Wexpro Company

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015
and Report of Independent Auditors

Wexpro Company

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Contents

Report of Independent Auditors	1
Audited Financial Statements	
Consolidated Statements of Income	2
Consolidated Statements of Comprehensive Income	3
Consolidated Balance Sheets	4
Consolidated Statements of Common Shareholder's Equity	5
Consolidated Statements of Cash Flows	6
Notes Accompanying the Consolidated Financial Statements	7

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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 sheet as of December 31, 2016, and the related consolidated statements of income, comprehensive income, common shareholder's equity and cash flows for the year 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 audit. We conducted our audit 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 Wexpro Company and its subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditors' Opinion on 2015 Consolidated Financial Statements

The consolidated financial statements of the Company as of and for the year ended December 31, 2015 were audited by other auditors whose report, dated April 8, 2016, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

May 26, 2017

WEXPRO COMPANY
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2016	2015
	(in millions)	
REVENUES		
Operator service fee	**$ 311.7**	$ 313.3
Oil and natural gas liquids sales	**8.5**	10.5
Other	**1.1**	5.2
Total Revenues	**321.3**	329.0
OPERATING EXPENSES		
Operating and maintenance	**23.9**	25.7
General and administrative	**26.0**	29.2
Merger and restructuring costs	**12.3**	—
Production and other taxes	**16.2**	19.7
Depreciation, depletion and amortization	**106.7**	89.9
Accretion expense	**4.0**	3.2
Total Operating Expenses	**189.1**	167.7
Net gain from asset sales	**—**	1.6
OPERATING INCOME	**132.2**	162.9
Interest and other income	**0.4**	0.9
INCOME BEFORE INCOME TAXES	**132.6**	163.8
Income taxes	**(41.1)**	(54.9)
NET INCOME	**$ 91.5**	$ 108.9

See notes accompanying the consolidated financial statements

WEXPRO COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2016	2015
	(in millions)	
Net income	**$ 91.5**	$ 108.9
Other comprehensive loss		
Unrealized gain (loss) on available-for-sale securities	**(0.1)**	—
Income taxes	**—**	—
Net other comprehensive loss	**(0.1)**	—
COMPREHENSIVE INCOME	**$ 91.4**	$ 108.9

See notes accompanying the consolidated financial statements

WEXPRO COMPANY
CONSOLIDATED BALANCE SHEETS

		December 31,	
		2016	2015
		(in millions)	
ASSETS			
Current Assets			
Cash and cash equivalents		**$ 1.5**	$ 3.6
Notes receivable from Dominion Energy Questar Corporation		**—**	40.7
Accounts receivable		**4.2**	5.4
Receivables from affiliates		**29.7**	68.1
Materials and supplies, at lower of average cost or market		**3.1**	4.3
Current regulatory assets		**24.0**	—
Prepaid expenses and other		**2.8**	2.4
Total Current Assets		**65.3**	124.5
Cost-of-service gas and oil property, plant and equipment, successful efforts method		**1,653.0**	1,629.8
Accumulated depreciation, depletion and amortization		**(887.8)**	(789.9)
Net Cost-of-Service Gas and Oil Property, Plant and Equipment		**765.2**	839.9
Receivables from affiliates		**9.3**	9.1
Regulatory assets		**7.6**	—
Other noncurrent assets		**31.2**	27.1
TOTAL ASSETS		**$ 878.6**	$ 1,000.6
LIABILITIES AND COMMON SHAREHOLDER’S EQUITY			
Current Liabilities			
Notes payable to Dominion Energy, Inc.		**$ 4.0**	$ —
Accounts payable		**8.0**	6.1
Payables to affiliates		**1.3**	18.0
Accrued expenses and other		**9.3**	7.7
Production and other taxes		**12.8**	18.0
Total Current Liabilities		**35.4**	49.8
Deferred income taxes		**171.9**	200.2
Asset retirement obligations		**68.7**	63.4
Regulatory liabilities		**9.7**	—
Other long-term liabilities		**22.7**	23.8
Total Liabilities		**308.4**	337.2
Commitments and contingencies - Note 9			
COMMON SHAREHOLDER’S EQUITY			
Common stock – par value $0.01 per share; 1,000 shares authorized, issued and outstanding		**—**	—
Additional paid-in capital		**184.4**	181.8
Retained earnings		**385.8**	481.5
Accumulated other comprehensive income		**—**	0.1
Total Common Shareholder’s Equity		**570.2**	663.4
TOTAL LIABILITIES AND COMMON SHAREHOLDER’S EQUITY		**$ 878.6**	$ 1,000.6

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, 2014	$ —	$ 179.8	$ 552.6	$ 0.1	$ 732.5
Dividends to Dominion Energy Questar Corporation	—	—	(180.0)	—	(180.0)
Share-based compensation	—	2.0	—	—	2.0
2015 net income	—	—	108.9	—	108.9
Balances at December 31, 2015	—	181.8	481.5	0.1	663.4
Dividends to Dominion Energy Questar Corporation	**—**	**—**	**(187.2)**	**—**	**(187.2)**
Share-based compensation	**—**	**2.6**	**—**	**—**	**2.6**
2016 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**

[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, 2016	2015
	(in millions)	
OPERATING ACTIVITIES		
Net income	**$ 91.5**	$ 108.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	**106.7**	89.9
Accretion expense	**4.0**	3.2
Deferred income taxes	**(28.3)**	2.7
Share-based compensation	**2.6**	2.0
Net (gain) from asset sales	**—**	(1.6)
Other operating	**0.6**	0.6
Changes in operating assets and liabilities		
Accounts and affiliate receivables	**39.6**	10.1
Materials and supplies	**1.2**	—
Regulatory assets - current	**(24.0)**	—
Prepaid expenses	**(0.4)**	(0.8)
Accounts payable and accrued expenses	**(14.6)**	(3.8)
Production and other taxes	**(5.2)**	(6.7)
Other assets and liabilities	**(6.3)**	(14.8)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**167.4**	**189.7**
INVESTING ACTIVITIES		
Purchases of long-term investment	**(5.5)**	(2.3)
Proceeds from the sale of long-term investment	**0.4**	3.9
Repayment of notes receivable from Dominion Energy Questar Corporation, net	**40.7**	—
Additions to property, plant and equipment	**(22.2)**	(24.3)
Proceeds from disposition of assets and other	**0.3**	0.4
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**13.7**	(22.3)
FINANCING ACTIVITIES		
Issuance of notes to Dominion Energy, Inc.	**4.0**	—
Repayment of notes receivable from Dominion Energy Questar Corporation, net	**—**	29.6
Dividends paid to Dominion Energy Questar Corporation	**(187.2)**	(197.0)
NET CASH USED IN FINANCING ACTIVITIES	**(183.2)**	(167.4)
Change in cash and cash equivalents	**(2.1)**	—
Beginning cash and cash equivalents	**3.6**	3.6
Ending cash and cash equivalents	**$ 1.5**	$ 3.6
Supplemental Disclosure of Cash Paid During the Year for:		
Interest	**$ —**	$ 0.1
Income taxes	**72.0**	54.4

See notes accompanying the consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies

A. Nature of Business
Wexpro Company (Wexpro) is a wholly-owned subsidiary of Dominion Energy Questar Corporation (Dominion Energy Questar). Wexpro develops and produces cost-of-service reserves for a gas utility affiliate Questar Gas Company (Questar Gas), another wholly-owned subsidiary of Dominion Energy Questar, under the terms of the Wexpro agreements and comprehensive agreements with the states of Utah and Wyoming as disclosed further in the following paragraphs.

In 2013, Wexpro and Questar Gas received approval of the Public Service Commission of Utah (PSCU) and the Wyoming Public Service Commission (PSCW) for a Wexpro II Agreement to add properties under the cost-of-service pricing methodology for the benefit of Questar Gas customers. The agreement is modeled after the terms of the original Wexpro Agreement. Wexpro Company formed a wholly-owned subsidiary, Wexpro II Company. Wexpro II Company's financial records are consolidated with Wexpro's to form consolidated Wexpro Company (Wexpro or the Company).

Pursuant to the Wexpro Agreement and the Wexpro II Agreement (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 PSCU and PSCW. 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 Public Service Commission, which have retained an independent certified public accountant and an independent petroleum engineer to monitor the performance of the agreements.

On September 4, 2013, Wexpro Development (discussed below) acquired an additional interest in natural gas-producing properties in the Trail Unit of southwestern Wyoming's Vermillion Basin. This acquisition was an addition to Wexpro's existing Trail assets, which are governed by the 1981 Wexpro Agreement. In January of 2014, the Commissions approved the inclusion of these properties in the Wexpro II Agreement. On February 1, 2014, Wexpro Development contributed the net assets associated with the Trail acquisition gas and oil properties to Wexpro Company in a noncash transaction amounting to $103.2 million. Wexpro Company, in turn, contributed the net Trail acquisition assets to its newly-formed, wholly-owned subsidiary, Wexpro II Company, to own and operate.

As part of the stipulation to include the Trail acquisition in the Wexpro II Agreement, Wexpro agreed to manage the combined production from the original Wexpro properties and the Trail acquisition to 65% of Questar Gas's 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, 2016, Wexpro's trailing 12-month cost-of-service gas deliveries were below the 65% threshold.

In December 2014, Wexpro Development acquired an additional interest in its existing Wexpro-operated assets in the Canyon Creek Unit of southwestern Wyoming's Vermillion Basin. During 2015, Wexpro and Questar Gas submitted an application to the Commissions for approval to include the acquired Canyon Creek properties under the terms of the Wexpro II Agreement. As part of this application, Wexpro proposed significant changes to its cost-of-service program to enable future cost-of-service gas production to be more competitive with market prices. The proposed changes to the cost-of-service program were subsequently modified by a Settlement Stipulation among Questar Gas, Wexpro, the Utah Division of Public Utilities, the Utah Office of Consumer Services and the Wyoming Office of Consumer Advocate. The proposed modifications to the Wexpro Agreements, as modified by the Settlement Stipulation, were approved by the PSCU on November 17, 2015 and by the PSCW on November 24, 2015.

As modified, the Wexpro Agreements include the Canyon Creek acquisition as a Wexpro II property and provide for the following changes to the cost-of-service program:

- The return on post-2015 development drilling will be lowered to the Commission allowed rate of return on investment as defined in the Wexpro II Agreement (currently 7.64%), and the pre-2016 investment base and associated returns will not be affected;
- Wexpro and Questar Gas will reduce the threshold of maximum combined production from Wexpro properties from 65% of Questar Gas's annual forecasted demand to 55% in 2020;
- Dry-hole and non-commercial well costs will be shared on a 50%/50% basis between utility customers and Wexpro so long as the costs allocated to utility customers do not exceed 4.5% of Wexpro's annual development drilling program costs;
- Wexpro will share in 50% of the savings when the annual price of cost-of-service production is lower than the annual average market price. However Wexpro's 50% share of any annual savings will be limited so that Wexpro will not earn a return exceeding the return earned on gas development investment under the 1981 Wexpro 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) for $16.0 million. In January 2017, Wexpro applied to the Public Service Commission of Utah and the Wyoming Public Service Commission (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. Subsequently, in March 2017, the Commissions approved the Vermillion Settlement Stipulation effective March 1, 2017.

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.

B. Principles of Consolidation

The Wexpro consolidated financial statements contain the accounts of the parent company and its wholly-owned subsidiary. The consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP). All intercompany accounts and transactions have been eliminated in consolidation.

C. Use of Estimates

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. The Company 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 the Company's reported financial results. Actual results could differ from these estimates.

D. 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 natural gas liquids (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. A liability is recorded to the extent that Wexpro has sold or delivered volumes in excess of its share of remaining gas and oil reserves in the underlying properties. 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.

E. 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.

F. Notes Payable to and Notes Receivable from Affiliates

Notes payable to or receivable from Dominion Energy Questar represent interest bearing demand notes for cash borrowed for use in operations or loaned until needed in operations. The funds were centrally managed by Dominion Energy Questar. Amounts loaned earn an interest rate that is identical to the interest rate paid by Wexpro for borrowings. Subsequent to the merger, Wexpro no longer loans funds to Dominion Energy Questar. Notes payable to Dominion Energy, Inc. (Dominion Energy) represent interest bearing demand notes for cash borrowed for use in operations. During 2016, in conjunction with the Dominion Energy and Questar merger, the company changed its presentation of cash receipts and cash payments from notes receivable from affiliates, and now presents such transactions in investing activities on the Statement of Cash Flows.

G. 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. The Company 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 Company 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 the Company's capitalized costs:

	Year Ended December 31,	
	2016	2015
Cost-of-service gas and oil properties, per Mcfe	$ 2.00	$ 1.81

H. 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. There were no impairments recorded in 2015. Wexpro recorded a $0.2 million pre-tax abandonment and impairment charge in 2016.

I. Allowance for Funds Used During Construction

The Wexpro agreements require capitalization of allowance for funds used during construction (AFUDC) on cost-of-service gas and oil development projects. AFUDC amounted to $0.3 million in 2016 and $0.6 million in 2015 and increased interest and other income in the Consolidated Statements of Income.

J. 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 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.

K. ASC 980 - Regulated Operations for Depreciation Expense
Wexpro adopted principles in ASC 980. Based on the Wexpro II Agreement, the Company is allowed to depreciate its investment base faster than allowed by GAAP. Thus, the difference between the two depreciation methods increases GAAP recovery of investment and gives rise to a regulatory liability which was recognized in 2016. The increased depreciation expense recognized in 2016 was $9.7 million or $6.3 million after tax.

L. Concentration of Credit Risk
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. The Wexpro agreements generate the majority of Wexpro's revenue and net income.

M. Income Taxes
For 2016, a consolidated federal income tax return will be filed for Dominion Energy Questar, including Wexpro, for the period January 1, 2016 through September 16, 2016. Wexpro will also be part of the consolidated federal income tax return filed by Dominion Energy for the period September 17, 2016 through December 31, 2016. Wexpro will be part of the consolidated Dominion Energy federal income tax return for the full year 2017 and going forward. 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 Questar (through September 16, 2016) and Dominion Energy (from September 17, 2016 through December 31, 2016). 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.

Deferred income taxes are recorded for temporary differences arising between the book and tax carrying amounts of assets and liabilities. These differences create taxable or tax-deductible amounts for future periods. The Company records interest earned on income tax refunds in interest and other income and records penalties and interest charged on tax deficiencies in interest expense.

Accounting standards for income taxes specify the accounting for uncertainty in income taxes by prescribing a minimum recognition threshold for a tax position to be reflected in the financial statements. If recognized, the tax benefit is measured as the largest amount of tax benefit that is more-likely-than-not to be realized upon ultimate settlement. 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 the Company'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, 2016 or 2015. The Internal Revenue Service has completed its review of all returns through 2015. The 2016 federal income tax return has not been filed. Tax years 2013 to 2015 remain open to state income tax audits. Wexpro has accumulated about $4 million of state income tax credits that expire between 2017 and 2023. See Note 6 for further discussion on income taxes.

N. Comprehensive Income
Comprehensive income is the sum of net income as reported in the Consolidated Statements of Income and other comprehensive income (OCI). OCI includes changes in the fair value of long-term investment, and the related income taxes. Income or loss is recognized when the long-term investment is sold or otherwise realized. Accumulated other comprehensive income was $0.1 million and $0.0 at December 31, 2016 and 2015, respectively. The balance is related to the money market and to the short-term bond index mutual funds held in Wexpro's trust (see Note 4).

O. Recent Accounting Developments

In May 2014, the FASB 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.

For Wexpro, the revised accounting guidance is effective for interim and annual periods beginning January 1, 2018. We have completed the preliminary stages of evaluating the impact of this guidance and, pending evaluation of the items discussed below, expect no significant impact on our results of operations. Now that our preliminary evaluation is complete, we will expand the scope of our assessment to include all contracts with customers. In addition, we are considering certain issues that could potentially change the accounting for certain transactions. Among the issues being considered are accounting for contributions in aid of construction, recognition of revenue when collectability is in question, recognition of revenue in contracts with variable consideration and accounting for alternative revenue programs. Wexpro plans on applying the standard using the modified retrospective method as opposed to the full retrospective method.

P. Subsequent Events

The consolidated financial statements reflect management's consideration of known subsequent events as of May 26, 2017, the date that the financial statements were issued. See Note 11.

Q. Reclassifications

Certain reclassifications were made to prior-year financial statements to conform to the 2016 presentation. The reclassifications did not affect Wexpro's net income, total assets, liabilities, equity or cash flows.

Note 2 - Merger with Dominion Energy

On September 16, 2016, the merger closed and Questar Corporation became known as Dominion Energy Questar, a wholly-owned subsidiary of Dominion Energy.

Note 3 - Asset Retirement Obligations

Wexpro records an asset retirement obligation (ARO) when there is a legal obligation associated with the 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 fair value of retirement costs is estimated by Company personnel 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 or expense resulting from the settlement of ARO liabilities is included in net gain (loss) from asset sales on the Consolidated Statements of Income. The ARO liability is adjusted to present value each period through an accretion calculation using a credit-adjusted risk-free interest rate.

Changes in AROs from the Consolidated Balance Sheets were as follows:

	2016	2015
	(in millions)	
AROs at beginning of year	**$ 63.4**	$ 64.8
Accretion	**3.9**	3.1
Liabilities incurred	**0.3**	2.3
Revisions in estimated cash flows	**2.1**	1.8
Liabilities settled	**(0.8)**	(8.6)
AROs at end of year	**$ 68.9**	$ 63.4

Wexpro collects from Questar Gas and deposits in trust certain funds related to estimated ARO costs. The funds are recorded as other noncurrent assets on the Consolidated Balance Sheets and used to satisfy retirement obligations as the properties are abandoned. 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 Public Service Commission of Wyoming.

Note 4 - Fair Value Measurements

Wexpro complies with the accounting standards for fair value measurements and disclosures. These standards define fair value in applying GAAP, establish a framework for measuring fair value and require disclosures about fair value measurements. The standards establish a fair value hierarchy. Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The Company had no assets or liabilities measured on a recurring basis using Level 2 or Level 3 inputs at December 31, 2016 or 2015. Fair value accounting standards also apply to certain nonfinancial assets and liabilities that are measured at fair value on a non-recurring basis. Wexpro did not have any such assets or liabilities at December 31, 2016 or 2015.

The following table discloses the carrying amount, estimated fair value and level within the fair value hierarchy of certain financial instruments not disclosed in other notes to the consolidated financial statements in this annual report:

	Hierarchy Level of Fair Value Estimates	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
		December 31, 2016		December 31, 2015	
		(in millions)			
Financial assets [(1)]					
Cash and cash equivalents	**1**	**$ 1.5**	**$ 1.5**	$ 3.6	$ 3.6
Notes receivable from Dominion Energy Questar	**1**	**—**	**—**	40.7	40.7
Financial liabilities					
Notes payable to Dominion Energy	**1**	**4.0**	**4.0**	—	—

(1) Excludes $19.2 million and $14.1 million of long-term investment assets at December 31 2016 and 2015, respectively, measured at fair value using NAV (or its equivalent) as a practical expedient which are not required to be categorized in the fair value hierarchy.

The carrying amounts of cash and cash equivalents approximate fair value. The carrying amounts of notes receivable from Dominion Energy Questar and notes payable to Dominion Energy approximate fair value because of their short maturities and market-based interest rates.

Note 5 - Debt

Dominion Energy may make loans to Wexpro under a short-term borrowing arrangement. As of December 31, 2016, Wexpro had a short-term note with Dominion Energy for $4.0 million with an variable interest rate of 1.05%. As of December 31, 2015, there were no short-term or long-term borrowings.

Note 6 - Income Taxes

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,	
	2016	2015
	(in millions)	
Federal		
Current	**$ 69.0**	$ 50.2
Deferred	**(24.4)**	3.0
State		
Current	**0.5**	2.0
Deferred	**(4.0)**	(0.3)
Total income tax expense	**$ 41.1**	$ 54.9

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

	Year Ended December 31,	
	2016	2015
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	**(1.8)**	0.6
Domestic production deduction	**(2.4)**	(2.1)
Other	**0.2**	—
Effective income tax rate	**31.0%**	33.5%

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

	December 31,	
	2016	2015
	(in millions)	
Deferred income taxes		
Deferred tax liabilities		
Property, plant and equipment	**$ 183.8**	$ 227.3
Employee benefits	**3.3**	3.4
Deferred tax liabilities	**187.1**	230.7
Deferred tax assets		
Asset retirement obligations	**9.7**	21.3
Deferred compensation	**0.7**	0.8
State tax credits net of valuation allowance	**0.9**	0.9
Ad valorem taxes	**4.2**	6.6
Other	**(0.3)**	0.9
Deferred tax assets	**15.2**	30.5
Net deferred income tax liability	**$ 171.9**	$ 200.2

Note 7 - Regulatory Assets and Liabilities

At December 31, 2016, regulatory assets and liabilities include the following:

		2016
		(in millions)
Regulatory Assets:		
Deferred operating and maintenance	**$**	**1.9**
Deferred production taxes		**3.7**
Deferred depreciation, depletion and amortization		**13.8**
Deferred royalties		**4.4**
Asset retirement obligations		**0.2**
Regulatory assets - current [1]		**24.0**
Asset retirement obligations		**0.7**
Deferred production imbalance		**6.9**
Regulatory assets - noncurrent [2]		**7.6**
Total regulatory assets	**$**	**31.6**
Regulatory Liabilities:		
Depreciation - noncurrent [3]	**$**	**9.7**

(1) The current regulatory assets represent recoverable charges incurred by Wexpro but not billed to Questar Gas at December 31, 2016. These charges include operating and maintenance, production taxes, depreciation, depletion, and amortization, royalty, and estimates of asset retirement obligation that are recoverable under the terms of the Wexpro Agreements within the next 12 months.

(2) The noncurrent regulatory assets include estimates of asset retirement obligation expenses that are recoverable under the terms of the Wexpro Agreements; however, such recovery will occur beyond next 12 months.

(3) Based on the Wexpro II Agreement, the Company depreciates its investment base on an accelerated basis. The noncurrent regulatory liability corresponds to the accumulated incremental depreciation expense recorded in accordance with the Wexpro II Agreement.

Note 8 - Employee Benefits

Wexpro companies participate in retirement benefit plans 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 Questar 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 the Questar Retirement Plan, a defined benefit pension plan sponsored by Dominion Energy Questar. The Plan provides benefits to multiple Dominion Energy Questar 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 Questar's funding policy, which is to contribute annually an amount that is in accordance with the provisions of ERISA. During 2016, Wexpro made $0.8 million of contributions to the Questar Pension Plan, and no contributions to this plan are currently expected in 2017. Net periodic pension cost related to this plan was $0.5 million and $0.8 million in 2016 and 2015, respectively, recorded in general and administrative expense in the Consolidated Statements of Income. The funding status of various Dominion Energy Questar subsidiary groups and employee compensation is the basis for determining the share of total pension costs for participating Dominion Energy Questar subsidiaries.

Retiree healthcare and life insurance benefits for employees are covered by the Questar Corporation Umbrella Health Plan, a plan sponsored by Dominion Energy Questar that provides certain retiree healthcare and life insurance benefits to multiple Dominion Energy Questar 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 $0.2 million in both 2016 and 2015, 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 for participating Dominion Energy Questar subsidiaries.

Defined Contribution Plan

Wexpro also participates in a Dominion Energy Questar-sponsored defined contribution plan, the Questar 401(k) Retirement Income Plan, covers multiple Dominion Energy Questar subsidiaries. Wexpro recognized $1.2 million and $1.3 million of expense in general and administrative and operating expense in the Consolidated Statements of Income in 2016 and 2015, respectively, as the employer matched 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, 2016. Total share-based compensation expense amounted to $2.6 million in 2016 compared to $2.0 million in 2015.

Note 9 - Contingencies and Commitments

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 (ORRI) in a so-called replacement state oil and gas lease ultimately assigned to Wexpro and QEP Energy Company (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 ORRI expired and a new lease was issued by the State of Wyoming unburdened by the 4% ORRI. 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 judgement 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.

Commitments

Wexpro had no material future commitments at December 31, 2016.

Note 10 - Related-Party Transactions

Under the Wexpro agreements, Wexpro earned revenues from Questar Gas for operator service fees for costs associated with operating gas wells for the benefit of Questar Gas customers of $311.7 million in 2016 and $319.0 million in 2015. There were $4 million of expenses for oil and NGL income shared with Questar Gas in 2016 and 2015.

Dominion Energy Questar charged Wexpro for certain administrative functions amounting to $12.4 million in 2016 and $16.2 million in 2015. These costs are included in general and administrative expenses and are allocated based on each affiliated company's proportional share of revenues less product costs; property, plant and equipment; and labor costs. Management believes that the allocation method is reasonable.

Questar Gas provides certain administrative services to Wexpro. Questar Gas provided these services at its cost of $0.2 million in 2016 and $0.5 million in 2015. The majority of these costs are allocated and included in general and administrative expenses. The allocation methods are based on the specific nature of the charges. Management believes that the allocation methods are reasonable.

Affiliate Dominion Energy Questar Pipeline, LLC charged Wexpro for communication services amounting to $0.3 million in 2016 and $0.4 million in 2015. These costs are included primarily in operating expenses and are allocated based on usage.

Wexpro also provides administrative services to an affiliated company, Wexpro Development Company. Administrative fees allocated to Wexpro Development Company totaled $0.7 million in 2016 and $1.2 million in 2015.

Note 11 - Subsequent Events

Rocky Mountain Resources and Robert N. Floyd v. QEP Energy Company and Wexpro Company Ruling
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. For additional information on this case, see Note 9.

Approval of 2015 Vermillion Basin Acquisition to under the Wexpro II Agreement
On January 9, 2017, Questar Gas filed an application with the PSCU and PSCW for approval of the 2015 Vermillion acquisition including properties and interests within the Trail, Whiskey Canyon, Kinney and Canyon Creek units. In March 2017, Questar Gas filed the Vermillion Settlement Stipulation with the PSCU and the PSCW. The Settlement Stipulation was signed by the parties to the proceedings and agreed to include the Trail, Whiskey Canyon and Canyon Creek unit property interests as Wexpro II properties. Both Commissions approved the Settlement Stipulation effective March 1, 2017. For additional discussion of Wexpro II properties see Note 1.