Wexpro Company

Consolidated Financial Statements

Years Ended December 31, 2017 and 2016
and Report of Independent Auditors

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Contents

GLOSSARY OF TERMS

The following abbreviations or acronyms used in these Consolidated Financial Statements are defined below:

Abbreviation or Acronym	Definition
2017 Tax Reform Act	An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (previously known as The Tax Cuts and Jobs Act) enacted on December 22, 2017
AFUDC	Allowance for funds used during construction
ARO	Asset retirement obligation
Commissions	The Public Service Commission of Utah and the Wyoming Commission
DEQPS	Dominion Energy Questar Pipeline Services, Inc.
DES	Dominion Energy Services, Inc.
Dominion Energy	The legal entity, Dominion Energy, Inc., one or more of its consolidated subsidiaries (other than Dominion Energy Questar) or operating segments, or the entirety of Dominion Energy, Inc. and its consolidated subsidiaries
Dominion Energy Questar	The legal entity, Dominion Energy Questar Corporation, one or more of its consolidated subsidiaries (other than Wexpro) or operating segment, or the entirety of Dominion Energy Questar Corporation and its consolidated subsidiaries
Dominion Energy Questar Combination	Dominion Energy's acquisition of Dominion Energy Questar completed on September 16, 2016 pursuant to the terms of the agreement and plan of merger entered into on January 31, 2016
GAAP	U.S. generally accepted accounting principles
mcfe	Thousand cubic feet equivalent
NGL	Natural gas liquids
QEP	QEP Energy Company
Questar Gas	Questar Gas Company
SEC	Securities and Exchange Commission
VIE	Variable interest entity
Wexpro	The legal entity, Wexpro Company, one or more of its consolidated subsidiaries, or the entirety of Wexpro Company and its consolidated subsidiaries
Wexpro II	The legal entity, Wexpro II Company
Wexpro Agreement	Comprehensive agreement with the states of Utah and Wyoming that sets forth the rights of Questar Gas to receive certain benefits from Wexpro's operations
Wexpro II Agreement	Agreement with the states of Utah and Wyoming modeled after the Wexpro Agreement that allows for the addition of properties under the cost-of-service methodology for the benefit of Questar Gas customers
Wexpro Agreements	The Wexpro Agreement and the Wexpro II Agreement combined
Wexpro Development	Wexpro Development Company
Wyoming Commission	Wyoming Public Service Commission

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INDEPENDENT AUDITORS' REPORT

Wexpro Company
Salt Lake City, Utah

We have audited the accompanying consolidated financial statements of Wexpro Company and its subsidiary (the "Company"), which comprise the consolidated balance sheets at December 31, 2017 and 2016, and the related consolidated statements of income, common shareholder'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 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 Wexpro Company and its subsidiary at 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.

Deloitte & Touche LLP

May 22, 2018

WEXPRO COMPANY
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2017	2016
	(in millions)	
REVENUES		
Operator service fee[1]	$ 306.9	$ 311.7
Oil and NGL sales	11.6	8.5
Other[1]	1.4	1.1
Total Revenues	319.9	321.3
OPERATING EXPENSES		
Operating and maintenance[1]	23.0	23.9
General and administrative[1]	19.6	26.0
Merger and restructuring costs	2.5	12.3
Production and other taxes	19.9	16.2
Depreciation, depletion and amortization	109.6	106.7
Accretion expense	4.3	4.0
Total Operating Expenses	178.9	189.1
OPERATING INCOME	141.0	132.2
Interest and other income[1]	0.5	0.4
INCOME BEFORE INCOME TAXES	141.5	132.6
Income taxes	(50.5)	(41.1)
NET INCOME	$ 91.0	$ 91.5

(1) See Note 10 for amounts attributable to related parties.

See notes accompanying the consolidated financial statements.

WEXPRO COMPANY
CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
	(in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3.4	$ 1.5
Accounts receivable	7.0	4.2
Receivables from affiliates	29.3	29.7
Materials and supplies, at lower of average cost or market	3.1	3.1
Regulatory assets[1]	21.9	24.0
Prepaid expenses and other	1.1	2.8
Total Current Assets	65.8	65.3
Cost-of-service gas and oil property, plant and equipment, successful efforts method	1,734.7	1,653.0
Accumulated depreciation, depletion and amortization	(994.4)	(887.8)
Net Cost-of-Service Gas and Oil Property, Plant and Equipment	740.3	765.2
Deferred Charges and Other Assets		
Receivables from affiliates	9.9	9.3
Regulatory assets	0.5	7.6
Other noncurrent assets	30.1	31.2
Total Deferred Charges and Other Assets	40.5	48.1
TOTAL ASSETS	$ 846.6	$ 878.6
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY		
Current Liabilities		
Note payable to Dominion Energy	$ —	$ 4.0
Accounts payable	9.1	8.0
Payables to affiliates	3.6	1.3
Accrued expenses and other	5.8	9.3
Production and other taxes	8.6	12.8
Total Current Liabilities	27.1	35.4
Deferred Credits and Other Liabilities		
Deferred income taxes	78.0	171.9
Asset retirement obligations	84.8	68.7
Regulatory liabilities	92.2	9.7
Other long-term liabilities	10.1	22.7
Total Deferred Credits and Other Liabilities	265.1	273.0
Total Liabilities	292.2	308.4
Commitments and Contingencies (Note 8)		
COMMON SHAREHOLDER'S EQUITY		
Common stock – par value $0.01 per share; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	184.4	184.4
Retained earnings	370.0	385.8
Total Common Shareholder's Equity	554.4	570.2
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 846.6	$ 878.6

(1) See Note 6 for amounts attributable to related parties.

See notes accompanying the consolidated financial statements.

WEXPRO COMPANY
CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDER'S EQUITY

	Common Stock(1)	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comp. Income (Loss)	Total
			(in millions)		
Balances at December 31, 2015	$ —	$ 181.8	$ 481.5	$ 0.1	$ 663.4
Dividends	—	—	(187.2)	—	(187.2)
Share-based compensation	—	2.6	—	—	2.6
Net income	—	—	91.5	—	91.5
Net other comprehensive loss	—	—	—	(0.1)	(0.1)
Balances at December 31, 2016	—	184.4	385.8	—	570.2
Dividends	—	—	**(107.0)**	—	**(107.0)**
Net income	—	—	**91.0**	—	**91.0**
Other	—	—	**0.2**	—	**0.2**
Balances at December 31, 2017	$ —	$ **184.4**	$ **370.0**	$ —	$ **554.4**

(1) Par value $0.01 per share; 1,000 shares authorized, issued and outstanding

See notes accompanying the consolidated financial statements.

WEXPRO COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2017	2016
	(in millions)	
OPERATING ACTIVITIES		
Net income	$ **91.0**	$ 91.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	**109.6**	106.7
Accretion expense	**4.3**	4.0
Deferred income taxes	**(15.4)**	(28.3)
Share-based compensation	**—**	2.6
Other	**0.8**	0.6
Changes in operating assets and liabilities		
Accounts and affiliate receivables	**(2.4)**	39.6
Materials and supplies	**—**	1.2
Regulatory assets - current	**2.1**	(24.0)
Prepaid expenses	**0.9**	(0.4)
Accounts payable and accrued expenses	**(0.7)**	(14.6)
Production and other taxes	**(4.2)**	(5.2)
Other assets and liabilities	**0.9**	(6.3)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**186.9**	167.4
INVESTING ACTIVITIES		
Purchases of long-term investment	**(7.1)**	(5.5)
Proceeds from the sale of long-term investment	**0.2**	0.4
Repayment of notes receivable from Dominion Energy Questar, net	**-**	40.7
Additions to property, plant and equipment	**(67.3)**	(22.2)
Proceeds from disposition of assets and other	**0.2**	0.3
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(74.0)**	13.7
FINANCING ACTIVITIES		
Issuance (repayment) of notes to Dominion Energy	**(4.0)**	4.0
Dividends paid to Dominion Energy Questar	**(107.0)**	(187.2)
NET CASH USED IN FINANCING ACTIVITIES	**(111.0)**	(183.2)
Change in cash and cash equivalents	**1.9**	(2.1)
Beginning cash and cash equivalents	**1.5**	3.6
Ending cash and cash equivalents	$ **3.4**	$ 1.5
Supplemental Cash Flow Information:		
Cash paid during the year for:		
Interest	$ **0.1**	$ —
Income taxes	**64.6**	72.0
Significant noncash investing activities:		
Accrued capital expenditures	**0.5**	1.1

See notes accompanying the consolidated financial statements.

Note 1 – Description of Business

Wexpro is a wholly-owned subsidiary of Dominion Energy Questar, a wholly-owned subsidiary of Dominion Energy. Wexpro develops and produces cost-of-service reserves for a gas utility affiliate, Questar Gas, under the terms of the Wexpro Agreements and comprehensive agreements with the states of Utah and Wyoming.

Pursuant to the Wexpro Agreements, Wexpro recovers its costs and receives an after-tax return on its investment base. Wexpro's investment base is made up of the costs of acquired properties and commercial wells and related facilities, adjusted for working capital and reduced for deferred income taxes and accumulated depreciation, depletion and amortization. Property acquisition costs only pertain to properties that have been approved under the Wexpro II Agreement by the Commissions. The terms of the Wexpro Agreements coincide with the productive lives of the gas and oil properties covered therein. Wexpro's gas and oil development and production activities are subject to oversight by the Utah Division of Public Utilities and the staff of the Wyoming Commission, which have retained an independent certified public accountant and an independent petroleum engineer to monitor the performance of the agreements.

Wexpro has agreed to manage production to 65% of Questar Gas' annual forecasted demand. Beginning in June 2015 through May 2016 and for each subsequent 12-month period, if the combined annual production exceeds 65% of the forecasted demand and the cost-of-service price is greater than the Questar Gas purchased-gas price, an amount equal to the excess production times the excess price will be credited back to Questar Gas' customers. Wexpro may also sell production to manage the 65% level and credit back to Questar Gas' customers the higher of market price or the cost-of-service price times the sales volumes. As of December 31, 2017, Wexpro's trailing 12-month cost-of-service gas deliveries were below the 65% threshold.

Wexpro's primary market area is the Rocky Mountain region of the United States. Pursuant to the Wexpro Agreements, Wexpro's primary customer is Questar Gas which is responsible for over 90% of Wexpro's operating revenues and receivables from affiliates. The Wexpro Agreements generate the majority of Wexpro's revenue and net income.

Wexpro Development
Wexpro Development is an affiliate company owned by Dominion Energy Questar, but is not included in these consolidated financial statements. Wexpro Development invests in properties outside the Wexpro Agreements. However, the properties may be transferred to Wexpro II if approved by the Commissions.

Note 2 – Summary of Significant Accounting Policies

General
The Wexpro consolidated financial statements contain the accounts of the parent company and its wholly-owned subsidiary, Wexpro II. The consolidated financial statements were prepared in accordance with GAAP. All intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements and notes in conformity with GAAP requires that management formulate estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Wexpro also incorporates estimates of proved developed and total proved gas and oil reserves in the calculation of depreciation, depletion and amortization rates of its gas and oil properties. Changes in estimated quantities of its reserves could impact Wexpro's reported financial results. Actual results could differ from these estimates.

Wexpro reports certain contracts and instruments at fair value. The carrying amount of cash and cash equivalents, accounts receivable, receivables from affiliates, payables to affiliates and accounts payable are representative of fair value because of the short-term nature of these instruments. The carrying amount of the note payable to Dominion Energy is representative of fair value because of its short-term maturity and market-based interest rate.

Revenue Recognition
Wexpro recognizes revenues in the period that services are provided or products are delivered. In accordance with the Wexpro Agreements, production from the gas properties operated by Wexpro is delivered to Questar Gas at Wexpro's cost of providing this service, including an after-tax return on Wexpro's investment. Wexpro sells crude oil and NGL production from certain producing properties at market prices, with the revenues used to recover operating expenses and to provide Wexpro a return on its investment. Any operating income remaining after recovery of expenses and Wexpro's return on investment is divided between Questar Gas and Wexpro, with Wexpro retaining 46%. Amounts received by Questar Gas from the sharing of Wexpro's oil and NGL income are used to reduce natural gas costs to utility customers.

Revenue associated with the sale of gas, oil and NGL is accounted for using the sales method, whereby revenue is recognized as gas, oil and NGL are sold to purchasers. Wexpro may collect revenues subject to possible refunds and establish reserves pending final calculation of the after-tax return on investment, which is adjusted annually.

Cash and Cash Equivalents
For purposes of the Consolidated Balance Sheets and Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, cash in banks and temporary investments purchased with an original maturity of three months or less.

Note Payable to Dominion Energy
The note payable to Dominion Energy represents an interest-bearing demand note for cash borrowed for use in operations.

Property, Plant and Equipment
Property, plant and equipment balances are stated at historical cost. Maintenance and repair costs are expensed as incurred.

Cost-of-service gas and oil operations
The successful efforts method of accounting is used for cost-of-service reserves developed and produced by Wexpro for gas utility affiliate Questar Gas. Cost-of-service reserves are properties for which the operations and return on investment are subject to the Wexpro Agreements. Under the successful efforts method, Wexpro capitalizes the costs of acquiring leaseholds, drilling development wells, drilling successful exploratory wells, and purchasing related support equipment and facilities. Geological and geophysical studies are expensed as incurred. Costs of production and general corporate activities are expensed in the period incurred. A gain or loss is generally recognized on assets as they are retired from service.

Depreciation, Depletion and Amortization
Capitalized costs of development wells and leaseholds are amortized on a field-by-field basis using the unit-of-production method and the estimated proved developed or total proved gas and oil reserves. Oil and NGL volumes are converted to natural gas equivalents using the ratio of one barrel of crude oil, condensate or NGL to 6,000 cubic feet of natural gas. Wexpro capitalizes an estimate of the fair value of future abandonment costs associated with cost-of-service reserves and depreciates these costs using a unit-of-production method. Depreciation, depletion and amortization for the remaining properties is based upon rates that will systematically charge the costs of assets against income over the estimated useful lives of those assets using a straight-line method. The following represent average depreciation, depletion and amortization rates of Wexpro's capitalized costs:

	Year Ended December 31, 2017	2016
Cost-of-service gas and oil properties, per mcfe	**$ 2.18**	$ 2.00

Impairment of Long-Lived Assets
Proved gas and oil properties are evaluated on a field-by-field basis for potential impairment. Other properties are evaluated on a specific-asset basis or in groups of similar assets, as applicable. Impairment is indicated when a triggering event occurs and the sum of the estimated undiscounted future net cash flows of an evaluated asset is less than the asset's carrying value.

Triggering events could include, but are not limited to, an impairment of gas and oil reserves caused by mechanical problems, faster-than-expected decline of reserves, lease-ownership issues, and an other-than-temporary decline in gas and oil prices. If impairment is indicated, fair value is estimated using a discounted cash flow approach that incorporates market interest rates or, if available, other market data. The amount of impairment loss recorded, if any, is the difference between the fair value of the asset and the current net book value. Cash flow estimates require forecasts and assumptions for many years into the future for a variety of factors, including commodity prices and operating costs. No material impairments were recorded in 2017. In 2016, Wexpro recorded a $0.2 million pre-tax abandonment and impairment charge to write-off the remaining asset values of two different fields using the discounted cash flow method. This impairment is considered a Level 3 fair value measurement due to the use of significant unobservable inputs, including future production levels.

Allowance for Funds Used During Construction
The Wexpro Agreements require capitalization of AFUDC on cost-of-service gas and oil development projects. AFUDC amounted to $0.9 million in 2017 and $0.3 million in 2016 and increased interest and other income in the Consolidated Statements of Income.

Regulatory Assets and Liabilities
The accounting for Wexpro's operations differs from the accounting for nonregulated operations in that it is required to reflect the effect of rate regulation in its Consolidated Financial Statements. For regulated businesses subject to 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, these costs that otherwise would be expensed by nonregulated companies are deferred as regulatory assets. Likewise, regulatory liabilities are recognized when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have yet to be incurred. Generally, regulatory assets and liabilities are amortized into income over the period authorized by the regulator.

Wexpro evaluates whether or not recovery of its regulatory assets through future rates is probable and makes various assumptions in its analyses. The expectations of future recovery are generally based on orders issued by regulatory commissions, legislation or historical experience, as well as discussions with applicable regulatory authorities and legal counsel. If recovery of a regulatory asset is determined to be less than probable, it will be written off in the period such assessment is made.

Asset Retirement Obligations
The fair value of retirement costs is estimated based on abandonment costs of similar properties available to field operations and depreciated over the life of the related assets. Revisions to estimates result from material changes in the expected timing or amount of cash flows associated with AROs.

Income Taxes
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, including the provisions of the 2017 Tax Reform Act, involves uncertainty, since tax authorities may interpret the laws differently. In addition, the states in which Wexpro operates may or may not conform to some or all the provisions in the 2017 Tax Reform Act. Ultimate resolution or clarification 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.

A consolidated federal income tax return is filed for Dominion Energy and its subsidiaries, including Wexpro. For 2016, a consolidated federal income tax return was filed for Dominion Energy Questar, including Wexpro, for the period January 1, 2016 through September 16, 2016. Wexpro was part of the consolidated federal income tax return filed by Dominion Energy for the period September 17, 2016 through December 31, 2016. In addition, where applicable, combined income tax returns for Dominion Energy and its subsidiaries are filed in various states; otherwise, separate state income tax returns are filed.

Wexpro participates in intercompany tax sharing agreements with Dominion Energy and its subsidiaries. Current income taxes are based on taxable income or loss and credits determined on a separate company basis. Under the agreements, if a subsidiary incurs a tax loss or earns a credit, recognition of current income tax benefits is limited to refunds of prior year taxes obtained by the carryback of the net operating loss or credit or to the extent the tax loss or credit is absorbed by the taxable income of other Dominion Energy consolidated group members. Otherwise, the net operating loss or credit is carried forward and is recognized as a deferred tax asset until realized.

The 2017 Tax Reform Act includes a broad range of tax reform provisions affecting Dominion Energy and its subsidiary Wexpro, including changes in corporate tax rates and business deductions. The 2017 Tax Reform Act reduces the corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. Deferred tax assets and liabilities are measured at the enacted tax rate expected to apply when temporary differences are realized or settled. Thus, at the date of enactment, deferred taxes were remeasured based upon the new 21% tax rate. The total effect of tax rate changes on federal deferred tax balances is recorded as a component of the income tax provision related to continuing operations for the period in which the law is enacted, even if the assets and liabilities relate to other components of the financial statements. As a regulated entity, Wexpro is required to adjust deferred income tax assets and liabilities for the change in income tax rates. However, as it is probable that the effect of the change in income tax rates will be recovered or refunded in future rates, Wexpro has recorded a regulatory asset or liability instead of an increase or decrease to deferred income tax expense.

Accounting for income taxes involves an asset and liability approach. Deferred income tax assets and liabilities are provided, representing future effects on income taxes for temporary differences between the bases of assets and liabilities for financial reporting and tax purposes. Accordingly, deferred taxes are recognized for the future consequences of different treatments used for the reporting of transactions in financial accounting and income tax returns. Wexpro establishes a valuation allowance when it is more-likely-than-not that all, or a portion, of a deferred tax asset will not be realized.

Wexpro recognizes positions taken, or expected to be taken, in income tax returns that are more-likely-than-not to be realized, assuming that the position will be examined by tax authorities with full knowledge of all relevant information.

If it is not more-likely-than-not that a tax position, or some portion thereof, will be sustained, the related tax benefits are not recognized in the financial statements. Unrecognized tax benefits may result in an increase in income taxes payable, a reduction of income tax refunds receivable or changes in deferred taxes. Also, when uncertainty about the deductibility of an amount is limited to the timing of such deductibility, the increase in income taxes payable (or reduction in tax refunds receivable) is accompanied by a decrease in deferred tax liabilities. Management has considered the amounts and the probabilities of the outcomes that could be realized upon ultimate settlement and believes that it is more-likely-than-not that Wexpro's recorded income tax benefits will be fully realized. There were no unrecognized tax benefits at the beginning or end of the years ended December 31, 2017 or 2016. The Internal Revenue Service has not yet completed its review of the 2016 return. The 2017 federal income tax return has not been filed.

Wexpro recognizes interest on underpayments and overpayments of income taxes in interest expense and other income, respectively. Penalties are also recognized in other income. Wexpro's interest and penalties were immaterial in 2017 and 2016.

At December 31, 2017, Wexpro's Consolidated Balance Sheet included $0.2 million of tax-related receivables from affiliates, representing $1.6 million of current federal income taxes receivable offset by $1.4 million of state income taxes payable. At December 31, 2016, Wexpro's Consolidated Balance Sheet included $1.6 million of tax-related receivables from affiliates, representing $1.8 million of current federal income taxes receivable offset by $0.2 million of state income taxes payable. These amounts were settled with Dominion Energy during 2017 as part of the final 2016 tax return settlement. See Note 5 for further discussion on income taxes.

New Accounting Standards

Revenue Recognition
In May 2014, the Financial Accounting Standards Board issued revised accounting guidance for revenue recognition from contracts with customers. The core principle of this revised accounting guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this update also require disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Wexpro will adopt the revised accounting guidance beginning January 1, 2018. Wexpro has completed the evaluation of the impact of this guidance and expects no significant impact on its results of operations. Wexpro will apply the standard using the modified retrospective method as opposed to the full retrospective method.

Tax Reform
In December 2017, the staff of the SEC issued guidance which clarifies accounting for income taxes if information is not yet available or complete and provides for up to a one-year measurement period in which to complete the required analyses and accounting. The guidance describes three scenarios associated with a company's status of accounting for income tax reform: (1) a company is complete with its accounting for certain effects of tax reform, (2) a company is able to determine a reasonable estimate for certain effects of tax reform and records that estimate as a provisional amount, or (3) a company is not able to determine a reasonable estimate and therefore continues to apply accounting for income taxes based on the provisions of the tax laws that were in effect immediately prior to the 2017 Tax Reform Act being enacted. In addition, the guidance provides clarification related to disclosures for entities which are utilizing the measurement period. Wexpro has recorded its best estimate of the impacts of the 2017 Tax Reform Act as discussed in Note 5. The amounts are considered to be provisional and may result in adjustments to be recognized during the measurement period.

Reclassifications
Certain reclassifications were made to Wexpro's 2016 Consolidated Financial Statements and Notes to conform to the 2017 presentation. The reclassifications did not affect Wexpro's net income, total assets, liabilities, equity or cash flows.

Note 3 - Asset Retirement Obligations

Wexpro records an ARO when there is a legal obligation associated with the eventual retirement of a tangible long-lived asset. Wexpro's AROs apply primarily to abandonment costs associated with gas and oil wells, production facilities and certain other properties. The ARO liability is adjusted to present value each period through an accretion calculation using a credit-adjusted risk-free interest rate.

The current portion of the ARO balance is $0.2 million and is included in accrued expenses and other on the Consolidated Balance Sheets. Changes in AROs from the Consolidated Balance Sheets were as follows:

	2017	2016
	(in millions)	
AROs at beginning of year	$ 68.9	$ 63.4
Accretion	4.3	3.9
Liabilities incurred	3.8	0.3
Revisions in estimated cash flows	9.2	2.1
Liabilities settled	(1.2)	(0.8)
AROs at end of year	$ 85.0	$ 68.9

Wexpro collects from Questar Gas and deposits in trust certain funds related to estimated ARO costs. These funds are used to satisfy retirement obligations as the properties are abandoned. The funds are measured using net asset value (or its equivalent) as a practical expedient which are not required to be categorized in the fair value hierarchy. At December 31, 2017 and 2016, the funds totaled $26.1 million and $19.2 million, respectively, and are included in other noncurrent assets on the Consolidated Balance Sheets. The accounting treatment of reclamation activities associated with AROs for properties administered under the Wexpro Agreements is defined in a guideline letter between Wexpro and the Utah Division of Public Utilities and the staff of the Wyoming Commission.

Note 4 – Short-Term Debt

Dominion Energy may make loans to Wexpro under a short-term borrowing arrangement. As of December 31, 2017, there were no short-term borrowings outstanding. At December 31, 2016, Wexpro had a short-term note with Dominion Energy for $4.0 million with a variable interest rate of 1.05%. Interest charges paid to Dominion Energy were less than $0.1 million for the years ended December 31, 2017 and 2016.

Note 5 - Income Taxes

Judgments 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. Wexpro is routinely audited by federal and state tax authorities. Ultimate resolution of income tax matters may result in favorable or unfavorable impacts of net income and cash flows, and adjustments to tax-related assets and liabilities could be material.

The 2017 Tax Reform Act includes a broad range of tax reform provisions affecting Wexpro, as discussed in Note 2. The 2017 Act Reform Act reduces the corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. At the date of enactment, deferred tax assets and liabilities were remeasured based upon the enacted 21% tax rate expected to apply when temporary differences are to be realized and settled. The specific provisions related to regulated entities in the 2017 Tax Reform Act generally allows for the continued deductibility of interest expense, changes the tax depreciation of certain property acquired after September 27, 2017, and continues certain rate normalization requirements for accelerated depreciation benefits.

As indicated in Note 2, Wexpro's operations, including accounting for income taxes, are subject to regulatory accounting treatment. For regulated operations, many of the changes in deferred taxes represent amounts probable of collection from or refund to customers, and are recorded as either an increase to a regulatory asset or liability. The 2017 Tax Reform Act includes provisions that stipulate how these excess deferred taxes are to be passed back to customers for certain accelerated tax depreciation benefits. Potential refunds of other deferred taxes will be determined by Wexpro's state regulators.

Wexpro has completed or has made a reasonable estimate for the measurement and accounting of certain effects of the 2017 Tax Reform Act which have been reflected in the consolidated financial statements. The changes in deferred taxes were recorded as either an increase to a regulatory liability or as an adjustment to Wexpro's deferred tax provision.

The items reflected as provisional amounts are related to accelerated depreciation for tax purposes of certain property acquired and placed into service after September 27, 2017 and the impact of accelerated depreciation on state income taxes to the extent there is uncertainty on conformity to the new federal tax system.

The determination of the impact of the income tax effects of the items reflected as provisional amounts represents a reasonable estimate, but will require additional analysis of historical records and further interpretation of the 2017 Tax Reform Act from yet to be issued U.S. Department of the Treasury regulations which will require more time, information and resources than currently available to Wexpro.

Details of Wexpro's income tax expense and deferred income taxes are provided in the following tables. The components of income tax expense were as follows:

	Year Ended December 31,	
	2017	2016
	(in millions)	
Federal		
Current	$ **64.4**	$ 69.0
Deferred	**(15.0)**	(24.4)
State		
Current	**1.5**	0.5
Deferred	**(0.4)**	(4.0)
Total income tax expense	$ **50.5**	$ 41.1

The difference between the statutory federal income tax rate and Wexpro's effective income tax rate is explained as follows:

	Year Ended December 31,	
	2017	2016
Federal income tax statutory rate	**35.0%**	35.0%
Increase (decrease) in rate as a result of:		
State income taxes, net of federal income tax benefit	**0.5**	(1.8)
Domestic production activities deduction	—	(2.4)
Legislative change - federal	**(0.1)**	—
Other	**0.3**	0.2
Effective income tax rate	**35.7%**	31.0%

Significant components of Wexpro's deferred income taxes were as follows:

	December 31,	
	2017	2016
	(in millions)	
Deferred income taxes		
Deferred tax liabilities		
Property, plant and equipment	$ **103.3**	$ 183.8
Employee benefits	**2.1**	3.3
Deferred tax liabilities	**105.4**	187.1
Deferred tax assets		
Excess deferred income taxes	**17.1**	—
Asset retirement obligations	**6.1**	9.7
Deferred compensation	**0.3**	0.7
State tax credits net of valuation allowance	**0.9**	0.9
Ad valorem taxes	**3.1**	4.2
Other	**(0.1)**	(0.3)
Deferred tax assets	**27.4**	15.2
Net deferred income tax liability	$ **78.0**	$ 171.9

The most significant impact reflected for the 2017 Tax Reform Act is the adjustment of the net accumulated deferred income tax liability for the reduction in the corporate income tax rate to 21%. In addition to amounts recognized in deferred income tax expense, the impacts of the 2017 Tax Reform Act decreased the accumulated deferred income tax liability by $61.7 million at December 31, 2017. The Consolidated Balance Sheet at December 31, 2017 also reflects the impact of the 2017 Tax Reform Act on regulatory liabilities which increased by $78.7 million and created a corresponding deferred tax asset of $17.1 million. These adjustments had no impact on 2017 cash flows.

Note 6 - Regulatory Assets and Liabilities and Regulatory Matters

Regulatory assets and liabilities include the following:

	December 31, 2017		2016	
	(in millions)			
Regulatory Assets:				
Deferred depreciation, depletion and amortization[1]	$	**13.8**	$	13.8
Deferred production taxes[1]		**3.7**		3.7
Deferred other operations and maintenance[1]		**2.8**		1.9
Deferred royalties[2]		**1.4**		4.4
AROs[3]		**0.2**		0.2
Regulatory assets - current		**21.9**		24.0
Deferred production imbalance[4]		**-**		6.9
AROs[3]		**0.5**		0.7
Regulatory assets - noncurrent		**0.5**		7.6
Total regulatory assets	$	**22.4**	$	31.6
Regulatory Liabilities:				
Income taxes refundable through future rates[5]	$	**78.7**	$	—
Depreciation[6]		**13.5**		9.7
Regulatory liabilities - noncurrent		**92.2**		9.7
Total regulatory liabilities	$	**92.2**	$	9.7

(1) Recoverable charges incurred by Wexpro but not yet billed to Questar Gas.
(2) Royalties on cost-of-service gas produced are recovered from Questar Gas on a delayed basis.
(3) Allowed recovery of the cumulative effect of adoption of revised accounting standards for AROs.
(4) Production imbalances are recovered from customers at the end of the gas wells' useful life.
(5) Amounts recorded to pass the effect of reduced income tax rates from the 2017 Tax Reform Act to customers in future periods, which will reverse at the weighted average tax rate that was used to build the reserves over the remaining book life of the property.
(6) Based on the Wexpro II Agreement, Wexpro depreciates its investment base on an accelerated basis. This corresponds to the accumulated incremental depreciation expense recorded in accordance with the Wexpro II Agreement.

In December 2015, Wexpro Development acquired working interests in 75 producing wells and 112 future drilling locations in the Trail, Whiskey Canyon, Canyon Creek and Kinney units in southwestern Wyoming (collectively known as the Vermillion Basin acquisition). In January 2017, Wexpro applied to the Commissions to have these properties included as Wexpro II properties. The proposal stipulated that the acquisition costs of the approved properties would be adjusted for the depreciation of the gas sold from the time Wexpro Development closed on the properties until their final approval as Wexpro II properties. In March 2017, the Commissions approved the inclusion of these properties in Wexpro II at an adjusted price of $11.1 million.

Note 7 - Employee Benefit Plans

Wexpro participates in retirement benefit plans sponsored by Dominion Energy effective December 2017, reflecting the merger of plans previously sponsored by Dominion Energy Questar, which provide certain retirement benefits to eligible active employees, retirees and qualifying dependents. Under the terms of its benefit plans, Dominion Energy reserves the right to change, modify or terminate the plans. From time to time in the past, benefits have changed, and some of these changes have reduced benefits.

Pension benefits for employees are covered by a defined benefit pension plan sponsored by Dominion Energy that provides benefits to multiple Dominion Energy subsidiaries. Retirement benefits payable are based primarily on years of service, age and the employee's compensation. As a participating employer, Wexpro is subject to Dominion Energy's funding policy, which is to contribute annually an amount that is in accordance with the provisions of the Employee Retirement Income Security Act of 1974. During 2017, Wexpro made $0.4 million of contributions to the pension plan, and no contributions to this plan are currently expected in 2018. Net periodic pension cost (credit) related to this plan was $(0.4) million and $0.5 million in 2017 and 2016, respectively, recorded in general and administrative expense in the Consolidated Statements of Income. The funding status of various Dominion Energy subsidiary groups and employee compensation is the basis for determining the share of total pension costs for participating Dominion Energy subsidiaries.

Retiree healthcare and life insurance benefits for employees are covered by a plan sponsored by Dominion Energy that provides certain retiree healthcare and life insurance benefits to multiple Dominion Energy subsidiaries. Annual employee premiums are based on several factors such as retirement date and years of service. Net periodic benefit cost related to this plan was $0.1 million and $0.2 million in 2017 and 2016, respectively, recorded in general and administrative expense in the Consolidated Statements of Income. Employee headcount is the basis for determining the share of total other postretirement benefit costs participating Dominion Energy subsidiaries.

Defined Contribution Plan
Wexpro also participates in a defined contribution plan sponsored by Dominion Energy that covers multiple Dominion Energy subsidiaries. Wexpro recognized $1.0 million and $1.2 million of expense in general and administrative expense in the Consolidated Statements of Income in 2017 and 2016, respectively, as the employer matching contributions to this plan.

Share-Based Compensation
Prior to the Dominion Energy Questar Combination, Wexpro employees participated in certain share-based compensation plans of Dominion Energy Questar. Effective with the Dominion Energy Questar Combination all such awards vested on September 16, 2016. Wexpro had no share-based compensation balances as of December 31, 2017. Total share-based compensation expense amounted to $2.6 million in 2016.

Note 8 – Commitments and Contingencies

As a result of issues generated in the ordinary course of business, Wexpro is involved in legal proceedings before various courts and is periodically subject to governmental examinations (including by regulatory authorities), inquiries and investigations. Certain legal proceedings and governmental examinations involve demands for unspecified amounts of damages, are in an initial procedural phase, involve uncertainty as to the outcome of pending appeals or motions, or involve significant factual issues that need to be resolved, such that it is not possible for Wexpro to estimate a range of possible loss. For such matters for which Wexpro cannot estimate a range of possible loss, a statement to this effect is made in the description of the matter. Other matters may have progressed sufficiently through the litigation or investigative processes such that Wexpro is able to estimate a range of possible loss. For legal proceedings and governmental examinations for which Wexpro is able to reasonably estimate a range of possible losses, an estimated range of possible loss is provided, in excess of the accrued liability (if any) for such matters. Any accrued liability is recorded on a gross basis with a receivable also recorded for any probable insurance recoveries. Estimated ranges of loss are inclusive of legal fees and net of any anticipated insurance recoveries. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Any estimated range of possible loss may not represent Wexpro's maximum possible loss exposure. The circumstances of such legal proceedings and governmental examinations will change from time to time and actual results may vary significantly from the current estimate. For current proceedings not specifically reported below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial position, liquidity or results of operations of Wexpro.

Litigation
In February 2015, a trial was held in the case of *Rocky Mountain Resources and Robert N. Floyd v. QEP Energy Company and Wexpro Company*, Ninth Judicial District, County of Sublette, State of Wyoming, Case No. 2011-7816. Plaintiffs alleged they were entitled to a 4% overriding royalty interest in a so-called replacement state oil and gas lease ultimately assigned to Wexpro and QEP in the Pinedale Field. A jury decision was reached on February 13, 2015, that awarded the Plaintiffs $14.1 million from Wexpro and $16.2 million from QEP. Wexpro and QEP filed an appeal to the Wyoming Supreme Court alleging that the former state leases subject to the overriding royalty interest expired and a new lease was issued by the State of Wyoming unburdened by the 4% overriding royalty interest. On February 1, 2017, the Wyoming Supreme Court agreed with QEP and Wexpro, reversed the district court's order, and ordered the district court to grant summary judgment in favor of QEP and Wexpro. All escrowed amounts have been refunded to Wexpro. Additionally, based on the summary judgment of the Wyoming Supreme Court, in February 2017, Wexpro refunded to Questar Gas customers all amounts that were accrued to pay Rocky Mountain Resources and Robert N. Floyd supported by the district court's initial jury decision.

Note 9 - Variable Interest Entities

The primary beneficiary of a VIE is required to consolidate the VIE and to disclose certain information about its significant variable interest in the VIE. The primary beneficiary of a VIE is the entity that has both: (1) the power to direct activities that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE.

Wexpro purchased shared services from DEQPS, an affiliated VIE, of $0.1 million and less than $0.1 million for the years ended December 31, 2017 and 2016, respectively. DEQPS provides operational services to certain Dominion Energy subsidiaries, including Wexpro, as a subsidiary service company. The Consolidated Balance Sheets at December 31, 2017 and 2016, included amounts due to DEQPS of less than $1 million for both periods.

Wexpro entered into a service agreement with DES, an affiliated VIE, effective January 2018. DES provides accounting, legal, finance, and certain administrative and technical services to Dominion Energy and its subsidiaries including Wexpro.

Wexpro determined that it is not the primary beneficiary of DEQPS or DES as it does not have both the power to direct the activities that most significantly impact their economic performance nor the obligation to absorb losses and benefits which could be significant to it. Wexpro has no obligation to absorb more than its allocated share of DEQPS and DES costs.

Note 10 - Related-Party Transactions

Under the Wexpro Agreements, Wexpro earns revenues from Questar Gas as operator service fees for costs associated with operating gas wells for the benefit of Questar Gas customers.

Dominion Energy Questar and other affiliates (including DES) provide accounting, legal, finance and certain administrative and technical services to Wexpro. These costs are primarily included in general and administrative expense in the Consolidated Statements of Income on the basis of direct and allocated methods. Where costs incurred cannot be determined by specific identification, the costs are generally allocated based on each affiliated company's proportional share of revenues less product costs; property, plant and equipment; and labor costs for costs from Dominion Energy Questar and based on the proportional level of effort devoted by resources that is attributable to Wexpro, determined by reference to number of employees, salaries and wages and other similar measures for the relevant DES service. Management believes that the allocation methods are reasonable. Wexpro provides certain services to related parties, including technical services which are allocated based on the specific nature of the charges. Management believes that the allocation method is reasonable. The amounts for the services follow:

	December 31,	
	2017	2016
	(in millions)	
Operator service fee	**$ 306.9**	$ 311.7
Services provided by related parties	**12.5**	12.9
Services provided to related parties	**1.1**	0.7

See Note 4 for interest expense associated with related parties and Note 6 for regulatory assets associated with related parties.

Note 11 - Subsequent Events

The consolidated financial statements reflect management's consideration of known subsequent events as of May 22, 2018, the date the financial statements were issued.