Wexpro Company

Consolidated Financial Statements

Fiscal Years Ended December 31, 2019 and 2018
with Independent Auditors' Report

Page Number

GLOSSARY OF TERMS

The following abbreviations or acronyms used in this document 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 Utah and the Wyoming Commissions
DEQPS	Dominion Energy Questar Pipeline Services, Inc.
DES	Dominion Energy Services, Inc.
DEWS	Dominion Energy Wexpro Services Company
Dominion Energy	The legal entity, Dominion Energy, Inc., one or more of its consolidated subsidiaries (other than Dominion Energy Questar or Wexpro) 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 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 on January 31, 2016
GAAP	U.S. generally accepted accounting principles
IRS	Internal Revenue Service
mcfe	Thousand cubic feet equivalent
NGL	Natural gas liquids
Questar Gas	Questar Gas Company
SEC	U.S. Securities and Exchange Commission
Utah Commission	Public Service Commission of Utah
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

To the President of Gas Distribution, Dominion Energy, Inc.

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, 2019 and 2018, 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 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 the Company at December 31, 2019 and 2018, and the consolidated statements of income, common shareholder's equity, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 14, 2020

Wexpro Company
Consolidated Statements of Income

Year Ended December 31,	2019	2018
(millions)		
Revenues		
Operator service fee[1]	**$ 225.7**	$ 244.8
Oil and NGL sales	**13.7**	14.5
Other[1]	**4.8**	3.1
Total revenues	**244.2**	262.4
Operating Expenses		
Operating and maintenance[1]	**22.3**	22.5
General and administrative[1]	**25.9**	23.1
Production and other taxes	**21.0**	19.9
Depreciation, depletion and amortization	**92.5**	102.2
Accretion expense	**4.9**	4.6
Total operating expenses	**166.6**	172.3
Gains on sales of assets	**0.1**	2.8
Operating income	**77.7**	92.9
Other income[1]	**1.2**	0.4
Income from operations before income tax expense	**78.9**	93.3
Income tax expense	**8.0**	16.0
Net Income	**$ 70.9**	$ 77.3

(1) See Note 9 for amounts attributable to related parties.

The accompanying notes are an integral part of Wexpro's Consolidated Financial Statements.

Wexpro Company
Consolidated Balance Sheets

At December 31,	2019	2018
(millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 4.4**	$ 4.7
Accounts receivable	**4.2**	6.8
Receivables from affiliates	**21.6**	17.5
Materials and supplies, at lower of average cost or market	**3.0**	2.5
Regulatory assets(1)	**18.4**	21.4
Prepaid expenses and other	**0.7**	0.9
Total current assets	**52.3**	53.8
Property, Plant and Equipment		
Cost-of-service gas and oil property, plant and equipment, successful efforts method	**1,808.2**	1,778.7
Accumulated depreciation, depletion and amortization	**(1,174.0)**	(1,085.0)
Total cost-of-service gas and oil property, plant and equipment, net	**634.2**	693.7
Deferred Charges and Other Assets		
Regulatory assets	**—**	0.2
Other	**44.1**	37.8
Total deferred charges and other assets	**44.1**	38.0
Total assets	**$ 730.6**	$ 785.5
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	**$ 10.8**	$ 16.0
Payables to affiliates	**3.1**	3.2
Accrued expenses and other	**7.7**	2.3
Regulatory liabilities	**4.9**	—
Production and other taxes	**9.5**	11.3
Total current liabilities	**36.0**	32.8
Deferred Credits and Other Liabilities		
Deferred income taxes	**72.0**	66.1
Asset retirement obligations	**93.9**	87.8
Regulatory liabilities	**75.1**	94.3
Other	**8.5**	9.8
Total deferred credits and other liabilities	**249.5**	258.0
Total liabilities	**285.5**	290.8
Commitments and Contingencies (see Note 7)		
Common Shareholder's Equity		
Common stock – par value $0.01 per share; 1,000 shares authorized, issued and outstanding	**—**	—
Additional paid-in capital	**174.4**	174.4
Retained earnings	**270.7**	320.3
Total common shareholder's equity	**445.1**	494.7
Total liabilities and common shareholder's equity	**$ 730.6**	$ 785.5

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

The accompanying notes are an integral part of Wexpro's Consolidated Financial Statements.

Wexpro Company
Consolidated Statements of Common Shareholder’s Equity

(millions)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
December 31, 2017	$ —	$ 184.4	$ 370.0	$ 554.4
Dividends			(127.0)	(127.0)
Net income			77.3	77.3
Contribution to Dominion Energy Questar		(9.9)		(9.9)
Other		(0.1)		(0.1)
December 31, 2018	—	174.4	320.3	494.7
Dividends			**(120.5)**	**(120.5)**
Net income			**70.9**	**70.9**
December 31, 2019	$ —	**$ 174.4**	**$ 270.7**	**$ 445.1**

The accompanying notes are an integral part of Wexpro’s Consolidated Financial Statements.

Wexpro Company
Consolidated Statements of Cash Flows

Year Ended December 31,	2019	2018
(millions)		
Operating Activities		
Net income	$ **70.9**	$ 77.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	**92.5**	102.2
Accretion expense	**4.9**	4.6
Deferred income taxes	**(7.0)**	(14.4)
Gains on sales of assets	**(0.1)**	(2.8)
Other	**(0.1)**	0.7
Changes in operating assets and liabilities		
Accounts and affiliate receivables	**(1.5)**	12.0
Materials and supplies	**(0.5)**	0.6
Regulatory assets	**1.3**	(1.1)
Prepaid expenses	**0.2**	0.2
Accounts payable and accrued expenses	**(1.3)**	(3.5)
Production and other taxes	**(1.8)**	2.7
Other assets and liabilities	**—**	(1.0)
Net cash provided by operating activities	**157.5**	177.5
Investing Activities		
Purchases of long-term investment	**(7.1)**	(8.1)
Additions to property, plant and equipment	**(30.7)**	(42.7)
Proceeds from disposition of assets and other	**0.2**	1.6
Net cash used in investing activities	**(37.6)**	(49.2)
Financing Activities		
Dividends paid to Dominion Energy Questar	**(120.5)**	(127.0)
Net cash used in financing activities	**(120.5)**	(127.0)
Increase (decrease) in cash, restricted cash and equivalents	**(0.6)**	1.3
Cash, restricted cash and equivalents at beginning of period	**5.1**	3.8
Cash, restricted cash and equivalents and end of period	$ **4.5**	$ 5.1
Supplemental Cash Flow Information:		
Cash paid during the year for:		
Interest	$ **—**	$ —
Income taxes	**14.7**	30.8
Significant noncash investing and financing activities:		
Accrued capital expenditures	**1.5**	6.6
Equity contribution to Dominion Energy Questar for employee and employee-related net assets	**—**	9.9

The accompanying notes are an integral part of Wexpro's 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 deferred income taxes and reduced for 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 not to exceed 65% of Questar Gas' annual forecasted demand. For each 12-month period ending in May, 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, 2019, Wexpro's trailing 12-month cost-of-service gas deliveries were below the 65% threshold. Wexpro has agreed to reduce the annual production limit from 65% to 55% effective with the 12-month period beginning June 2020.

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.

In January 2018, Wexpro contributed its employees and employee-related net assets of $9.9 million, into a newly formed service company, DEWS, a wholly-owned subsidiary of Dominion Energy Questar, reflected as an equity transaction.

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. SIGNIFICANT ACCOUNTING POLICIES

General

Wexpro makes certain estimates and assumptions in preparing its Consolidated Financial Statements in accordance with GAAP. These estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and cash flows for the periods presented. 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 may differ from those estimates.

Wexpro's Consolidated Financial Statements include, after eliminating intercompany transactions and balances, the accounts of its wholly-owned subsidiary, Wexpro II.

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.

Certain amounts in the 2018 Consolidated Financial Statements and Notes have been reclassified to conform to the 2019 presentation for comparative purposes; however, such reclassifications did not affect Wexpro's net income, total assets, liabilities, equity or cash flows.

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. This revenue is recognized over time, as service is provided to Questar Gas. Wexpro also 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. The sale of gas, crude oil and NGLs are considered to be goods transferred at a point in time and are accounted for using the sales method, whereby revenue is recognized as gas, oil and NGLs are sold to purchasers. Transfer of control of these products and their recognition in revenue occurs upon delivery to the customer. 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. The contract with the customer states the final terms of the sale, including the description, quantity and price of each product or service purchased. Payment for most sales and services varies by contract type, but is typically due within a month of billing.

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, Restricted Cash and 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.

Restricted Cash and Equivalents

Wexpro holds restricted cash and equivalent balances that primarily consist of amounts held in escrow for royalties. Upon the adoption of revised accounting guidance in January 2018, restricted cash and equivalents are included within Wexpro’s Consolidated Statements of Cash Flows, with the change in balance no longer considered a separate investing activity. The following table provides a reconciliation of the total cash, restricted cash, and equivalents reported within Wexpro’s Consolidated Balance Sheets to the corresponding amounts reported within Wexpro’s Consolidated Statements of Cash Flows:

	Cash, Restricted Cash and Equivalents at End/Beginning of Year		
	2019	2018	2017
(millions)			
Cash and cash equivalents	**$ 4.4**	$ 4.7	$ 3.4
Restricted cash and equivalents(1)	**0.1**	0.4	0.4
Cash, restricted cash and equivalents shown in the Consolidated Statement of Cash Flows	**$ 4.5**	$ 5.1	$ 3.8

(1) Restricted cash and equivalent balances are presented within other deferred charges and other assets in Wexpro’s Consolidated Balance Sheets.

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:

At December 31,	**2019**	2018
Cost-of-service gas and oil properties, per mcfe	**$ 1.81**	$ 1.95

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 2019 or 2018.

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 $0.1 million and $0.4 million for the years ended December 31, 2019 and 2018, respectively, which is included in other income in the Consolidated Statements of Income.

Regulatory Assets and Liabilities

The accounting for Wexpro's regulated gas operations differs from the accounting for nonregulated operations in that Wexpro 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.

Wexpro evaluates whether or not recovery of its regulatory assets through future rates is probable as well as whether a regulatory liability due to customers is probable and makes various assumptions in its analyses. These analyses are generally based on:

- Orders issued by regulatory commissions, legislation and judicial actions;
- Past experience;
- Discussions with applicable regulatory authorities and legal counsel;
- Forecasted earnings; and
- Considerations around the likelihood of impacts from events such as unusual weather conditions, extreme weather events and other natural disasters.

Generally, regulatory assets and liabilities are amortized into income over the period authorized by the regulator. 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. A regulatory liability, if considered probable, will be recorded in the period such assessment is made or reversed into earnings if no longer probable. See Note 6 for additional information.

Asset Retirement Obligations

Wexpro recognizes AROs at fair value as incurred, or when sufficient information becomes available to determine a reasonable estimate of the fair value of the retirement activities to be performed. The associated asset retirement costs are capitalized as costs of the related tangible long-lived assets. Since relevant market information is not available, Wexpro estimates fair value using discounted cash flow analyses. AROs are adjusted when significant changes in the amounts or timing of future cash flows are identified. Wexpro reports the accretion of the AROs due to the passage of time in accretion expense in the Consolidated Statements of Income.

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 involves uncertainty, since tax authorities may interpret the laws differently. Dominion Energy is routinely audited by federal and state tax authorities. Ultimate resolution of income tax matters may result in favorable or unfavorable impacts to net income and cash flows, and adjustments to tax-related assets and liabilities could be material.

A consolidated federal income tax return is filed for Dominion Energy and its subsidiaries, including Wexpro. 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. The 2019 federal income tax return has not been 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.

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. For both the years ended December 31, 2019 and 2018, Wexpro had a valuation allowance of $2.2 million.

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. Except when such amounts are presented net with amounts receivable from or amounts prepaid to tax authorities, noncurrent income taxes payable related to unrecognized tax benefits are classified in other deferred credits and other liabilities in the Consolidated Balance Sheets and current payables are included in accrued expenses and other current liabilities in the Consolidated Balance Sheets. 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, 2019 or 2018.

Wexpro recognizes interest on underpayments and overpayments of income taxes net in other income, respectively, in the Consolidated Statements of Income. Penalties are also recognized net in other income in the Consolidated Statements of Income. Wexpro's interest and penalties were immaterial in 2019 and 2018.

At December 31, 2019, Wexpro's Consolidated Balance Sheet included $0.4 million of tax-related receivables from affiliates, representing $1.3 million of current federal income taxes receivable and $0.9 million of state income taxes payable. The net affiliated receivables are expected to be paid by Dominion Energy.

At December 31, 2018, Wexpro's Consolidated Balance Sheet included $0.7 million of tax-related receivables from affiliates, representing $1.6 million of current federal income taxes receivable and $0.9 million of state income taxes payable. The affiliated receivables were paid by Dominion Energy.

New Accounting Standards

Tax Reform

In August 2018, the U.S. Department of Treasury issued proposed regulations addressing the availability of federal bonus depreciation for the period beginning after September 27, 2017 through December 31, 2017. See Note 5 for impacts to Wexpro.

In November 2018, the U.S. Department of Treasury issued proposed regulations defining interest as any amounts associated with the time value of money or use of funds. These proposed regulations provide guidance for purposes of the exception to the interest limitation for regulated public utilities and the application of the interest limitation to consolidated groups, such as Dominion Energy, which includes Wexpro. It is unclear when the guidance may be finalized, or whether that guidance could result in a disallowance of a portion of Dominion Energy’s interest deductions in the future, which could be allocated to Wexpro under these proposed regulations.

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

(millions)		**Amount**
AROs at December 31, 2017	$	85.0
Accretion		4.6
Obligations incurred during the period		1.1
Obligations settled during the period		(2.7)
AROs at December 31, 2018(1)	$	88.0
Accretion		**4.9**
Obligations incurred during the period		**1.3**
Obligations settled during the period		**(0.1)**
AROs at December 31, 2019(1)	**$**	**94.1**

(1) Includes $0.2 million reported in accrued expenses and other in the Consolidated Balance Sheets at both December 31, 2019 and 2018.

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, 2019 and 2018, the funds totaled $41.3 million and $34.2 million, respectively, and are included in other deferred charges and other assets in 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. See Note 6 for more information.

NOTE 4. SHORT-TERM DEBT

Dominion Energy may make loans to Wexpro under a short-term borrowing arrangement. At December 31, 2019 and 2018, there were no short-term borrowings outstanding. Interest charges paid to Dominion Energy were less than $0.1 million for both of the years ended December 31, 2019 and 2018, which are presented net in other income in the Consolidated Statements of Income.

NOTE 5. INCOME TAXES

As indicated in Note 2, Wexpro's operations, including accounting for income taxes, are subject to regulatory accounting treatment. Reductions in accumulated deferred income tax balances due to the reduction in the corporate income tax rates to 21% under the provisions of the 2017 Tax Reform Act are being shared through the operator service fee with Questar Gas. Wexpro is not a "public utility" for purposes of the Internal Revenue Code's normalization rules. Instead, all Wexpro's excess deferred income taxes included in the operator service fee or the derivation thereof will be returned to Questar Gas over a period not to exceed 15 years using the straight-line amortization method.

Wexpro has accounted for the effects of the 2017 Tax Reform Act, although changes could occur as additional guidance is issued and finalized.

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,	2019	2018
(millions)		
Current:		
Federal	**$ 13.9**	$ 29.6
State	**1.1**	0.8
Total current expense	**15.0**	30.4
Deferred:		
Federal	**(7.9)**	(14.2)
State	**0.9**	(0.2)
Total deferred expense	**(7.0)**	(14.4)
Total income tax expense	**$ 8.0**	$ 16.0

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

Year Ended December 31,	2019	2018
Federal income taxes statutory rate	**21.0%**	21.0%
Increases (reductions) resulting from:		
State taxes, net of federal benefit	**0.7**	0.5
Reversal of excess deferred income taxes	**(12.9)**	(4.6)
Legislative change - federal	**—**	0.2
Other	**1.4**	—
Effective income tax rate	**10.2%**	17.1%

The 2017 Tax Reform Act reduced the statutory federal income tax rate to 21% beginning in January 2018. Accordingly, current and deferred income taxes are recorded at the new 21% rate. Wexpro has recorded an estimate of the portion of excess deferred income tax amortization expected to occur in 2019. The reversal of these excess deferred income taxes will impact the effective tax rate and impact rates charged to customers. See Note 6 for more information.

In 2018, Wexpro applied the provisions of recently proposed regulations addressing the availability of federal bonus depreciation for the period beginning after September 27, 2017 through December 31, 2017. The application of these proposed regulations had no impact on income tax expense as the changes in, and remeasurement of, deferred tax liabilities were recorded as increases to regulatory liabilities of $3.7 million. The impacts of proposed and final regulations issued in 2019 on the applicability of accelerated depreciation were immaterial. These amounts represent Wexpro's best estimate based on available information, and could be subject to change based on additional guidance in yet to be finalized regulations.

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

At December 31,		**2019**		2018
(millions)				
Deferred income taxes:				
Deferred tax liabilities				
Property, plant and equipment	**$**	**101.1**	$	99.1
Employee benefits		**0.2**		0.2
Deferred tax liabilities	**$**	**101.3**	$	99.3
Deferred tax assets				
Excess deferred income taxes	**$**	**13.8**	$	16.5
Asset retirement obligations		**11.7**		10.4
Deferred compensation		**0.3**		0.3
State tax credits net of valuation allowance		**0.4**		0.8
Ad valorem taxes		**3.1**		3.0
Other		**—**		2.2
Deferred tax assets	**$**	**29.3**	$	33.2
Total net deferred income tax liabilities	**$**	**72.0**	$	66.1

Wexpro's business activities from the time of the Dominion Energy Questar Combination are included in the consolidated U.S. federal tax returns of Dominion Energy. For periods prior to the Dominion Energy Questar Combination, Wexpro was included in the consolidated federal and consolidated state tax returns of its former parent, Dominion Energy Questar. Dominion Energy participates in the IRS Compliance Assurance Process which provides the opportunity to resolve complex tax matters with the IRS before filing its federal income tax returns, thus achieving certainty for such tax return filing positions agreed to by the IRS. With few exceptions, the IRS has completed its audit of tax years through 2018. The statute of limitations has not yet expired for tax year 2014 and years after 2015. The IRS examination of tax year 2019 is ongoing. The earliest year open for examination of Dominion Energy Questar's consolidated Colorado returns is 2016.

Wexpro had Colorado credit carryforwards of $3.3 million, that if not utilized will expire between 2020 and 2023.

NOTE 6. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities include the following:

At December 31,		**2019**		2018
(millions)				
Regulatory assets:				
Deferred depreciation, depletion and amortization(1)	**$**	**10.4**	$	12.4
Deferred production taxes(1)		**3.3**		4.5
Deferred other operating and maintenance(1)		**3.2**		2.2
Deferred royalties(2)		**1.3**		2.1
AROs(3)		**0.2**		0.2
Regulatory assets - current		**18.4**		21.4
AROs(3)		**—**		0.2
Regulatory assets - noncurrent		**—**		0.2
Total regulatory assets	**$**	**18.4**	$	21.6
Regulatory liabilities:				
Income taxes refundable through future rates(4)	**$**	**4.9**	$	—
Regulatory liabilities - current		**4.9**		—
Income taxes refundable through future rates(4)		**58.5**		76.2
Depreciation(5)		**16.6**		18.1
Regulatory liabilities - noncurrent		**75.1**		94.3
Total regulatory liabilities	**$**	**80.0**	$	94.3

(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) 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 over a period not to exceed 15 years beginning January 1, 2018.
(5) 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.

At December 31, 2019, none of Wexpro's regulatory assets were earning a return. These expenditures are expected to be recovered within one year.

NOTE 7. 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. These legal proceedings and governmental examinations may involve demands for unspecified amounts of damages. The circumstances of any such legal proceedings and governmental examinations may change from time to time. Currently, management does not anticipate that any potential liability arising from such proceedings would have a material effect on the financial position, liquidity or results of operations of Wexpro. At December 31, 2019 and 2018, Wexpro had no material legal or environmental matters requiring the recognition of a liability.

NOTE 8. 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 $0.2 million and $0.1 million for the years ended December 31, 2019 and 2018, respectively. DEQPS provides operational services to certain Dominion Energy subsidiaries, including Wexpro, as a subsidiary service company. The Consolidated Balance Sheets at both December 31, 2019 and 2018, includes amounts due to DEQPS of less than $0.1 million.

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 purchased shared services from DES of $11.1 million and $9.0 million for the years ended December 31, 2019 and 2018, respectively. The Consolidated Balance Sheets at both December 31, 2019 and 2018 include amounts due to DES of $0.8 million.

Wexpro entered into a service agreement with DEWS, an affiliated VIE, effective January 2018. DEWS provides human resources and operations services to Dominion Energy and its subsidiaries, including Wexpro. Wexpro purchased shared services from DEWS of $15.6 million and $17.2 million for the years ended December 31, 2019 and 2018, respectively. The Consolidated Balance Sheets at December 31, 2019 and 2018 include amounts due to DEWS of $1.2 million and $1.4 million, respectively.

Wexpro determined that it is not the primary beneficiary of DEQPS, DES or DEWS 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, DES and DEWS costs.

NOTE 9. 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. See Note 4 for interest expense associated with related parties and Note 6 for regulatory assets associated with related parties.

Dominion Energy Questar and other affiliates (including DES) provide accounting, legal, finance and certain administrative and technical services to Wexpro while DEWS provides human resources and operations 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:

Year Ended December 31,	2019	2018
(millions)		
Operator service fee	**$ 225.7**	$ 244.8
Services provided by related parties	**29.5**	29.9
Services provided to related parties	**4.8**	3.0

Voluntary Retirement Program

In March 2019, Dominion Energy announced a voluntary retirement program to employees that meet certain age and service requirements. In 2019, upon determinations made concerning the number of employees that elected to participate in the program, Wexpro recorded a charge of $2.4 million ($1.9 million after-tax) included within operating and maintenance expense ($2.3 million) and production and other taxes ($0.1 million) in the Consolidated Statement of Income.

NOTE 10. SUBSEQUENT EVENTS

Wexpro has evaluated subsequent events through the date that these financial statements were available to be issued on April 14, 2020.

In March 2020, Wexpro closed on an agreement with Andeavor Gathering I, LLC and Andeavor Field Services LLC to purchase existing natural gas gathering systems including pipelines, compressors and dehydration equipment for total consideration of $37.8 million. These facilities gather natural gas in Wyoming, Utah and Colorado, where Wexpro produces natural gas under the Wexpro Agreements.