiliates of \$334 million and \$284 million for the years ended December 31, 2024 and 2023, respectively. Certain operating costs are paid on behalf of Nicor Gas by AGL Services Company, which is a wholly-owned subsidiary of Southern Company Gas, and then charged to Nicor Gas.

### **Loans**

Nicor Gas is prohibited by regulations of the Illinois Commission from loaning money to affiliates. However, it is permitted under these regulations to receive cash advances from Southern Company Gas. The balance of any such advances may not exceed the balance of funds available to Nicor Gas under its existing credit agreements or commercial paper facility with unaffiliated third parties. Interest is charged on such loans at the lower of Nicor Gas' commercial paper rate or Southern Company Gas' actual interest cost for the funds obtained or used to provide the cash advance to Nicor Gas. No cash advances were received from Southern Company Gas in 2024 or 2023.

### **Natural Gas Related Transactions**

Illinois Energy Solutions, USA, LLC (Illinois Energy Solutions) offers residential and small commercial customers energy-related products that provide for natural gas cost stability and management of their utility bill. Under these products, Illinois Energy Solutions pays Nicor Gas for the utility bills issued to the utility-bill management customers. Nicor Gas recorded revenues of \$10 million and \$15 million in 2024 and 2023, respectively, associated with these payments.

Illinois Energy, USA, LLC (Illinois Energy) provides natural gas and related services on an unregulated basis to residential and small commercial customers. As a natural gas supplier, Illinois Energy may pay Nicor Gas for delivery charges, administrative charges, and applicable taxes. Illinois Energy made no such payments to Nicor Gas in 2024 and 2023. Additionally, Illinois Energy may pay or receive inventory imbalance adjustments. Illinois Energy received and paid an immaterial amount from Nicor Gas in 2024 and 2023 associated with these payments.

Horizon Pipeline Company, LLC, a 50-percent-owned joint venture of Southern Company Gas, which operates an interstate regulated natural gas pipeline of approximately 70 miles stretching from Joliet, Illinois to near the Wisconsin/Illinois border, charged Nicor Gas \$9 million in each of 2024 and 2023, for natural gas transportation under rates that have been accepted by the Federal Energy Regulatory Commission.

In addition, certain related parties may acquire regulated utility services at rates approved by the Illinois Commission.

### **13. Subsequent Events**

Management evaluated subsequent events for potential recognition and disclosure through March 7, 2025, the date these consolidated financial statements were available to be issued, and determined that no significant events have occurred subsequent to year end.