Peoples Natural Gas Company LLC

Financial Statements as of and
for the Years Ended December 31, 2015 and 2014,
and Independent Auditors' Report

PEOPLES NATURAL GAS COMPANY LLC

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Member of
Peoples Natural Gas Company LLC
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of Peoples Natural Gas Company LLC (the "Company"), which comprise the balance sheet as of December 31, 2015 and 2014, and the related statements of income and comprehensive income, member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peoples Natural Gas Company LLC as of December 31, 2015 and 2014, 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.

Deloitte & Touche LLP

April 28, 2016

PEOPLES NATURAL GAS COMPANY LLC

BALANCE SHEETS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,373	$ 3,259
Accounts receivable:		
Customers (less allowance for doubtful accounts of $15,614 and $17,887 for 2015 and 2014, respectively)	95,946	141,048
Other	4,080	4,074
Affiliates	1,439	1,104
Inventories:		
Materials and supplies	3,008	2,823
Gas stored—current portion	18,092	38,089
Regulatory assets	9,984	18,859
Deferred income taxes	16,258	6,656
Other	12,261	15,491
Total current assets	163,441	231,403
INVESTMENTS—Other	2,551	1,800
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	2,210,496	2,120,343
Accumulated depreciation and amortization	(787,657)	(751,011)
Total property, plant and equipment—net	1,422,839	1,369,332
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	284,895	284,895
Intangible assets—net	65,040	62,341
Regulatory assets	140,369	116,136
Debt issuance costs	6,282	7,953
Other	278	217
Total deferred charges and other assets	496,864	471,542
TOTAL	$2,085,695	$2,074,077

(Continued)

PEOPLES NATURAL GAS COMPANY LLC

BALANCE SHEETS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands)

LIABILITIES AND MEMBER'S EQUITY	**2015**	**2014**
CURRENT LIABILITIES:		
Accounts payable:		
Trade	$ 77,227	$ 80,437
Affiliates	1,596	2,205
Demand note payable to affiliate (Note 7)	50,258	109,726
Interest payable to affiliates	4,995	6,860
Accrued interest, payroll and taxes	32,022	28,896
Regulatory liabilities	25,618	2,241
Other	16,311	15,977
Total current liabilities	208,027	246,342
LONG-TERM DEBT—Note payable to affiliates (Note 7)	787,895	787,895
DEFERRED CREDITS AND OTHER LIABILITIES:		
Deferred income taxes	163,856	109,601
Asset retirement obligations	36,815	36,778
Pension and other postretirement benefit liabilities	29,726	41,416
Capital lease obligation	18,523	18,951
Voluntary retirement program	9,699	-
Other	6,240	6,818
Total deferred credits and other liabilities	264,859	213,564
Total liabilities	1,260,781	1,247,801
COMMITMENTS AND CONTINGENCIES (Note 11)		
MEMBER'S EQUITY:		
Member's equity	824,914	826,276
Accumulated other comprehensive loss	-	-
Total member's equity	824,914	826,276
TOTAL	$2,085,695	$2,074,077

See notes to financial statements.

(Concluded)

PEOPLES NATURAL GAS COMPANY LLC

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
OPERATING REVENUE	$ 716,125	$ 835,452
OPERATING EXPENSES:		
Purchased gas	309,093	399,655
Other operations and maintenance	179,777	187,665
Depreciation and amortization	60,445	58,755
Other taxes	10,714	10,523
Total operating expenses	560,029	656,598
INCOME FROM OPERATIONS	156,096	178,854
OTHER INCOME (EXPENSE)—Net	(5,638)	(2,179)
INTEREST CHARGES	36,706	41,082
INCOME BEFORE INCOME TAXES	113,752	135,593
PROVISION FOR INCOME TAXES	29,114	50,613
NET INCOME	84,638	84,980
COMPREHENSIVE GAIN (LOSS)—Changes in net unrecognized pension and other postretirement benefit costs—net of taxes of $67 in 2014	-	(95)
COMPREHENSIVE INCOME	$ 84,638	$ 84,885

See notes to financial statements.

PEOPLES NATURAL GAS COMPANY LLC

STATEMENTS OF MEMBER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	Member's Equity	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE—December 31, 2013	$ 818,796	$ 95	$ 818,891
Net income	84,980	-	84,980
Reclassify EGC AOCI to regulatory asset	-	(95)	(95)
Dividends paid to member	(77,500)	-	(77,500)
BALANCE—December 31, 2014	826,276	-	826,276
Net income	84,638	-	84,638
Dividends paid to member	(86,000)	-	(86,000)
BALANCE—December 31, 2015	$ 824,914	$ -	$ 824,914

See notes to financial statements.

PEOPLES NATURAL GAS COMPANY LLC

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
OPERATING ACTIVITIES:		
Net income	$ 84,638	$ 84,980
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	60,445	58,755
Amortization of debt issuance costs	2,104	2,498
Deferred provision for income taxes	7,441	30,823
Changes in:		
Accounts receivable—net	44,762	3,358
Inventories	19,812	(215)
Regulatory asset/liability—net	27,303	(790)
Prepayments	612	(6,530)
Gas imbalances	2,766	(4,456)
Unallocated defined contribution plan assets	-	6,220
Accounts payable	(3,347)	(6,902)
Accrued interest, payroll and taxes	10,959	322
Other	1,387	(118)
Net cash provided by operating activities	258,882	167,945
INVESTING ACTIVITIES—Plant construction and other property additions	(113,481)	(96,626)
Net cash used in investing activities	(113,481)	(96,626)
FINANCING ACTIVITIES:		
Borrowings (repayments) under affiliated demand note—net	(59,468)	9,511
Capital lease obligation	(386)	(2,847)
Payment of debt issuance costs	(433)	-
Dividends paid to member	(86,000)	(77,500)
Net cash provided by (used in) financing activities	(146,287)	(70,836)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(886)	483
CASH AND CASH EQUIVALENTS—Beginning of year	3,259	2,776
CASH AND CASH EQUIVALENTS—End of year	$ 2,373	$ 3,259
SUPPLEMENTAL CASH FLOW INFORMATION—Cash paid during the year for:		
Interest and related charges—excluding capitalized amounts	$ 22,687	$ 39,187
Significant noncash investing activity—accrued capital expenditures	$ 7,351	$ 6,464

See notes to financial statements.

1. NATURE OF OPERATIONS

Peoples Natural Gas Company LLC (the "Company"), a Pennsylvania limited liability company, is a wholly owned, direct subsidiary of PNG Companies LLC ("Parent"), which is wholly owned by LDC Holdings LLC and, subsequently, LDC Funding LLC. The ultimate parent in the ownership chain is SteelRiver Infrastructure Fund North America LP (SRIFNA) and an affiliated fund. The Company is primarily a natural gas distribution utility operating in Pennsylvania.

The terms "Company," "we," and "us" are used throughout this report and all represent the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

General—We make certain estimates and assumptions in preparing our financial statements 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 for the periods presented. Actual results may differ from those estimates.

Accounting for Regulated Operations—The accounting for our regulated gas operations differs from the accounting for nonregulated operations in that we are required to reflect the effect of rate regulation in our financial statements. For regulated businesses subject to federal or state cost-of-service rate regulation, regulatory practices that assign costs to accounting periods may differ from accounting methods generally applied by nonregulated companies. When it is probable that regulators will permit the recovery of current costs through future rates charged to customers, we defer these costs as regulatory assets that otherwise would be expensed by nonregulated companies. Likewise, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that are not yet incurred. Regulatory assets are amortized into expense and regulatory liabilities are amortized into income over the period authorized by the regulator.

We evaluate whether or not recovery of our regulatory assets through future regulated rates is probable and make various assumptions in our analyses. The expectations of future recovery are generally based on orders issued by regulatory commissions or historical experience, as well as discussions with applicable regulatory authorities. If recovery of a regulatory asset is determined to be less than probable, it will be written off and an expense will be recorded in the period such assessment is made.

Operating Revenue—Operating revenue is recorded on the basis of services rendered, commodities delivered, or contracts settled, and includes amounts yet to be billed to customers. Our receivables from customers at December 31, 2015 and 2014, included $35,429 and $59,724, respectively, of accrued unbilled revenue, based on estimated amounts of natural gas delivered, but not yet billed, to our utility customers. We estimate utility unbilled revenue based on historical usage, applicable customer rates, and weather factors.

The primary types of sales and service activities reported as operating revenue include:

- Regulated gas sales consist primarily of state-regulated retail natural gas sales and related distribution services;
- Nonregulated gas sales consist primarily of sales of natural gas purchased from third parties at market-based rates and contracted fixed prices;
- Gas transportation and storage consists primarily of regulated sales of gathering, transmission, distribution, and storage services. Also included are regulated gas distribution charges to retail distribution service customers opting for alternate suppliers; and
- Other revenue consists primarily of miscellaneous service revenue from gas distribution operations, gas processing and handling revenue, sales of natural gas at market-based rates and contracted fixed prices, sales of gas purchased from third parties, and other gas marketing activities.

Unrecovered Gas Costs—The differences between actual purchased gas expenses and the levels of recovery for these expenses in current rates are deferred and matched against recoveries in future periods. The deferral of costs in excess of current period recovery is recognized as a regulatory asset and classified as unrecovered gas costs, while the recovery of revenue in excess of current period expenses is recognized as a regulatory liability and classified as amounts payable to customers.

Income Taxes—The Company is a single-member limited liability company treated as a disregarded entity for United States federal and Pennsylvania state income tax purposes. The Company's taxable income or loss is included in the federal and state tax returns filed by LDC Funding LLC. The Company calculates its share of the federal and state tax expense and benefits of LDC Funding LLC based on the amounts that would be reported if it were to file tax returns on a separate-company basis.

Financial Accounting Standards Board (FASB) Accounting Standards Codification ("ASC") 740, *Income Taxes*, requires an asset and liability approach to accounting for income taxes. Deferred income tax assets and liabilities are provided, representing future effects on income taxes for temporary differences between the basis of assets and liabilities for financial reporting and tax purposes. Where permitted by regulatory authorities, the treatment of temporary differences may differ from the requirements of ASC 740. For those temporary differences, a regulatory asset is recognized if it is probable that future revenues will be provided for the payment of deferred tax liabilities, as a result, only a provision for the current tax expense is included in the determination of net income. The Company has not identified any uncertain tax positions as of December 31, 2015.

We establish a valuation allowance when it is more likely than not that all, or a portion, of a deferred tax asset will not be realized. As of December 31, 2015 and 2014, no valuation allowances were considered necessary. Judgment and the use of estimates are required in developing the provision for income taxes and reporting of tax-related assets and liabilities. The interpretation of tax laws involves uncertainty, since tax authorities may interpret the laws differently. Ultimate resolution of income tax matters may result in favorable or unfavorable impacts to net income and cash flows, and adjustments to tax-related assets and liabilities could be material.

For the year ended December 31, 2015, the Company realized a $15.2 million deferred tax benefit in connection with recent IRS guidance received by the Company regarding the Company's disposition of certain utility assets in 2013. The 2013 transaction included a partial like-kind exchange of assets that resulted in tax deferral for the Company. However, in order to be in compliance with the normalization rules of the Internal Revenue Code, the IRS guidance held that the deferred tax liability associated with the exchanged regulatory assets should not be considered for ratemaking purposes. As a result, during 2015 the Company recorded a regulatory asset equal to the taxes deferred from the exchange and an associated income tax benefit. The regulatory asset and deferred income taxes will be reversed when the utility assets are disposed of in a taxable transaction such as a sale or amortized over the remaining book lives of the utility assets received in the exchange; in either event increasing tax expense at that time.

Cash and Cash Equivalents—Current banking arrangements generally do not require checks to be funded until actually presented for payment. At December 31, 2015 and 2014, accounts payable included $6,057 and $5,125, respectively, of checks outstanding but not yet presented for payment. For purposes of our statements of cash flows, we consider cash and cash equivalents to include cash on hand, cash in banks and temporary investments purchased with an original maturity of three months or less.

Inventories—Materials and supplies inventories are valued using the weighted-average cost method. The Company has stored gas inventory under the weighted-average cost method, which is valued at $15,764 and $33,833 at December 31, 2015 and 2014, respectively. The Company also has stored gas inventory used in local gas distribution operations that is valued using the last-in, first-out (LIFO) method. Under the LIFO method, those inventories were valued at $2,328 and $4,256 at December 31, 2015 and 2014, respectively. Based on the average price of gas purchased during 2015 and 2014, the cost of replacing the current portion of stored gas inventory exceeded the amount stated on a LIFO basis by approximately $19,209 and $44,071, respectively. The use of two valuation methods for stored gas inventories is necessitated by regulatory accounting. The two methods will continue to be used until the commission orders a change.

Derivative Instruments—We use derivative instruments, such as futures, swaps, and forwards to manage the commodity risks of our business operations.

ASC 815, *Derivatives and Hedging*, requires all derivatives, except those for which an exception applies, to be reported on our balance sheets at fair value. Derivative contracts representing unrealized gain positions are reported as derivative assets. Derivative contracts representing unrealized losses are reported as derivative liabilities.

Derivative Instruments Not Designated as Hedging Instruments—We hold certain nontrading derivative instruments that are not designated as hedges for accounting purposes. However, to the extent that we do not hold offsetting positions for such derivatives, we believe that these instruments represent economic hedges that mitigate exposure to fluctuations in commodity prices. Any nontrading derivatives not designated as hedges have been executed by order of regulatory bodies. The fair value changes of those derivatives are deferred on our balance sheets as a regulatory asset or regulatory liability in

accordance with ASC 980, *Regulated Operations*. Any unrealized changes in fair value and settlements are presented in purchased gas expense in our statements of income and comprehensive income. Recovery of these costs is discussed in the unrecovered gas costs section above.

We recognize revenue or expense from all nonderivative energy-related contracts on a gross basis at the time of contract performance, settlement, or termination.

Valuation Methods—See Note 3 for further information about fair value measurements and associated valuation methods for derivatives under ASC 820, *Fair Value Measurement*.

Property, Plant and Equipment—Property, plant, and equipment, including additions and replacements, are recorded at original cost, including labor, materials, asset retirement costs, and other direct and indirect costs, including capitalized interest. The cost of repairs and maintenance, including minor additions and replacements, is charged to expense as incurred. In 2015 and 2014, we capitalized interest costs of $186 and $228, respectively.

At retirement, the depreciable cost of property, plant, and equipment, less salvage value, is charged to accumulated depreciation. Cost of removal collections from utility customers and expenditures not representing asset retirement obligations ("AROs") are recorded as regulatory liabilities or regulatory assets.

Depreciation of property, plant, and equipment is computed on the straight-line method, based on projected service lives. In 2015 and 2014, depreciation expense was $47,400 and $48,372, respectively.

Intangible Assets—Intangible assets include predominately internal-use software and related costs associated with the Company's computerized information systems. These costs have been capitalized in accordance with ASC 350, *Intangibles—Goodwill and Other*. In addition to the initial installation of the Company's computerized information systems, new applications continue to be added and capitalized, accordingly. Such assets are being amortized over their estimated useful lives of 10 years for major systems and five years for other software applications. Related amortization expense was $13,045 and $10,383 for 2015 and 2014, respectively. Amortization expense for each of the next five years is as follows:

Years Ending December 31	
2016	$ 10,671
2017	10,247
2018	8,661
2019	7,054
2020	6,900

Debt Issuance Costs—In accordance with ASC 310, *Receivables*, debt issuance costs were capitalized at the time of incurrence and are being amortized into interest expense over the term of the debt (Note 7).

Asset Retirement Obligations—We recognize AROs at fair value, as incurred, or when sufficient information becomes available to determine a reasonable estimate of the fair value of the retirement activities to be performed. These amounts are capitalized as costs of the related tangible long-lived assets. Since relevant market information is not available, we estimate fair value using discounted cash flow analyses. We report the accretion of the AROs due to the passage of time in other operations and maintenance expense.

Impairment of Long-Lived and Intangible Assets—We perform an evaluation for impairment whenever events or changes in circumstances indicate that the carrying amount of long-lived assets or intangible assets with finite lives may not be recoverable. Assets are written down to fair value if the sums of their expected future undiscounted cash flows are less than their carrying amounts.

Goodwill is tested for impairment annually as of October 31 for the Company, and whenever events or changes in circumstances indicate that the carrying amount may be impaired. There were no impairments recorded in 2015 or 2014.

The carrying amounts of goodwill for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Balance as of January 1,	$ 284,895	$ 284,895
Accumulated impairment losses	-	-
Goodwill acquired	-	-
Balance as of December 31,	$ 284,895	$ 284,895

Leasing Arrangements—The Company enters into leasing arrangements in the ordinary course of business. Rentals payable under operating leases are charged to expense over the term of the relevant lease. For capital leases, the present value of future minimum lease payments at the inception of the lease is reflected as an asset and a liability in the balance sheets. Amounts due within one year are classified as current liabilities and the remaining balance as long-term liabilities.

Recent Accounting Pronouncements—In May 2014, the FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The ASU supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is effective for annual reporting periods beginning after December 15, 2018. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. ASU 2015-03 is effective for annual reporting periods after December 15, 2015. The new guidance will be applied on a retrospective basis and early adoption is permitted. The Company does not expect the adoption of ASU 2015-03 to have a significant impact on the Company's financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Income Tax*, which revises accounting guidance to simplify the presentation of deferred income taxes. This update requires that deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The new guidance is effective for annual reporting periods beginning after December 15, 2018. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which brings substantially all leases onto the balance sheet. This update requires the recognition of lease assets and liabilities for those leases currently classified as operating leases, while also refining the definition of a lease. The new guidance is effective for annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact that the adoption of the standard will have on its financial statements.

3. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

We utilize the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value, into three broad levels:

Level 1—Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date. Instruments categorized in Level 1 are valued at the active quoted market price from broker or dealer quotations or transparent pricing sources at the reporting date. At December 31, 2015 and 2014, there were no Level 1 instruments.

Level 2—Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Level 2 measurements primarily represent long-term debt at December 31, 2015 and 2014.

Level 3—Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 would consist of long-dated commodity derivatives and other modeled commodity derivatives. At December 31, 2015 and 2014, there were no Level 3 instruments.

There were no transfers between levels 1, 2, or 3 during the course of 2015 or 2014. If there were any such instances, a transfer would be reported at the beginning of the reporting period. While the Company believes that its valuation methods used to assess the classification of financial instruments within the hierarchy are appropriate, the use of different methodologies or assumptions could result in a change in a financial instrument's fair value tier from year to year.

	Book	Fair Value			
At December 31, 2015	**Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities:					
Long-term debt:					
Notes payable:					
Fixed	$669,770	$ -	$684,832	$ -	$684,832
Variable	168,383	-	168,383	-	168,383
Total liabilities	$838,153	$ -	$853,215	$ -	$853,215

	Book	Fair Value			
At December 31, 2014	**Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities:					
Long-term debt:					
Notes payable:					
Fixed	$787,895	$ -	$822,508	$ -	$822,508
Variable	109,726	-	109,726	-	109,726
Total liabilities	$897,621	$ -	$932,234	$ -	$932,234

4. INCOME TAXES

Details of the Company's income tax expense for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Current:		
Federal	$ 14,102	$ 15,680
State	7,570	4,110
Total current	21,672	19,790
Deferred:		
Federal	10,227	28,630
State	(2,785)	2,193
Total deferred	7,442	30,823
Total income tax expense	$ 29,114	$ 50,613

The statutory U.S. federal income tax rate reconciles to our effective income tax rate for the years ended December 31, 2015 and 2014, as follows:

	2015	2014
U.S. statutory rate	35.0 %	35.0 %
Increases (reductions) resulting from:		
Utility plant differences	(1.5)	(1.9)
Private letter ruling	(13.4)	-
State tax items	4.2	4.6
Employee benefits	1.1	0.1
Other	0.2	(0.5)
Effective tax rate	25.6 %	37.3 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Our net deferred income taxes at December 31, 2015 and 2014, consist of the following:

	2015	2014
Postretirement benefits	$ 1,207	$ 279
Miscellaneous benefits	(11,930)	(7,767)
Other	12,804	8,317
Depreciation method and plant-basis differences	186,989	145,836
Inventory	(281)	(281)
Income taxes collected through rates	22,819	22,165
Unrecovered purchased gas costs	8,523	22,078
Bad debts	(10,779)	(11,329)
Pension benefits	(6,242)	(8,876)
Net operating loss	(55,512)	(67,477)
Total net deferred income tax liabilities	147,598	102,945
Net short-term deferred tax asset	16,258	6,656
Net long-term deferred tax liability	$ 163,856	$ 109,601

At December 31, 2015, we had federal loss carryforwards of $138,464 and state loss carryforwards of $108,555 that begin to expire if unutilized in 2031. There are no uncertain tax positions as of December 31, 2015.

5. PROPERTY, PLANT, AND EQUIPMENT AND INTANGIBLE ASSETS

Major classes of utility property, plant, and equipment and their respective balances at December 31, 2015 and 2014, are as follows:

	2015	2014
Transmission	$ 158,440	$ 152,375
Distribution	1,795,871	1,719,535
Storage	13,569	13,436
Gas gathering and processing	112,715	111,672
General and other	121,808	115,989
Plant under construction	8,093	7,336
Total property, plant and equipment	$ 2,210,496	$ 2,120,343

Details of our intangible assets at December 31, 2015 and 2014, were as follows:

	2015	2014
Internal-use software	$ 101,866	$ 90,443
Less—accumulated amortization	(36,826)	(28,102)
Intangible assets—net	$ 65,040	$ 62,341

6. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities at December 31, 2015 and 2014, include the following:

	2015	2014
Regulatory assets:		
Unrecovered gas costs	$ -	$ 15,592
Other	9,984	3,267
Regulatory assets—current	9,984	18,859
Income taxes recoverable through future rates	83,533	52,035
Asset retirement obligations	39,675	38,604
Pension/OPEB unrecognized funding costs	2,411	10,468
Other	14,750	15,029
Regulatory assets—non-current	140,369	116,136
Total regulatory assets	$ 150,353	$ 134,995
Regulatory liabilities:		
Deferred gas—amounts payable to customers	$ 23,213	$ -
Other	2,405	2,241
Regulatory liabilities—current	25,618	2,241
Regulatory liabilities—non-current	-	-
Total regulatory liabilities	$ 25,618	$ 2,241

The regulatory assets are expected to be recovered in rates charged to customers. The Company's regulatory assets are not earning a return; however, these regulatory assets are expected to be recovered from customers in future rates.

If, for any reason, the Company's regulated businesses cease to meet the criteria for application of regulatory accounting for all or part of its operations, the regulatory assets and liabilities relating to those portions ceasing to meet such criteria would be removed from the balance sheet and included in the statements of income as an extraordinary item in the period in which the discontinuance of regulatory accounting occurs.

7. RELATED-PARTY DEBT ACTIVITIES

The Company engages in related-party transactions for debt and the interest and fees associated with such debt.

As of December 31, 2015 and 2014, the Company had long-term notes payable to affiliates consisting of the following:

Company	Type	Rates	Issue Dates	Due Dates	2015	2014
Peoples Natural Gas Co. current portion of note to affiliate	Long-term note	2.43%–5.53%	2010–2013	2017–2025	$669,770	$787,895
	Long-term note	Variable	2015	2018	118,125	-
Total affiliated long-term debt					$787,895	$787,895
Peoples Natural Gas Co.	Demand note	Variable	2013	2016	$ 50,258	$109,726

Demand Note—On August 22, 2013, the Company entered into an Intercompany Promissory Note ("Note") with its Parent. Under the terms of the Note, the Company was permitted to borrow and/or issue letters of credit up to a total commitment of $300,000 and is payable on demand. At December 31, 2015 and 2014, outstanding borrowings under the Note were $50,258 and $109,726 and outstanding letters of credit totaled $3,331 and $2,961, respectively. Under the terms of the agreement, interest rate options include either London InterBank Offered Rates or the administrative agent bank's prime interest rate, plus an applicable margin based upon the Parent's credit rating and the Parent's Revolving Credit Agreement. Commitment fees on the unused portion of the related commitment are also payable under this agreement.

Long-Term Note—Under the Intercompany Promissory Note dated February 26, 2010, the amount of $388,395, outstanding principal was issued in connection with the Peoples purchase. The funding available to Peoples in connection with this intercompany note is dependent upon the Parent's compliance with its Note Purchase Agreement dated February 26, 2010 ("2010 Note Agreement"). The Parent company refinanced $118,125 of the initial $388,395 on February 26, 2015. The due date of the refinanced debt is February 19, 2018.

Under the Intercompany Promissory Note dated December 31, 2013, the amount of $399,500, outstanding principal was issued in connection with the EGC purchase. The funding available to Peoples in connection with this intercompany note is dependent upon the Parent's compliance with its Note Purchase Agreement dated December 12, 2013 ("2013 Note Agreement").

As of December 31, 2015, the aggregated future maturities of long-term debt are as follows:

Years Ending December 31	
2016	$ -
2017	243,971
2018	118,125
2019	-
2020	171,044
Thereafter	254,755
Total	$ 787,895

The unamortized balances of debt issuance costs were $6,282 and $7,953 at December 31, 2015 and 2014, respectively. Total debt issuance costs amortized or expensed as interest expense during 2015 and 2014 were $2,104 and $2,498, respectively.

Surety Bonds—As of December 31, 2015 and 2014, we had purchased $5,796 and $6,869, respectively, of surety bonds to facilitate commercial transactions with third parties.

8. ASSET RETIREMENT OBLIGATIONS

Our AROs are primarily associated with the interim retirements of natural gas gathering, transmission, distribution, production wells and storage pipeline components. These obligations result from certain safety and environmental activities that we are required to perform when any pipeline is abandoned. We also have AROs related to the retirement of the gas storage wells in our underground natural gas storage network. We currently do not have sufficient information to estimate a reasonable range of expected retirement dates for any of these wells. Thus, AROs for those assets will not be reflected in our financial statements until sufficient information becomes available to determine a reasonable estimate of the fair value of the activities to be performed. Generally, this will occur when the expected retirement or abandonment dates are determined by our operations engineering department. The changes to our AROs during 2015 and 2014 were as follows:

	2015	2014
Total asset retirement obligations—January 1	$ 38,241	$ 39,347
Liabilities incurred	43	15
Obligations settled during the period	(2,276)	(3,346)
Accretion expense	2,304	2,225
Total asset retirement obligations—December 31	38,312	38,241
Less: current portion	1,497	1,463
Non-current asset retirement obligations—December 31	$ 36,815	$ 36,778

9. VOLUNTARY RETIREMENT PROGRAM

In the fourth quarter of 2015, the Company announced a one-time Voluntary Retirement Program (VRP), which was offered to eligible union and salaried employees who had 10 years of service and were at least 55 years of age by April 1, 2016. The union offer was contingent on the ratification of a new collective bargaining agreement, which was subsequently ratified in April 2016. (Note 12). Participants' last day of work will occur as late as October 1, 2016. 82 union and 42 salaried employees elected to participate in this program. The Company offered each eligible union employee severance of $108, which will be paid equally over a 24-month period. Each eligible salaried employee will receive 50% of the employee's current monthly salary for a period of 24 months. The Company will also pay 100% of health insurance premiums for the employee and dependents, payable over a period of 36 months for union and 24 months for salaried employees, beginning with the employee's retirement date. The Company recorded a total VRP liability of $13,380 during 2015, all of which was reflected in Other Operations and Maintenance.

10. EMPLOYEE BENEFIT PLANS

The Company provides certain benefits to eligible active employees, retirees, and qualifying dependents. Under the terms of our benefit plans, the Company reserves the right to change, modify, or terminate the plans, unless restricted by collective bargaining. From time to time in the past, benefits have changed, and some of these changes have reduced benefits.

Strategic investment policies are established for each of the Company's prefunded benefit plans based upon periodic asset/liability studies. Factors considered in setting the investment policy include employee demographics, liability growth rates, future discount rates, the funded status of the plans, cash disbursement requirements, and the expected long-term rate of return on plan assets. Deviations from the plans' strategic allocation are a function of short-term, actual investment results in the capital markets and/or short-term market movements, which result in the plans' actual asset allocations varying from the strategic target asset allocations. Through periodic rebalancing, actual allocations are brought back in line with the target.

Our overall objective for investing our pension and other postretirement plan assets is to achieve the best possible long-term rates of return commensurate with prudent levels of risk. To minimize risk, funds are broadly diversified among asset classes, investment strategies, and investment advisors.

The Company uses December 31 as the measurement date for all of the Company's employee benefit plans. The Company uses the market-related value of pension plan assets to determine the expected return on plan assets, a component of net periodic pension cost. The market-related value recognizes changes in fair value on a straight-line basis over a four-year period, which reduces year-to-year volatility. Changes in fair value are measured as the difference between the expected and actual plan asset returns, including dividends, interest, and realized and unrealized investment gains and losses. Since the market-related value recognizes changes in fair value over a four-year period, the future market-related value of pension plan assets will be impacted as previously unrecognized changes in fair value are recognized.

Defined Benefit Plans—The Company provides pension benefits for eligible employees, the provision of which is based upon certain factors such as job group and hire date. Retirement benefits payable under all plans are based on certain factors, including hire date, years of service, age, and compensation. The Company's contributions to the plans are determined in accordance with the provisions of the Employment Retirement Income Security Act of 1974, as well as commitments under rate cases.

The accumulated benefit obligations for the Company's defined benefit pension plans were $80,537 and $87,066 at December 31, 2015 and 2014, respectively. Under our funding policies, we evaluate plan funding requirements annually, usually in the fourth quarter after considering updated plan information from our actuaries. Based on the funded status of the plan and other factors, we determine the amount of contributions for the current year, if any, at that time.

Effective December 31, 2015, the Company's defined benefit pension plan was amended to freeze the accrual of benefits, with the exception of certain union participants.

Postretirement Benefits—The Company also provides limited postretirement health care benefits and life insurance benefits ("Postretirement Benefits") for employees, the provisions of which are based upon certain factors, such as job group and hire date.

Retiree health care and life insurance benefits are provided for the Company's union and salaried employee groups through separately administered other postretirement benefit plans. Annual premiums for both programs are negotiated as part of the Company's group policies and are dependent upon market trends and overall group experience. Annual employee contributions are based on several factors, such as age, retirement date, and years of service.

The Company has established a Voluntary Employees' Beneficiary Association (VEBA) trust for its Postretirement Benefits. Contributions to the VEBA trust are tax deductible, subject to limitations contained in the Internal Revenue Code, and are made to fund employees' Postretirement Benefits. In accordance with ratemaking standards recognized by the PA Public Utility Commission, the Company deposits, into an irrevocable trust, amounts equal to the postretirement benefits expenses determined in accordance with authoritative guidance for postretirement benefit plans. The trust's assets will be used for the payment of Postretirement Benefits and trust administration costs.

The post retirement benefit plan was amended, effective December 31, 2015. Salaried active employees hired before January 1, 2008 were converted to a medical savings account (MSA) of $700 for each year of service through 2015 and retired medical benefits were frozen for active Salaried employees hired on or after January 1, 2008. In addition, retiree life insurance was discontinued as of December 31, 2015, with the exception of current retirees. At the end of 2015, eligible participants were given the option to retire as part of a Voluntary Retirement Program (VRP) during the first half of 2016. Those who elect to participate in the VRP will receive retiree medical benefits fully paid by the Company for a period of two years. After two years, employees hired before January 1, 2008 receive subsidized coverage until age 65.

The following tables summarize the changes in the Company's defined benefit and other postretirement benefit plan obligations and plan assets, fair value measurements, components of net periodic benefit costs, and expected payments of future service:

	Defined Benefits		Other Postretirement Benefits	
Periods Ended December 31	**2015**	**2014**	**2015**	**2014**
Change in benefit obligation:				
Benefit obligation—beginning of year	$ 94,634	$ 76,684	$ 38,772	$ 33,347
Service cost	2,215	1,818	2,619	2,402
Interest cost	3,819	3,633	1,430	1,421
Benefits paid	(4,891)	(4,239)	(2,495)	(2,282)
Participant contributions	-	-	1,069	78
Curtailment gain	(6,464)	-	(991)	-
Special termination benefits	-	-	3,714	-
Actuarial (gain) loss during the year	(8,637)	16,738	(7,324)	3,807
Benefit obligation—end of year	80,676	94,634	36,794	38,773
Change in plan assets:				
Fair value of plan assets—beginning of year	72,370	71,270	18,421	14,473
Actual return on plan assets	(3,261)	4,723	(761)	751
Employer contributions	740	740	5,099	5,401
Expenses paid	(207)	(124)	-	-
Benefits paid	(4,891)	(4,239)	(2,494)	(2,282)
Participant contributions	-	-	1,069	78
Fair value of plan assets—end of year	64,751	72,370	21,334	18,421
Funded status—end of year	$ (15,925)	$ (22,264)	$ (15,460)	$ (20,352)
Amounts Recognized in the Balance Sheet as of December 31				
Current liabilities	$ -	$ -	$ (1,660)	$ (1,199)
Noncurrent liabilities	(15,925)	(22,264)	(13,800)	(19,153)
Net amount recognized	$ (15,925)	$ (22,264)	$ (15,460)	$ (20,352)
Significant Assumptions Used to Determine Benefit Obligations as of December 31				
Discount rate	4.63 %	4.28 %	3.96 %	3.73 %
Weighted-average rate of increase for compensation	3.75	3.75	3.75	3.75

Periods Ended December 31	Defined Benefits 2015	Defined Benefits 2014	Other Postretirement Benefits 2015	Other Postretirement Benefits 2014
Fair value measurements:				
Level 1:				
Cash equivalents	$ 1,815	$ 1,470	$ 6,926	$ 6,127
Equity	39,525	44,044	4,514	3,983
Fixed income	15,722	17,434	9,894	8,311
Subtotal	57,062	62,948	21,334	18,421
Level 2—fixed income	7,593	9,422	-	-
Level 3	-	-	-	-
Fair value	$ 64,655	$ 72,370	$ 21,334	$ 18,421
Components of net periodic benefit costs:				
Service cost	$ 2,398	$ 2,267	$ 2,619	$ 2,402
Interest cost	3,819	3,633	1,430	1,421
Expected return on plan assets	(4,431)	(4,704)	(828)	(648)
Curtailment gain	-	-	(991)	-
Special termination benefits	-	-	3,714	-
Amortization of prior service cost	-	-	-	-
Amortization of net (gain) loss	613	-	37	(183)
Amortization of transition assets	-	-	-	-
Net periodic benefit cost	$ 2,399	$ 1,196	$ 5,981	$ 2,992
Significant assumptions used to determine periodic cost:				
Discount rate	4.63 %	5.18 %	3.96 %	3.73 %
Expected long-term rate of return on plan assets	6.37	6.81	4.37	4.49
Weighted-average rate of increase for compensation	3.75	3.75	3.75	5.30
Health care cost trend rate	-	-	5.00	5.00
Long-term asset allocation policy:				
Equity	65 %	65 %		
Debt	35	35		
Changes in plan assets and benefit obligations recognized in regulatory assets (other comprehensive income) (Note 7):				
Current year net actuarial (gain) loss	$ (7,385)	$ 16,395	$ (5,736)	$ 3,703
Plan amendment	-	-	-	-
Amortization of actuarial loss	(613)	-	(37)	183
Total recognized in regulatory assets (other comprehensive income) (Note 7)	$ (7,998)	$ 16,395	$ (5,773)	$ 3,886
Expected 2016 payments for defined benefit plans	$ 698			
Expected payments of future service:				
2016	$ 4,547		$ 4,066	
2017	4,873		4,419	
2018	5,118		4,302	
2019	5,293		3,541	
2020	5,467		3,590	
2021–2025	29,675		15,591	

401(k) Savings Plans—In addition to the defined benefit plans discussed previously, the Company has various 401(k) savings plans for union and salaried employees. Under these 401(k) savings plans, employees can make voluntary contributions into their individual 401(k) savings plan accounts. The Company provides matching and non-elective employer contributions to the 401(k) savings plans, as stipulated in the plan documents. During 2015 and 2014, the Company made contributions to the 401(k) savings plans in the amounts of $5,270 and $4,446, respectively.

Beginning in January 2016, the 401(k) savings plans will become the primary retirement savings tool. Changes have been made to enhance benefits under the 401(k) savings plan in lieu of reduced and frozen retirement benefits under the defined benefit and postretirement benefits as described above.

11. COMMITMENTS AND CONTINGENCIES

From time to time, we are involved in legal, tax, and regulatory proceedings before various courts, regulatory commissions and governmental agencies. We believe that the final disposition of these proceedings will not have a material effect on our financial position, liquidity, or results of operations.

Lease Commitments—We lease various facilities and equipment under operating leases. Future minimum lease payments under non-cancelable operating leases that have initial or remaining lease terms in excess of one year as of December 31, 2015, are as follows:

Years Ending December 31	
2016	$ 5,319
2017	5,290
2018	5,323
2019	5,368
2020	5,412
Thereafter	21,581
Total	$ 48,293

Rental expense totaled $3,346 and $3,443 in 2015 and 2014, respectively, the majority of which is reflected in other operations and maintenance expense.

Environmental Matters—We are subject to costs resulting from a steadily increasing number of federal, state, and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations and can result in increased capital, operating, and other costs as a result of our compliance, remediation, containment, and monitoring obligations. We may sometimes seek recovery of environment-related expenditures through regulatory proceedings.

We have determined that we previously owned four parcels of land that may have been associated with former manufactured gas plant sites. None of the four parcels is under investigation by any state or federal environmental agency, and no investigation or action is currently anticipated.

Long-Term Gas Supply Obligations—The retail gas supply of the Company is provided by sources on the interstate pipeline system and from local western Pennsylvania gas well production. The Company has various interstate pipeline service agreements that provide for firm transportation capacity, firm storage capacity, and other services and include capacity reservation charges based upon the maximum daily and annual contract quantities set forth in the agreements. These agreements have minimum volume obligations and are transacted at applicable tariff and negotiated rates for periods of up to 20 years.

Investments—Other—In September 2014, the Company committed to invest $3,000 in a regional site development fund. An investment of $1,051 has been made through 2015, with a commitment of $1,949 remaining.

12. SUBSEQUENT EVENTS

In accordance with ASC 855, *Subsequent Events*, the Company has evaluated events through April 28, 2016, the date that these consolidated financial statements were available to be issued.

In April 2016, the Company reached a new three-year labor contract agreement with our respective field unions. The three-year agreement includes a competitive wage and benefits package

* * * * * *

PNG Companies LLC

Consolidated Financial Statements as of and for the Years Ended December 31, 2015 and 2014, and Independent Auditors' Report

PNG COMPANIES LLC

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INDEPENDENT AUDITORS' REPORT

To the Member of PNG Companies LLC
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated financial statements of PNG Companies LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, member's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PNG Companies LLC and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 28, 2016

PNG COMPANIES LLC

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,257	$ 16,848
Accounts receivable:		
Customers (less allowance for doubtful accounts of $15,984 and $18,058 for 2015 and 2014, respectively)	97,812	144,023
Other	4,115	4,083
Affiliates	809	622
Inventories:		
Materials and supplies	3,089	2,898
Gas stored—current portion	19,405	40,110
Regulatory assets	9,984	19,643
Deferred income taxes	17,484	6,938
Other	19,486	19,297
Total current assets	180,441	254,462
INVESTMENTS—Other	2,551	1,800
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	2,260,370	2,168,717
Accumulated depreciation and amortization	(809,754)	(772,590)
Total property, plant and equipment—net	1,450,616	1,396,127
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	284,895	284,895
Intangible assets—net	65,863	62,895
Regulatory assets	140,369	116,136
Debt issuance costs	6,352	8,038
Other	278	218
Total deferred charges and other assets	497,757	472,182
TOTAL	$2,131,365	$2,124,571

(Continued)

PNG COMPANIES LLC

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable:		
Trade	$ 79,726	$ 83,432
Affiliates	1,105	239
Accrued interest, payroll and taxes	36,898	37,815
Regulatory liabilities	26,553	2,241
Other	18,281	17,430
Total current liabilities	162,563	141,157
LONG-TERM DEBT (Note 7)	852,000	922,000
DEFERRED CREDITS AND OTHER LIABILITIES:		
Deferred income taxes	165,582	104,908
Asset retirement obligations	36,815	36,778
Pension and other postretirement benefit liabilities	31,187	43,610
Capital lease obligation	18,523	18,951
Voluntary retirement program	9,699	-
Other	9,818	11,040
Total deferred credits and other liabilities	271,624	215,287
Total liabilities	1,286,187	1,278,444
COMMITMENTS AND CONTINGENCIES (Note 11)		
MEMBER'S EQUITY:		
Member's equity	845,547	846,560
Accumulated other comprehensive loss	(369)	(433)
Total member's equity	845,178	846,127
TOTAL	$2,131,365	$2,124,571

See notes to consolidated financial statements.

(Concluded)

PNG COMPANIES LLC

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In thousands)

	2015	2014
OPERATING REVENUE	$ 736,919	$ 859,237
OPERATING EXPENSES:		
Purchased gas	317,095	409,841
Other operations and maintenance	185,704	193,748
Depreciation and amortization	61,392	60,143
Other taxes	11,622	12,109
Total operating expenses	575,813	675,841
INCOME FROM OPERATIONS	161,106	183,396
OTHER INCOME (EXPENSE)—Net	(5,657)	(2,200)
INTEREST CHARGES	39,286	42,650
INCOME BEFORE INCOME TAXES	116,163	138,546
PROVISION FOR INCOME TAXES	29,876	51,617
NET INCOME	86,287	86,929
COMPREHENSIVE GAIN (LOSS)—Changes in net unrecognized pension and other postretirement benefit costs—net of taxes of ($214) and $281 in 2015 and 2014, respectively	338	(442)
COMPREHENSIVE GAIN (LOSS)—Change in fair value of cash flow hedges—net of taxes of $194 and $ - in 2015 and 2014, respectively	(274)	-
RECLASSIFY EGC AOCI TO REGULATORY ASSET	-	(95)
COMPREHENSIVE INCOME	$ 86,351	$ 86,392

See notes to consolidated financial statements.

PNG COMPANIES LLC

CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	Member's Equity	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE—December 31, 2013	$ 833,231	$ 104	$ 833,335
Net income	86,929	-	86,929
Comprehensive gain:			
Changes in unrecognized pension and other postretirement benefit costs—net of taxes of $281	-	(442)	(442)
Reclassify EGC AOCI to Regulatory Asset	-	(95)	(95)
Dividends paid to member	(73,600)	-	(73,600)
BALANCE—December 31, 2014	846,560	(433)	846,127
Net income	86,287	-	86,287
Comprehensive gain:			
Changes in unrecognized pension and other postretirement benefit costs—net of taxes of ($214)	-	338	338
Change in fair value of cash flow hedges—net of taxes of $194	-	(274)	(274)
Dividends paid to member	(87,300)	-	(87,300)
BALANCE—December 31, 2015	$ 845,547	$ (369)	$ 845,178

See notes to consolidated financial statements.

PNG COMPANIES LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
OPERATING ACTIVITIES:		
Net income	$ 86,287	$ 86,929
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	61,392	60,143
Amortization of debt issuance costs	2,119	2,517
Deferred provision for income taxes	11,595	34,171
Changes in:		
Accounts receivable—net	45,991	5,073
Inventories	20,514	(161)
Regulatory asset/liability—net	28,965	(1,662)
Prepayments	(2,804)	(10,256)
Gas imbalances	2,766	(4,456)
Unallocated defined contribution plan assets	-	6,220
Accounts payable	(2,393)	(6,658)
Accrued interest, payroll and taxes	10,083	(2,062)
Other	610	(2,496)
Net cash provided by operating activities	265,125	167,302
INVESTING ACTIVITIES:		
Plant construction and other property additions	(115,597)	(99,140)
Acquisition of Equitable Gas Company, LLC	-	(5,553)
Net cash used in investing activities	(115,597)	(104,693)
FINANCING ACTIVITIES:		
Borrowings (repayments) under revolving credit agreement—net	(70,000)	3,000
Capital lease obligation	(386)	(2,847)
Payment of debt issuance costs	(433)	-
Dividends paid to member	(87,300)	(73,601)
Net cash provided by (used in) financing activities	(158,119)	(73,448)
INCREASE IN CASH AND CASH EQUIVALENTS	(8,591)	(10,839)
CASH AND CASH EQUIVALENTS—Beginning of year	16,848	27,687
CASH AND CASH EQUIVALENTS—End of year	$ 8,257	$ 16,848
SUPPLEMENTAL CASH FLOW INFORMATION—Cash paid during the year for:		
Interest and related charges—excluding capitalized amounts	$ 23,346	$ 40,590
Significant noncash investing activity—accrued capital expenditures	$ 7,389	$ 6,478

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS

PNG Companies LLC (the "Company"), a Delaware limited liability company, is a wholly owned, direct subsidiary of LDC Holdings LLC, which is wholly owned by LDC Funding LLC. The ultimate parent in the ownership chain is SteelRiver Infrastructure Fund North America LP and an affiliated fund. The Company is primarily a natural gas distribution utility operating in Pennsylvania, West Virginia, and Kentucky. Wholly owned subsidiaries of the Company include three natural gas distribution companies: Peoples Natural Gas Company LLC ("Peoples"), which operates under the jurisdiction of the Pennsylvania Public Utility Commission, and Peoples Gas WV LLC and Peoples Gas KY LLC, which are also subject to rate regulation.

The Company's wholly owned subsidiaries also include Peoples Homeworks LLC and PNG Gathering LLC.

The terms "Company," "we," and "us" are used throughout this report and all represent the Company and all of its subsidiaries.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

General—We make certain estimates and assumptions in preparing our financial statements 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 for the periods presented. Actual results may differ from those estimates.

Accounting for Regulated Operations—The accounting for our regulated gas operations differs from the accounting for nonregulated operations in that we are required to reflect the effect of rate regulation in our consolidated financial statements. For regulated businesses subject to federal or state cost-of-service rate regulation, regulatory practices that assign costs to accounting periods may differ from accounting methods generally applied by nonregulated companies. When it is probable that regulators will permit the recovery of current costs through future rates charged to customers, we defer these costs as regulatory assets that otherwise would be expensed by nonregulated companies. Likewise, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that are not yet incurred. Regulatory assets are amortized into expense and regulatory liabilities are amortized into income over the period authorized by the regulator.

We evaluate whether or not recovery of our regulatory assets through future regulated rates is probable and make various assumptions in our analyses. The expectations of future recovery are generally based on orders issued by regulatory commissions or historical experience, as well as discussions with applicable regulatory authorities. If recovery of a regulatory asset is determined to be less than probable, it will be written off and an expense will be recorded in the period such assessment is made.

Operating Revenue—Operating revenue is recorded on the basis of services rendered, commodities delivered, or contracts settled, and includes amounts yet to be billed to customers. Our receivables from customers at December 31, 2015 and 2014, included $36,548 and $61,567, respectively, of accrued unbilled revenue, based on estimated amounts of natural gas delivered, but not yet billed, to our utility customers. We estimate utility unbilled revenue based on historical usage, applicable customer rates, and weather factors.

The primary types of sales and service activities reported as operating revenue include:

- *Regulated gas sales* consist primarily of state-regulated retail natural gas sales and related distribution services;
- *Non-regulated gas sales* consist primarily of sales of natural gas purchased from third parties at market-based rates and contracted fixed prices;
- *Gas transportation and storage* consists primarily of regulated sales of gathering, transmission, distribution, and storage services. Also included are regulated gas distribution charges to retail distribution service customers opting for alternate suppliers; and
- *Other revenue* consists primarily of miscellaneous service revenue from gas distribution operations, gas processing and handling revenue, sales of natural gas at market-based rates and contracted fixed prices, sales of gas purchased from third parties, and other gas marketing activities.

Unrecovered Gas Costs—The differences between actual purchased gas expenses and the levels of recovery for these expenses in current rates are deferred and matched against recoveries in future periods. The deferral of costs in excess of current-period recovery is recognized as a regulatory asset and classified as unrecovered gas costs, while the recovery of revenue in excess of current-period expenses is recognized as a regulatory liability and classified as amounts payable to customers.

Income Taxes—The Company is a single-member limited liability company treated as a disregarded entity for United States federal and Pennsylvania state income tax purposes. The Company's taxable income or loss is included in the federal and state tax returns filed by LDC Funding LLC. The Company calculates its share of the federal and state tax expense and benefits of LDC Funding LLC based on the amounts that would be reported if it were to file tax returns on a separate-company basis.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*, requires an asset and liability approach to accounting for income taxes. Deferred income tax assets and liabilities are provided, representing future effects on income taxes for temporary differences between the basis of assets and liabilities for financial reporting and tax purposes. Where permitted by regulatory authorities, the treatment of temporary differences may differ from the requirements of ASC 740. For those temporary differences, a regulatory asset is recognized if it is probable that future revenues will be provided for the payment of deferred tax liabilities, as a result, only a provision for the current tax expense is included in the determination of net income. The Company has not identified any uncertain tax positions as of December 31, 2015.

We establish a valuation allowance when it is more likely than not that all, or a portion, of a deferred tax asset will not be realized. As of December 31, 2015 and 2014, no valuation allowances were considered necessary. Judgment and the use of estimates are required in developing the provision for income taxes and reporting of tax-related assets and liabilities. The interpretation of tax laws involves uncertainty, since tax authorities may interpret the laws differently. Ultimate resolution of income tax matters may result in favorable or unfavorable impacts to net income and cash flows, and adjustments to tax-related assets and liabilities could be material.

For the year ended December 31, 2015, the Company realized a $15.2 million deferred tax benefit in connection with recent IRS guidance received by the Company regarding the Company's disposition of certain utility assets in 2013. The 2013 transaction included a partial like-kind exchange of assets that resulted in tax deferral for the Company. However, in order to be in compliance with the normalization rules of the Internal Revenue Code, the IRS guidance held that the deferred tax liability associated with the exchanged regulatory assets should not be considered for ratemaking purposes. As a result, during 2015 the Company recorded a regulatory asset equal to the taxes deferred from the exchange and an associated income tax benefit. The regulatory asset and deferred income taxes will be reversed when the utility assets are disposed of in a taxable transaction such as a sale or amortized over the remaining book lives of the utility assets received in the exchange; in either event increasing tax expense at that time.

Cash and Cash Equivalents—Current banking arrangements generally do not require checks to be funded until actually presented for payment. At December 31, 2015 and 2014, accounts payable included $6,344 and $5,707, respectively, of checks outstanding but not yet presented for payment. For purposes of our consolidated statements of cash flows, we consider cash and cash equivalents to include cash on hand, cash in banks, and temporary investments purchased with an original maturity of three months or less.

Inventories—Materials and supplies inventories are valued using the weighted-average cost method. The Company has stored gas inventory under the weighted-average cost method, which is valued at $17,077 and $35,854 at December 31, 2015 and 2014, respectively. The Company also has stored gas inventory used in local gas distribution operations that is valued using the last-in, first-out (LIFO) method. Under the LIFO method, those inventories were valued at $2,328 and $4,256 at December 31, 2015 and 2014, respectively. Based on the average price of gas purchased during 2015 and 2014, the cost of replacing the current portion of stored gas inventory exceeded the amount stated on a LIFO basis by approximately $19,209 and $44,071, respectively. The use of two valuation methods for stored gas inventories is necessitated by regulatory accounting. The two methods will continue to be used until the commissions order a change.

Derivative Instruments—We use derivative instruments such as futures, swaps, and forwards to manage the commodity risks of our business operations.

ASC 815, *Derivatives and Hedging*, requires all derivatives, except those for which an exception applies, to be reported on our consolidated balance sheets at fair value. Derivative contracts representing unrealized gain positions are reported as derivative assets. Derivative contracts representing unrealized losses are reported as derivative liabilities.

Derivative Instruments not Designated as Hedging Instruments—We hold certain nontrading derivative instruments that are not designated as hedges for accounting purposes. However, to the extent that we do not hold offsetting positions for such derivatives; we believe that these instruments represent economic hedges that mitigate exposure to fluctuations in commodity prices. Any nontrading derivatives not designated as hedges have been executed by order of regulatory bodies. The fair value changes of those derivatives are deferred on our consolidated balance sheets as a regulatory asset or regulatory

liability in accordance with ASC 980, *Regulated Operations*. Any unrealized changes in fair value and settlements are presented in purchased gas expense in our consolidated statements of income and comprehensive income. Recovery of these costs is discussed in the unrecovered gas costs section above.

We recognize revenue or expense from all nonderivative energy-related contracts on a gross basis at the time of contract performance, settlement, or termination.

Derivative Instruments Designated as Cash Flow Hedging Instruments—As of December 31, 2015 and 2014, the Company had designated interest rate swaps with an initial notional amount of $125,000 and $ -, respectively, as cash flow hedges.

Valuation Methods—See Note 3 for further information about fair value measurements and associated valuation methods for derivatives under ASC 820, *Fair Value Measurement*.

Property, Plant and Equipment—Property, plant, and equipment, including additions and replacements, are recorded at original cost, including labor, materials, asset retirement costs, and other direct and indirect costs, including capitalized interest. The cost of repairs and maintenance, including minor additions and replacements, is charged to expense as incurred. In 2015 and 2014, we capitalized interest costs of $197 and $235, respectively.

At retirement, the depreciable cost of property, plant, and equipment, less salvage value, is charged to accumulated depreciation. Cost of removal collections from utility customers and expenditures not representing asset retirement obligations (AROs) are recorded as regulatory liabilities or regulatory assets.

Depreciation of property, plant, and equipment is computed on the straight-line method, based on projected service lives. In 2015 and 2014, depreciation expense was $48,290 and $49,756, respectively.

Intangible Assets—Intangible assets include predominately internal-use software and related costs associated with the Company's computerized information systems. These costs have been capitalized in accordance with ASC 350, *Intangibles—Goodwill and Other*. In addition to the initial installation of the Company's computerized information systems, new applications continue to be added and capitalized, accordingly. Such assets are being amortized over their estimated useful lives of 10 years for major systems and five years for other software applications. Related amortization expense was $13,102 and $10,387 for 2015 and 2014, respectively. Amortization expense for each of the next five years is as follows:

Years Ending December 31	
2016	$ 10,760
2017	10,336
2018	8,750
2019	7,143
2020	6,988

Debt Issuance Costs—In accordance with ASC 310, *Receivables*, debt issuance costs were capitalized at the time of incurrence and are being amortized into interest expense over the term of the debt (Note 7).

Asset Retirement Obligations—We recognize AROs at fair value, as incurred, or when sufficient information becomes available to determine a reasonable estimate of the fair value of the retirement activities to be performed. These amounts are capitalized as costs of the related tangible long-lived assets. Since relevant market information is not available, we estimate fair value using discounted cash flow analyses. We report the accretion of the AROs due to the passage of time in other operations and maintenance expense.

Impairment of Long-Lived and Intangible Assets—We perform an evaluation for impairment whenever events or changes in circumstances indicate that the carrying amount of long-lived assets or intangible assets with finite lives may not be recoverable. Assets are written down to fair value if the sums of their expected future undiscounted cash flows are less than their carrying amounts.

Goodwill is tested for impairment annually as of October 31 for Peoples and whenever events or changes in circumstances indicate that the carrying amount may be impaired. There were no impairments recorded in 2015 or 2014.

The carrying amounts of goodwill for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Balance as of January 1,	$284,895	$284,895
Accumulated impairment losses	-	-
Goodwill acquired	-	-
Balance as of December 31,	$284,895	$284,895

Leasing Arrangements—The Company enters into leasing arrangements in the ordinary course of business. Rentals payable under operating leases are charged to expense over the term of the relevant lease. For capital leases, the present value of future minimum lease payments at the inception of the lease is reflected as an asset and a liability in the consolidated balance sheets. Amounts due within one year are classified as current liabilities and the remaining balance as long-term liabilities.

Recent Accounting Pronouncements—In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The ASU supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is effective for annual reporting periods beginning after December 15, 2018. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs to be presented in the consolidated balance sheet as a direct deduction from the associated debt liability. ASU 2015-03 is effective for annual reporting periods after December 15, 2015. The new guidance will be applied on a retrospective basis and early adoption is permitted. The Company does not expect the adoption of ASU 2015-03 to have a significant impact on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Income Tax*, which revises accounting guidance to simplify the presentation of deferred income taxes. This update requires that deferred tax liabilities and assets be classified as noncurrent in the consolidated

balance sheet. The new guidance is effective for annual reporting periods beginning after December 15, 2018. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which brings substantially all leases onto the balance sheet. This update requires the recognition of lease assets and liabilities for those leases currently classified as operating leases, while also refining the definition of a lease. The new guidance is effective for annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact that the adoption of the standard will have on its consolidated financial statements.

3. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

We utilize the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value, into three broad levels:

Level 1—Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date. Instruments categorized in Level 1 are valued at the active quoted market price from broker or dealer quotations or transparent pricing sources at the reporting date. At December 31, 2015 and 2014, there were no Level 1 instruments.

Level 2—Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Level 2 measurements primarily represent interest rate swaps and long-term debt at December 31, 2015 and 2014.

Level 3—Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 would consist of long-dated commodity derivatives and other modeled commodity derivatives. At December 31, 2015 and 2014, there were no Level 3 instruments.

There were no transfers between Levels 1, 2, or 3 during the course of 2015 or 2014. If there were any such instances, a transfer would be reported at the beginning of the reporting period. While the Company believes that its valuation methods used to assess the classification of financial instruments within the hierarchy are appropriate, the use of different methodologies or assumptions could result in a change in a financial instrument's fair value tier from year to year.

At December 31, 2015	Book Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Derivative:					
Interest rate swaps	$ 469	$ -	$ 469	$ -	$ 469
Long-term debt:					
Notes payable:					
Fixed	700,000	-	715,946	-	715,946
Variable	152,000	-	152,000	-	152,000
Total liabilities	$852,469	$ -	$868,415	$ -	$868,415
At December 31, 2014					
Liabilities:					
Long-term debt:					
Notes payable:					
Fixed	$825,000	$ -	$861,383	$ -	$861,383
Variable	97,000	-	97,000	-	97,000
Total liabilities	$922,000	$ -	$958,383	$ -	$958,383

4. INCOME TAXES

Details of the Company's income tax expense for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Current:		
Federal	$ 11,262	$ 13,417
State	7,019	4,029
Total current	18,281	17,446
Deferred:		
Federal	13,655	31,696
State	(2,060)	2,475
Total deferred	11,595	34,171
Total income tax expense	$ 29,876	$ 51,617

The statutory U.S. federal income tax rate reconciles to our effective income tax rate for the years ended December 31, 2015 and 2014, as follows:

	2015	2014
U.S. statutory rate	35.0 %	35.0 %
Increases (reductions) resulting from:		
Utility plant differences	(1.7)	(2.0)
Private letter ruling	(13.1)	-
State tax items	4.3	4.7
Employee benefits	1.0	0.1
Other	0.2	(0.5)
Effective tax rate	25.7 %	37.3 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Our net deferred income taxes at December 31, 2015 and 2014, consist of the following:

	2015	2014
Postretirement benefits	$ 1,284	$ 200
Miscellaneous benefits	(12,048)	(7,859)
Other	4,950	14
Depreciation method and plant-basis differences	188,137	146,347
Inventory	(305)	(305)
Income taxes collected through rates	22,819	22,165
Unrecovered purchased gas costs	8,157	22,385
Bad debts	(10,940)	(11,394)
Pension benefits	(6,388)	(9,073)
Interest rate swap	77	-
Net operating loss	(47,645)	(64,510)
Total net deferred income tax liabilities	148,098	97,970
Net short-term deferred tax asset	17,484	6,938
Net long-term deferred tax liability	$ 165,582	$ 104,908

At December 31, 2015, we had federal loss carryforwards of $141,211 and state loss carryforwards of $108,934 that begin to expire if unutilized in 2031. There are no uncertain tax positions as of December 31, 2015.

5. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Major classes of utility property, plant and equipment and their respective balances at December 31, 2015 and 2014, are as follows:

	2015	2014
Transmission	$ 158,504	$ 152,439
Distribution	1,841,892	1,764,139
Storage	13,569	13,436
Gas gathering and processing	113,336	112,052
General and other	124,210	118,639
Plant under construction	8,859	8,012
Total property, plant and equipment	$2,260,370	$2,168,717

Details of our intangible assets at December 31, 2015 and 2014, were as follows:

	2015	2014
Internal-use software	$ 102,750	$ 91,001
Less—accumulated amortization	(36,887)	(28,106)
Intangible assets—net	$ 65,863	$ 62,895

6. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities at December 31, 2015 and 2014, include the following:

	2015	2014
Regulatory assets:		
Unrecovered gas costs	$ -	$ 16,376
Other	9,984	3,267
Regulatory assets—current	9,984	19,643
Income taxes recoverable through future rates	83,533	52,035
Asset retirement obligations	39,675	38,604
Pension/OPEB unrecognized funding costs	2,411	10,468
Other	14,750	15,029
Regulatory assets—non-current	140,369	116,136
Total regulatory assets	$ 150,353	$ 135,779
Regulatory liabilities:		
Deferred gas—amounts payable to customers	$ 24,148	$ -
Other	2,405	2,241
Regulatory liabilities—current	26,553	2,241
Regulatory liabilities—non-current	-	-
Total regulatory liabilities	$ 26,553	$ 2,241

The regulatory assets are expected to be recovered in rates charged to customers. The Company's regulatory assets are not earning a return; however, these regulatory assets are expected to be recovered from customers in future rates.

If, for any reason, the Company's regulated businesses cease to meet the criteria for application of regulatory accounting for all or part of its operations, the regulatory assets and liabilities relating to those portions ceasing to meet such criteria would be removed from the balance sheet and included in the statements of income as an extraordinary item in the period in which the discontinuance of regulatory accounting occurs.

7. LONG-TERM DEBT

As of December 31, 2015 and 2014, the Company had long-term debt, as follows:

Company	Type	Rates	Issue Dates	Due Dates	2015	2014
PNG Companies LLC	Senior Secured Notes	2.43%–5.53%	2010–2013	2017–2025	$ 700,000	$ 825,000
PNG Companies LLC	Credit Agreement	Variable	2015	2018	125,000	-
PNG Companies LLC	Revolving Credit Agreement	Variable	2013	2018	27,000	97,000
Subtotal, long-term debt					852,000	922,000
Current portion of long-term debt					-	-
Total long-term debt					$ 852,000	$ 922,000

On February 26, 2010, the Company issued $411,000 of Senior Secured Notes under a Note Purchase Agreement dated February 26, 2010 ("2010 Note Agreement"). On December 19, 2013, the Company issued $414,000 of Senior Secured Notes under a Supplement to the 2010 Note Agreement, of which the majority of the proceeds were used in connection with the EGC acquisition. On February 26, 2015, the Company borrowed $125,000 under a new, three-year credit agreement, which is due February 19, 2018.. The proceeds were used to repay a February 2015 maturity under the 2010 Note Agreement. On August 22, 2013, the Company entered into a Revolving Credit Agreement with a consortium of financial institutions. The Company is permitted to borrow and repay funds and/or issue letters of credit up to a total commitment of $300,000 through August 22, 2018, subject to a $50,000 sublimit for letters of credit. At December 31, 2015 and 2014, outstanding borrowings under the Revolving Credit Agreement were $27,000 and $97,000 and outstanding letters of credit totaled $3,331 and $2,961, respectively. Under the terms of the agreement, interest rate options include either London InterBank Offered Rates or the administrative agent bank's prime interest rate, plus an applicable margin based upon PNG Companies' credit rating. Commitment fees on the unused portion of the total commitment are also based upon PNG Companies' credit rating.

As of December 31, 2015, the aggregated future maturities of long-term debt are as follows:

Years Ending December 31	
2016	$ -
2017	255,000
2018	152,000
2019	-
2020	181,000
Thereafter	264,000
Total	$ 852,000

Covenants and Other Terms—The 2010 Note Agreement, Credit Agreement and Revolving Credit Agreement contain usual and customary negative covenants and require the Company to meet minimum leverage and interest coverage ratio covenants, and also contain usual and customary provisions regarding the acceleration of payments. In the event of certain defaults by the Company under these agreements, the lenders will have no further obligation to extend credit and, in some cases, any amounts owed by the Company will automatically become immediately due and payable. As of December 31, 2015 and 2014, the Company was in compliance with the covenants under the Note Agreement, Credit Agreement. and Revolving Credit Agreement.

The Company's obligations under the Note Agreement, Credit Agreement, and Revolving Credit Agreement are secured by the tangible and intangible assets of the Company, as specified in each agreement.

The unamortized balances of debt issuance costs were $6,352 and $8,038 at December 31, 2015 and 2014, respectively. Total debt issuance costs amortized or expensed as interest expense during 2015 and 2014 were $2,119 and $2,517, respectively.

Surety Bonds—As of December 31, 2015 and 2014, we had purchased $5,906 and $6,949, respectively, of surety bonds to facilitate commercial transactions with third parties.

8. ASSET RETIREMENT OBLIGATIONS

Our AROs are primarily associated with the interim retirements of natural gas gathering, transmission, distribution, production wells, and storage pipeline components. These obligations result from certain safety and environmental activities that we are required to perform when any pipeline is abandoned. We also have AROs related to the retirement of the gas storage wells in our underground natural gas storage network. We currently do not have sufficient information to estimate a reasonable range of expected retirement dates for any of these wells. Thus, AROs for those assets will not be reflected in our financial statements until sufficient information becomes available to determine a reasonable estimate of the fair value of the activities to be performed. Generally, this will occur when the expected retirement or abandonment dates are determined by our operations engineering department. The changes to our AROs during 2015 and 2014 were as follows:

	2015	2014
Total asset retirement obligations—January 1	$38,241	$39,347
Liabilities incurred	43	15
Obligations settled during the period	(2,276)	(3,346)
Accretion expense	2,304	2,225
Total asset retirement obligations—December 31	38,312	38,241
Less: current portion	1,497	1,463
Non-current asset retirement obligations—December 31	$36,815	$36,778

9. VOLUNTARY RETIREMENT PROGRAM

In the fourth quarter of 2015, the Company announced a one-time Voluntary Retirement Program (VRP), which was offered to eligible union and salaried employees who had 10 years of service and were at least 55 years of age by April 1, 2016. The union offer was contingent on the ratification of a

new collective bargaining agreement, which was subsequently ratified in April 2016. (Note 12). Participants' last day of work will occur as late as October 1, 2016. 82 union and 42 salaried employees elected to participate in this program. The Company offered each eligible union employee severance of $108, which will be paid equally over a 24-month period. Each eligible salaried employee will receive 50% of the employee's current monthly salary for a period of 24 months. The Company will also pay 100% of health insurance premiums for the employee and dependents, payable over a period of 36 months for union and 24 months for salaried employees, beginning with the employee's retirement date. The Company recorded a total VRP liability of $13,380 during 2015, all of which was reflected in Other Operations and Maintenance.

10. EMPLOYEE BENEFIT PLANS

The Company provides certain benefits to eligible active employees, retirees, and qualifying dependents. Under the terms of our benefit plans, the Company reserves the right to change, modify, or terminate the plans, unless restricted by collective bargaining. From time to time in the past, benefits have changed, and some of these changes have reduced benefits.

Strategic investment policies are established for each of the Company's prefunded benefit plans based upon periodic asset/liability studies. Factors considered in setting the investment policy include employee demographics, liability growth rates, future discount rates, the funded status of the plans, cash disbursement requirements, and the expected long-term rate of return on plan assets. Deviations from the plans' strategic allocation are a function of short-term, actual investment results in the capital markets and/or short-term market movements, which result in the plans' actual asset allocations varying from the strategic target asset allocations. Through periodic rebalancing, actual allocations are brought back in line with the target.

Our overall objective for investing our pension and other postretirement plan assets is to achieve the best possible long-term rates of return commensurate with prudent levels of risk. To minimize risk, funds are broadly diversified among asset classes, investment strategies, and investment advisors.

The Company uses December 31 as the measurement date for all of the Company's employee benefit plans. The Company uses the market-related value of pension plan assets to determine the expected return on plan assets, a component of net periodic pension cost. The market-related value recognizes changes in fair value on a straight-line basis over a four-year period, which reduces year-to-year volatility. Changes in fair value are measured as the difference between the expected and actual plan asset returns, including dividends, interest, and realized and unrealized investment gains and losses. Since the market-related value recognizes changes in fair value over a four-year period, the future market-related value of pension plan assets will be impacted as previously unrecognized changes in fair value are recognized.

Defined Benefit Plans—The Company provides pension benefits for eligible employees, the provision of which is based upon certain factors, such as job group and hire date. Retirement benefits payable under all plans are based on certain factors, including hire date, years of service, age, and compensation. The Company's contributions to the plans are determined in accordance with the provisions of the Employment Retirement Income Security Act of 1974 as well as commitments under rate cases.

The accumulated benefit obligations for the Company's defined benefit pension plans were $83,323 and $90,739 at December 31, 2015 and 2014, respectively. Under our funding policies, we evaluate plan funding requirements annually, usually in the fourth quarter after considering updated plan information from our actuaries. Based on the funded status of the plan and other factors, we determine the amount of contributions for the current year, if any, at that time.

Effective December 31, 2015, the Company's defined benefit pension plan was amended to freeze the accrual of benefits, with the exception of certain union participants.

Postretirement Benefits—The Company also provides limited postretirement health care benefits and life insurance benefits ("Postretirement Benefits") for employees, the provisions of which are based upon certain factors such as job group and hire date.

Retiree health care and life insurance benefits are provided for the Company's union and salaried employee groups through separately administered other postretirement benefit plans. Annual premiums for both programs are negotiated as part of the Company's group policies, and are dependent upon market trends and overall group experience. Annual employee contributions are based on several factors, such as age, retirement date, and years of service.

The Company, through Peoples, has established Voluntary Employees' Beneficiary Association (VEBA) trust for its Postretirement Benefits. Contributions to the VEBA trusts are tax-deductible, subject to limitations contained in the Internal Revenue Code, and are made to fund employees' Postretirement Benefits. In accordance with ratemaking standards recognized by the PA Public Utility Commission, the Company deposits, into an irrevocable trust, amounts equal to the postretirement benefits expenses determined in accordance with authoritative guidance for postretirement benefit plans. The trust's assets will be used for the payment of postretirement benefits and trust administration costs.

The post retirement benefit plan was amended, effective December 31, 2015. Salaried active employees hired before January 1, 2008 were converted to a medical savings account (MSA) of $700 for each year of service through 2015 and retired medical benefits were frozen for active Salaried employees hired on or after January 1, 2008. In addition, retiree life insurance was discontinued as of December 31, 2015, with the exception of current retirees. At the end of 2015, eligible participants were given the option to retire as part of a Voluntary Retirement Program (VRP) during the first half of 2016. Those who elect to participate in the VRP will receive retiree medical benefits fully paid by the Company for a period of two years. After two years, employees hired before January 1, 2008 receive subsidized coverage until age 65.

The changes in the Company's defined benefit and other postretirement benefit plan obligations and plan assets, fair value measurements, components of net periodic benefit costs, and expected payments of future service are as follows:

Periods Ended December 31	Defined Benefits 2015	Defined Benefits 2014	Other Postretirement Benefits 2015	Other Postretirement Benefits 2014
Change in Benefit Obligation				
Benefit obligation—beginning of year	$ 97,835	$ 79,578	$ 40,308	$ 34,649
Service cost	2,228	1,818	2,631	2,420
Interest cost	3,938	3,775	1,483	1,485
Benefits paid	(5,247)	(4,616)	(2,815)	(2,348)
Participant contributions	-	-	1,153	78
Curtailment gain	(6,561)	-	(1,009)	-
Special termination benefits	-	-	3,737	-
Actuarial (gain) loss during the year	(8,769)	17,280	(7,723)	4,024
Benefit obligation—end of year	83,424	97,835	37,765	40,308
Change in Plan Assets				
Fair value of plan assets—beginning of year	74,789	73,886	18,422	14,473
Actual return on plan assets	(3,207)	4,916	(761)	751
Employer contributions	740	740	5,334	5,468
Expenses paid	(227)	(137)	-	-
Benefits paid	(5,247)	(4,616)	(2,815)	(2,348)
Participant contributions	-	-	1,154	78
Fair value of plan assets—end of year	66,848	74,789	21,334	18,422
Funded status—end of year	$ (16,576)	$ (23,046)	$ (16,431)	$ (21,886)
Amounts Recognized in the Consolidated Balance Sheet as of December 31				
Current liabilities	$ -	$ -	$ (1,820)	$ (1,323)
Noncurrent liabilities	(16,576)	(23,046)	(14,611)	(20,563)
Net amount recognized	$ (16,576)	$ (23,046)	$ (16,431)	$ (21,886)
Significant Assumptions Used to Determine Benefit Obligations as of December 31				
Discount rate	4.63 %	4.28 %	3.96 %	3.73 %
Weighted-average rate of increase for compensation	3.75	3.75	3.75	3.75

Periods Ended December 31	Defined Benefits 2015	Defined Benefits 2014	Other Postretirement Benefits 2015	Other Postretirement Benefits 2014
Fair Value Measurements				
Level 1:				
Cash equivalents	$ 1,888	$ 1,552	$ 6,926	$ 6,127
Equity	40,691	45,248	4,514	3,983
Fixed income	15,940	17,691	9,894	8,311
Subtotal	58,519	64,491	21,334	18,421
Level 2—fixed income	8,329	10,298	-	-
Level 3	-	-	-	-
Fair value	$66,848	$74,789	$21,334	$18,421
Components of Net Periodic Benefit Costs				
Service cost	$ 2,428	$ 2,318	$ 2,631	$ 2,420
Interest cost	3,938	3,775	1,483	1,485
Expected return on plan assets	(4,569)	(4,900)	(828)	(648)
Curtailment gain	-	-	(1,009)	-
Special termination benefits	-	-	3,737	-
Amortization of prior service cost	-	-	-	-
Amortization of net (gain) loss	620	-	41	(183)
Amortization of transition assets	-	-	-	-
Net periodic benefit cost	$ 2,417	$ 1,193	$ 6,055	$ 3,074
Significant assumptions used to determine periodic cost:				
Discount rate	4.63 %	5.18 %	3.96 %	3.73 %
Expected long-term rate of return on plan assets	6.37	6.81	4.37	4.49
Weighted-average rate of increase for compensation	3.75	3.75	3.75	5.30
Health care cost trend rate	-	-	5.00	5.00
Long-term asset allocation policy:				
Equity	65 %	65 %		
Debt	35	35		
Changes in plan assets and benefit obligations recognized in regulatory assets (other comprehensive income) (Note 7):				
Current year net actuarial (gain) loss	$ (7,527)	$16,901	$ (6,135)	$ 3,921
Plan amendment	-	-	-	-
Amortization of actuarial loss	(620)	-	(41)	183
Total recognized in regulatory assets (other comprehensive income) (Note 7)	$ (8,147)	$16,901	$ (6,176)	$ 4,104
Expected 2016 payments for defined benefit plans	$ 699	$ 740		
Expected Payments of Future Service				
2016	$ 4,831		$ 4,248	
2017	5,160		4,600	
2018	5,387		4,449	
2019	5,547		3,624	
2020	5,706		3,669	
2021–2025	30,725		15,932	

401(k) Savings Plans—In addition to the defined benefit plans discussed previously, the Company has various 401 (k) savings plans for union and salaried employees. Under these 401(k) savings plans, employees can make voluntary contributions into their individual 401(k) savings plan accounts. The Company provides matching and non-elective employer contributions to the 401(k) savings plans, as stipulated in the plan documents. During 2015 and 2014, the Company made contributions to the 401(k) savings plans in the amounts of $5,341 and $4,534, respectively.

Beginning in January 2016, the 401(k) savings plans will become the primary retirement savings tool. Changes have been made to enhance benefits under the 401(k) savings plan in lieu of reduced and frozen retirement benefits under the defined benefit and postretirement benefits as described above.

11. COMMITMENTS AND CONTINGENCIES

From time to time, we are involved in legal, tax, and regulatory proceedings before various courts, regulatory commissions, and governmental agencies. We believe that the final disposition of these proceedings will not have a material effect on our financial position, liquidity, or results of operations.

Lease Commitments—We lease various facilities and equipment under operating leases. Future minimum lease payments under non-cancelable operating leases that have initial or remaining lease terms in excess of one year as of December 31, 2015, are as follows:

Years Ending December 31	
2016	$ 5,360
2017	5,290
2018	5,323
2019	5,368
2020	5,412
Thereafter	21,581
Total	$48,334

Rental expense totaled $3,433 and $3,574 in 2015 and 2014, respectively, the majority of which is reflected in other operations and maintenance expense.

Environmental Matters—We are subject to costs resulting from a steadily increasing number of federal, state, and local laws, and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations, and can result in increased capital, operating, and other costs as a result of our compliance, remediation, containment, and monitoring obligations. We may sometimes seek recovery of environmental-related expenditures through regulatory proceedings.

We have determined that we previously owned four parcels of land that may have been associated with former manufactured gas plant sites. None of the four parcels is under investigation by any state or federal environmental agency, and no investigation or action is currently anticipated.

Long-Term Gas Supply Obligations—The retail gas supply of the Company is provided by sources on the interstate pipeline system and from local western Pennsylvania gas well production. The Company has various interstate pipeline service agreements that provide for firm transportation capacity, firm storage capacity, and other services and include capacity reservation charges, based upon the maximum daily and annual contract quantities set forth in the agreements. These agreements have minimum volume obligations and are transacted at applicable tariff and negotiated rates for periods of up to 20 years.

Investments—Other—In September 2014, the Company committed to invest $3,000 in a regional site development fund. An investment of $1,051 has been made through 2015, with a commitment of $1,949 remaining.

12. SUBSEQUENT EVENTS

In accordance with ASC 855, *Subsequent Events*, the Company has evaluated events through April 28, 2016, the date that these consolidated financial statements were available to be issued.

In April 2016, the Company reached a new three-year labor contract agreement with our respective field unions. The three-year agreement includes a competitive wage and benefits package.

* * * * * *

Peoples TWP LLC

Financial Statements as of and for the
Years Ended December 31, 2015 and 2014,
and Independent Auditors' Report

PEOPLES TWP LLC

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Member of
Peoples TWP LLC
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of Peoples TWP LLC (the "Company"), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income and comprehensive income, member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peoples TWP LLC as of December 31, 2015 and 2014, 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.

Deloitte & Touche LLP

April 28, 2016

PEOPLES TWP LLC

BALANCE SHEETS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,910	$ 2,336
Accounts receivable:		
Customers (less allowance for doubtful accounts of $1,734 and $2,234 for 2015 and 2014, respectively)	12,305	21,244
Other	71	214
Affiliates	335	217
Inventories:		
Materials and supplies	734	829
Gas stored—current portion	9,687	11,467
Regulatory assets	1,849	-
Deferred income taxes	3,225	3,668
Other	3,294	1,904
Total current assets	35,410	41,879
INVESTMENTS—Other	-	-
PROPERTY, PLANT, AND EQUIPMENT:		
Property, plant, and equipment	293,666	284,868
Accumulated depreciation and amortization	(102,353)	(96,332)
Total property, plant, and equipment—net	191,313	188,536
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	3,103	3,103
Intangible assets—net	12,749	14,156
Regulatory assets	17,300	17,204
Debt issuance costs	570	700
Other	46	46
Total deferred charges and other assets	33,768	35,209
TOTAL	$ 260,491	$ 265,624

(Continued)

PEOPLES TWP LLC

BALANCE SHEETS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable:		
Trade	$ 5,887	$ 6,535
Affiliates	754	607
Current portion of long-term debt	5,911	5,909
Accrued interest, payroll, and taxes	4,683	4,183
Regulatory liabilities	-	2,022
Other	1,309	1,059
Total current liabilities	18,544	20,315
LONG-TERM DEBT (Note 7)	113,909	121,820
DEFERRED CREDITS AND OTHER LIABILITIES:		
Deferred income taxes	18,942	16,391
Asset retirement obligations	2,250	2,363
Pension and other postretirement benefit liabilities	6,724	6,388
Voluntary retirement program	1,964	-
Other	351	352
Total deferred credits and other liabilities	30,231	25,494
Total liabilities	162,684	167,629
COMMITMENTS AND CONTINGENCIES (Note 11)		
MEMBER'S EQUITY:		
Member's equity	97,807	97,995
Accumulated other comprehensive loss	-	-
Total member's equity	97,807	97,995
TOTAL	$ 260,491	$ 265,624

See notes to financial statements.

(Concluded)

PEOPLES TWP LLC

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
OPERATING REVENUE	$ 85,844	$ 110,621
OPERATING EXPENSES:		
Purchased gas	23,178	41,497
Other operations and maintenance	27,488	27,767
Depreciation and amortization	8,931	8,524
Other taxes	1,055	1,389
Total operating expenses	60,652	79,177
INCOME FROM OPERATIONS	25,192	31,444
OTHER INCOME (EXPENSE)—Net	(210)	(224)
INTEREST CHARGES	4,804	5,086
INCOME BEFORE INCOME TAXES	20,178	26,134
PROVISION FOR INCOME TAXES	8,866	10,454
NET INCOME	11,312	15,680
COMPREHENSIVE GAIN (LOSS)	-	-
COMPREHENSIVE INCOME	$ 11,312	$ 15,680

See notes to financial statements.

PEOPLES TWP LLC

STATEMENTS OF MEMBER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	Member's Equity	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE—December 31, 2014	$ 97,215	$ -	$ 97,215
Net income	15,680	-	15,680
Comprehensive gain	-	-	-
Dividends paid to member	(14,900)	-	(14,900)
BALANCE—December 31, 2014	97,995	-	97,995
Net income	11,312	-	11,312
Comprehensive gain	-	-	-
Dividends paid to member	(11,500)	-	(11,500)
BALANCE—December 31, 2015	$ 97,807	$ -	$ 97,807

See notes to financial statements.

PEOPLES TWP LLC

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
OPERATING ACTIVITIES:		
Net income	$ 11,312	$ 15,680
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	8,931	8,524
Amortization of debt issuance costs	130	130
Deferred benefit from income taxes	3,107	1,318
Changes in:		
Accounts receivable—net	8,965	291
Inventories	1,874	(4,657)
Regulatory asset/liability—net	(5,994)	1,526
Prepaid gas	-	2,989
Prepayments	(1,332)	(1,015)
Accounts payable	(372)	(2,768)
Payables to affiliates	147	(4,503)
Accrued interest, payroll and taxes	2,464	(1,116)
Customer deposits	87	(1,190)
Other	2,064	366
Net cash provided by operating activities	31,383	15,575
INVESTING ACTIVITIES—Plant construction and other property additions	(10,400)	(26,489)
Net cash used in investing activities	(10,400)	(26,489)
FINANCING ACTIVITIES:		
Repayment of borrowings under senior notes	(5,909)	(5,909)
Borrowings (repayments) under revolving credit agreement—net	(2,000)	28,000
Dividends paid to member	(11,500)	(14,900)
Net cash provided by (used in) financing activities	(19,409)	7,191
INCREASE IN CASH AND CASH EQUIVALENTS	1,574	(3,723)
CASH AND CASH EQUIVALENTS—Beginning of year	2,336	6,059
CASH AND CASH EQUIVALENTS—End of year	$ 3,910	$ 2,336
SUPPLEMENTAL CASH FLOW INFORMATION—Cash paid during the year for:		
Interest and related charges—excluding capitalized amounts	$ 3,198	$ 5,033
Significant noncash investing activity—accrued capital expenditures	$ 397	$ 1,063

See notes to financial statements.

1. NATURE OF OPERATIONS

Peoples TWP LLC (the "Company"), a Pennsylvania limited liability company, is a wholly owned, direct subsidiary of LDC Holdings II LLC, which is wholly owned by LDC Funding LLC. The ultimate parent in the ownership chain is SteelRiver Infrastructure Fund North America LP and an affiliated fund. The Company is primarily a natural gas distribution utility operating in Pennsylvania, which operates under the jurisdiction of the Pennsylvania Public Utility Commission.

The terms "Company," "we," and "us" are used throughout this report and all represent the Peoples TWP.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Company.

General—We make certain estimates and assumptions in preparing our financial statements 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 for the periods presented. Actual results may differ from those estimates.

Accounting for Regulated Operations—The accounting for our regulated gas operations differs from the accounting for nonregulated operations in that we are required to reflect the effect of rate regulation in our financial statements. For regulated businesses subject to federal or state cost-of-service rate regulation, regulatory practices that assign costs to accounting periods may differ from accounting methods generally applied by nonregulated companies. When it is probable that regulators will permit the recovery of current costs through future rates charged to customers, we defer these costs as regulatory assets that otherwise would be expensed by nonregulated companies. Likewise, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that are not yet incurred. Regulatory assets are amortized into expense and regulatory liabilities are amortized into income over the period authorized by the regulator.

We evaluate whether or not recovery of our regulatory assets through future regulated rates is probable and make various assumptions in our analyses. The expectations of future recovery are generally based on orders issued by regulatory commissions or historical experience, as well as discussions with applicable regulatory authorities. If recovery of a regulatory asset is determined to be less than probable, it will be written off and an expense will be recorded in the period such assessment is made.

Operating Revenue—Operating revenue is recorded on the basis of services rendered, commodities delivered, or contracts settled, and includes amounts yet to be billed to customers. Our receivables from customers at December 31, 2015 and 2014, included $4,964 and $7,911, respectively, of accrued unbilled revenue, based on estimated amounts of natural gas delivered, but not yet billed, to our utility customers. We estimate utility unbilled revenue based on historical usage, applicable customer rates, and weather factors.

The primary types of sales and service activities reported as operating revenue include:

- *Regulated gas sales* consist primarily of state-regulated retail natural gas sales and related distribution services.

- *Nonregulated gas sales* consist primarily of sales of natural gas purchased from third parties at market-based rates and contracted fixed prices.

- *Gas transportation and storage* consists primarily of regulated sales of gathering, transmission, distribution, and storage services. Also, included are regulated gas distribution charges to retail distribution service customers opting for alternate suppliers.

- *Other revenue* consists primarily of miscellaneous service revenue from gas distribution operations, gas processing and handling revenue, sales of natural gas at market-based rates and contracted fixed prices, sales of gas purchased from third parties, and other gas marketing activities.

Unrecovered Gas Costs—The differences between actual purchased gas expenses and the levels of recovery for these expenses in current rates are deferred and matched against recoveries in future periods. The deferral of costs in excess of current-period recovery is recognized as a regulatory asset and classified as unrecovered gas costs, while the recovery of revenue in excess of current-period expenses is recognized as a regulatory liability and classified as amounts payable to customers.

Income Taxes—The Company is a single-member limited liability company treated as a disregarded entity for U.S. federal and Pennsylvania state income tax purposes. The Company's taxable income or loss is included in the federal and state tax returns filed by LDC Funding LLC. The Company calculates its share of the federal and state tax expense and benefits of LDC Funding LLC based on the amounts that would be reported if it were to file tax returns on a separate-company basis.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*, requires an asset and liability approach to accounting for income taxes. Deferred income tax assets and liabilities are provided, representing future effects on income taxes for temporary differences between the basis of assets and liabilities for financial reporting and tax purposes. Where permitted by regulatory authorities, the treatment of temporary differences may differ from the requirements of ASC 740. For those temporary differences, a regulatory asset is recognized if it is probable that future revenues will be provided for the payment of deferred tax liabilities, as a result, only a provision for the current tax expense is included in the determination of net income. The Company has not identified any uncertain tax positions as of December 31, 2015.

We establish a valuation allowance when it is more likely than not that all, or a portion, of a deferred tax asset will not be realized. As of December 31, 2015 and 2014, no valuation allowances were considered necessary. Judgment and the use of estimates are required in developing the provision for income taxes and reporting of tax-related assets and liabilities. The interpretation of tax laws involves uncertainty, since tax authorities may interpret the laws differently. Ultimate resolution of income tax matters may result in favorable or unfavorable impacts to net income and cash flows, and adjustments to tax-related assets and liabilities could be material.

Cash and Cash Equivalents—Current banking arrangements generally do not require checks to be funded until actually presented for payment. At December 31, 2015 and 2014, accounts payable included $195 and $1,061, respectively, of checks outstanding but not yet presented for payment. For purposes of our statements of cash flows, we consider cash and cash equivalents to include cash on hand, cash in banks, and temporary investments purchased with an original maturity of three months or less.

Inventories—Materials and supplies inventories are valued using the weighted-average cost method. The Company has stored gas inventory under the weighted-average cost method, which is valued at $9,687 and $11,467 at December 31, 2015 and 2014, respectively.

Derivative Instruments—We use derivative instruments such as futures, swaps, and forwards to manage the commodity risks of our business operations.

ASC 815, *Derivatives and Hedging*, requires all derivatives, except those for which an exception applies, to be reported on our balance sheets at fair value. Derivative contracts representing unrealized gain positions are reported as derivative assets. Derivative contracts representing unrealized losses are reported as derivative liabilities.

Derivative Instruments not Designated as Hedging Instruments—We hold certain nontrading derivative instruments that are not designated as hedges for accounting purposes. However, to the extent that we do not hold offsetting positions for such derivatives, we believe that these instruments represent economic hedges that mitigate exposure to fluctuations in commodity prices. Any nontrading derivatives not designated as hedges have been executed by order of regulatory bodies. The fair value changes of those derivatives are deferred on our balance sheets as a regulatory asset or regulatory liability in accordance with ASC 980, *Regulated Operations*. Any unrealized changes in fair value and settlements are presented in purchased gas expense in our statements of income and comprehensive income. Recovery of these costs is discussed in the unrecovered gas costs section above.

We recognize revenue or expense from all nonderivative energy-related contracts on a gross basis at the time of contract performance, settlement, or termination.

Valuation Methods—See Note 3 for further information about fair value measurements and associated valuation methods for derivatives under ASC 820, *Fair Value Measurement*.

Property, Plant, and Equipment—Property, plant, and equipment, including additions and replacements, are recorded at original cost, including labor, materials, asset retirement costs, and other direct and indirect costs, including capitalized interest. The cost of repairs and maintenance, including minor additions and replacements, is charged to expense as incurred. In 2015 and 2014, we capitalized interest costs of $30 and $44, respectively.

At retirement, the depreciable cost of property, plant, and equipment, less salvage value, is charged to accumulated depreciation. Cost of removal collections from utility customers and expenditures not representing asset retirement obligations (AROs) are recorded as regulatory liabilities or regulatory assets.

Depreciation of property, plant, and equipment is computed on the straight-line method, based on projected service lives. In 2015 and 2014, depreciation expense was $7,403 and $7,165, respectively.

Intangible Assets—Intangible assets include predominately internal-use software and related costs associated with the Company's computerized information systems. These costs have been capitalized in accordance with ASC 350, *Intangibles—Goodwill and Other*. In addition to the initial installation of the Company's computerized information systems, new applications continue to be added and capitalized, accordingly. Such assets are being amortized over their estimated useful lives of 10 years for major systems and five years for other software applications. Related amortization expense was $1,528 and $1,359 for 2015 and 2014, respectively. Amortization expense for each of the next five years are as follows:

Years Ending December 31	
2016	$ 1,641
2017	1,641
2018	1,640
2019	1,403
2020	1,341

Debt Issuance Costs—In accordance with ASC 310, *Receivables*, debt issuance costs were capitalized at the time of incurrence and are being amortized into interest expense over the term of the debt (Note 7).

Asset Retirement Obligations—We recognize AROs at fair value, as incurred, or when sufficient information becomes available to determine a reasonable estimate of the fair value of the retirement activities to be performed. These amounts are capitalized as costs of the related tangible long-lived assets. Since relevant market information is not available, we estimate fair value using discounted cash flow analyses. We report the accretion of the AROs due to the passage of time in other operations and maintenance expense.

Impairment of Long-Lived and Intangible Assets—We perform an evaluation for impairment whenever events or changes in circumstances indicate that the carrying amount of long-lived assets or intangible assets with finite lives may not be recoverable. Assets are written down to fair value if the sums of their expected future undiscounted cash flows are less than their carrying amounts.

Goodwill is tested for impairment annually as of April 30 for the Company, and whenever events or changes in circumstances indicate that the carrying amount may be impaired. There were no impairments recorded in 2015 or 2014.

The carrying amounts of goodwill for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Balance as of January 1,	$ 3,103	$ 3,103
Accumulated impairment losses	-	-
Goodwill acquired	-	-
Balance as of December 31,	$ 3,103	$ 3,103

Leasing Arrangements—The Company enters into leasing arrangements in the ordinary course of business. Rentals payable under operating leases are charged to expense over the term of the relevant lease. For capital leases, the present value of future minimum lease payments at the inception of the lease is reflected as an asset and a liability in the balance sheets. Amounts due within one year are classified as current liabilities and the remaining balance as long-term liabilities.

Recent Accounting Pronouncements—In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The ASU supersedes most current revenue recognition guidance, including industry-specific guidance. The new guidance is effective for annual reporting periods beginning after December 15, 2018. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU No. 2015-03, S*implifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. ASU 2015-03 is effective for annual reporting periods after December 15, 2015. The new guidance will be applied on a retrospective basis and early adoption is permitted. The Company does not expect the adoption of ASU 2015-03 to have a significant impact on the Company's financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Income Tax*, which revises accounting guidance to simplify the presentation of deferred income taxes. This update requires that deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The new guidance is effective for annual reporting periods beginning after December 15, 2018. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which brings substantially all leases onto the balance sheet. This update requires the recognition of lease assets and liabilities for those leases currently classified as operating leases, while also refining the definition of a lease. The new guidance is effective for annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact that the adoption of the standard will have on its financial statements.

3. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

We utilize the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value, into three broad levels:

Level 1—Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date. Instruments categorized in Level 1 are valued at the active quoted market price from broker or dealer quotations or transparent pricing sources at the reporting date. At December 31, 2015 and 2014, there were no Level 1 instruments.

Level 2—Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Level 2 measurements primarily represent long-term debt at December 31, 2015 and 2014.

Level 3—Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 would consist of long-dated commodity derivatives and other modeled commodity derivatives. At December 31, 2015 and 2014, there were no Level 3 instruments.

There were no transfers between Levels 1, 2, or 3 during the course of 2015 or 2014. If there were any such instances, a transfer would be reported at the beginning of the reporting period. While the Company believes its valuation methods used to assess the classification of financial instruments within the hierarchy are appropriate, the use of different methodologies or assumptions could result in a change in a financial instrument's fair value tier from year to year.

		Fair Value			
At December 31, 2015	**Book Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities—Notes payable:					
Fixed	$ 77,820	$ -	$ 80,067	$ -	$ 80,067
Variable	42,000	-	42,000	-	42,000
Total liabilities	$ 119,820	$ -	$ 122,067	$ -	$ 122,067
At December 31, 2014					
Liabilities—Notes payable:					
Fixed	$ 83,729	$ -	$ 88,275	$ -	$ 88,275
Variable	44,000	-	44,000	-	44,000
Total liabilities	$ 127,729	$ -	$ 132,275	$ -	$ 132,275

4. INCOME TAXES

Details of the Company's income tax expense for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Current:		
Federal	$ 4,217	$ 6,969
State	1,543	2,167
Total current	5,760	9,136
Deferred:		
Federal	2,863	1,548
State	243	(230)
Total deferred	3,106	1,318
Total income tax expense	$ 8,866	$ 10,454

The statutory U.S. federal income tax rate reconciles to our effective income tax rate for the years ended December 31, 2015 and 2014, as follows:

	2015	2014
U.S. statutory rate	35.0 %	35.0 %
Increases (reductions) resulting from:		
Utility plant differences	0.7	0.5
State tax items	8.8	7.4
Employee benefits	(0.5)	(1.3)
Other	(0.1)	(1.6)
Effective tax rate	43.9 %	40.0 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Our net deferred income taxes at December 31, 2015 and 2014, consist of the following:

	2015	2014
Postretirement benefits	$ (388)	$ (311)
Miscellaneous benefits	(1,685)	(497)
Other	901	570
Depreciation method and plant-basis differences	21,261	19,570
Income taxes collected through rates	1,028	1,336
Unrecovered purchased gas costs	949	(630)
Bad debts	(1,624)	(1,848)
Pension benefits	(982)	(972)
Net operating loss	(3,743)	(4,495)
Total net deferred income tax liabilities	15,717	12,723
Net short-term deferred tax asset	3,225	3,668
Net long-term deferred tax liability	$ 18,942	$ 16,391

At December 31, 2015, we had federal loss carryforwards of $9,374 and state loss carryforwards of $7,107 that begin to expire if unutilized in 2032. There are no uncertain tax positions as of December 31, 2015.

5. PROPERTY, PLANT, AND EQUIPMENT AND INTANGIBLE ASSETS

Major classes of utility property, plant, and equipment and their respective balances at December 31, 2015 and 2014, are as follows:

	2015	2014
Transmission	$ 90,191	$ 87,999
Distribution	175,754	168,798
Storage	6,585	6,497
General and other	20,356	20,026
Plant under construction	780	1,548
Total property, plant, and equipment	$ 293,666	$ 284,868

Details of our intangible assets at December 31, 2015 and 2014, were as follows:

	2015	2014
Internal-use software	$ 18,817	$ 18,697
Less—accumulated amortization	(6,068)	(4,541)
Intangible assets—net	$ 12,749	$ 14,156

6. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities at December 31, 2015 and 2014, include the following:

	2015	2014
Regulatory assets:		
Unrecovered gas costs	$ 62	$ -
Other	1,787	-
Regulatory assets—current	1,849	-
Income taxes recoverable through future rates	2,478	3,219
Asset retirement obligations	2,940	2,841
Pension/OPEB unrecognized funding costs	7,722	10,137
Other	4,160	1,007
Regulatory assets—non-current	17,300	17,204
Total regulatory assets	$ 19,149	$ 17,204
Regulatory liabilities:		
Regulatory liabilities—current	$ -	$ 2,022
Regulatory liabilities—non-current	-	-
Total regulatory liabilities	$ -	$ 2,022

The regulatory assets are expected to be recovered in rates charged to customers. The Company's regulatory assets are not earning a return; however, these regulatory assets are expected to be recovered from customers in future rates.

If, for any reason, the Company's regulated businesses cease to meet the criteria for application of regulatory accounting for all or part of its operations, the regulatory assets and liabilities relating to those portions ceasing to meet such criteria would be removed from the balance sheet and included in the statements of income as an extraordinary item in the period in which the discontinuance of regulatory accounting occurs.

7. LONG-TERM DEBT

As of December 31, 2015 and 2014, the Company had long-term debt, as follows:

Company	Type	Rates	Issue Dates	Due Dates	2015	2014
Peoples TWP LLC	Senior Notes	3.53%–6.99%	2001–2013	2016–2023	$ 77,820	$ 83,729
Peoples TWP LLC	Revolving Credit Agreement	Variable	2013	2018	42,000	44,000
Subtotal, long-term debt					119,820	127,729
Current portion of long-term debt					(5,911)	(5,909)
Total long-term debt					$113,909	$121,820

On June 20, 2013, the Company entered into an amended and restated Note Purchase Agreement ("Note Agreement") in the amount of $95,546. The notes issued contain various interest rate and maturity dates.

On September 20, 2013, the Company entered into a Revolving Credit Agreement with a consortium of financial institutions that provides a total commitment of $80,000. The Company is permitted to borrow and repay funds and/or issue letters of credit up to a total commitment of $80,000 through September 20, 2018, subject to a $10,000 sublimit for letters of credit. At December 31, 2015 and 2014, outstanding borrowings under the Revolving Credit Agreement were $42,000 and $44,000 and outstanding letters of credit totaled $2,293 and $3,088, respectively. Under the terms of the agreement, interest rate options include either London InterBank Offered Rate rates or the administrative agent bank's prime interest rate, plus an applicable margin based upon the Company's credit rating. Commitment fees on the unused portion of the related commitment are also payable under this agreement at rates ranging from 0.2% to 0.4% per year.

As of December 31, 2015, the aggregated future maturities of long-term debt are as follows:

Years Ending December 31	
2016	$ 5,911
2017	4,091
2018	46,091
2019	3,636
2020	3,636
Thereafter	56,455
Total	$ 119,820

Covenants and Other Terms—The Note Agreement and Revolving Credit Agreement contain usual and customary negative covenants and require the Company to meet minimum leverage and interest coverage ratio covenants and also contain usual and customary provisions regarding the acceleration of payments. In the event of certain defaults by the Company under these agreements, the lenders will have no further obligation to extend credit and, in some cases, any amounts owed by the Company will automatically become immediately due and payable. As of December 31, 2015 and 2014, the Company was in compliance with the covenants under the Note Agreement and Revolving Credit Agreement.

The unamortized balances of debt issuance costs were $570 and $700 at December 31, 2015 and 2014, respectively. Total debt issuance costs amortized or expensed as interest expense during 2015 and 2014 was $130 in each year.

Surety Bonds—As of December 31, 2015 and 2014, we had purchased $684 and $662, respectively, of surety bonds to facilitate commercial transactions with third parties.

8. ASSET RETIREMENT OBLIGATIONS

Our AROs are primarily associated with the interim retirements of natural gas gathering, transmission, distribution, and storage pipeline components. These obligations result from certain safety and environmental activities that we are required to perform when any pipeline is abandoned. We also have AROs related to the retirement of the gas storage wells in our underground natural gas storage network. We currently do not have sufficient information to estimate a reasonable range of expected retirement dates for any of these wells. Thus, AROs for those assets will not be reflected in our financial statements until sufficient information becomes available to determine a reasonable estimate of the fair value of the

activities to be performed. Generally, this will occur when the expected retirement or abandonment dates are determined by our operations engineering department. The changes to our AROs during 2015 and 2014 were as follows:

	2015	2014
Total asset retirement obligations—January 1	$ 2,486	$ 2,598
Liabilities incurred	12	7
Obligations settled during the period	(279)	(286)
Accretion expense	157	167
Total asset retirement obligations—December 31	2,376	2,486
Less current portion	126	123
Noncurrent asset retirement obligations—December 31	$ 2,250	$ 2,363

9. VOLUNTARY RETIREMENT PROGRAM

In the fourth quarter of 2015, the Company announced a one-time Voluntary Retirement Program (VRP), which was offered to eligible union and salaried employees who had 10 years of service and were at least 55 years of age by April 1, 2016. The union offer was contingent on the ratification of a new collective bargaining agreement, which was subsequently ratified in April 2016 (Note 12). Participants' last day of work will occur as late as October 1, 2016. 19 union and 6 salaried employees elected to participate in this program. The Company offered each eligible union employee severance of $108, which will be paid equally over a 24-month period. Each eligible salaried employee will receive 50% of the employee's current monthly salary for a period of 24 months. The Company will also pay 100% of health insurance premiums for the employee and dependents, payable over a period of 36 months for union and 24 months for salaried employees, beginning with the employee's retirement date. The Company recorded a total VRP liability of $2,711 during 2015, all of which was reflected in Other Operations and Maintenance.

10. EMPLOYEE BENEFIT PLANS

The Company provides certain benefits to eligible active employees, retirees, and qualifying dependents. Under the terms of our benefit plans, the Company reserves the right to change, modify, or terminate the plans, unless restricted by collective bargaining. From time to time in the past, benefits have changed, and some of these changes have reduced benefits.

Strategic investment policies are established for each of the Company's prefunded benefit plans based upon periodic asset/liability studies. Factors considered in setting the investment policy include employee demographics, liability growth rates, future discount rates, the funded status of the plans, cash disbursement requirements, and the expected long-term rate of return on plan assets. Deviations from the plans' strategic allocation are a function of our short-term, actual investment results in the capital markets, and/or short-term market movements that result in the plans' actual asset allocations varying from the strategic target asset allocations. Through periodic rebalancing, actual allocations are brought back in line with the target.

Our overall objective for investing our pension and other postretirement plan assets is to achieve the best possible long-term rates of return commensurate with prudent levels of risk. To minimize risk, funds are broadly diversified among asset classes, investment strategies, and investment advisors.

The Company uses December 31 as the measurement date for all of the Company's employee benefit plans. The Company uses the market-related value of pension plan assets to determine the expected return on plan assets, a component of net periodic pension cost. The market-related value recognizes changes in fair value on a straight-line basis over a four-year period, which reduces year-to-year volatility. Changes in fair value are measured as the difference between the expected and actual plan asset returns, including dividends, interest, and realized and unrealized investment gains and losses. Since the market-related value recognizes changes in fair value over a four-year period, the future market-related value of pension plan assets will be impacted as previously unrecognized changes in fair value are recognized.

Defined Benefit Plans—The Company has a tax-qualified, noncontributory, defined benefit pension plan (the "Defined Benefit Plan") for union field employees. Effective May 1, 2007, the Defined Benefit Plan was frozen, such that no additional benefits accrue to eligible participants.

The accumulated benefit obligations for the Company's defined benefit pension plan was $19,663 and $20,054 at December 31, 2015 and 2014, respectively. Under our funding policies, we evaluate plan funding requirements annually, usually in the fourth quarter after considering updated plan information from our actuaries. Based on the funded status of the plan and other factors, we determine the amount of contributions for the current year, if any, at that time.

Postretirement Benefits—The Company also provides limited postretirement health care benefits and life insurance benefits ("Postretirement Benefits") for employees, the provisions of which are based upon certain factors such as job group and hire date.

Retiree health care and life insurance benefits are provided for the Company's union and salaried employee groups through separately administered other postretirement benefit plans. Annual premiums for both programs are negotiated as part of the Company's group policies and are dependent upon market trends and overall group experience.

The Company has established a Voluntary Employees' Beneficiary Association (VEBA) trust for its Postretirement Benefits. Contributions to the VEBA trust are tax-deductible, subject to limitations contained in the Internal Revenue Code, and are made to fund employees' Postretirement Benefits. In accordance with ratemaking standards recognized by the PA Public Utility Commission, the Company deposits, into irrevocable trusts, amounts equal to the postretirement benefits expenses determined in accordance with authoritative guidance for postretirement benefit plans. The trusts' assets will be used for the payment of Postretirement Benefits and trust administration costs.

In 2014, the Company amended its plan so that all spouses receiving medical coverage under the plan will continue to receive benefits until age 65. Previously, their benefits stopped when the participant turned age 65, if the participant was older than the spouse.

The post retirement benefit plan was amended, effective December 31, 2015. Salaried active employees hired before January 1, 2008 were converted to a medical savings account (MSA) of $700 for each year of service through 2015 and retired medical benefits were frozen for active Salaried employees hired on or after January 1, 2008. In addition, retiree life insurance was discontinued as of December 31, 2015, with the exception of current retirees. At the end of 2015, eligible participants were given the option to retire as part of a Voluntary Retirement Program (VRP) during the first half of 2016. Those who elect to participate in the VRP will receive retiree medical benefits fully paid by the Company for a period of two years. After two years, employees hired before January 1, 2008 receive subsidized coverage until age 65.

The following tables summarize the changes in the Company's defined benefit and other postretirement benefit plan obligations and plan assets, fair value measurements, components of net periodic benefit costs, and expected payments of future service:

Periods Ended December 31	Defined Benefits 2015	Defined Benefits 2014	Other Postretirement Benefits 2015	Other Postretirement Benefits 2014
Change in Benefit Obligation				
Benefit obligation—beginning of year	$20,054	$17,185	$ 5,960	$ 7,683
Service cost	182	358	309	322
Interest cost	795	827	222	336
Benefits paid	(1,015)	(944)	(430)	(301)
Participant contributions	-	-	-	-
Curtailment gain	(552)	-	(602)	-
Special termination benefits	-	-	1,638	-
Actuarial (gain) loss during the year	199	2,628	119	(2,080)
Benefit obligation—end of year	19,663	20,054	7,216	5,960
Change in Plan Assets				
Fair value of plan assets—beginning of year	15,998	15,590	3,627	2,761
Actual return on plan assets	704	1,017	(159)	27
Employer contributions	330	335	1,100	1,140
Benefits paid	(1,015)	(944)	(430)	(301)
Participant contributions	-	-	-	-
Fair value of plan assets—end of year	16,017	15,998	4,138	3,627
Funded status—end of year	$ (3,646)	$ (4,056)	$ (3,078)	$ (2,333)
Amounts Recognized in the Balance Sheet as of December 31				
Current liabilities	$ -	$ -	$ -	$ -
Noncurrent liabilities	(3,646)	(4,056)	(3,078)	(2,333)
Net amount recognized	$ (3,646)	$ (4,056)	$ (3,078)	$ (2,333)
Significant Assumptions Used to Determine Benefit Obligations as of December 31				
Discount rate	4.35 %	4.07 %	4.06 %	3.87 %
Weighted-average rate of increase for compensation	N/A	N/A	N/A	N/A

Periods Ended December 31	Defined Benefits 2015	Defined Benefits 2014	Other Postretirement Benefits 2015	Other Postretirement Benefits 2014
Fair Value Measurements				
Level 1:				
Cash equivalents	$ 425	$ 655	$ 1,254	$ 1,230
Equity	9,856	9,966	627	525
Fixed income	2,653	2,065	593	505
Subtotal	12,934	12,686	2,474	2,260
Level 2—fixed income	3,083	3,312	1,664	1,367
Level 3	-	-	-	-
Fair value	$ 16,017	$ 15,998	$ 4,138	$ 3,627
Components of Net Periodic Benefit Costs				
Service cost	$ 182	$ 358	$ 309	$ 323
Interest cost	795	827	222	336
Expected return on plan assets	(973)	(993)	(163)	(129)
Curtailment gain	-	-	(69)	-
Special termination benefits	-	-	1,638	-
Amortization of prior service cost	47	74	434	435
Amortization of net (gain) loss	896	430	(37)	26
Amortization of transition assets	-	-	-	108
Net periodic benefit cost	$ 947	$ 696	$ 2,334	$ 1,099
Significant Assumptions Used to Determine Periodic Cost				
Discount rate	4.35 %	4.90 %	4.06 %	3.87 %
Expected long-term rate of return on plan assets	6.20	6.50	4.10	4.20
Weighted-average rate of increase for compensation	N/A	N/A	N/A	N/A
Health care cost trend rate	N/A	N/A	7.50	5.00
Long-term asset allocation policy:				
Equity	60%	60%		
Debt	40	40		
Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets (Other Comprehensive Income) (Note 7)				
Current year net actuarial (gain) loss	$ (84)	$ (2,123)	$ 442	$ (1,978)
Plan amendment: Curtailment Charges	-	-	(534)	-
Amortization of actuarial loss	(942)	-	(396)	(569)
Total recognized in regulatory assets (other comprehensive income) (Note 7)	$ (1,026)	$ (2,123)	$ (488)	$ (2,547)
Expected 2016 Payments for Defined Benefit Plans	$ 758			
Expected Payments of Future Service				
2016	$ 1,246		$ 893	
2017	1,334		1,442	
2018	1,397		1,327	
2019	1,390		739	
2020	1,424		344	
2021–2025	7,190		1,516	

401(k) Savings Plans—In addition to the defined benefit plans discussed previously, the Company has various 401 (k) Savings Plans for union and salaried employees. Under these 401(k) Savings Plans, employees can make voluntary contributions into their individual 401(k) Savings Plan accounts. The Company provides matching and non-elective employer contributions to the 401(k) Savings Plans, as stipulated in the plan documents. During 2015 and 2014, the Company made contributions to the 401(k) Savings Plans in the amounts of $1,006 and $916, respectively.

Beginning in January 2016, the 401(k) savings plans will become the primary retirement savings tool. Changes have been made to enhance benefits under the 401(k) savings plan in lieu of reduced and frozen retirement benefits under the defined benefit and postretirement benefits as described above.

11. COMMITMENTS AND CONTINGENCIES

From time to time, we are involved in legal, tax, and regulatory proceedings before various courts, regulatory commissions, and governmental agencies. We believe that the final disposition of these proceedings will not have a material effect on our financial position, liquidity, or results of operations.

Environmental Matters—We are subject to costs resulting from a steadily increasing number of federal, state, and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations and can result in increased capital, operating, and other costs as a result of our compliance, remediation, containment, and monitoring obligations. We may sometimes seek recovery of environment-related expenditures through regulatory proceedings.

Long-Term Gas Supply Obligations—The retail gas supply of the Company is provided by sources on the interstate pipeline system and from local western Pennsylvania gas well production. The Company has various interstate pipeline service agreements that provide for firm transportation capacity, firm storage capacity, and other services and include capacity reservation charges based upon the maximum daily and annual contract quantities set forth in the agreements. These agreements have minimum volume obligations and are transacted at applicable tariff and negotiated rates for periods of up to 20 years.

12. SUBSEQUENT EVENTS

In accordance with ASC 855, *Subsequent Events*, the Company has evaluated events through April 28, 2016, the date that these consolidated financial statements were available to be issued.

In April 2016, the Company reached a new three-year labor contract agreement with our respective field unions. The three-year agreement includes a competitive wage and benefits package.

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