PNG Companies LLC

Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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.

April 13, 2018

PNG COMPANIES LLC

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(In thousands)

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	$ 24,068	$ 5,513
Accounts receivable:		
Customers (less allowance for doubtful accounts of $13,385 and $14,010 for 2017 and 2016, respectively)	184,058	130,340
Other	5,924	4,929
Affiliates	3,149	1,473
Inventories:		
Materials and supplies	4,364	3,746
Gas stored	37,904	25,611
Regulatory assets	12,940	21,732
Deferred income taxes	8,881	5,687
Other	13,431	23,112
Total current assets	294,719	222,143
INVESTMENTS	3,733	3,147
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	3,094,524	2,670,406
Accumulated depreciation and amortization	(1,097,970)	(952,810)
Total property, plant and equipment—net	1,996,554	1,717,596
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	431,839	287,998
Intangible assets—net	81,176	78,122
Regulatory assets	180,719	168,811
Other	6,952	1,981
Total deferred charges and other assets	700,686	536,912
TOTAL	$ 2,995,692	$ 2,479,798

(Continued)

PNG COMPANIES LLC

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(In thousands)

LIABILITIES AND MEMBER'S EQUITY	2017	2016
CURRENT LIABILITIES:		
Accounts payable:		
Trade	$ 92,327	$ 107,023
Affiliates	1,450	1,695
Current portion of long-term debt	5,591	154,091
Accrued interest, payroll and taxes	48,975	43,593
Regulatory liabilities	2,455	2,505
Capital lease obligation	-	18,951
Other	23,748	19,114
Total current liabilities	174,546	346,972
LONG-TERM DEBT	1,264,881	863,076
DEFERRED CREDITS AND OTHER LIABILITIES:		
Deferred income taxes	170,339	219,159
Asset retirement obligations	43,400	39,083
Pension and other postretirement benefit liabilities	41,777	40,389
Regulatory liabilities	130,315	-
Other	19,260	20,755
Total deferred credits and other liabilities	405,091	319,386
Total liabilities	1,844,518	1,529,434
MEMBER'S EQUITY:		
Member's equity	1,151,790	950,719
Accumulated other comprehensive loss	(616)	(355)
Total member's equity	1,151,174	950,364
TOTAL	$ 2,995,692	$ 2,479,798

See notes to consolidated financial statements. (Concluded)

PNG COMPANIES LLC

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)

	2017	2016
OPERATING REVENUE	$805,087	$682,628
OPERATING EXPENSES:		
Purchased gas	316,543	217,031
Other operations and maintenance	203,127	193,128
Depreciation and amortization	77,711	71,545
Other taxes	12,323	11,252
Total operating expenses	609,704	492,956
INCOME FROM OPERATIONS	195,383	189,672
OTHER EXPENSE—Net	3,791	3,867
INTEREST CHARGES	41,174	44,009
INCOME BEFORE INCOME TAXES	150,418	141,796
PROVISION FOR INCOME TAXES	66,112	57,371
NET INCOME	84,306	84,425
COMPREHENSIVE GAIN (LOSS)—Changes in net unrecognized pension and other postretirement benefit costs—net of taxes of $114 and $63 in 2017 and 2016, respectively	(421)	(100)
COMPREHENSIVE GAIN (LOSS)—Change in fair value of cash flow hedges—net of taxes of ($114) and ($81) in 2017 and 2016, respectively	160	114
COMPREHENSIVE INCOME	$ 84,045	$ 84,439

See notes to consolidated financial statements.

PNG COMPANIES LLC

CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	Member's Equity	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE—January 1, 2016	$ 943,354	$ (369)	$ 942,985
Net income	84,425	-	84,425
Comprehensive gain:			
Changes in unrecognized pension and other postretirement benefit costs—net of taxes of $63	-	(100)	(100)
Change in fair value of cash flow hedges—net of taxes of ($81)	-	114	114
Dividends paid to member	(77,060)	-	(77,060)
BALANCE—December 31, 2016	950,719	(355)	950,364
Net income	84,306	-	84,306
Capital contribution from member	159,165	-	159,165
Comprehensive gain:			
Changes in unrecognized pension and other postretirement benefit costs—net of taxes of $114	-	(421)	(421)
Change in fair value of cash flow hedges—net of taxes of ($114)	-	160	160
Dividends paid to member	(42,400)	-	(42,400)
BALANCE—December 31, 2017	$ 1,151,790	$ (616)	$ 1,151,174

See notes to consolidated financial statements.

PNG COMPANIES LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
OPERATING ACTIVITIES:		
Net income	$ 84,306	$ 84,425
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	77,711	71,545
Amortization of debt issuance costs	1,818	2,179
Deferred provision for income taxes	49,854	45,667
Changes in:		
Accounts receivable—net	(49,899)	(22,039)
Inventories	(4,200)	3,557
Regulatory asset/liability—net	1,974	(41,170)
Prepayments	4,264	1,231
Accounts payable—net	(21,653)	17,530
Accrued interest, payroll and taxes	(4,598)	(4,829)
Other	(3,933)	1,557
Net cash provided by operating activities	135,644	159,653
INVESTING ACTIVITIES:		
Plant Construction and other property additions-net	(205,880)	(139,337)
Acquisition Of Delta Natural Gas Company, Inc—net of cash acquired	(210,079)	-
Net cash used in investing activities	(415,959)	(139,337)
FINANCING ACTIVITIES:		
Repayments under term debt agreement	(385,591)	(5,911)
Borrowings (repayments) under revolving credit agreements—net	43,000	56,000
Payment of Capital lease obligation	(18,951)	-
Issuance of Long-term debt	550,000	-
Payment of debt issuance costs	(6,353)	-
Capital contributions from member	159,165	-
Dividends paid to member	(42,400)	(77,060)
Net cash used in financing activities	298,870	(26,971)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,555	(6,653)
CASH AND CASH EQUIVALENTS—Beginning of year	5,513	12,166
CASH AND CASH EQUIVALENTS—End of year	$ 24,068	$ 5,513
SUPPLEMENTAL CASH FLOW INFORMATION—Cash paid during the year for:		
Interest and related charges—excluding capitalized amounts	$ 40,536	$ 42,163
Significant noncash investing activity—accrued capital expenditures	$ 11,524	$ 10,056

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 indirectly owned by 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 five natural gas distribution companies: Peoples Natural Gas Company LLC ("Peoples") and Peoples Gas Company LLC ("PGC"), which operate under the jurisdiction of the Pennsylvania Public Utility Commission (PA PUC), and Peoples Gas WV LLC, Peoples Gas KY LLC and Delta Natural Gas Company ("Delta"), which are also subject to rate regulation by their respective Public Utility Commissions. On December 20, 2017, PGC was transferred to the Company under the rules of common control, which resulted in a change in reporting entity. As a result, all activity and balances were included in the Company's results. Net income attributable to the subsidiary transferred through the common control transaction for 2016 and 2017 was $12,006 and $12,493, respectively.

The Company also has wholly-owned subsidiaries including: Peoples Homeworks LLC, PNG Gathering LLC, Delta Resources, LLC, Delgasco, LLC and Enpro, LLC.

On September 20, 2017, the Company acquired all of the stock of Delta and its subsidiaries.

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, 2017 and 2016, included $92,186 and $56,171, 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.

- 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 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 parent company of LDC Holdings, 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, 2017.

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, 2017 and 2016, 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, 2017 and 2016, accounts payable included $1,348 and $2,320, 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.

Allowance for Doubtful Accounts—Accounts receivable are presented on the balance sheet net of estimated uncollectible amounts. The balance within the allowance for doubtful accounts represents estimated uncollectible amounts pertaining to active customer accounts in an amount approximating anticipated losses. Individual accounts are written off against the allowance when the individual account balances are determined to be uncollectible.

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 $33,876 and $21,948 at December 31, 2017 and 2016, 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 $4,028 and $3,663 at December 31, 2017 and 2016, respectively. Based on the average price of gas purchased during 2017 and 2016, the cost of replacing the current portion of stored gas inventory exceeded the amount stated on a LIFO basis by approximately $12,580 and $21,115, respectively. The use of two valuation methods for stored gas inventories is necessitated by regulatory accounting. The two methods will continue to be used absent a regulatory order requiring a change.

Derivative Instruments—Certain of our natural gas purchase and sale contracts qualify as derivatives. All such contracts have been designated as normal purchases and sales and as such are accounted for under the accrual basis and are not recorded at fair value in the accompanying financial statements.

Derivative Instruments not Designated as Hedging Instruments—We utilize requirements contracts, spot purchase contracts and underground storage to meet

regulated customers' natural gas requirements. The costs associated with these contracts are recoverable as purchased natural gas costs. None of our natural gas cost contracts are accounted for using the fair value method of accounting. While some of our natural gas contracts meet the definition of a derivative, we have designated these contracts as normal purchases and normal sales.

Derivative Instruments Designated as Cash Flow Hedging Instruments—As of December 31, 2017 and 2016, the Company had designated interest rate swaps with an initial notional amount of $0 and $125,000, 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. 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 2017 and 2016, depreciation expense was $63,796 and $58,820, 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 $13,915 and $12,725 for 2017 and 2016, respectively. Amortization expense for each of the next five years as of December 31, 2017 is as follows:

Years Ending December 31	
2018	$14,890
2019	13,786
2020	13,306
2021	10,975
2022	7,837

Debt Issuance Costs—In accordance with ASC 310, *Receivables*, debt issuance costs are being amortized into interest expense over the term of the debt (Note 8).

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 and the depreciation of the asset retirement costs as a regulatory asset.

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 as of April 30 for PGC, and whenever events or changes in circumstances indicate that the carrying amount may be impaired. There were no impairments recorded in 2017 or 2016.

The carrying amounts of goodwill for the years ended December 31, 2017 and 2016, are as follows:

Balance as of January 1, 2016	$287,998
Accumulated impairment losses	-
Balance as of December 31, 2016	287,998
Accumulated impairment losses	-
Goodwill acquired	143,841
Balance as of December 31, 2017	$431,839

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. In the fourth quarter of 2016, the Company exercised the option to purchase its outstanding capital lease. As a result, the long-term capital lease was reclassified to current liabilities as of that time. The lease was paid in full in January of 2017.

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. ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," delayed the effective date of ASU 2014-09 to annual periods beginning after December 15, 2018, including interim periods within that reporting period. The adoption of this guidance is not expected 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.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits*, which amends the requirements in U.S. GAAP related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and postretirement plans. 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 August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging—Targeted Improvements to Accounting for Hedging Activities*, which amends ASC 815 to "better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The new guidance is effective for annual reporting periods beginning after December 15, 2019. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

3. ACQUISITION OF DELTA

On September 20, 2017, the Company acquired 100% of the outstanding shares of Delta for $217,629 in cash. The Company has an open measurement period, not to exceed one year, starting at the purchase date and running until the acquirer has determined that it has obtained all necessary information that had existed as of the acquisition date. The acquisition is consistent with the Company's long-term growth strategy.

Costs related to this acquisition, totaling $4.1 million, were incurred for the year ended December 31, 2017 and were included on the Consolidated Statements of Income and Comprehensive Income within "Other operations and maintenance."

The following table summarizes the current allocation of the fair value of the purchase price for the acquisition on September 20, 2017. The amounts shown below for certain assets and liabilities are preliminary in nature and are subject to adjustment as additional information is obtained about the facts and circumstances that existed as of the acquisition date. The final determination of the fair values will be completed within the measurement period of up to one year from the acquisition date as permitted, and any adjustments to provisional amounts that are identified during the measurement period will be recorded in the reporting period in which the adjustment is determined.

Consideration—cash	$ 217,629
Assets acquired and liabilities assumed:	
Cash	$ 7,550
Inventories	8,710
Other current assets	13,937
Property, plant and equipment	141,797
Other intangibles	6,907
Other assets	13,639
Current liabilities	(17,165)
Long-term debt	(48,931)
Deferred taxes	(46,136)
Other liabilities	(6,520)
Total identifiable net assets	73,788
Goodwill	143,841
Total	$ 217,629

4. 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, 2017 and 2016, 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, 2017 and 2016.

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, 2017 and 2016, there were no Level 3 instruments.

There were no transfers between Levels 1, 2, or 3 during the course of 2017 or 2016. 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.

The carrying values of cash, accounts receivable, accounts payable, accrued expenses, and other accrued liabilities approximate their fair values because of their short-term nature.

	Book	Fair Value			
At December 31, 2017	**Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities:					
Derivative—interest rate swaps	$ -	$ -	$ -	$ -	$ -
Long-term debt—notes payable:					
Fixed	1,111,818	-	1,133,716	-	1,133,716
Variable	168,000	-	168,000	-	168,000
Total liabilities	$ 1,279,818	$ -	$ 1,301,716	$ -	$ 1,301,716

	Book	Fair Value			
At December 31, 2016	**Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities:					
Derivative—interest rate swaps	$ 303	$ -	$ 303	$ -	$ 303
Long-term debt—notes payable:					
Fixed	666,909	-	706,585	-	706,585
Variable	355,000	-	355,000	-	355,000
Total liabilities	$ 1,022,212	$ -	$ 1,061,888	$ -	$ 1,061,888

5. INCOME TAXES

Details of the Company's income tax expense for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Current:		
Federal	$10,601	$ 9,025
State	5,657	2,679
Total current	16,258	11,704
Deferred:		
Federal	47,434	40,610
State	2,420	5,057
Total deferred	49,854	45,667
Total income tax expense	$66,112	$57,371

The statutory U.S. federal income tax rate reconciles to our effective income tax rate for the years ended December 31, 2017 and 2016, as follows:

	2017	2016
U.S. statutory rate	35.0 %	35.0 %
Increases (reductions) resulting from:		
Utility plant differences	(2.5)	(1.1)
Tax law change	5.7	-
State tax items	5.3	5.3
Employee benefits	0.2	(0.2)
Other	0.2	1.5
Effective tax rate	43.9 %	40.5 %

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, 2017 and 2016, consist of the following:

	2017	2016
Benefits	$ (15,660)	$ (20,657)
Other	12,600	13,153
Depreciation method and plant-basis differences	215,169	236,084
Income taxes collected through rates	(20,111)	25,530
Unrecovered purchased gas costs	12,251	21,914
Bad debts	(7,697)	(11,614)
Net operating loss	(35,094)	(50,938)
Total net deferred income tax liabilities	161,458	213,472
Net short-term deferred tax asset	8,881	5,687
Net long-term deferred tax liability	$170,339	$219,159

At December 31, 2017, we had federal loss carryforwards of $113,822 and state loss carryforwards of $129,942 that begin to expire if unutilized in 2031. There are no uncertain tax positions as of December 31, 2017.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). The TCJA makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) eliminating the corporate alternative minimum tax ("AMT") and changing how existing AMT credits can be realized; (3) providing for full expensing of property acquired after September 27, 2017; (4) creating a new limitation on deductible interest expense; and (5) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

Further, the TCJA includes changes only affecting the taxation of regulated public utilities, such as Peoples, PGC, Delta, Peoples Gas WV and Peoples Gas KY (the "Regulated Subsidiaries"). These changes include generally allowing for the continued deductibility of interest expense, not allowing the full expensing of certain property acquired after September 27, 2017, and continuing certain rate normalization requirements for accelerated depreciation benefits. The Regulated Subsidiaries are currently working with their applicable state regulatory commissions who have opened investigations to examine the impact of the TCJA on customer rates. The Company will continue to evaluate the impacts of the TCJA, which may vary depending on the ultimate outcome of the various regulatory proceedings.

Substantially all of the provisions of the TCJA are effective for taxable years beginning after December 31, 2017.

In accordance with the accounting rules for income taxes, the tax effects of changes in tax laws were recognized in 2017, the period in which the law was enacted, and deferred tax assets and liabilities were re-measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled.

Consistent with the expected applicable state regulatory treatment and the accounting rules for regulated operations, the change in deferred taxes was recorded as either an offset to a regulatory asset or a regulatory liability for the tax positions that are subject to regulatory treatment. For all other tax positions, the change in deferred taxes was reflected as a decrease or increase in income tax expense and other comprehensive income.

Upon enactment of the TCJA, the Company re-measured its deferred tax assets and liabilities based upon the TCJA's 21 percent corporate federal income tax rate. The Company identified a balance of $92,527 related to certain accelerated tax depreciation benefits which, under the rate normalization requirements continued by the TCJA, are to be amortized over the remaining lives of the related assets. In connection with this balance, the Company recognized a regulatory liability of $129,263. Additionally, in connection with this re-measurement view, the Company recognized expense of $8,624 in net income, decreased other comprehensive income by $109 and decreased its regulatory asset for income taxes through future rates by $11,242. The net effect of this re-measurement was to reduce the net deferred tax liabilities by $131,772.

Reasonable provisional estimates were recognized related to the TCJA as of December 31, 2017. Additional re-measurement may occur based on final analysis, computations, technical corrections, or other forms of guidance issued from regulatory agencies or commissions. While the Company believes the impacts of the Act were appropriately accounted for in accordance with the applicable authoritative guidance, the ultimate outcome may be different from the provisional estimates recorded, and those differences may materially impact its future statement of financial position, results of operations, and cash flows.

6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Major classes of utility property, plant and equipment and their respective balances at December 31, 2017 and 2016, are as follows:

	2017	2016
Transmission	$ 339,731	$ 254,588
Distribution	2,385,377	2,119,747
Storage	50,425	20,083
Gas gathering and processing	121,666	113,801
General and other	180,542	144,920
Plant under construction	16,783	17,267
Total property, plant and equipment	$ 3,094,524	$ 2,670,406

Details of our intangible assets at December 31, 2017 and 2016, were as follows:

	2017	2016
Internal-use software	$ 132,109	$ 121,782
Other intangibles	6,907	-
Less—accumulated amortization	(57,840)	(43,660)
Intangible assets—net	$ 81,176	$ 78,122

7. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities at December 31, 2017 and 2016, include the following:

	2017	2016
Regulatory assets—current:		
Unrecovered gas costs	$ 6,939	$ 11,870
Other	6,001	9,862
Regulatory assets—current	12,940	21,732
Regulatory assets—non-current		
Income taxes recoverable through future rates	83,504	90,067
Asset retirement obligations	49,641	43,033
Pension/OPEB unrecognized funding costs	15,710	12,422
Cost of Removal	15,748	11,681
Other	16,116	11,608
Regulatory assets—non-current	180,719	168,811
Total regulatory assets	$193,659	$190,543
Regulatory liabilities—current:		
Deferred gas—amounts payable to customers	$ 727	$ 1,063
Other	1,728	1,442
Regulatory liabilities—current	2,455	2,505
Regulatory liabilities—non-current:		
Deferred income tax—TCJA	129,263	-
Other	1,052	-
Regulatory liabilities—non-current	130,315	-
Total regulatory liabilities	$132,770	$ 2,505

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 consolidated balance sheets and included in the consolidated statements of income and comprehensive income as an extraordinary item in the period in which the discontinuance of regulatory accounting occurs.

8. LONG-TERM DEBT

As of December 31, 2017 and 2016, the Company had long-term debt, as follows:

Company	Type	Rates	Issue Dates	Due Dates	2017	2016
PNG Companies LLC	Senior Secured Notes	2.90%–6.42%	2010–2017	2018–2032	$ 1,111,818	$ 595,000
Peoples Gas Company	Senior Notes	3.53%–6.42%	2001–2013	2016–2023	-	71,909
PNG Companies LLC	Credit Agreements	Variable	2015–2017	2018–2019	-	230,000
PNG Companies LLC	Revolving Credit Agreement	Variable	2017	2022	168,000	71,000
Peoples Gas Company	Revolving Credit Agreement	Variable	2013	2018	-	54,000
	Debt issuance costs				(9,346)	(4,742)
Subtotal, long-term debt					1,270,472	1,017,167
Current portion of long-term debt					(5,591)	(154,091)
Total long-term debt					$ 1,264,881	$ 863,076

During 2017, the Company issued $669,682 of Senior Secured Notes under Supplements to its existing Note Purchase Agreement dated February 26, 2010. A portion of the proceeds was used to pay off $230,000 outstanding related to the PNG Credit Agreements and $150,000 related to the PNG Senior Secured Notes. In addition, $50,500 of this amount was issued in exchange for the surrender of Delta's existing Notes in conjunction with the Delta acquisition and $69,182 was issued in exchange for the surrender of PGC's existing Notes in conjunction with the common control transaction discussed in Note 1. Prior to the surrender of PGC's existing Notes, payments totaling $2,727 were made during 2017 on those notes. Subsequent to the current year issuance of Senior Secured Notes, payments totaling, $2,864 were made.

During 2017, the Company amended and extended its existing Revolving Credit Agreement dated August 22, 2013 ("PNG 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 $500,000 through June 8, 2022, subject to a $50,000 sublimit for letters of credit. At December 31, 2017 and 2016, outstanding borrowings under the PNG Revolving Credit Agreement were $168,000 and $71,000, respectively. At December 31, 2017 and 2016, total outstanding letters of credit were $4,727 and $5,774, respectively. Under the terms of the agreement, interest rate options include either LIBOR 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 total commitment are also based upon the Company's credit rating.

On December 20, 2017, the PGC Revolving Credit Agreement was terminated and the entire amount outstanding was repaid. In addition, the outstanding letters of credit were exchanged for letters of credit under the PNG Revolving Credit Agreement.

As of December 31, 2017, the aggregated future maturities of long-term debt are as follows:

Years Ending December 31	
2018	$ 5,591
2019	5,136
2020	186,136
2021	24,773
2022	271,773
Thereafter	786,409
Total	$ 1,279,818

Covenants and Other Terms—The Senior Secured Notes, Credit Agreement and Revolving Credit Agreement contain usual and customary negative covenants and require the Company to meet certain 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, 2017 and 2016, 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 Agreements, and Revolving Credit Agreement are secured by the tangible and intangible assets of the Company, as specified in each agreement.

At December 31, 2017 and 2016, the unamortized debt issuance costs were $9,346, and $4,742, respectively. Total debt issuance costs amortized or expensed as interest expense during 2017 and 2016 were $1,818 and $2,179, respectively.

Accrued interest related to debt instruments was $6,153 and $6,684 at December 31, 2017 and 2016, respectively.

Surety Bonds—As of December 31, 2017 and 2016, we had purchased $7,813 and $7,457, respectively, of surety bonds to facilitate commercial transactions with third parties.

9. ASSET RETIREMENT OBLIGATIONS

The Company's 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 consolidated 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 2017 and 2016 were as follows:

	2017	2016
Total asset retirement obligations—January 1	$40,745	$40,688
Obligations aquired in acquisition	4,093	-
Liabilities incurred	4,107	695
Obligations settled during the period	(6,325)	(3,043)
Regulatory asset—accretion	2,621	2,405
Total asset retirement obligations—December 31	45,241	40,745
Less: current portion	1,841	1,662
Non-current asset retirement obligations—December 31	$43,400	$39,083

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. At December 31, 2017 and 2016, the long-term asset allocation policy for the pension plans was 65% equity/35% fixed income.

The Company uses December 31 as the measurement date for all of its 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 $140,826 and $102,908 at December 31, 2017 and 2016, 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.

As of 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. In 2016, further amendments froze the accrual of benefits for those remaining 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 and PGC, has established Voluntary Employees' Beneficiary Association (VEBA) trusts 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 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.

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 salaried active 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 elected to participate in the VRP are receiving 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	**2017**	**2016**	**2017**	**2016**
Change in benefit obligation:				
Benefit obligation—beginning of year	$ 102,908	$ 103,088	$ 47,610	$ 44,981
Service cost	259	8	1,913	1,865
Interest cost	4,638	4,388	1,764	1,627
Benefits paid	(8,055)	(7,556)	(4,853)	(4,091)
Participant contributions	-	-	1,078	935
Curtailment gain	-	(103)	-	(1,566)
Acquisition of Delta	31,718	-	-	-
Transfers	2,711	-	459	-
Assumption changes: Actuarial gain	-	-	-	(562)
USW transfer: Curtailment	-	-	-	3,901
Actuarial loss during the year	10,329	3,083	5,012	520
Benefit obligation—end of year	144,508	102,908	52,983	47,610
Change in plan assets:				
Fair value of plan assets—beginning of year	81,247	82,865	27,665	25,472
Actual return on plan assets	14,258	4,948	1,690	1,252
Employer contributions	2,419	1,490	4,454	4,098
Acquisition of Delta	35,080	-	-	-
Transfers	2,189	-	107	-
Expenses paid	(568)	(500)	-	-
Benefits paid	(8,055)	(7,556)	(4,853)	(4,091)
Participant contributions	-	-	1,078	934
Fair value of plan assets—end of year	126,570	81,247	30,141	27,665
Funded status—end of year	$ (17,938)	$ (21,661)	$(22,842)	$(19,945)
Amounts recognized in the consolidated balance sheet as of December 31:				
Noncurrent assets	$ 2,925	$ -	$ -	$ 545
Current liabilities	-	-	(1,928)	(1,762)
Noncurrent liabilities	(20,863)	(21,661)	(20,914)	(18,728)
Net amount recognized	$ (17,938)	$ (21,661)	$(22,842)	$(19,945)
Significant assumptions used to determine benefit obligations as of December 31:				
Discount rate	3.74 %	4.34 %	3.48 %	3.89 %
Weighted-average rate of increase for compensation	N/A	N/A	5.30	5.30

Periods Ended December 31	Defined Benefits 2017	Defined Benefits 2016	Other Postretirement Benefits 2017	Other Postretirement Benefits 2016
Fair value measurements:				
Level 1:				
Cash equivalents	$ 7,174	$ 3,755	$ 6,389	$ 7,469
Equity	74,399	47,945	7,110	6,154
Fixed income	21,708	10,757	6,061	4,171
Subtotal	103,281	62,457	19,560	17,794
Level 2—fixed income	23,289	18,790	10,581	9,871
Level 3	-	-	-	-
Fair value	$ 126,570	$ 81,247	$ 30,141	$ 27,665
Components of net periodic benefit costs:				
Service cost	$ 759	$ 235	$ 1,913	$ 1,865
Interest cost	4,638	4,388	1,764	1,627
Expected return on plan assets	(4,773)	(4,911)	(989)	(1,081)
Amortization of prior service cost		-	996	787
Amortization of net (gain) loss	888	653	(376)	(148)
Amortization of transition assets	-	-	-	(28)
Net periodic benefit cost	$ 1,512	$ 365	$ 3,308	$ 3,022
Significant assumptions used to determine periodic cost:				
Discount rate	3.74 %	4.34 %	3.48 %	3.89 %
Expected long-term rate of return on plan assets	5.38	5.41	3.89	3.76
Weighted-average rate of increase for compensation	N/A	N/A	5.30	5.30
Health care cost trend ultimate rate	-	-	4.50	4.50
Changes in plan assets and benefit obligations recognized in regulatory assets (other comprehensive income) (Note 7):				
Current year net actuarial (gain) loss	$ 912	$ 3,215	$ 4,312	$ (213)
Amortization of prior service cost/(credit)	-	-	(996)	(787)
Prior service cost/(credit)	-	-	-	2,336
Amortization of actuarial loss	(888)	(653)	376	176
Total recognized in regulatory assets (other comprehensive income) (Note 7)	$ 24	$ 2,562	$ 3,692	$ 1,512
Expected contributions for 2018	$ 3,472		$ 6,558	
Expected future benefit payments:				
2018	$ 8,560		$ 5,120	
2019	8,545		4,607	
2020	7,902		4,695	
2021	7,991		4,608	
2022	8,641		4,302	
2023–2027	41,950		18,982	

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 2017 and 2016, the Company made contributions to the 401(k) savings plans in the amounts of $8,754, and $7,941, respectively.

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.

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, 2017, are as follows:

Years Ending December 31	
2018	$ 7,262
2019	7,202
2020	7,246
2021	8,241
2022	8,430
Thereafter	39,870
Total	$78,251

Rental expense totaled $5,382 and $5,883 in 2017 and 2016, respectively, the majority of which is reflected in other operations and maintenance expense.

The Company has various continuing commitments for corporate sponsorships. Sponsorship expense totaled $3,022 and $2,723 in 2017 and 2016, respectively, which is reflected in other operations and maintenance expense. Future minimum commitments under long-term agreements that have initial or remaining terms in excess of one year as of December 31, 2017, are $3,027, $3,592, $3,226, $1,970 and $1,085, for the years 2018, 2019, 2020, 2021 and 2022, respectively, and $8,000 thereafter.

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.

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 remaining periods of up to 16 years.

Investments—Other—In September 2014, the Company committed to invest $3,000 in a regional site development fund. An investment of $2,233 has been made through 2017, with a commitment of $767 remaining.

12. SUBSEQUENT EVENTS

In accordance with ASC 855, *Subsequent Events*, the Company has evaluated events through April 13, 2018, the date that these consolidated financial statements were available to be issued.

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