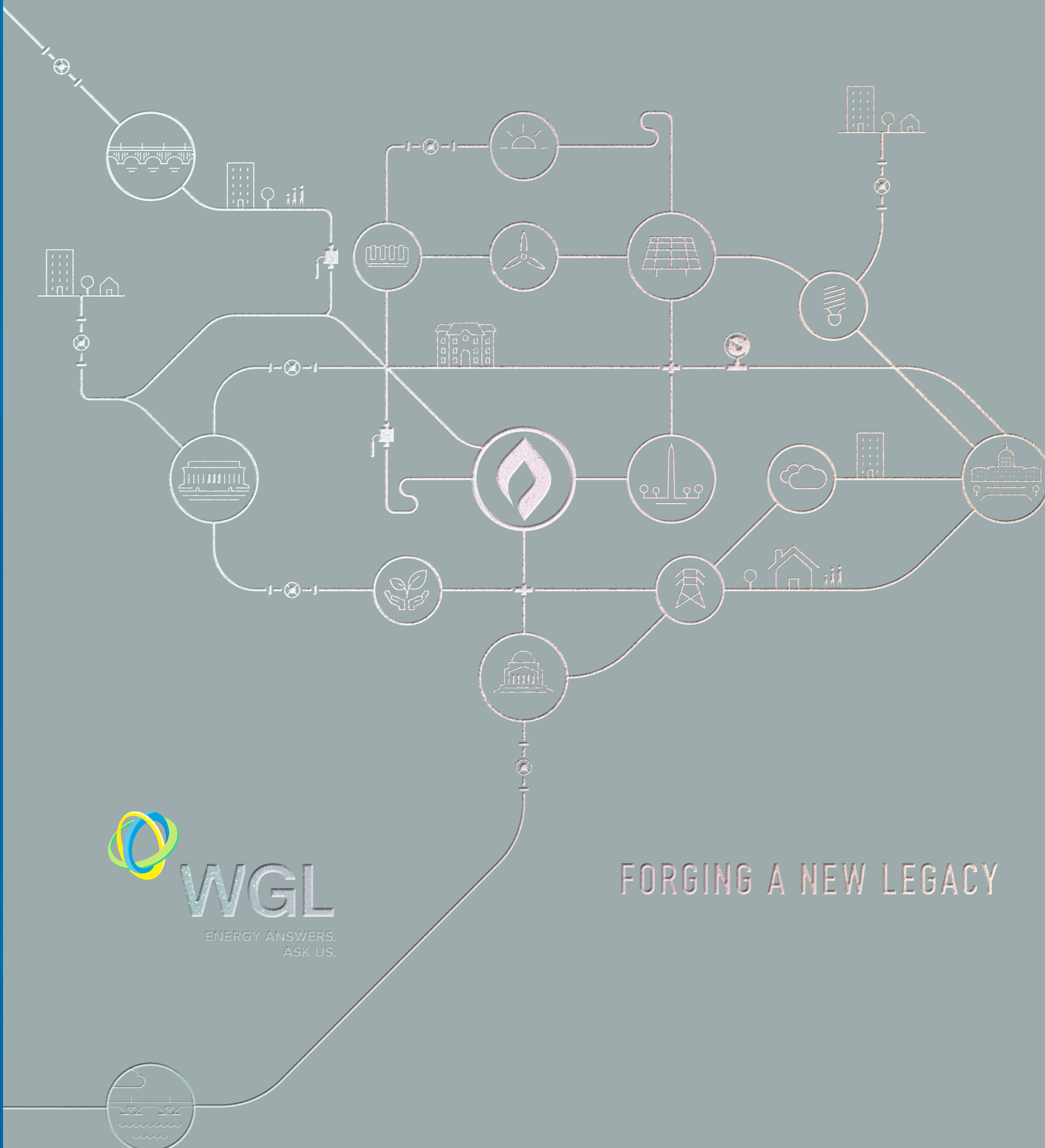


WGL

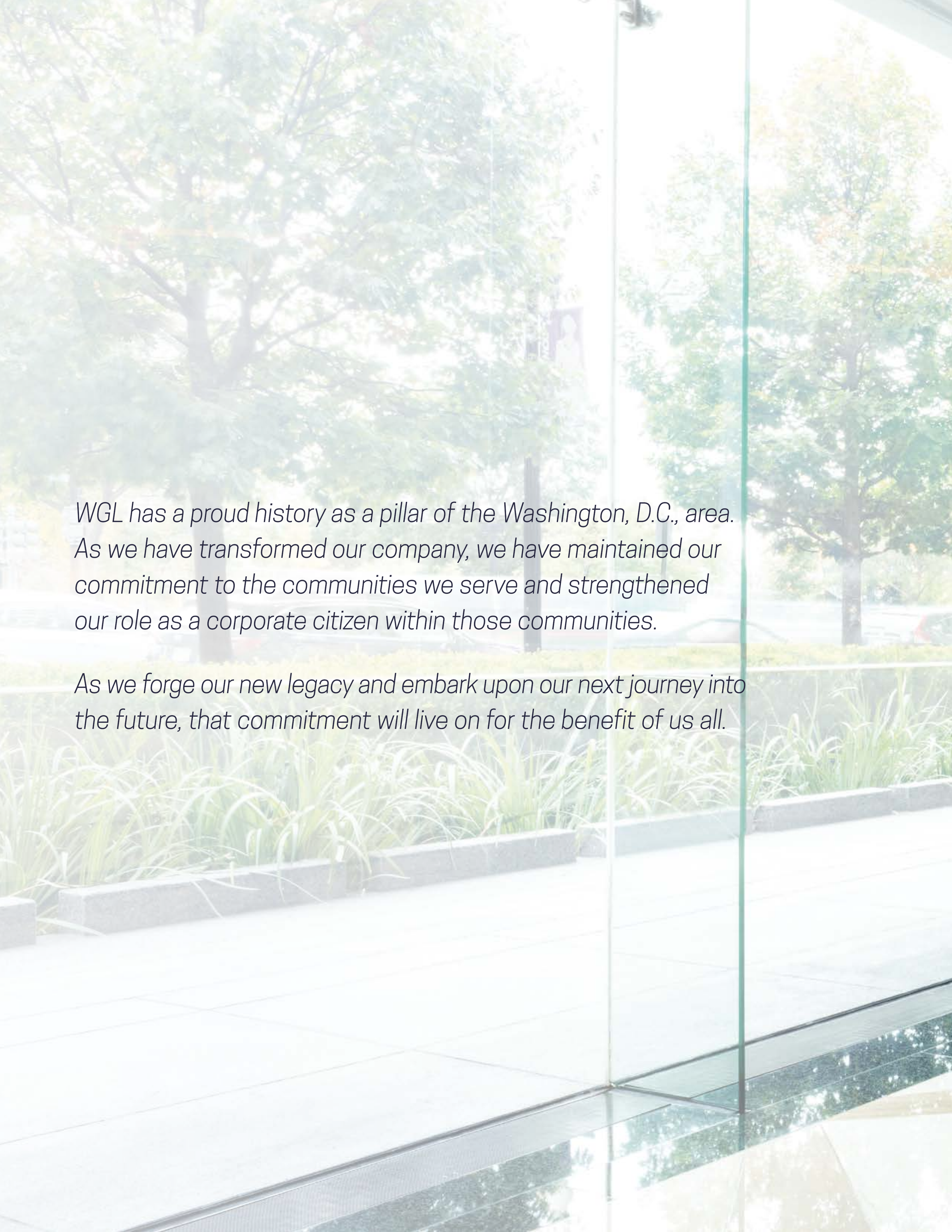
ENERGY ANSWERS.
ASK US.

FORGING A NEW LEGACY

2017 // CORPORATE FINANCIAL REPORT

IN 2009, WGL BEGAN TO
FORGE A NEW LEGACY.

In the past nine years, our company has grown into a diversified energy company with a thriving regulated utility, substantial investments in midstream operations and alternative energy solutions delivered to customers across the nation.



WGL has a proud history as a pillar of the Washington, D.C., area. As we have transformed our company, we have maintained our commitment to the communities we serve and strengthened our role as a corporate citizen within those communities.

As we forge our new legacy and embark upon our next journey into the future, that commitment will live on for the benefit of us all.

Forging a New Legacy

LEVERAGING THE LEGACY OF ENERGY SOLUTIONS THE COMPANY HAS PROVIDED FOR DECADES

When we think back over the past nine years, we are thankful in so many ways for the privilege of leading this company—the inspiration we've drawn from an energized WGL team, the growth we've been able to realize and the promising future we anticipate.

Perhaps our greatest satisfaction comes from the decision our board of directors made at the very beginning of our tenure allowing us to envision a future for WGL that stepped outside the traditional utility model and, in essence, forged a new legacy for our company. It was this important step that made possible all that WGL has become today.

We set out to point WGL toward an energy future that would not only serve our business in the present, but one that would endure to the benefit of future generations. We were empowered to ask—and answer—a profound question: Where do we think the world needs to be in 30 years, 50 years, and well into the future?

Our mission was to forge a new legacy, a future built on WGL's distinguished 160-plus-year history, but at the same time establish an ambitious, reinvigorated mission, one that would both benefit our shareholders and also create a better future for our planet, our communities, the customers we serve now and those we will serve for many decades to come.

EXECUTING ON A VISION

For us, that meant asking where the world of energy is headed over the long term, and how do we help drive the future by what we do. It was clear the world was moving toward cleaner energy, with natural gas a key part of that picture. That energy future also embraced wind, solar, energy efficiency, natural gas-powered fuel cells and even more from the world's best engineering minds. So how would we get involved?

In the past nine years, we have addressed these questions to realize the vision of a company intent on participating in that new energy future while further growing those portions of our enterprise that have served us for the past 169 years. To wit:

- We have continued to operate a safe, reliable, growing and state-of-the-art regulated natural gas utility. Washington Gas, our largest business unit, is an indispensable part of the comprehensive energy solution we offer to our customers.
- We have grown our gas infrastructure effort through our WGL Midstream business. Here we've extended a major presence in natural gas storage and transportation into a growing infrastructure business—our investments in pipeline systems are now projected to total nearly $1 billion in the near future.
- Finally, through WGL Energy, we have built a robust and profitable presence in alternative energy, offering our customers solar solutions, remotely generated wind and other options. Through a distributed generation model, we can provide a combination of natural gas and alternative energy solutions.

We've continued to deliver solid financial returns to our shareholders, year in and year out. In Fiscal Year 2017, we reported record GAAP consolidated net income of $192.6 million, or $3.74 per share, versus FY 2016 GAAP results of $167.6 million, or $3.31 per share, and non-GAAP consolidated operating earnings of $160.2 million, or $3.11 per share, versus FY 2016

Our mission was to forge a new legacy, a future built on WGL's distinguished 160-plus-year history, but at the same time establish an ambitious, reinvigorated mission, one that would both benefit our shareholders and also create a better future for our planet, our communities, the customers we serve now and those we will serve for many decades to come.

non-GAAP results of $155.6 million, or $3.08 per share. These results can be attributed to:

- the addition of more than 12,400 meters during the year;
- timely returns on our investments to replace segments of aging infrastructure in all three of Washington Gas' jurisdictions;
- pipeline infrastructure investments; and
- higher earnings from alternative energy investments.

Overall, we extended our track record of increasing dividends for 41 consecutive years and paying dividends for 166 years.

LOOKING FORWARD—A PROMISING NEW LEGACY

In January of 2017 the boards of directors of WGL Holdings and AltaGas Ltd., of Calgary, each unanimously approved a definitive agreement for WGL to be acquired by AltaGas, a North American infrastructure company, in an all-cash transaction valued at approximately $6.4 billion, pending regulatory approval.

The concept of creating a bigger, better company with the combined resources of WGL and AltaGas is exactly in sync with all that we have been doing leading up to this. As part of a larger company with more resources, we will be able to provide energy solutions we currently don't offer and to grow parts of our business that are complementary to those of AltaGas. Importantly, we will also be able to continue running existing businesses, including providing safe and reliable natural gas to our service area and growing Washington Gas as we do today.

As we said at the beginning of this letter, all this would not have been possible without the highly dedicated and focused WGL employees that it has been our privilege to lead, professionals who have worked tirelessly to realize the vision of a more diverse, environmentally conscious and modern energy company. This dedication has been particularly true in the past year, with every one of our employees remaining focused, and with many of our people essentially doing two jobs, fulfilling their regular duties while also attending to the myriad details of a large, complex merger.

We want to thank these colleagues, and also our customers, shareholders and communities, for their support. We have built something great, something lasting, a legacy—one that promises only to get better.

Sincerely yours,

Terry D. McCallister
Chairman and Chief Executive Officer

Adrian P. Chapman
President and Chief Operating Officer

A NEW LEGACY

We look back on 2017 with pride and anticipate the years to come with optimism and excitement about WGL's place in the advanced energy economy. As part of a much larger organization, WGL will be well positioned to build upon our great history, forging a new legacy while delivering the same exceptional service to our natural gas utility customers and an even more comprehensive set of services in regional gas distribution and alternative energy solutions. At the heart of these efforts will remain our key to success—our skilled and experienced employees, dedicated to our customers, shareholders, communities and each other.

Washington Gas™
A WGL Company

A regulated natural gas utility providing safe, reliable natural gas service to more than 1.1 million customers in the District of Columbia, Maryland and Virginia. Through Washington Gas, we have provided energy to residential, commercial and industrial customers for 169 years.

WGL Energy™
A WGL Entity

WGL Energy delivers a full ecosystem of energy offerings, including natural gas, electricity, renewable energy, and carbon reduction provided by WGL Energy Services, Inc. and distributed generation and energy efficiency from WGL Energy Systems, Inc.

WGL Midstream™
A WGL Company

WGL Midstream specializes in the investment, management, development and optimization of natural gas storage and transportation projects. WGL Midstream's customers and counterparties include producers, utilities, LNG exporters, local distribution companies, power generators, wholesale energy suppliers, pipelines and storage facilities.

Hampshire Gas™
A WGL Company

An owner and operator of interests in natural gas storage facilities in and around Hampshire County, West Virginia. Hampshire Gas provides exclusive storage services to Washington Gas.

COMPANY OFFICERS

(1) WGL Holdings, Inc.
(2) Washington Gas

TERRY D. McCALLISTER[1,2]
Chairman of the Board and Chief Executive Officer

ADRIAN P. CHAPMAN[1,2]
President and Chief Operating Officer

VINCENT L. AMMANN, JR.[1,2]
Senior Vice President and Chief Financial Officer

DOUGLAS I. BONAWITZ[1,2]
Vice President and Treasurer

WILLIAM R. FORD[1,2]
Vice President and Chief Accounting Officer

MARCELLOUS P. FRYE, JR.[2]
Vice President

LUANNE S. GUTERMUTH[1,2]
Senior Vice President and Chief Human Resources Officer

LOUIS J. HUTCHINSON, III[1,2]
Vice President and Chief Revenue Officer

MARK A. LOWE[2]
Vice President

RICK MOORE[1,2]
Vice President

ANTHONY M. NEE[1,2]
Vice President

DOUGLAS A. STAEBLER[2]
Senior Vice President

LESLIE T. THORNTON[1,2]
Senior Vice President, General Counsel and Corporate Secretary

TRACY L. TOWNSEND[2]
Vice President

BOARD OF DIRECTORS

COMMITTEE MEMBERSHIP
(1) Executive
(2) Audit
(3) Human Resources
(4) Governance

TERRY D. McCALLISTER[1]
Chairman of the Board and
Chief Executive Officer
WGL Holdings, Inc.
and Washington Gas

MICHAEL D. BARNES[1,4]
Senior Fellow
Center for International Policy

GEORGE P. CLANCY, JR.[1,2,3]
Retired Executive
Vice President
Chevy Chase Bank

JAMES W. DYKE, JR.[3,4]
Senior Advisor
McGuire Woods Consulting

NANCY C. FLOYD[2,4]
Founder and Managing Director
Nth Power

LINDA GOODEN[3]
Retired Executive
Vice President
Lockheed Martin
Information Systems
& Global Solutions

JAMES F. LAFOND[1,3]
Retired Area Managing Partner
PricewaterhouseCoopers LLP

DEBRA L. LEE[2]
Chairman and
Chief Executive Officer
BET Networks

DALE S. ROSENTHAL[2]
Division President
Clark Financial Services Group

WGL Honored Among Top Boards in America for Diversity

WGL is proud of the diversity of our board of directors. In 2017, our directors Lee, Dyke and Gooden were recognized by Savoy magazine as being among the most influential black directors in corporate America. Also this year, WGL was honored by the Women's Forum of New York for accelerating gender parity in the boardroom.

WGL
ENERGY ANSWERS.
ASK US.

2017 FINANCIAL INFORMATION & ANNUAL REPORT ON FORM 10-K

Financial and Operating Highlights

We present the information below to allow readers to see and analyze trends in the selected data, including a five and ten-year period.

	Fiscal Years Ended September 30,			
(In thousands, except per share data)	**2017**	**2016**	**2013**	**2008**
Financial Results				
Earnings Summary				
Operating revenues				
Utility	**$ 1,143,337**	$ 1,044,117	$ 1,174,724	$ 1,536,443
Non-utility	**1,211,387**	1,305,442	1,291,414	1,091,751
Total Operating Revenues	**2,354,724**	2,349,559	2,466,138	2,628,194
Net income applicable to common stock	**$ 192,620**	$ 167,594	$ 80,253	$ 116,523
Diluted earnings per average common share:				
Net income applicable to common stock	**$ 3.74**	$ 3.31	$ 1.55	$ 2.33
Capital expenditures—accrual basis[(a)]	**$ 486,610**	$ 568,141	$ 315,692	$ 131,433
Total capitalization	**$ 2,968,575**	$ 2,839,188	$ 1,823,912	$ 1,676,574
Common Stock Data				
Return on average common equity	**13.4%**	12.8%	6.3%	11.5%
Annualized dividends per share	**$ 2.04**	$ 1.95	$ 1.68	$ 1.42
Dividend payout ratio	**53.7%**	57.8%	107.1%	59.9%
Book value per share—year-end	**$ 29.34**	$ 26.93	$ 24.62	$ 20.99
Dividend yield on book value	**7.0%**	7.2%	6.8%	6.8%
Market price (New York Stock Exchange)				
Range	**$ 86.89 - $58.66**	$ 74.10-$56.90	$ 46.96-$35.96	$ 36.22-$30.26
Close—year-end	**$ 84.20**	$ 62.70	$ 42.71	$ 32.45
Market-to-book ratio—average	**280.8%**	252.3%	168.5%	162.6%
Average shares traded daily	**330,330**	262,583	241,587	547,775
Common shares outstanding—year-end (thousands)	**51,219**	51,081	51,774	49,917
Selected Statistics				
Gas delivered by the utility (thousands of therms)	**1,602,456**	1,792,523	1,780,862	1,616,226
Heating degree days—actual	**3,127**	3,341	3,769	3,458
Weather percent colder (warmer) than normal	**(15.9)%**	(10.4)%	(0.2)%	(8.7)%
Number of active customer meters—year-end	**1,163,655**	1,144,160	1,105,123	1,053,032
Number of employees—year-end				
Utility	**1,461**	1,438	1,297	1,359
Non-utility	**125**	116	119	89

[(a)] *Excludes Allowance for Funds Used During Construction. Additionally, excludes adjustments for capital expenditures accrued and other cash-basis adjustments.*

Reconciliation of Non-GAAP Financial Measures (Unaudited)

The tables below reconcile operating earnings (loss) on a consolidated basis to GAAP net income (loss) applicable to common stock and adjusted EBIT on a segment basis to EBIT. Management believes that operating earnings (loss) and adjusted EBIT provide a meaningful representation of our earnings from ongoing operations on a consolidated and segment basis, respectively. These measures facilitate analysis by providing consistent and comparable measures to help management, investors and analysts better understand and evaluate our operating results and performance trends, and assist in analyzing period-to-period comparisons. Additionally, we use these non-GAAP measures to report to the board of directors and to evaluate management's performance.

To derive our non-GAAP measures, we adjust for the accounting recognition of certain transactions (non-GAAP adjustments) based on at least one of the following criteria:

- To better match the accounting recognition of transactions with their economics;
- To better align with regulatory view/recognition;
- To eliminate the effects of:
  - i. Significant out of period adjustments;
  - ii. Other significant items that may obscure historical earnings comparisons and are not indicative of performance trends; and
  - iii. For adjusted EBIT, other items which may obscure segment comparisons.

There are limits in using operating earnings (loss) and adjusted EBIT to analyze our consolidated and segment results, respectively, as they are not prepared in accordance with GAAP and may be different than non-GAAP financial measures used by other companies. In addition, using operating earnings (loss) and adjusted EBIT to analyze our results may have limited value as they exclude certain items that may have a material impact on our reported financial results. We compensate for these limitations by providing investors with the attached reconciliations to the most directly comparable GAAP financial measures.

The following table represents the reconciliation of non-GAAP operating earnings to GAAP net income applicable to common stock:

	Fiscal Year Ended September 30,	
(In thousands, except per share data)	**2017**	**2016**[(1)]
Operating earnings	**$ 160,244**	$ 155,600
Non-GAAP adjustments[(2)]	**55,368**	14,477
De-designated interest rate swaps[(3)]	**(5,570)**	-
Income tax expense on non-GAAP adjustments[(4)]	**(17,422)**	(2,483)
Net income applicable to common stock	**$ 192,620**	$ 167,594
Diluted average common shares outstanding	**51,475**	50,564
Operating earnings per share	**$ 3.11**	$ 3.08
Per share effect of non-GAAP adjustments	**0.63**	0.23
Diluted earnings per average common share	**$ 3.74**	$ 3.31

(1) *Prior year non-GAAP measures have been recast to include $15.2 million of pre-tax losses associated with the index price used in certain gas purchases from Antero. The index price used to invoice these purchases had been the subject of an arbitration proceeding; however, in February 2017, the arbitral tribunal ruled in favor of Antero.*

(2) *Refer to the reconciliations of adjusted EBIT to EBIT below for further details on our non-GAAP adjustments.*

(3) *Non-GAAP adjustment related to mark-to-market valuations on forward starting interest rate swaps associated with anticipated future financing. Due to certain covenants in the Merger Agreement with AltaGas, it is no longer probable that the 30-year debt issuance that the swaps were originally intended to hedge will occur. However, we believe that some form of financing will continue to be required. The hedges were de-designated in January 2017.*

(4) *Non-GAAP adjustments are presented on a gross basis and the income tax effects of those adjustments are presented separately. The income tax effects of non-GAAP adjustments, both current and deferred, are calculated at the individual company level based on the applicable composite tax rate for each period presented, with the exception of transactions not subject to income taxes. Additionally, the income tax effect of non-GAAP adjustments includes investment tax credits related to distributed generation assets.*

The following tables summarize non-GAAP adjustments, by operating segment and present a reconciliation of adjusted EBIT to EBIT. EBIT is defined as earnings before interest and taxes, less amounts attributable to non-controlling interest. Items we do not include in EBIT are interest expense, inter-company financing activity, dividends on Washington Gas preferred stock and income taxes.

	Fiscal Year Ended September 30, 2017						
(In thousands)	**Regulated Utility**	**Retail-Energy Marketing**	**Commercial Energy Systems**	**Midstream Energy Services**	**Other Activities**	**Intersegment Eliminations**	**Total**
Adjusted EBIT	**$ 227,228**	**$ 41,597**	**$ 47,586**	**$ 10,880**	**$ (4,862)**	**$ 1,328**	**$ 323,757**
Non-GAAP adjustments:							
Unrealized mark-to-market valuations on energy-related derivatives	**49,338**	**11,598**	**-**	**18,823**	**-**	**(363)**	**79,396**
Storage optimization program	**1,496**	**-**	**-**	**-**	**-**	**-**	**1,496**
DC weather impact	**(11,755)**	**-**	**-**	**-**	**-**	**-**	**(11,755)**
Distributed generation asset related investment tax credits	**-**	**-**	**(6,752)**	**-**	**-**	**-**	**(6,752)**
Change in measured value of inventory	**-**	**-**	**-**	**7,986**	**-**	**-**	**7,986**
Merger related costs	**-**	**-**	**-**	**-**	**(12,902)**	**-**	**(12,902)**
Third party guarantee	**-**	**-**	**-**	**-**	**(2,101)**	**-**	**(2,101)**
Total non-GAAP adjustments	**$ 39,079**	**$ 11,598**	**$ (6,752)**	**$ 26,809**	**$ (15,003)**	**$ (363)**	**$ 55,368**
EBIT	**$ 266,307**	**$ 53,195**	**$ 40,834**	**$ 37,689**	**$ (19,865)**	**$ 965**	**$ 379,125**

	Fiscal Year Ended September 30, 2016						
(In thousands)	**Regulated Utility**	**Retail-Energy Marketing**	**Commercial Energy Systems**	**Midstream Energy Services**	**Other Activities**	**Intersegment Eliminations**	**Total**
Adjusted EBIT	$ 224,314	$ 54,219	$ 27,329	$ 2,647	$ (3,184)	$ (504)	$ 304,821
Non-GAAP adjustments:							
Unrealized mark-to-market valuations on energy-related derivatives	11,951	10,749	-	20,708	-	-	43,408
Storage optimization program	(376)	-	-	-	-	-	(376)
DC weather impact	(9,392)	-	-	-	-	-	(9,392)
Distributed generation asset related investment tax credits	-	-	(5,337)	-	-	-	(5,337)
Change in measured value of inventory	-	-	-	(15,548)	-	-	(15,548)
Net insurance proceeds	1,722	-	-	-	-	-	1,722
Total non-GAAP adjustments	$ 3,905	$ 10,749	$ (5,337)	$ 5,160	$ -	$ -	$ 14,477
EBIT	$ 228,219	$ 64,968	$ 21,992	$ 7,807	$ (3,184)	$ (504)	$ 319,298

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended September 30, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from _____ to _____

Commission File Number	*Exact name of registrant as specified in its charter and address of principal executive offices and telephone number*	*State or Other Jurisdiction of Incorporation*	*I.R.S. Employer Identification No.*
1-16163	**WGL Holdings, Inc.** **101 Constitution Ave., N.W.** **Washington, D.C. 20080** **(703) 750-2000**	**Virginia**	**52-2210912**
0-49807	**Washington Gas Light Company** **101 Constitution Ave., N.W.** **Washington, D.C. 20080** **(703) 750-4440**	**District of Columbia and Virginia**	**53-0162882**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:	
Title of each class	Name of each exchange on which registered
WGL Holdings, Inc. common stock, no par value	**New York Stock Exchange**

Title of each class
Washington Gas Light Company preferred stock, cumulative, without par value: **$4.25 Series** **$4.80 Series** **$5.00 Series**

Indicate by check mark	**YES**	**NO**
• if each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.		
WGL Holdings, Inc.	☑	☐
Washington Gas Light Company	☐	☑
• if each registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	☐	☑
• whether each registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.	☑	☐
• whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	☑	☐
• if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.	☑	

• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

WGL Holdings, Inc.:

Large Accelerated Filer ☑ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☐ Emerging growth company ☐

(Do not check if a smaller reporting company)

Washington Gas Light Company:

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☑ Smaller Reporting Company ☐ Emerging growth company ☐

(Do not check if a smaller reporting company)

	YES	NO
• whether each registrant is a shell company (as defined in Rule 12b-2 of the Act):	☐	☑

The aggregate market value of the voting common equity held by non-affiliates of the registrant, WGL Holdings, Inc., amounted to $4,187,038,726 as of March 31, 2017.

The aggregate market value of the voting common equity held by non-affiliates of the registrant, Washington Gas Light Company, amounted to $0 as of March 31, 2017.

WGL Holdings, Inc. common stock, no par value outstanding as of October 31, 2017: 51,352,540 shares.

Washington Gas Light Company common stock, $1 par value, outstanding as of October 31, 2017: 46,479,536 shares

All of the outstanding shares of common stock ($1 par value) of Washington Gas Light Company were held by WGL Holdings, Inc. as of October 31, 2017.

Table of Contents

PART I

Introduction

Filing Format

This annual report on Form 10-K is a combined report being filed by two separate registrants: WGL Holdings, Inc. (WGL) and Washington Gas Light Company (Washington Gas). Except where the content clearly indicates otherwise, any reference in the report to "WGL," "we," "us" or "our" is to the holding company or the consolidated entity of WGL Holdings and all of its subsidiaries, including Washington Gas which is a distinct registrant that is a wholly owned subsidiary of WGL.

The *Management's Discussion and Analysis of Financial Condition and Results of Operations* (Management's Discussion) included under Item 7 is divided into two major sections, one for WGL and one for Washington Gas. The Consolidated Financial Statements of WGL and the Financial Statements of Washington Gas are included under Item 8 as well as the Notes to Consolidated Financial Statements that are presented on a combined basis for both WGL and Washington Gas.

Safe Harbor for Forward-Looking Statements

Certain matters discussed in this report, excluding historical information, include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the outlook for earnings, revenues and other future financial business performance or strategies and expectations. Forward-looking statements are typically identified by words such as, but not limited to, "estimates," "expects," "anticipates," "intends," "believes," "plans," and similar expressions, or future or conditional verbs such as "will," "should," "would" and "could." Although the registrants believe such forward-looking statements are based on reasonable assumptions, they cannot give assurance that every objective will be achieved. Forward-looking statements speak only as of the filing date of this report, and the registrants assume no duty to update them. Factors that could cause actual results to differ materially from forward-looking statements or historical performance include those discussed in Item 1A. Risk Factors and may include, but are not limited to the following:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the Agreement and Plan of Merger (Merger Agreement) among WGL, AltaGas Ltd. (AltaGas) and Wrangler, Inc.
- the inability of WGL or AltaGas to satisfy conditions to the closing of the merger;
- the required regulatory approvals for the merger may not be received, may not be received in a timely manner, or may be received subject to imposed conditions or restrictions that cause a failure of a closing condition to the merger or that could have a detrimental impact on the combined company following completion of the merger;
- the effect of the consummation of the merger on the ability of WGL to retain customers and retain and hire key personnel;
- the effect of the consummation of the merger on the ability of WGL to maintain relationships with its suppliers;
- potential litigation in connection with the merger;
- the incurrence of significant costs for advisory services in connection with the merger;
- the impact of the terms and conditions of the Merger Agreement on WGL's interim operations and its ability to make significant changes to its business or pursue otherwise attractive business opportunities without the consent of AltaGas;
- the level and rate at which we incur costs and expenses, and the extent to which we are allowed to recover from customers, through the regulatory process, such costs and expenses relating to constructing, operating and maintaining Washington Gas' distribution system;
- the availability of natural gas and electricity supply, interstate pipeline transportation and storage capacity;
- the outcome of new and existing matters before courts, regulators, government agencies or arbitrators, including those relating to efforts to overturn the denial of a permit necessary for construction of the Constitution Pipeline, disputes relating to our purchase of natural gas under the Antero gas supply contracts, and the August 2016 explosion and fire at an apartment complex in Silver Spring, Maryland.
- factors beyond our control that affect the ability of natural gas producers, pipeline gatherers and natural gas processors to deliver natural gas into interstate pipelines for delivery to the entrance points of Washington Gas' distribution system;
- security breaches of our information technology infrastructure, including cyber-attacks and cyber-terrorism;
- leaks, mechanical problems, incidents or other operational issues in our natural gas distribution system, including the effectiveness of our efforts to mitigate the effects of receiving low-HHC natural gas;

- factors affecting the timing of construction and the effective operation of pipelines in which we have invested;
- changes and developments in economic, competitive, political and regulatory conditions;
- unusual weather conditions and changes in natural gas consumption patterns;
- changes in energy commodity market conditions, including the relative prices of alternative forms of energy such as electricity, fuel oil and propane;
- changes in the value of derivative contracts and the availability of suitable derivative counterparties;
- changes in our credit ratings, disruptions in credit market and equity capital market conditions or other factors that may affect our access to and cost of capital;
- the creditworthiness of customers; suppliers and derivatives counterparties;
- changes in laws and regulations, including tax, environmental, pipeline integrity and employment laws and regulations, including the competitiveness of WGL Energy Systems in securing future assets to continue its growth following the extension of federal laws relating to investment tax credits and bonus depreciation;
- legislative, regulatory and judicial mandates or decisions affecting our business operations;
- the timing and success of business and product development efforts and technological improvements;
- the level of demand from government agencies and the private sector for commercial energy systems, and delays in federal government budget appropriations;
- the pace of deregulation of energy markets and the availability of other competitive alternatives to our products and services;
- changes in accounting principles;
- our ability to manage the outsourcing of several business processes;
- strikes or work stoppages by unionized employees;
- acts of nature and catastrophic events, including terrorist acts and
- decisions made by management and co-investors in non-controlled investees.

All such factors are difficult to predict accurately and are generally beyond the direct control of the registrants. Readers are urged to use care and consider the risks, uncertainties and other factors that could affect the registrants' business as described in this annual report on Form 10-K.

Glossary of Key Terms and Definitions

Accelerated Pipe Replacement Programs: Programs focused on replacement activities, targeting specific piping materials, installed years and/or locations which are undertaken on an expedited basis in an effort to improve safety, system reliability and to reduce potential greenhouse gas emissions.

Active Customer Meters: Natural gas meters that are physically connected to a building structure within the Washington Gas distribution system that are receiving natural gas distribution service.

Area-Wide Contract: A contract between Washington Gas and the General Services Administration for utility and energy-management services.

Asset Optimization Program: A program to optimize the value of Washington Gas' long-term natural gas transportation and storage capacity resources during periods when these resources are not being used to physically serve customers.

Bundled Service: Service in which customers purchase both the natural gas commodity and the distribution or delivery of the commodity from the local regulated utility. When customers purchase bundled service from Washington Gas, no mark-up is applied to the cost of the natural gas commodity that is passed through to customers.

Business Process Outsourcing (BPO) Agreement: An agreement whereby a service provider performs certain ongoing support functions.

CARE Ratemaking Adjustment (CRA): A billing mechanism in the state of Virginia that is designed to minimize the effect of factors such as conservation on utility net revenues.

City Gate: A point or measuring station at which a gas distribution company such as Washington Gas receives natural gas from an unaffiliated pipeline or transmission system.

Competitive Service Provider (CSP): Also referred to as **Third Party Marketer** (see definition below).

Commercial Energy Systems: Includes the operations of WGL Energy Systems, Inc. and WGSW, Inc. and the results of operations for affiliate owned commercial distributed energy projects.

Committee on Foreign Investment in the United States (CFIUS): An inter-agency committee authorized to review transactions that could result in control of a U.S. business by a foreign person/ business.

Conservation and Ratemaking Efficiency (CARE Plan): Provides for the CRA as well as cost effective conservation and energy efficient programs.

Cooling Degree Day (CDD): A measure of the variation in weather based on the extent to which the daily average temperature is above 65 degrees Fahrenheit.

Delivery Service: The regulated distribution or delivery of natural gas to retail customers. Washington Gas provides delivery service to retail customers in Washington, D.C. and parts of Maryland and Virginia.

Design Day: Washington Gas' design day represents the maximum anticipated demand on Washington Gas' distribution system during a 24-hour period assuming a five-degree Fahrenheit average temperature and 17 miles per hour average wind, considered to be the coldest conditions expected to be experienced in the Washington, D.C. region.

Distributed Generation Assets: Assets that use renewable energy sources including Solar Photovoltaic (Solar PV) systems, combined heat and power plants, and natural gas fuel cells to generate electricity near the point of consumption.

Earnings Before Interest and Taxes (EBIT): A performance measure that includes operating income, other income (expense), earnings from unconsolidated affiliates and is reduced by amounts attributable to non-controlling interests. EBIT is used in assessing the results of each segment's operations.

Federal Energy Regulatory Commission (FERC): An independent agency of the federal government that regulates the interstate transmission of electricity, natural gas, and oil. The FERC also reviews proposals to build liquefied natural gas terminals and interstate natural gas pipelines.

Financial Contract: A contract in which no commodity is transferred between parties and only cash payments are exchanged in amounts equal to the financial benefit of holding the contract.

Firm Customers: Customers whose natural gas supply will not be disrupted by the regulated utility to meet the needs of other customers. Typically, this class of customer comprises residential customers and most commercial customers.

Generally Accepted Accounting Principles (GAAP): A standard framework of accounting rules used to prepare, present and report financial statements in the United States of America.

Gross Margin: A measure calculated as operating revenues, less the associated cost of energy and applicable revenue taxes. Gross margin is used to measure the success of the retail energy-marketing segment's core strategy for the sale of natural gas and electricity.

Hampshire: Hampshire Gas Company provides regulated interstate natural gas storage services to Washington Gas under a FERC approved interstate storage service tariff.

Heating Degree Day (HDD): A measure of the variation in weather based on the extent to which the daily average temperature falls below 65 degrees Fahrenheit.

Heavy Hydrocarbons (HHCs): Compounds, such as hexane, that Washington Gas is injecting into its distribution system to treat vaporized liquefied natural gas or domestic sources of gas that have had such HHCs removed as a result of liquids processing.

Hypothetical Liquidation at Book Value (HLBV): A balance sheet-oriented approach to the equity method of accounting which provides a methodology for allocating pre-tax GAAP income or loss to the partners. This approach calculates the amount each partner would receive in the event the partnership was liquidated at book value at the end of each measurement period.

Interruptible Customers: Large commercial customers whose service can be temporarily interrupted in order for the regulated utility to meet the needs of firm customers. These customers pay a lower delivery rate than firm customers and they must be able to readily substitute an alternate fuel for natural gas.

Liquefied Natural Gas (LNG): The liquid form of natural gas.

Lower-of-Cost or Market: The process of adjusting the value of inventory to reflect the lesser of its original cost or its current market value.

Mark-to-Market: The process of adjusting the carrying value of an asset or liability to reflect its current fair value.

Merger Agreement: an agreement and plan of merger for WGL to combine with AltaGas, with WGL continuing as a surviving corporation in the merger and becoming an indirect wholly-owned subsidiary of AltaGas (the Merger).

Midstream Energy Services: The midstream energy services segment includes the operations of WGL Midstream, Inc.

New Customer Meters Added: Natural gas meters that are newly connected to a building structure within the Washington Gas distribution system. Service may or may not have been activated.

Non-Controlling Interest: The portion of equity (net assets) in a consolidated subsidiary that is not attributable directly or indirectly to WGL.

Normal Weather: A forecast of expected HDDs or CDDs based on historical HDD or CDD data.

PROJECTpipes: An accelerated pipe replacement program to replace bare and/or unprotected steel services, bare and targeted unprotected steel mains, and cast iron mains in the District of Columbia.

PSC of DC: The Public Service Commission of the District of Columbia is a three-member board that regulates Washington Gas' distribution operations in the District of Columbia.

PSC of MD: The Maryland Public Service Commission is a five-member board that regulates Washington Gas' distribution operations in Maryland.

Purchased Gas Charge (PGC): The purchased gas charge represents the cost of gas, gas transportation, gas storage services purchased and other gas related costs. The purchased gas charge is collected from customers through tariffs established by the regulatory commissions that have jurisdiction over Washington Gas.

Purchase of Receivables (POR): A program in Maryland, whereby Washington Gas purchases receivables from participating energy marketers at approved discount rates.

Regulated Utility Segment: Includes the operations of Washington Gas and the operations of Hampshire.

Renewable Energy Credits (RECs): A certificate representing the "green attributes" of one megawatt-hour (MWh) of electricity generated from renewable energy.

Retail Energy-Marketing Segment: Includes the operations of WGL Energy Services, Inc.

Return on Average Common Equity: Net income divided by average common shareholders' equity.

Revenue Normalization Adjustment (RNA): A regulatory billing mechanism in the state of Maryland designed to stabilize the level of net revenues collected from customers by eliminating the effect of deviations in customer usage caused by variations in weather from normal levels, and other factors such as conservation.

SCC of VA: The Commonwealth of Virginia State Corporation Commission is a three-member board that regulates Washington Gas' distribution operations in Virginia.

Sendout: The total amount of gas that flows into Washington Gas' distribution system within a certain interval of time.

Service Area: The region in which Washington Gas operates. The service area includes the District of Columbia, and the surrounding metropolitan areas in Maryland and Virginia.

SF ASD LLC (SF ASD): A wholly owned subsidiary of WGL Energy Systems.

SF Echo LLC (SF Echo): A wholly owned subsidiary of WGSW.

SFGF, LLC (SFGF): A tax equity partnership whose results of operation are consolidated into WGL's financial statements, as WGSW, Inc. is the primary beneficiary.

SFGF II, LLC (SFGF II): A tax equity partnership whose results of operation are consolidated into WGL's financial statements, as WGSW, Inc. is the primary beneficiary.

SFRC, LLC (SFRC): A tax equity partnership whose results of operation are consolidated into WGL's financial statements, as WGSW, Inc. is the primary beneficiary.

Steps to Advance Virginia's Energy Plan (SAVE Plan): An accelerated pipe replacement plan that provides a recovery mechanism for costs of eligible infrastructure replacements in the state of Virginia.

Strategic Infrastructure Development and Enhancement Plan (STRIDE Plan): An accelerated pipe replacement plan that provides a recovery mechanism for reasonable and prudent costs associated with infrastructure replacements in the state of Maryland.

Tariffs: Documents approved by the regulatory commission in each jurisdiction that set the prices Washington Gas may charge and the practices it must follow when providing utility service to its customers.

Therm: A natural gas unit of measurement that includes a standard measure for heating value. We report our natural gas sales and deliveries in therms. A therm of gas contains 100,000 British thermal units of heat, or the energy equivalent of burning approximately 100 cubic feet of natural gas under normal conditions. Ten million therms equal approximately one billion cubic feet of natural gas. A dekatherm is 10 therms and is abbreviated Dth.

Third Party Marketer: Unregulated companies that sell natural gas and electricity directly to retail customers. WGL Energy Services, an affiliate of Washington Gas and a wholly owned subsidiary company of Washington Gas Resources Corporation, is a third-party marketer.

Unbundling: The separation of the delivery of natural gas or electricity from the sale of these commodities and related services that, in the past, were provided only by a regulated utility.

Utility Net Revenues: A measure used by the regulated utility segment which is calculated as operating revenues less the associated cost of gas and applicable revenue taxes. For the regulated utility, the cost of gas associated with sales to customers and revenue taxes are generally pass through amounts.

Value-At-Risk: A risk measurement that estimates the largest expected loss over a specified period of time under normal market conditions within a specified probabilistic confidence interval.

Washington Gas: Washington Gas Light Company is a subsidiary of WGL Holdings, Inc. that sells and delivers natural gas primarily to retail customers in accordance with tariffs approved by the PSC of DC, the PSC of MD and the SCC of VA.

Washington Gas Resources: Washington Gas Resources Corporation is a subsidiary of WGL Holdings, Inc. that owns the majority of the non-utility subsidiaries.

Weather Normalization Adjustment (WNA): A billing adjustment mechanism in Virginia that is designed to minimize the effect of variations from normal weather on utility net revenues.

WGL: WGL Holdings, Inc. is a holding company that is the parent company of Washington Gas Light Company and other subsidiaries.

WGL Energy Services: WGL Energy Services, Inc. is a subsidiary of Washington Gas Resources Corporation that sells natural gas and electricity to retail customers on an unregulated basis.

WGL Energy Systems: WGL Energy Systems, Inc. is a subsidiary of Washington Gas Resources Corporation, which provides commercial energy efficient and sustainable solutions to government and commercial clients.

WGL Midstream: WGL Midstream, Inc. is a subsidiary of Washington Gas Resources that engages in acquiring and optimizing natural gas storage and transportation assets.

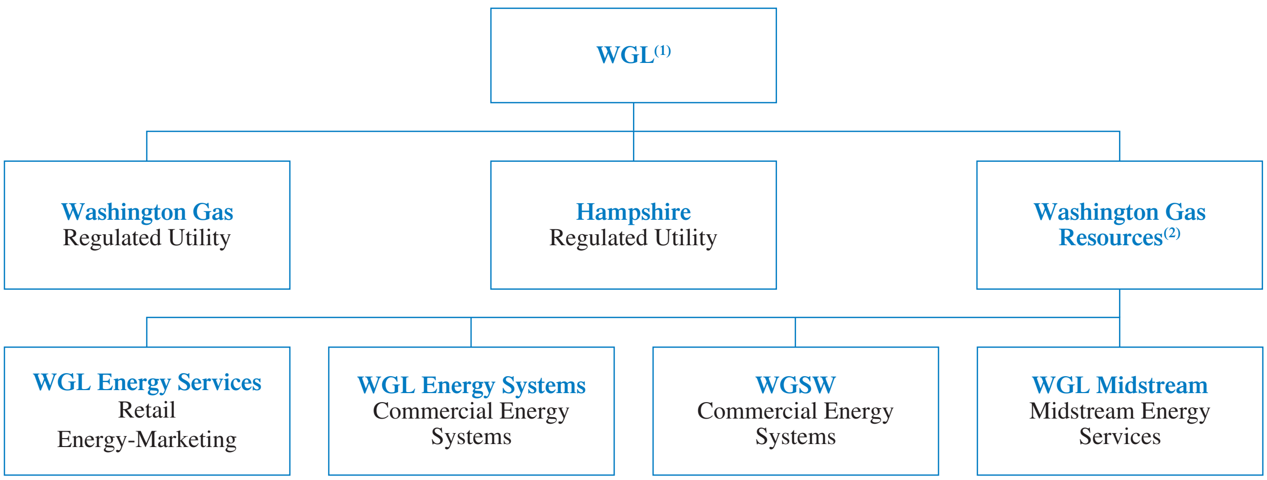
WGSW: WGSW, Inc. is a subsidiary of Washington Gas Resources Corporation that was formed to invest in certain renewable energy projects.

ITEM 1 Business

Corporate Overview

WGL Holdings, Inc.

WGL was established on November 1, 2000 as a Virginia corporation. Through our wholly owned subsidiaries, we sell and deliver natural gas and provide energy-related products and services to customers primarily in the District of Columbia and the surrounding metropolitan areas in Maryland and Virginia, although our non-utility segments provide various energy services across the United States. WGL promotes the efficient use of clean natural gas and renewable energy to improve the environment for the benefit of customers, investors, employees, and the communities it serves. WGL owns all of the shares of common stock of Washington Gas, Washington Gas Resources, and Hampshire. Washington Gas Resources owns four unregulated subsidiaries that include WGL Energy Services, WGL Energy Systems, WGL Midstream and WGSW. Additionally, several subsidiaries of WGL own interests in other entities.



(1) *Crab Run Gas Company is an inactive, wholly owned subsidiary of WGL.*
(2) *Holding company whose stand alone results are reported in "other activities".*

Planned Merger with AltaGas

On January 25, 2017, WGL entered into the Merger Agreement to combine with AltaGas in an all cash transaction valued at approximately $6.4 billion. The Boards of Directors of each of WGL and AltaGas have unanimously approved the Merger, which is expected to close in the second quarter of 2018. Subject to the conditions in the Merger Agreement, at the effective time of the Merger, WGL's shareholders will receive $88.25 in cash, without interest, for each share of WGL common stock issued and outstanding prior to the Effective Time (as defined in the Merger Agreement).

Consummation of the Merger is subject to the satisfaction or waiver of specified closing conditions, including, among others, the approval of the Merger by the holders of more than two-thirds of the outstanding shares of WGL common stock, which occurred on May 10, 2017 and approvals required from certain antitrust and other regulatory bodies. Should WGL terminate the Merger Agreement under specified circumstances, WGL may be obligated to pay AltaGas a termination fee of $136 million.

On April 24, 2017, joint applications for approval of the Merger were filed with the PSC of DC and with the PSC of MD. A joint petition for approval of the Merger was also filed with the SCC of VA, FERC, and CFIUS.

On July 6, 2017, the FERC issued an order authorizing the Merger, concluding that the proposed transaction is consistent with the public interest.

On June 15, 2017, AltaGas and WGL submitted to the Federal Trade Commission and the Antitrust Division of the Department of Justice completed Premerger Notification and Report Forms with respect to the proposed acquisition by AltaGas Ltd. of certain voting securities of WGL Holdings, Inc. The waiting period expired on July 17, 2017. The expiration of the Clayton Act's waiting period deems the Merger approved by the Federal Trade Commission and the Department of Justice.

On August 18, 2017, CFIUS approved the joint voluntary notice.

On October 20, 2017, the SCC of VA issued an order approving the merger, subject to accounting, financial, and safety related requirements to which joint applicants agree.

Maryland law requires the PSC of MD to approve a merger subject to its review if it finds that the merger agreement is consistent with the public interest, convenience and necessity, including benefits and no harm to consumers. The Staff of the PSC of MD, the Maryland Office of People's Counsel and other intervenors filed testimony opposing the application on August 14, 2017. The Applicants filed rebuttal testimony with the PSC of MD on September 11, 2017. Evidentiary hearings were held before the PSC of MD on October 3, 2017 through October 16, 2017. Initial Briefs were due November 6, 2017 and Reply Briefs were due November 16, 2017. The PSC of MD is required to issue an order within 180 days of the date the application was filed, but may extend the date by 45 days for good cause. The PSC of MD issued an order extending the date for review. Accordingly, an order is expected by December 5, 2017.

To approve the Merger Agreement, the PSC of DC must find that the Merger taken as a whole is in the public interest. The law of the District of Columbia does not impose any time limit on the PSC of DC's review of the Merger. The District of Columbia Office of the People's Counsel, the District of Columbia Government and other intervenors filed testimony with the PSC of DC opposing the application on September 29, 2017. The Applicants filed rebuttal testimony on October 27, 2017. Evidentiary hearings are scheduled before the PSC of DC in the first half of December 2017. An order is expected by the second quarter of calendar year 2018.

For further information on the Merger, see "Safe Harbor and Forward Looking Statements" in the Introduction, Item I, Item 1A. Risk Factors, and Note 21 — *Planned Merger with AltaGas Ltd.* of the Notes to Consolidated Financial Statements in this Form 10-K.

Industry Segments

Our segments include regulated utility, retail energy-marketing, commercial energy systems and midstream energy services. Transactions and activities not specifically identified in one of these four segments are reported as "Other Activities." The four segments are described below.

Regulated utility segment

The regulated utility segment consists of Washington Gas and Hampshire and represents approximately 75% of WGL's total assets. Operating revenues related to gas sales and deliveries to external customers were approximately $1.2 billion, $1.1 billion, and $1.3 billion in fiscal years ended September 30, 2017, 2016 and 2015, respectively.

Washington Gas Light Company

Washington Gas is a regulated public utility that sells and delivers natural gas to retail customers in accordance with tariffs approved by regulatory commissions in the District of Columbia and adjoining areas in Maryland, Virginia and several cities and towns in the northern Shenandoah Valley of Virginia. Washington Gas has been engaged in the natural gas distribution business since its incorporation by an Act of Congress in 1848. Washington Gas has been a Virginia corporation since 1953 and a corporation of the District of Columbia since 1957.

Washington Gas provides regulated distribution or delivery of natural gas to retail customers under tariff rates designed to provide for a return on and return of the investment used in providing that service. The rates are also designed to provide for recovery of operating expenses and taxes incurred in providing that service. Washington Gas also sells natural gas to customers who have not elected to purchase natural gas from unregulated third party marketers (refer to the section entitled *"Natural Gas Unbundling"*). Washington Gas recovers the cost of the natural gas purchased to serve firm customers through recovery mechanisms as approved in jurisdictional tariffs. Any difference between gas costs incurred on behalf of firm customers and the gas costs recovered from those customers is deferred on the balance sheet as an amount to be collected from or refunded to customers in future periods. Therefore, increases or decreases in the cost of gas associated with sales made to firm customers have no direct effect on Washington Gas' net revenues and net income. However, to the extent Washington Gas does not have regulatory mechanisms in place to mitigate the indirect effects of higher gas prices, such as: *(i)* lower natural gas consumption caused by customer conservation; *(ii)* increased short-term interest expense to finance a higher natural gas storage and accounts receivables balances and *(iii)* higher expenses for uncollectible accounts, its net income may decrease.

Washington Gas, under its asset optimization program, makes use of storage and transportation capacity resources when those assets are not required to serve utility customers. The objective of this program is to derive a profit to be shared with its utility customers. These profits are earned by entering into commodity-related physical and financial contracts with third parties (refer to the section entitled "*Asset Optimization Derivative Contracts*" for further discussion of the asset optimization program). Unless otherwise noted, therm deliveries reported for the regulated utility segment do not include deliveries related to the asset optimization program.

At September 30, 2017, Washington Gas' service area had a population estimated at 5.6 million and included approximately 2.2 million households and commercial structures. Washington Gas operations are such that the loss of any one customer or group of customers would not have a significant adverse effect on its business. The following table lists the number of active customer meters and therms delivered by jurisdiction as of and for the year ended September 30, 2017 and 2016, respectively.

ACTIVE CUSTOMER METERS AND THERMS DELIVERED BY JURISDICTION

Jurisdiction	Active Customer Meters as of September 30, 2017	Millions of Therms Delivered Fiscal Year Ended September 30, 2017	Active Customer Meters as of September 30, 2016	Millions of Therms Delivered Fiscal Year Ended September 30, 2016
District of Columbia	**161,990**	**270.6**	158,170	270.1
Maryland	**478,004**	**742.8**	468,793	939.4
Virginia	**523,661**	**589.1**	517,197	583.0
Total	**1,163,655**	**1,602.5**	1,144,160	1,792.5

For additional information about gas deliveries and meter statistics, refer to the section entitled "*Results of Operations*" in Management's Discussion for Washington Gas.

Hampshire Gas Company

Hampshire owns full and partial interests in underground natural gas storage facilities, including pipeline delivery facilities located in and around Hampshire County, West Virginia, and operates those facilities to serve Washington Gas, which purchases all of the storage services of Hampshire. Washington Gas includes the cost of these services in the bills sent to its customers. Hampshire operates under a "pass-through" cost of service-based tariff approved by the FERC, and adjusts its billing rates to Washington Gas on a periodic basis to account for changes in its investment in utility plant and associated expenses.

Regulatory Environment

Washington Gas is regulated by the PSC of DC, the PSC of MD and the SCC of VA which approve its terms of service and the billing rates that it charges to its customers. Hampshire is regulated by the FERC. The rates charged to utility customers are designed to recover Washington Gas' operating expenses and natural gas commodity costs and to provide a return on its investment in the net assets used in its firm gas sales and delivery service. For a discussion of current rates and regulatory matters, refer to the section entitled *"Rates and Regulatory Matters"* in Management's Discussion for Washington Gas.

District of Columbia Jurisdiction

The PSC of DC consists of three full-time members who are appointed by the Mayor with the advice and consent of the District of Columbia City Council. The term of each commissioner is four years with no limitations on the number of terms that can be served. The PSC of DC has no time limitation within which it must make decisions regarding modifications to base rates charged by Washington Gas to its customers; however, it targets resolving pending rate cases within three months of the close of record.

Maryland Jurisdiction

The PSC of MD consists of five full-time members who are appointed by the Governor with the advice and consent of the Senate of Maryland. Each commissioner is appointed to a five-year term, with no limit on the number of terms that can be served.

When Washington Gas files for a rate increase, the PSC of MD may initially suspend the proposed increase for 180 days, and then has the option to extend the suspension for an additional 30 days. If action has not been taken after 210 days, the requested rates become effective subject to refund.

Virginia Jurisdiction

The SCC of VA consists of three full-time members who are elected by the General Assembly of Virginia. Each commissioner has a six-year term with no limitation on the number of terms that can be served.

Either of two methods may be used to request a modification of existing rates. Washington Gas may file an application for a general rate increase, in which it may propose new adjustments to the cost of service that are different from those previously approved for Washington Gas by the SCC of VA, as well as a revised return on equity. The proposed rates under this process may take effect 150 days after the filing, subject to refund pending the outcome of the SCC of VA's action on the application.

Alternatively, an expedited rate case procedure allows proposed rate increases to be effective 30 days after the filing date, subject to refund. Under this procedure, Washington Gas may not propose new adjustments for issues not approved in its last general rate case, or request a change in its authorized return on common equity. Once filed, other parties may propose new adjustments or a change in the cost of capital from the level authorized in its last general rate case. The expedited rate case procedure may not be available if the SCC of VA decides that there has been a substantial change in circumstances since the last general rate case filed by Washington Gas.

Seasonality of Business Operations

Washington Gas' business is weather-sensitive and seasonal because the majority of its business is derived from residential and small commercial customers who use natural gas for space heating. Excluding deliveries for electric generation, 73% of the total therms delivered in Washington Gas' service area occurred during its first and second fiscal quarters for both fiscal years 2017 and 2016. Washington Gas' earnings are typically generated during these two quarters, and Washington Gas typically incurs net losses in the third and fourth fiscal quarters. The seasonal nature of the business creates large variations in short-term cash requirements, primarily due to the season-to-season fluctuations in the level of customer accounts receivable, unbilled revenues and storage gas inventories. Washington Gas finances these seasonal requirements primarily through the sale of commercial paper and unsecured short-term bank loans. For information on our management of weather risk, refer to the section entitled "*Weather Risk*" in Management's Discussion and Analysis. For information about management of cash requirements, refer to the section entitled "*Liquidity and Capital Resources*" in Management's Discussion and Analysis.

Non-Weather Related Changes in Natural Gas Consumption Patterns

Natural gas supply requirements for the utility are affected by changes in the natural gas consumption patterns of our customers that are driven by factors other than weather. Natural gas usage per customer may decline as customers change their consumption patterns for various reasons, including: *(i)* more volatile and higher natural gas prices; *(ii)* customer upgrades to more energy efficient appliances and building structures and *(iii)* a decline in the economy in the region in which we operate.

For each jurisdiction in which Washington Gas operates, changes in customer usage profiles are reflected in rate case proceedings and rates are adjusted accordingly. Changes in customer usage by existing customers that occur subsequent to rate case proceedings in Maryland generally will not change revenues because the RNA mechanism stabilizes the level of delivery charge revenues received from customers.

In Virginia, decoupling rate mechanisms for residential, small commercial and industrial and group metered apartment customers permit Washington Gas to adjust revenues for non-weather related changes in customer usage. The WNA and the CRA are billing mechanisms that together eliminate the effects of both weather and other factors such as conservation.

In the District of Columbia, a decrease in customer usage that occurs subsequent to a rate case proceeding would have the effect of reducing revenues, which could be offset by additions of new customers.

Natural Gas Supply and Capacity

Capacity and Supply Requirements

Washington Gas must contract for reliable and adequate natural gas supplies, interstate pipeline capacity and storage capacity to provide natural gas to its distribution system, while considering: *(i)* the dynamics of the commodity supply and interstate pipeline and storage capacity markets; *(ii)* its own on-system natural gas peaking facilities and *(iii)* the characteristics of its customer base. Energy-marketing companies that sell natural gas to customers located within Washington Gas' service territory are responsible for acquiring natural gas for their customers; however, Washington Gas allocates certain storage and pipeline capacity related to these customers in accordance with regulatory requirements.

Washington Gas has adopted a diversified portfolio approach designed to address constraints on supply by using multiple supply receipt points, dependable interstate pipeline transportation and storage arrangements, and its own substantial storage and peak shaving capabilities. Washington Gas' supply and pipeline capacity plan is based on forecasted system requirements, and takes into account estimated load growth, attrition, conservation, geographic location, interstate pipeline and storage capacity and contractual limitations and the forecasted movement of customers between bundled service and delivery service. Under reduced supply conditions, Washington Gas may implement contingency plans in order to maximize the number of customers served. Contingency plans include requests to the general population to conserve and target curtailments to specific sections of the system, consistent with curtailment tariffs approved by regulators in each of Washington Gas' three jurisdictions.

Washington Gas obtains natural gas supplies that originate from multiple regions throughout the United States. At September 30, 2017 and 2016, Washington Gas had service agreements with four pipeline companies that provided firm transportation and/or storage services directly to Washington Gas' city gates. These contracts have expiration dates ranging from fiscal years 2018 to 2034. Additionally, Washington Gas has contracted with various interstate pipeline and storage companies to add to its storage and transportation capacity starting in fiscal year 2018 and continues to monitor other opportunities to acquire or participate in obtaining additional pipeline and storage capacity that will support customer growth and improve or maintain the high level of service expected by its customer base.

Asset Optimization Derivative Contracts

Under the asset optimization program, Washington Gas utilizes its storage and transportation capacity resources when they are not being used to serve its utility customers. Washington Gas executes commodity-related physical and financial contracts in the form of forwards, futures and options as part of an asset optimization program that is managed by its internal staff. These transactions are accounted for as derivatives. The objective of this program is to derive a profit to be shared with Washington Gas' utility customers. Washington Gas enters into these derivative transaction contracts to secure operating margins that will ultimately be shared between Washington Gas customers and shareholders. Because these sharing mechanisms are approved by our regulators in all three jurisdictions, any changes in fair value of the derivatives are recorded through earnings or as regulatory assets or liabilities if realized gains and losses will be included in the rates charged to customers.

The derivatives used under this program are subject to fair value accounting treatment which may cause significant period-to-period volatility in earnings from unrealized gains and losses associated with changes in fair value for the portion of net profits attributed to shareholders. However, this earnings volatility does not change the realized margins that Washington Gas expects to earn from these transactions. All physically and financially settled contracts under our asset optimization program are reported on a net basis in the statements of income in "Utility cost of gas." Total net margins including unrealized gains and losses recorded to "Utility cost of gas" after sharing and management fees associated with all asset optimization transactions for the years ended September 30, 2017, 2016 and 2015, respectively, were net gains of $82.9 million, $43.8 million, and $27.9 million.

Refer to the sections entitled *"Results of Operations — Regulated Utility Operating Results"* and *"Market Risk"* in Management's Discussion for further discussion of the asset optimization program and its effect on earnings.

Annual Sendout

As reflected in the table below, Washington Gas received natural gas from multiple sources in fiscal year 2017 and expects to use those same sources to satisfy customer demand in fiscal year 2018. Firm transportation denotes gas transported directly to the entry point of Washington Gas' distribution system in contractual volumes. Transportation storage denotes volumes stored by a pipeline during the spring, summer and fall for withdrawal and delivery to the Washington Gas distribution system during the winter heating season to meet load requirements. Peak load requirements are met by: *(i)* underground natural gas storage at the Hampshire storage field; *(ii)* the local production of propane air plants located at Washington Gas-owned facilities in Rockville, Maryland (Rockville Station) and in Springfield, Virginia (Ravensworth Station) and *(iii)* other peak-shaving resources. Unregulated third party marketers acquire interstate pipeline and storage capacity and the natural gas commodity on behalf of Washington Gas' delivery service customers under customer choice programs. Washington Gas also provides transportation, storage and peaking resources to unregulated third party marketers (refer to the section entitled *"Natural Gas Unbundling"*). These retail marketers have natural gas delivered to the entry point of Washington Gas' distribution system on behalf of those utility customers that have decided to acquire their natural gas commodity on an unbundled basis, as discussed below.

Excluding the sendout of sales and deliveries of natural gas used for electric generation, the following table outlines total sendout of the system. The sources of delivery and related volumes that were used to satisfy the requirements of fiscal year 2017 and those projected for pipeline year 2018 are shown in the following table.

SOURCES OF DELIVERY FOR ANNUAL SENDOUT

(In millions of therms)	Fiscal Year		
Sources of Delivery	**Actual 2016**	**Actual 2017**	**Projected 2018[a]**
Firm Transportation	509	**513**	582
Transportation Storage	312	**398**	323
Hampshire Storage, Company-Owned Propane-Air Plants, and other Peak-Shaving Resources	15	**29**	23
Unregulated Third Party Marketers	976	**783**	862
Total	1,812	**1,723**	1,790

[a] *Based on normal weather.*

Design Day Sendout

The effectiveness of Washington Gas' capacity resource plan is largely dependent on the sources used to satisfy forecasted and actual customer demand requirements for its design day. For planning purposes, Washington Gas assumes that all interruptible customers will be curtailed on the design day. Washington Gas' forecasted design day demand for the 2017-2018 winter season is 19.8 million therms and Washington Gas' projected sources of delivery for design day sendout is 21.0 million therms. This provides a reserve margin of approximately 5.9%. Washington Gas plans for the optimal utilization of its storage and peaking capacity to reduce its dependency on firm transportation and to lower pipeline capacity costs. The following table reflects the sources of delivery that are projected to be used to satisfy the forecasted design day sendout estimate for fiscal year 2018.

PROJECTED SOURCES OF DELIVERY FOR DESIGN DAY SENDOUT

(In millions of therms)	Fiscal Year 2017	
Sources of Delivery	**Volumes**	**Percent**
Firm Transportation	6.8	32%
Transportation Storage	8.5	41%
Hampshire Storage, Company-Owned Propane-Air Plants and other Peak-Shaving Resources	5.5	26%
Unregulated Third Party Marketers	0.2	1%
Total	**21.0**	**100%**

Natural Gas Unbundling

At September 30, 2017, customer choice programs for natural gas customers were available to all of Washington Gas' regulated utility customers in the District of Columbia, Maryland and Virginia. These programs allow customers to purchase their natural gas from unregulated third party marketers, rather than purchasing this commodity as part of a bundled service from the local utility. Of Washington Gas' 1.2 million active customers at September 30, 2017, approximately 178,000 customers purchased their natural gas commodity from unregulated third party marketers.

The following table provides the percentage of customers participating in customer choice programs in Washington Gas' jurisdictions at September 30, 2017.

PARTICIPATION IN CUSTOMER CHOICE PROGRAMS AT SEPTEMBER 30, 2017

		Eligible Customers	
Jurisdiction	**Customer Class**	**Total**	**% Participating**
District of Columbia	**Firm:**		
	Residential	**148,945**	**9%**
	Commercial	**12,894**	**34%**
	Interruptible	**151**	**94%**
Maryland	**Firm:**		
	Residential	**446,990**	**20%**
	Commercial	**30,830**	**44%**
	Interruptible	**182**	**98%**
	Electric Generation	**2**	**100%**
Virginia	**Firm:**		
	Residential	**493,835**	**9%**
	Commercial	**29,655**	**32%**
	Interruptible	**171**	**93%**
Total		**1,163,655**	

When customers choose to purchase the natural gas commodity from unregulated third party marketers, Washington Gas' net income is not affected because Washington Gas charges its customers the cost of gas without any mark-up. When customers select an unregulated third party marketer as their gas supplier, Washington Gas continues to charge these customers to deliver natural gas through its distribution system at rates identical to the delivery portion of the bundled sales service customers.

Safety and Reliability of the Natural Gas Distribution System

Maintaining and improving the public safety and reliability of Washington Gas' distribution system is our highest priority, providing benefits to both customers and investors through improved customer service. Washington Gas continually monitors and reviews changes in requirements of the codes and regulations that govern the operation of the distribution system and refines its safety practices, with a particular focus on design, construction, maintenance, operation, replacement, inspection and monitoring practices to meet or exceed these requirements. Significant changes in regulations can impact the cost of operating and maintaining our distribution system.

Competition

The Natural Gas Delivery Function

The natural gas delivery function, the core business of Washington Gas, continues to be regulated by local and state regulatory commissions. In developing this core business, Washington Gas has invested $5.3 billion as of September 30, 2017, in safe and reliable distribution system assets. Because of the high fixed costs and significant safety and environmental considerations associated with building and operating a distribution system, Washington Gas expects to continue being the only owner and operator of a distribution system in its current franchise area for the foreseeable future. The nature of Washington Gas' customer base and the distance of most customers from interstate pipelines mitigate the threat of bypass of its facilities by other potential delivery service providers.

Competition with Other Energy Products

Washington Gas faces competition based on customers' preference for other energy products and the prices of those products compared to natural gas. In the residential market, which generates a significant portion of Washington Gas' net income, the most significant product competition occurs between natural gas and electricity. Because the cost of electricity is affected by the cost of fuel used to generate electricity, such as natural gas, Washington Gas generally maintains a price advantage over competitive electricity supply in its service area for traditional residential uses of energy such as heating, water heating and cooking. Washington Gas continues to attract the majority of the new residential construction market in its service territory, and consumers' continuing preference for natural gas allows Washington Gas to maintain a strong market presence.

The following table lists the new customer meters added by jurisdiction and major rate class for the year ended September 30, 2017.

NEW CUSTOMER METERS BY AREA

	Residential	Commercial and Interruptible	Group Metered Apartments	Total
Maryland	5,471	300	2	5,773
Virginia	5,292	316	-	5,608
District of Columbia	955	135	17	1,107
Total	**11,718**	**751**	**19**	**12,488**

In the interruptible market, fuel oil is the prevalent energy alternative to natural gas. Washington Gas' success in this market depends largely on the relationship between natural gas and oil prices. The supply of natural gas primarily is derived from domestic sources, and the relationship between supply and demand generally has the greatest impact on natural gas prices. Since the source of a large portion of oil comes from foreign countries, political events and foreign currency conversion rates can influence oil supplies and prices to domestic consumers.

Critical Factors

Factors critical to the success of the regulated utility segment include: *(i)* operating a safe and reliable natural gas distribution system; *(ii)* having sufficient natural gas supplies to meet customer demands; *(iii)* being competitive with other sources of energy such as electricity, fuel oil and propane; *(iv)* having access to sources of liquidity; *(v)* recovering the costs and expenses of this business in the rates charged to customers and *(vi)* earning a just and reasonable rate of return on invested capital.

Retail Energy-Marketing Segment

The retail energy-marketing segment consists of the operations of WGL Energy Services, which competes with regulated utilities and other unregulated third party marketers to sell natural gas and/or electricity directly to residential, commercial and industrial customers in Maryland, Virginia, Delaware, Pennsylvania and the District of Columbia. WGL Energy Services is subject to regulation by the public service regulatory commissions of the states in which the company is authorized as a competitive service provider. These regulatory commissions: *(i)* authorize WGL Energy Services to provide service, *(ii)* review certain terms and conditions of service, *(iii)* establish the regulatory rules for interactions between the utility and the competitive service provider and *(iv)* issue orders and promulgate rules that establish the broad structure and conduct of retail energy markets. Changes to the rules, rates and orders by the regulatory commissions may affect WGL Energy Services' financial performance.

WGL Energy Services buys natural gas and electricity with the objective of earning a profit through competitively priced sales contracts with end-users. These commodities are delivered to retail customers through the distribution systems owned by regulated utilities. Washington Gas is one of several utilities that deliver gas to, and on behalf of, WGL Energy Services. Unaffiliated electric utilities deliver all of the electricity sold by WGL Energy Services. Additionally, WGL Energy Services bills its customers either independently or through the billing services of the regulated utilities that deliver its commodities. Refer to Note 18—*Related Party Transactions* of the Notes to Consolidated Financial Statements for further discussion of our purchase of receivables program.

WGL Energy Services also sells wind and other RECs and carbon offsets to retail customers. WGL Energy Services owns solar generating assets which are dedicated to five specific customers. The results of operations for these assets are reported within the Commercial Energy Systems segment. WGL Energy Services does not own or operate any other electric generation, transmission or distribution assets.

At September 30, 2017, WGL Energy Services served approximately 116,200 residential, commercial and industrial natural gas customer accounts and approximately 113,700 residential, commercial and industrial electricity customer accounts located in Maryland, Virginia, Delaware, Pennsylvania and the District of Columbia. Its customer concentration is such that the loss of any one customer or group of customers would not have a significant adverse effect on its business.

The retail energy-marketing segment's total operating revenues were $1.1 billion for fiscal year 2017, $1.2 billion for fiscal year 2016, and $1.3 billion for fiscal year 2015.

Seasonality of Business Operations

The operations of WGL Energy Services are seasonal, with larger amounts of electricity being sold in the summer and peak winter months and larger amounts of natural gas being sold in the winter months. Working capital requirements can vary significantly during the year and these variations are financed through internally generated funds and WGL's issuance of commercial paper and unsecured short-term bank loans. WGL Energy Services accesses these funds through the WGL money pool. For a discussion of the WGL money pool, refer to the section entitled "*Money Pool*" in Management's Discussion and Analysis.

Natural Gas and Electricity Supply

WGL Energy Services contracts for storage and pipeline capacity to meet its customers' needs primarily through transportation releases and storage services allocated from the utility companies in the various service territories in which it provides retail energy commodity.

On February 20, 2013, WGL Energy Services entered into a five-year secured supply arrangement with Shell Energy North America (US), LP (Shell Energy). Under this arrangement, WGL Energy Services has the ability to purchase the majority of its power, natural gas and related products from Shell Energy in a structure that reduces WGL Energy Services' cash flow risk from collateral posting requirements. While Shell is intended to be the majority provider of natural gas and electricity, WGL Energy Services retains the right to purchase supply from other providers. On November 7, 2016, the supply arrangement was extended for two years, expiring in 2020.

Natural gas supplies are delivered to WGL Energy Services' market territories through several interstate natural gas pipelines. To supplement WGL Energy Services' natural gas supplies during periods of high customer demand, WGL Energy Services maintains gas storage inventory in storage facilities that are assigned by natural gas utilities such as Washington Gas. This storage inventory enables WGL Energy Services to meet daily and monthly fluctuations in demand and to minimize the effect of market price volatility.

The PJM Interconnection (PJM) is a regional transmission organization that regulates and coordinates generation supply and the wholesale delivery of electricity in the states and jurisdictions where WGL Energy Services operates. WGL Energy Services buys wholesale and sells retail electricity in the PJM market territory, subject to its rules and regulations. PJM requires that its market participants have sufficient load capacity to serve their customers' load requirements.

Competition

Natural Gas

WGL Energy Services competes with regulated gas utilities and other third party marketers to sell natural gas to customers both inside and outside of the Washington Gas service area.

Electricity

WGL Energy Services competes with regulated electric utilities and other third party marketers to sell electricity to customers.

Marketers of natural gas and electric supply compete largely on price; therefore, gross margins are relatively small. To provide competitive pricing to its retail customers and in adherence to its risk management policies and procedures, WGL Energy Services manages its natural gas and electricity contract portfolios by attempting to closely match the commitments for gas and electricity deliveries from suppliers with requirements to serve sales customers.

WGL Energy Services' residential and small commercial electric customer growth opportunities are significantly affected by the price for Standard Offer Service (SOS) offered by electric utilities. These rates are periodically reset for each customer class based on the regulatory requirements in each jurisdiction. Customer growth opportunities either expand or contract due to the relationship of these SOS rates to current market prices.

For a discussion of WGL Energy Services' exposure to and management of price risk, refer to the section entitled *"Market Risk—Price Risk Related to the Non-Utility Segments"* in Management's Discussion.

Critical Factors

Factors critical to managing the retail energy-marketing segment include: (i) managing the market risk of the difference between the price committed to customers under sales contracts and the cost of natural gas and electricity needed to satisfy these commitments, including PJM costs and costs to meet renewable portfolio standards; (ii) managing credit risks associated with customers and suppliers; (iii) having sufficient deliverability of natural gas and electric supplies and transportation to serve the demand of its customers, which can be affected by the ability of natural gas producers, pipeline gatherers, natural gas processors, interstate pipelines, electricity generators and regional electric transmission operators to deliver the respective commodities; (iv) access to sources of financial liquidity; (v) controlling the level of selling, general and administrative expenses, including customer acquisition expenses and (iv) access to markets through customer choice programs or other forms of deregulation.

Commercial Energy Systems Segment

The commercial energy systems segment consists of the operations of WGL Energy Systems, WGSW and the results of operations of wholly owned subsidiaries, consolidated investments and affiliate owned commercial distributed energy projects.

This segment focuses on clean and energy efficient solutions for its customers, driving earnings through (i) investing in distributed generation assets such as Solar PV systems, combined heat and power plants, and natural gas fuel cells and (ii) operating as a general contractor to upgrade the mechanical, electrical, water and energy-related infrastructure of large governmental and commercial facilities by implementing both traditional and alternative energy technologies. This segment has assets and activities across the United States.

As of September 30, 2017, this segment owned $561.0 million of operating distributed generation assets, generating a total of 290,465 megawatt hours in fiscal year 2017. Additionally, as of September 30, 2017, there was $41.0 million of signed projects under construction. These distributed generation assets drive revenue through the sale of renewable power generation under long-term power purchase agreements and the sale of renewable energy credits. As of September 30, 2017, we have $150.9 million in unamortized investment tax credits and grants related to these assets placed in service. These credits and grants are recognized as reductions in tax expense by amortizing them over the useful life of the underlying assets, typically 30 years.

Competition

There are many competitors in this business segment. In the renewable energy and distributed generation market, competitors primarily include other developers, tax equity investors, distributed generation asset owner firms and lending institutions. Within the government sector, competitors primarily include companies contracting with customers under Energy Savings Performance Contracting (ESPC) as well as utilities providing services under Utility Energy Saving Contracts (UESC). WGL Energy Systems competes on the basis of strong customer relationships developed over many years of implementing successful projects, developing and maintaining strong supplier relationships, and focusing in areas where it can bring relevant expertise.

Critical Factors

Factors critical to the success of the commercial energy systems segment include: *(i)* generating adequate sales commitments from distributed generation channel partners and customers; *(ii)* generating adequate sales commitments from the government and private sectors in the facility construction and retrofit markets; *(iii)* building a stable base of customer relationships; *(iv)* estimating and managing fixed-price contracts with contractors; *(v)* managing selling, general and administrative expenses; *(vi)* managing price and operational risk associated with distributed energy projects and *(vii)* successful operation and optimization of commercial assets.

Midstream Energy Services Segment

WGL Midstream specializes in the investment, management, development and optimization of natural gas storage and transportation assets. At September 30, 2017, WGL Midstream had infrastructure investments totaling $384.6 million. For a discussion of WGL Midstream's infrastructure investments, refer to the section entitled *"Liquidity and Capital Resources—Infrastructure Investments"* in Management's Discussion.

Additionally, WGL Midstream provides natural gas related solutions to its customers and counterparties including producers, utilities, local distribution companies, power generators, wholesale energy suppliers, LNG exporters, pipelines and storage facilities. Moreover, WGL Midstream contracts for storage and pipeline capacity in its trading activities through both long term contracts and short term transportation releases. WGL Midstream also contracts for physical natural gas sales and purchases on both a long term and short term basis.

WGL Midstream enters into both physical and financial derivative transactions to mitigate risks while seeking to maximize potential profits from the optimization of the transportation and storage assets it has under contract. These derivatives may cause significant period-to-period volatility in earnings as recorded under GAAP; however, this earnings volatility will not change the realized margins that WGL Midstream expects to earn on the underlying physical transactions.

WGL Midstream seeks to manage price risk exposure under its risk management policy by matching its forward physical and financial positions with its asset base. For a discussion of WGL Midstream's exposure to and management of price risk, refer to the section entitled *"Market Risk-Price Risk Related to the Non-Utility Segments"* in Management's Discussion and Analysis.

Competition

WGL Midstream competes with other midstream infrastructure and energy services companies, wholesale energy suppliers, producers and other non-utility affiliates of regulated utilities for the acquisition of natural gas storage and transportation assets.

Price Volatility

WGL Midstream can be positively or negatively affected by significant volatility in the wholesale price of natural gas. WGL Midstream risk management policies and procedures are designed to minimize the risk that purchase commitments and the related sale commitments do not closely match. In general, profit opportunities for trading activities are increased for WGL Midstream with increased volatility in natural gas prices. These opportunities are primarily in short term transportation and storage spreads, seasonal storage spreads and long term supply or basis transactions.

Critical Factors

Factors critical to the success of WGL Midstream's operations include: *(i)* pipeline investment projects are on time and on budget within set parameters; *(ii)* internal risk management policies; *(iii)* winning business in a competitive marketplace; *(iv)* managing counterparty credit risk; *(v)* managing contract risks associated with the purchase and sale of natural gas, including index pricing and changes in natural gas markets; *(vi)* maintaining and leveraging expertise in managing and optimizing natural gas related contracts; *(vii)* access to sources of financial liquidity and *(viii)* the level of general and administrative expenses.

Other Activities

Activities and transactions that are not significant enough on a stand-alone basis to warrant treatment as an operating segment, and that do not fit into one of our other operating segments, are aggregated as "Other activities" in the Operating Segment Financial Information. Administrative and business development activity costs associated with WGL and Washington Gas Resources are included in this segment.

Environmental Matters

We are subject to federal, state and local laws and regulations related to environmental matters. These laws and regulations may require expenditures over a long timeframe to control environmental effects. Almost all of the environmental liabilities we have recorded are for costs expected to be incurred to remediate sites where we or a predecessor affiliate operated manufactured gas plants (MGPs). Estimates of liabilities for environmental response costs are difficult to determine with precision because of the various factors that can affect their ultimate level. These factors include, but are not limited to, the following:

- the complexity of the site;
- changes in environmental laws and regulations at the federal, state and local levels;
- the number of regulatory agencies or other parties involved;
- new technology that renders previous technology obsolete or experience with existing technology that proves ineffective;
- the level of remediation required and
- variation between the estimated and actual period of time required to respond to an environmentally-contaminated site.

Washington Gas has identified up to ten sites where it or its predecessors may have operated MGPs. Washington Gas' last use of an MGP was in 1984. In connection with these operations, we are aware that coal tar and certain other by-products of the gas manufacturing process are present at or near some former sites, and may be present at others. Based on the information available to us, we have concluded that none of the sites are likely to present an unacceptable risk to human health or the environment, and either the appropriate remediation is being undertaken, or Washington Gas believes no remediation is necessary.

Washington Gas is currently conducting a remedial investigation and feasibility study of potential contamination in the Anacostia River associated with and adjacent to one of its former MGP sites under a 2012 consent decree with the District of Columbia and federal governments. During the fiscal year ended 2017, Washington Gas began working on the second phase of this study, an in-river investigation designed to evaluate the nature and extent of contamination in groundwater (beneath the river), surface water, and sediments of the Anacostia River. The study is ongoing.

Washington Gas received a letter in February 2016 from the District of Columbia and National Park Service regarding the Anacostia River Sediment Project, indicating that the District of Columbia is conducting a separate remedial investigation and feasibility study of the river to determine if and what cleanup measures may be required and to prepare a natural resource damage assessment. The sediment project draft report identifies one of Washington Gas' former MGP sites as one of seventeen potential environmental cleanup sites. During the fiscal year ended September 30, 2017, Washington Gas received a request for information related to three Washington Gas properties: the previously identified former MGP site under the 2012 consent decree, one other former MGP site and another Washington Gas location. We are not able to estimate the amount of potential damages or timing associated with the District of Columbia's environmental investigation on the Anacostia River at this time. While an allocation method has not been established, Washington Gas has accrued an amount based on a potential range of estimates. The impact of these matters is not expected to have a material effect on Washington Gas' financial position, cash flows, capital expenditures, earnings or competitive position. See Note 12—*Environmental Matters* of the Notes to Consolidated Financial Statements for further discussion of environmental response costs.

Other Information

At September 30, 2017, we had 1,586 employees comprising 1,461 utility and 125 non-utility employees.

WGL has determined that none of its entities, either separately or in the aggregate, will be classified as swap dealers or major swap participants under the Dodd-Frank Act.

Our code of conduct, corporate governance guidelines, and charters for the governance, audit and human resources committees of the WGL Board of Directors are available on the corporate Web site *www.wglholdings.com* under the "Corporate Governance" link, and any changes or amendments to these documents will also be posted to this section of the WGL Web site. Charters for the governance, audit and human resources committees of the Washington Gas Board of directors are available on the Corporate Web site www.washingtongas.com under "About"/"Corporate Governance" and any changes or amendments to these charters will be posted to this section of the Washington Gas Web site. Copies of any of the aforementioned documents may be obtained by request to the Corporate Secretary at WGL Holdings, Inc., 101 Constitution Ave., N.W., Washington, D.C. 20080. Also on the WGL corporate Web site is additional information about WGL Holdings and free access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments filed with or furnished to the Securities and Exchange Commission.

Our Chairman and Chief Executive Officer certified to the New York Stock Exchange (NYSE) on February 17, 2017 that, as of that date, he was unaware of any violation by WGL of the NYSE's corporate governance listing standards.

Our research and development costs during fiscal years 2017, 2016 and 2015 were not material.

ITEM 1A Risk Factors

The risk factors described below should be read in conjunction with other information included or incorporated by reference in this annual report on Form 10-K, including an in-depth discussion of these risks in the section entitled *"Management's Discussion and Analysis of Financial Condition and Results of Operations."*

The risk factors discussed below are separated into three sections. The first discusses those factors that affect the consolidated entity of WGL Holdings and all of its subsidiaries, including Washington Gas. The second section describes other risk factors affecting Washington Gas included under "Risks Affecting Washington Gas." The final section focuses on those factors affecting non-utility entities.

Risks Relating to WGL and all of its Subsidiaries

The proposed merger with AltaGas is subject to regulatory approval.

On January 25, 2017, WGL and AltaGas entered into a Merger Agreement for WGL to be combined with AltaGas in an all cash transaction valued at approximately $6.4 billion. Consummation of the Merger is subject to the satisfaction or waiver of specified closing conditions, including *(i)* the approval of the Merger by the holders of more than two-thirds of the outstanding shares of WGL common stock, which was obtained on May 10, 2017, *(ii)* the receipt of regulatory approvals required to consummate the Merger, including approval from the Public Service Commission of the District of Columbia (PSC of DC), the Public Service Commission of Maryland (PSC of MD), the State Corporation Commission of Virginia (SCC of VA), the Federal Energy Regulatory Commission (FERC) and the Committee On Foreign Investment in the United States (CFIUS) (FERC, CFIUS and State Corporation Commission of Virginia approvals having been obtained on July 6, 2017, August 18, 2017 and October 20, 2017, respectively), *(iii)* the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR), which occurred on July 17, 2017, *(iv)* the absence of any order of any governmental authority and the absence of the enactment of any law, in each case that enjoins, prohibits or makes illegal the consummation of the Merger, and *(v)* other customary closing conditions, including (a) the accuracy of each party's representations and warranties (subject to customary materiality qualifiers), and (b) each party's compliance in all material respects with its obligations and covenants contained in the Merger Agreement. In addition, the obligations of AltaGas and its merger subsidiary to consummate the Merger are subject to (a) the absence of a Company Material Adverse Effect (as defined in the Merger Agreement) and (b) the required regulatory approvals and any law not imposing or requiring any undertakings, terms, conditions, obligations, commitments, sanctions or remedial actions that constitute a Burdensome Condition (as defined in the Merger Agreement).

WGL may not receive the remaining required statutory approvals and other clearances for the Merger, or they may not be received in a timely manner. If such approvals are received, they may impose terms, conditions or restrictions *(i)* that cause a failure of the closing conditions set forth in the Merger Agreement, or *(ii)* that could have a detrimental impact on the combined company following completion of the Merger. A substantial delay in obtaining the required authorizations, approvals or consents or the imposition of unfavorable terms, conditions or restrictions could prevent the completion of the Merger. Even though the waiting period under HSR has expired, government authorities could seek to block or challenge the Merger as they deem necessary or desirable in the public interest.

Failure to complete the Merger could adversely affect WGL's stock price and future business operations and financial results.

If WGL is unable to consummate the Merger, holders of WGL common stock will not receive any payment for their shares pursuant to the Merger Agreement. WGL's ongoing business may be adversely affected and would be subject to a number of risks, including the following:

- WGL would have paid significant transaction costs, and may in certain circumstances be obligated to pay a termination fee to AltaGas of $136 million;
- the attention of management may have been diverted to the Merger rather than to operations and the pursuit of other opportunities;
- though the merger terms contemplate management and employees remaining to operate WGL, there is the chance of the potential loss of key personnel, as personnel may feel uncertain about their future with the combined company;
- WGL will have been subject to certain restrictions on the conduct of business, which may prevent the Company from making certain acquisitions or dispositions or pursuing other business opportunities; and
- the trading price of WGL's stock may decline if the market believes the Merger may not be completed.

Failure to complete the Merger may result in negative publicity, additional litigation against WGL or its directors and officers, and a negative impression of WGL in the investment community. The occurrence of these events, individually or in the aggregate, could have a material adverse effect on the results of operations or the price of WGL's common stock.

The business of WGL and Washington Gas will be impacted by the terms and conditions of the Merger Agreement.

The Merger Agreement restricts WGL, without AltaGas's consent (which will not be unreasonably withheld), from undertaking certain specified actions until the Merger occurs or the Merger Agreement terminates. These restrictions may prevent WGL from pursuing otherwise attractive business opportunities and making other changes to its business prior to completion of the

Merger or termination of the Merger Agreement. For example, the Merger Agreement prohibits WGL from raising common equity capital. Given that Washington Gas is solely dependent on WGL to raise new common equity capital and to contribute that common equity to Washington Gas, WGL's inability to raise common equity could adversely affect both WGL's and Washington Gas' credit ratings and coverage ratios.

WGL will incur significant costs associated with the Merger.

WGL expects to incur significant costs associated with the Merger for financial advisory services, legal services, re-evaluation of share-based compensation and acceleration of executive compensation. Some of these costs have been and will continue to be incurred even if the Merger is not completed.

WGL's business will be subject to uncertainties while the Merger is pending.

Uncertainty about the effect of the Merger on employees, suppliers and customers may have an adverse effect on WGL. Although WGL intends to take steps to reduce any adverse effects, these uncertainties may impair WGL's abilities to attract, retain and motivate employees until the Merger is completed and for a period of time thereafter.

Potential future actions against WGL and its directors and officers challenging the Merger may prevent the Merger from being completed within the anticipated time frame.

WGL and/or its directors and officers may potentially be named as defendants in class action lawsuits filed on behalf of public shareholders challenging the Merger and potentially seeking to enjoin the defendants from consummating the Merger on the agreed-upon terms.

WGL is a holding company and we depend on the receipt of dividends and other payments from our subsidiaries to pay dividends on our common stock and to pay principal and interest on our outstanding debt.

WGL is a holding company whose assets consist primarily of investments in subsidiaries. Accordingly, we conduct all of our operations through our subsidiaries. Our ability to pay dividends on our common stock and to pay principal and accrued interest on our outstanding debt depends on the payment of dividends to us by certain of our subsidiaries or the repayment of funds to us by our subsidiaries. Our subsidiaries, in turn, may be restricted from paying dividends, making repayments or making other distributions to us for financial, regulatory, legal or other reasons. The extent to which our subsidiaries are not able to pay dividends or repay funds to us may adversely affect our ability to pay dividends to holders of our common stock and principal and interest to holders of our debt, which could negatively affect WGL's stock price.

If we are unable to access sources of liquidity or capital, or if the cost of funds increases significantly, our business, financial results and strategic growth plans may be adversely affected.

WGL and Washington Gas require access to sources of liquidity to fund our operations and to support our growth strategy. Our ability to obtain adequate and cost effective financing depends on the credit ratings of WGL and Washington Gas and the liquidity of financial markets. A material downgrade in WGL's or Washington Gas' credit ratings or disruptions in the capital or credit markets, including as a result of natural disasters and catastrophic events (including terrorist acts), could adversely affect our access to sources of liquidity and capital and increase our borrowing costs.

Our strategic growth plans assume that we will have continued access to liquidity and capital. In addition, the ability of our non-utility subsidiaries to purchase natural gas and electricity from their suppliers is partly dependent upon the creditworthiness of WGL, and upon access to cash collateral through the issuance of commercial paper and unsecured short-term bank loans by WGL. If WGL's credit ratings are materially downgraded, we may be required to provide additional credit support. If we are required to provide significant additional credit support, or if there is significant disruption in the credit markets, our ability to implement our strategic plans and the ability of our non-utility subsidiaries to make commodity purchases at reasonable prices may be impaired.

In addition, as a wholly owned subsidiary of WGL, Washington Gas depends solely on WGL to raise new common equity capital and to contribute that common equity to Washington Gas. If WGL is unable to raise common equity capital, as is currently the case while the Merger is pending, this also could adversely affect Washington Gas' credit ratings and its ability to earn its authorized rate of return. An increase in the interest rates Washington Gas pays without the recognition of the higher cost of debt in rates charged to its customers could materially affect future net income and cash flows.

Cyber-attacks, including cyber-terrorism or other information technology security breaches, or information technology failures may disrupt our business operations, increase our costs, lead to the disclosure of confidential information and damage our reputation.

Security breaches of our information technology infrastructure, including cyber-attacks and cyber-terrorism, or other failures of our information technology infrastructure could lead to disruptions of our natural gas distribution operations and otherwise adversely impact our ability to safely and effectively operate our pipeline and distributed generation systems and serve our customers. In addition, an attack on or failure of information technology systems could result in the unauthorized release of customer, employee or Company data that is crucial to our operational security or could adversely affect our ability to deliver and collect on customer bills. Such security breaches of our information technology infrastructure could adversely affect our business reputation, diminish customer confidence, subject us to financial liability or increased regulation, increase our costs and expose us to material legal claims and liability and adversely affect our operations and financial results. We have implemented preventive, detective and remediation measures to manage these risks, and we maintain cyber risk insurance to mitigate the effects of these events. Nevertheless, these may not effectively protect all of our systems all of the time.

To the extent that the occurrence of any of these cyber events is not fully covered by insurance, it could adversely affect WGL's financial condition and results of operations.

Our ability to meet our customers' requirements may be impaired if contracted supply is not available, if supplies are not delivered in a timely manner, if we lose key suppliers or if we are not able to obtain additional supplies during significant spikes in demand.

Washington Gas must acquire adequate natural gas supply and pipeline and storage capacity to meet current and future customers' annual and seasonal natural gas requirements. Similarly, WGL Energy Services requires adequate natural gas and electric supplies to serve the demands of its customers and WGL Midstream requires adequate natural gas supply and storage and pipeline capacity to meet its delivery obligations to its customers. We depend on the ability of natural gas producers, pipeline gatherers, natural gas processors, interstate pipelines, suppliers of electricity and regional electric transmission operators to meet these requirements. If we are unable to secure adequate supplies in a timely manner because of a failure of our suppliers to deliver the contracted commodity, capacity or storage, if we are unable to secure additional quantities during significant abnormal weather conditions, or if Washington Gas' or WGL Energy Services' interruptible customers fail to comply with requests to curtail their gas usage during periods of sustained cold weather, we may be unable to meet our customers' requirements. Such inability could result in defaults under contracts with customers, penalties and financial damage payments, costs relating to procedures to recover from a disruption of service, the loss of key licenses and operating authorities, and the loss of customers, which could have a material adverse effect on our financial results.

Natural disasters and catastrophic events, including terrorist acts, may adversely affect our business.

Natural disasters and catastrophic events such as fires, earthquakes, explosions, floods, tornados, terrorist acts, and other similar occurrences, could damage our operational assets, including utility facilities, information technology infrastructure, distributed generation assets and pipeline assets owned by investees of our non-utility subsidiaries. Such events could likewise damage the operational assets of our suppliers or customers. These events could disrupt our ability to meet customer requirements, significantly increase our response costs, and significantly decrease our revenues. Unanticipated events or a combination of events, failure in resources needed to respond to events, or a slow or inadequate response to events may have an adverse impact on our operations, financial condition, and results of operations. The availability of insurance covering catastrophic events, sabotage and terrorism may be limited or may result in higher deductibles, higher premiums, and more restrictive policy terms.

We are exposed to counterparty and contract-related risks that could adversely affect our results of operations, cash flows and financial condition.

We extend credit to counterparties, including other utilities, holding companies, banks, gas exploration and production companies, government-backed utilities and other participants in the energy industry. Although we believe we have prudent policies in place to manage our credit risk, including credit policies, netting arrangements and margining provisions incorporated in contractual agreements, we may not be able to collect amounts owed to us, which could adversely affect our liquidity and results of operations.

In addition, we enter into agreements with counterparties relating to the sale, purchase and delivery of commodity, transportation capacity, energy system design and construction, investment terms, and other matters. Our decisions to enter into these agreements are based on our expectations about the ongoing viability of our counterparties, assumptions and expectations underlying pricing terms and conditions, and commercial terms and other matters. These expectations may prove to be incorrect or our counterparties may dispute key terms of our agreements in ways that we do not anticipate. Such developments could result in our incurring losses or otherwise not achieving anticipated financial returns, which could have a material adverse effect on our results of operations. We are currently involved in legal proceedings with Antero Resources (Antero) relating to a dispute over the gas being delivered under natural gas purchase contracts. WGL Midstream incurred approximately \$15.2 million and \$9.8 million in losses associated with this dispute for the years ended September 30, 2016 and 2017, respectively. Separately, Antero has initiated suit against Washington Gas and WGL Midstream, claiming that they have failed to purchase specified daily quantities of gas and seeking alleged cover damages exceeding \$80 million as of October 24, 2017, which amount continues to accumulate daily according to Antero's complaint. Washington Gas and WGL Midstream oppose both the validity and amount of Antero's claim. If we are not successful in these proceedings, our results of operations would be negatively affected.

Our risk management strategies and related hedging activities may not be effective in managing risks and may cause increased volatility in our earnings and, in our utility segment, may result in costs and losses for which rate recovery may be disallowed.

We are exposed to commodity price, weather and interest rate risks. In addition, WGL Energy Services is exposed to pricing of certain ancillary services provided by the power pool in which it operates.

For gas purchases to serve utility customers, Washington Gas attempts to manage its exposure to these risks, in part, through regulatory recovery mechanisms. Our other subsidiaries primarily seek to manage risks by matching natural gas and electricity purchase obligations with sales commitments in terms of volume and pricing. In addition, we attempt to mitigate risks by hedging, setting risk limits and employing other risk management tools and procedures. These risk management activities may not be effective, and cannot eliminate these risks in their entirety. If these tools and procedures are ineffective, we could incur significant losses, which could have a material adverse effect on our financial results and liquidity. In addition, although Washington Gas generally anticipates rate recovery of its costs or losses incurred in connection with these risk management activities, a regulator could subsequently disallow these costs or losses from the determination of revenues, which could adversely affect our financial results and increase the volatility of our earnings.

Rules implementing the derivatives transaction provisions of the Dodd-Frank Act could have an adverse impact on our ability to hedge risks associated with our business.

The Dodd-Frank Act regulates derivatives transactions, which include certain instruments, such as interest rate swaps, and commodity options, financial and other contracts, used in our risk management activities. The Dodd-Frank Act requires that most swaps be cleared through a registered clearing facility and that they be traded on a designated exchange or swap execution facility, with certain exceptions for entities that use swaps to hedge or mitigate commercial risk. The Dodd-Frank requirements relating to derivative transactions have not been fully implemented by the SEC and the Commodity Futures Trading Commission. When fully implemented, the law and any new regulations could increase the operational and transactional cost of derivatives contracts and affect the number and/or creditworthiness of available counterparties.

In addition, we may transact with counterparties based in the European Union, Canada or other jurisdictions which, like the U.S., are in the process of implementing regulations to regulate derivatives transactions, some of which are currently in effect and may impose costs on our derivatives activities.

Our business, earnings and cash requirements are highly weather sensitive and seasonal.

The earnings of Washington Gas can vary from year to year depending, in part, on weather conditions. Warmer-than-normal weather can reduce our utility margins as customer consumption declines. In Maryland and Virginia, we have in place regulatory mechanisms and rate designs intended to stabilize the level of net revenues that we collect from customers by eliminating the effect of deviations in customer usage caused by variations in weather from normal levels, and other factors such as conservation. If our rates and tariffs are modified to eliminate these provisions, then we would be exposed to significant risk associated with weather.

The operations of WGL Energy Services, our retail energy-marketing subsidiary, are weather sensitive and seasonal, with a significant portion of revenues derived from the sale of natural gas to retail customers for space heating during the winter months, and from the sale of electricity to retail customers for cooling during the summer months. Weather conditions directly influence the volume of natural gas and electricity delivered to customers. Weather conditions can also affect the short-term pricing of energy supplies that WGL Energy Services may need to procure to meet the needs of its customers. Similarly, the business of WGL Midstream is seasonal due to the tendency of storage and transportation spreads to increase during the winter. In addition, the distributed generation operations of WGL Energy Systems, which derive significant revenues from the sale of electricity to customers from solar generating assets, are weather sensitive because weather conditions directly influence the generation of electricity that is delivered to customers.

Deviations from normal weather conditions and the seasonal nature of these businesses can create large fluctuations in these subsidiaries' short-term cash requirements and earnings.

Washington Gas and WGL Midstream may face regulatory and financial risks related to pipeline safety legislation.

A number of proposals to require increased oversight over pipeline operations and increased investment in and inspections of pipeline facilities are pending or have previously been proposed in the United States Congress. Additional operating expenses and capital expenditures may be necessary to remain in compliance with the increased federal oversight resulting from such proposals. While we cannot predict with certainty the extent of these expenses and expenditures or when they will become effective, the adoption of such proposals could result in significant additional costs to Washington Gas' and WGL Midstream's businesses. Washington Gas may be unable to recover from customers through the regulatory process all or some of these costs and may be unable to earn its authorized rate of return on these costs.

Failure of our service providers, including in connection with the transition of certain outsourcing relationships to new vendors, could negatively impact our business, results of operations and financial condition.

Certain of our information technology, customer service, supply chain, pipeline and infrastructure installation and maintenance, engineering, payroll and human resources functions that we rely on are provided by third party vendors. Some of these services may be provided by vendors from centers located outside of the United States. Services provided pursuant to these agreements could be disrupted due to events and circumstances beyond our control. Our reliance on these service providers could have an adverse effect on our business, results of operations and financial condition.

Risks Relating to Washington Gas

Changes in the regulatory environment or unfavorable rate regulation may restrict or delay Washington Gas' ability to earn a reasonable rate of return on its capital invested to provide utility service and to recover fully its operating costs.

Washington Gas is regulated by several regulatory commissions and agencies. These regulatory commissions generally have authority over many of the activities of Washington Gas' business including, but not limited to, the rates it charges to its customers, the amount and type of securities it can issue, the nature of investments it can make, the nature and quality of services it provides, safety standards, collection practices and other matters. These regulators also may modify Washington Gas' rates to change the level, type and methods that it utilizes to recover its costs, including the costs to acquire, store, transport and deliver natural gas. In addition, the regulatory environment and rate regulation can be affected by new laws and political considerations. Most significantly, we incur both planned and unplanned costs to operate, improve, maintain and repair our operational assets. The amount of these costs may vary from our expectations due to significant unanticipated repairs, maintenance and remediation of our assets, changes in legal and regulatory requirements, natural disasters, terrorism, changes in interest rates of our indebtedness and other events. To the extent these costs are not included in approved rates or tariffs, we seek our recovery through rate cases; however, the regulatory process may be lengthy and costs may be disallowed, causing us to suffer the negative financial effects of costs incurred without the benefit of rate relief. Additionally, the actions of regulatory commissions may restrict or delay Washington Gas' ability to earn a reasonable rate of return on invested capital.

Washington Gas must acquire additional capacity to deliver natural gas into growth areas and it may not be able to do so in a timely manner.

Washington Gas must acquire additional interstate pipeline transportation or storage capacity and construct transmission and distribution pipe to deliver additional capacity into growth areas on our system. The specific timing of any larger customer additions to our market may not be forecasted with sufficiently long lead time and the availability of these supply options to serve any of our customer additions may be limited by market supply and demand, the timing of Washington Gas' participation in new interstate pipeline construction projects, local permitting requirements and the ability to acquire necessary rights of way. These limitations could result in an interruption in Washington Gas' ability to satisfy the needs of some of its customers.

Leaks, mechanical problems, incidents or other operational issues could affect public safety and the reliability of Washington Gas' distribution system, which could materially affect Washington Gas' results of operations, financial condition and cash flows.

Washington Gas' business is exposed to operational issues, hazards and risks inherent in storing and transporting natural gas that could affect the public safety and reliability of its distribution system. While Washington Gas, with support from each of its regulatory commissions, is accelerating the replacement of aging pipeline infrastructure prioritized on a risk-based approach, operating issues such as leaks, equipment problems and incidents, including explosions and fire, could result in legal liability, repair and remediation costs, increased operating costs, significant increased capital expenditures, regulatory fines and penalties and other costs and a loss of customer confidence. Any liabilities resulting from the occurrence of these events may not be fully covered by insurance, and Washington Gas may be unable to recover from customers through the regulatory process all of these repair, remediation and other costs and earn its authorized rate of return on these costs.

Washington Gas has implemented preventive and remedial measures to address increased leak rates in its distribution system caused by an increase in the volume of natural gas containing low concentration of HHCs received from its suppliers. These measures include the injection of hexane to increase the concentration of HHCs and the implementation of pipe replacement programs. If Washington Gas were unable to inject hexane into its natural gas supply due to limited availability of hexane, equipment or operational problems, or damage to our facilities at which hexane is injected, our leak rates could increase, which would exacerbate the risks discussed above. In addition, Washington Gas' ability to continue to recover the cost of these preventive and remedial measures and to earn its authorized rate of return on these costs is subject to the regulatory process.

Current and future environmental regulations may adversely affect Washington Gas' operations and financial results.

Washington Gas is subject to federal, state and local laws and regulations related to environmental matters. These evolving laws and regulations may require expenditures over a long timeframe. Failure to comply with these laws and regulations may expose Washington Gas to fines, penalties and operational interruptions that could adversely affect its financial results. Moreover, new environmental requirements, revisions and reinterpretations of existing environmental requirements and changes in environmental enforcement policies and practices may stretch Washington Gas' operational resources and adversely affect its financial results.

In the past, the United States Congress has considered legislative proposals to limit greenhouse gas (GHG) emissions. Future proposals to limit GHG emissions could adversely affect our operating and service costs and demand for our product. Should future proposals become law, operating and service costs may increase and demand for our product could decrease, and utility costs and prices charged to utility customers may increase, which would adversely affect our financial results.

Changes in the relative prices of alternative forms of energy may weaken the competitive position of Washington Gas' delivery service, which could reduce growth in natural gas customers, reduce the volume of natural gas delivered and negatively affect Washington Gas' cash flows and earnings.

The price of natural gas delivery service that Washington Gas provides competes with the price of other forms of energy such as electricity, oil and propane. An increase in the price of natural gas compared to other sources of energy may cause the competitive position of our natural gas delivery service to decline. A decline in the competitive position of natural gas service may lead to fewer natural gas customers, lower volumes of natural gas delivered, lower cash flows and lower earnings.

A decline in the local economy in which Washington Gas operates may reduce net revenue growth and reduce future earnings and cash flows.

Approximately 75% of our assets are attributable to our regulated utility businesses, and the dividends paid by Washington Gas to WGL constituted approximately 85% of the amount of WGL Holdings' dividends paid for fiscal year 2017. Further, substantially all of our natural gas utility customers are located in Virginia, Maryland and the District of Columbia. A decline in the economy of the region in which Washington Gas operates or a change in the usage patterns and financial condition of customers in the region might adversely affect Washington Gas' ability to grow its customer base and collect revenues from existing customers, which may negatively affect net revenue growth and increase costs.

Washington Gas' business and financial condition could be adversely impacted by strikes or work stoppages by its unionized employees.

Washington Gas' business is dependent upon employees who are represented by unions and are covered by collective bargaining agreements. Disputes with the unions could result in work stoppages that could impact the delivery of natural gas and other services, which could affect our relationships with customers, vendors and regulators and adversely affect Washington Gas' business and financial condition.

The availability of adequate interstate pipeline transportation capacity and natural gas supply may decrease.

We purchase almost all of our natural gas supply from interstate sources that must then be transported to our service territory. In particular, while the Marcellus Shale region is rapidly developing as a premier gas formation, the interstate pipeline transportation capacity may limit the availability of gas from Marcellus in the near term. A significant disruption to or reduction in interstate pipeline capacity due to events such as operational failures or disruptions, hurricanes, tornadoes, floods, freeze off of natural gas wells, terrorist or cyber-attacks or other acts of war, or legislative or regulatory actions or requirements, including remediation related to integrity inspections, could reduce our normal interstate supply of gas, which may affect our ability to serve customer demand and may reduce our earnings.

The cost of providing retirement plan benefits to eligible current and former employees is subject to changes in the performance of investments, demographics, and other factors and assumptions. These changes may have a material adverse effect on us.

The cost of providing retirement plan benefits to eligible current and former employees is subject to changes in the market value of our retirement plan assets, changing bond yields, changing demographics and changing assumptions. Any sustained declines in equity markets, reductions in bond yields, increases in health care cost trends, or increases in life expectancy of beneficiaries may have an adverse effect on our retirement plan liabilities assets and benefit costs. Additionally, we may be required to increase our contributions in future periods in order to preserve the current level of benefits under the plans and/or due to federal funding requirements.

Risks Relating to the Non-Utility Subsidiaries of WGL

The construction of WGL Midstream's pipeline assets have experienced and may continue to experience legislative and regulatory obstacles, and the construction and operation of these assets are subject to hazards, equipment failures, supply chain disruptions, personnel issues and related risks, which could result in decreased values of these investments, including impairments, and/or delays their in-service dates, which would negatively affect our results of operations.

WGL Midstream's business plan involves making substantial investments in pipeline construction projects, which are subject to FERC and state agency regulation and approval. These construction projects are also subject to environmental, political and legal uncertainties that are beyond our control. These factors may reduce some opportunities to grow our midstream business or impair our existing investments.

In addition, the construction and operation of WGL Midstream's pipeline assets are subject to risks relating to breakdowns or failures of equipment or processes due to pipeline integrity, fuel supply or transportation disruptions, accidents, labor disputes or work stoppages, construction delays or cost overruns, and shortages of or delays in obtaining equipment, material and labor. Because these assets are interconnected with facilities of third parties, the operation of these facilities could also be adversely affected by unexpected or uncontrollable events occurring on the systems of such third parties. These events could further delay the in-service date of WGL Midstream's projects or disrupt operations on these projects, which could have an adverse effect on its financial results.

Returns on our non-utility subsidiaries' investments in renewable energy projects are dependent upon regulatory and tax incentives, which may expire or be reduced or modified.

WGL Energy Systems derives a significant portion of its revenues from the sale of SRECs, which are produced as a result of owning and operating commercial distributed energy systems. The value of these SRECs is determined by markets in the states where the distributed energy systems are installed, which are driven by state laws relating to renewable portfolio standards or alternative compliance payment requirements for renewable energy. Overbuilding of distributed energy systems in these states or legislative changes reducing renewable portfolio standards or alternative compliance payment requirements could negatively impact the price of SRECs that we sell and the value of the SRECs that we hold in our portfolio.

In addition, WGL Energy Systems and WGSW's investment strategy to own and operate energy assets and sell energy to customers is based on the investment tax credit (ITC) provision in the federal tax code, which historically has allowed WGL to reduce its tax burden by investing in renewable and alternative energy assets, such as distributed energy, ductless heat pumps and fuel cells. WGL's ability to continue to benefit from the ITC is based on certain assumptions about the level of our income taxes, which could be negatively impacted by future changes in tax laws.

WGL may be impacted by changes in federal income tax policy.

WGL is impacted by the United States federal income tax policy, including corporate income tax laws. Both the new federal administration and Congress are considering comprehensive tax reform, including significant changes to the United States corporate income tax laws. Management is currently unable to predict whether these proposed reforms will result in any significant changes to existing tax laws, or if any such proposed tax changes would have a cumulative positive or negative impact on corporations, including WGL. A reduction in the federal statutory tax rate could result in an accelerated return of deferred federal income taxes to customers. This and other changes in the United States federal income tax laws could have an adverse effect on cash flow, financial condition, and liquidity.

Legislative and regulatory developments and other uncertainties, delays or cost overruns may negatively affect WGL Energy Services or our other non-utility subsidiaries.

Legislation or changes in the regulations that govern the conduct of competitive energy marketers could reduce customer growth opportunities for WGL Energy Services and could reduce the profit opportunities associated with existing customers. In addition, our non-utility subsidiaries hold investments in natural gas related businesses that are subject to laws and regulations that could adversely affect their performance.

Competition may negatively affect our non-utility subsidiaries.

We face strong competition in our non-utility segments. WGL Energy Services competes with other non-regulated retail suppliers of natural gas and electricity, as well as with the commodity rate offerings of electric and gas utilities. Increases in competition, including utility commodity rate offers that are below prevailing market rates, may result in a loss of sales volumes or a reduction in growth opportunities. WGL Midstream competes with other midstream infrastructure and energy services companies, wholesale energy suppliers and other non-utility affiliates of regulated utilities to acquire natural gas storage and transportation assets. WGL Energy Systems faces many competitors in the commercial energy systems segment, including, for government customers, companies that contract with customers under ESPC and other utilities providing services under UESCs and, in the renewable energy and distributed generation market, other developers, tax equity investors, distributed generation asset owner firms and lending institutions. These competitors may have diversified energy platforms with multiple marketing approaches, broader geographic coverage, greater access to credit and other financial resources, or lower cost structures, and may make strategic acquisitions or establish alliances among themselves. There can be no assurances that we can compete successfully, and our failure to do so could have an adverse impact on our results of operations and cash flow.

WGL subsidiaries invest in non-controlling interests in investments, and may have limited ability to manage risks associated with these investments.

We own, and may acquire additional, non-controlling interests in investments. We may not have the right or power to direct the management of these investments, and other investors may take action that is contrary to our interests. In addition, other participants may become bankrupt or have other economic or business objectives that could negatively impact the value and performance of our investments.

Reductions or delays in federal government budget appropriations may negatively impact WGL Energy Systems' earnings.

The Energy Efficiency and Energy Management operations of WGL Energy Systems are sensitive to federal government agencies' receipt of funding in a timely manner. A significant portion of WGL Energy Systems revenues is derived from implementing projects related to energy efficiency and energy conservation measures for federal government agencies in the Washington D.C. metropolitan area. A reduction or delay in funding for these federal agencies directly impacts completion of ongoing projects and may harm WGL Energy Systems' ability to obtain new contracts, which may negatively impact earnings.

ITEM 1B Unresolved Staff Comments

None.

ITEM 2 Properties

At September 30, 2017, Washington Gas provided services in various areas of the District of Columbia, Maryland and Virginia, and held certificates of convenience and necessity, licenses and permits necessary to maintain and operate its properties and businesses.

At September 30, 2017, Washington Gas had approximately 577 miles of transmission mains, 13,103 miles of distribution mains and 12,518 miles of distribution services.

Washington Gas owns approximately 20 acres of land and two buildings (completed in 2012) at 6801 and 6803 Industrial Road in Springfield, Virginia. The Springfield site houses both operating and certain administrative functions of the utility. Washington Gas also holds title to land and buildings used as substations for its utility operations.

Washington Gas also has peak shaving facilities in Springfield, Virginia (Ravensworth Plant) and Rockville, Maryland (Rockville Plant). At September 30, 2017, Hampshire owns full and partial interests in, and operates, underground natural gas storage facilities in Hampshire County, West Virginia. Hampshire owns certain exploration and development rights in West Virginia principally in the Oriskany Sandstone, the Marcellus Shale and other shale formations. These rights are predominately owned by lease and they are applicable to approximately 26,000 gross acres for the storage facilities. Hampshire also operates a compressor station utilized to increase line pressure for injection of gas into storage.

Washington Gas owns a 12 acre parcel of land located in Southeast Washington, D.C. that is intended to be a mixed-use commercial redevelopment project developed in five phases. Washington Gas contracted with a national developer and completed the development of the first two phases in 2002, with Washington Gas retaining a 99-year ground lease on each phase. The remaining phases have not been completed and future development of those phases is under consideration.

In addition, WGL Energy Systems owns 221 megawatts of installed solar capacity across the United States at September 30, 2017.

Facilities utilized by our corporate headquarters, as well as by the retail energy-marketing and commercial energy systems segments, are located in the Washington, D.C. and Baltimore metropolitan area and are leased.

The Mortgage of Washington Gas dated January 1, 1933 (Mortgage), as supplemented and amended, securing any First Mortgage Bonds (FMBs) it issues, constitutes a direct lien on substantially all property and franchises owned by Washington Gas other than a small amount of property that is expressly excluded. At September 30, 2017 and 2016, there was no debt outstanding under the Mortgage.

ITEM 3 Legal Proceedings

The nature of our business ordinarily results in periodic regulatory proceedings before various state and federal authorities. For information regarding pending federal and state regulatory matters, see Note 13-*Commitments and Contingencies* of the Notes to Consolidated Financial Statements.

Silver Spring, Maryland Incident

Washington Gas continues to support the investigation by the NTSB into the August 10, 2016 explosion and fire at an apartment complex on Arliss Street in Silver Spring, Maryland, the cause of which has not been determined. Additional information will be made available by the NTSB at the appropriate time. On November 2, 2016, two civil actions were filed in the District of Columbia Superior Court against WGL and Washington Gas (as well as a property management company that is not affiliated with WGL or Washington Gas), by residents of the apartment complex. In one lawsuit, twenty-nine plaintiffs sought unspecified damages for, among others, wrongful death and personal injury. The other action was a class action suit seeking total damages stated to be less than $5 million for, among others, property damage and various counts relating to the loss of the use of the premises. Both actions alleged causes of action for negligence, product liability, and declaratory relief. These cases were dismissed on November 16, 2017. Thirty-five civil actions have been filed in the Circuit Court for Montgomery County, Maryland seeking unspecified damages for personal injury and property damage. We maintain excess liability insurance coverage from highly-rated insurers, subject to a nominal self-insured retention. We believe that this coverage will be sufficient to cover any significant liability to it that may result from this incident. Management is unable to determine a range of potential losses that are reasonably possible of occurring and therefore we have not recorded a reserve associated with this incident. Washington Gas was invited by the NTSB to be a party to the investigation and in that capacity continues to work closely with the NTSB to help determine the cause of this incident. Information about our obligations as a signed party to the investigation can be found in the form of the Certificate of Party Representation, which is available on the investigations page of the NTSB website (http://www.ntsb.gov/legal/Documents/NTSB_Investigation_Party_Form.pdf), and 49 CFR 831.13. On August 14, 2017, the NTSB opened the public docket related to its ongoing investigation.

ITEM 4 Mine Safety Disclosures

Not Applicable.

PART II

ITEM 5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

At October 31, 2017, WGL had 8,718 common shareholders of record. During fiscal years 2017 and 2016, WGL's common stock was listed for trading on the New York Stock Exchange and was traded under the ticker symbol "WGL." We had no significant restrictions on dividends during fiscal years 2017 or 2016.

During the fiscal year ended 2016, WGL entered into an equity distribution agreement and filed a prospectus supplement relating to a continuous offering under which WGL may sell common stock through an at-the-market (ATM) program. During the fiscal year ended September 30, 2016, WGL issued 1,162,305 shares of common stock under the ATM program. There were no common shares issued under the ATM program during the fiscal year ended September 30, 2017 due to the Merger Agreement.

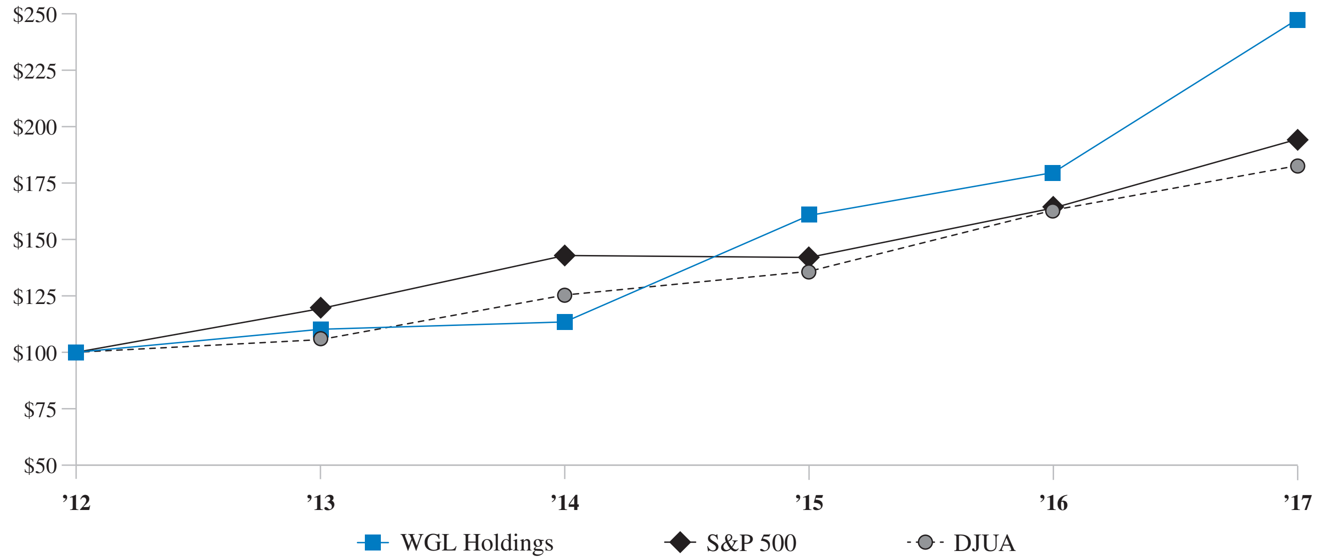
The table below shows quarterly price ranges and quarterly dividends paid for the fiscal years ended September 30, 2017 and 2016.

COMMON STOCK PRICE RANGE AND DIVIDENDS PAID

	High	Low	Dividends Paid Per Share	Dividend Payment Date
Fiscal Year 2017				
Fourth quarter	**$ 86.89**	**$ 82.70**	**$ 0.5100**	**8/1/2017**
Third quarter	**84.55**	**81.59**	**0.5100**	**5/1/2017**
Second quarter	**84.08**	**73.53**	**0.4875**	**2/1/2017**
First quarter	**79.97**	**58.66**	**0.4875**	**11/1/2016**
Fiscal Year 2016				
Fourth quarter	$ 72.18	$ 60.27	$ 0.4875	8/1/2016
Third quarter	72.84	63.06	0.4875	5/1/2016
Second quarter	74.10	59.99	0.4625	2/1/2016
First quarter	65.55	56.90	0.4625	11/1/2015

The graph below summarizes the cumulative return experienced by WGL's shareholders over the fiscal years ended September 30, 2012 through 2017, compared to the S&P 500 Index and the Dow Jones Utility Average.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURNS*
(FISCAL YEAR ENDED SEPTEMBER 30)

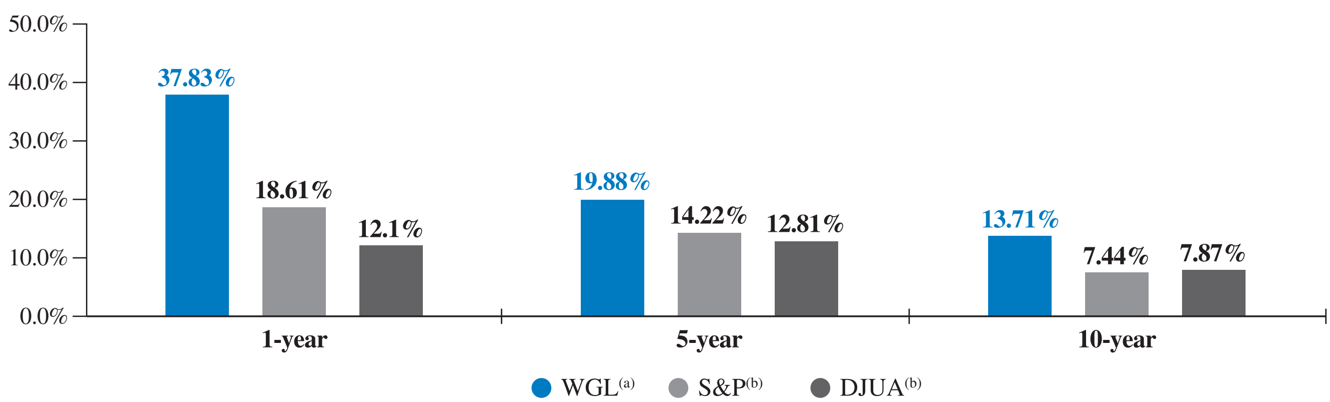


* Assumes daily reinvestment of dividends.
This calculation is based on $100 invested on September 30, 2012.

GROWTH OF $100 INVESTMENT

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
WGL	$ 100.00	$ 110.19	$ 113.45	$ 160.62	$ 179.66	**$ 247.62**
S&P 500	$ 100.00	$ 119.34	$ 142.89	$ 142.02	$ 163.93	**$ 194.44**
DJUA	$ 100.00	$ 105.60	$ 125.37	$ 135.86	$ 162.99	**$ 182.71**

AVERAGE ANNUAL RETURNS



(a) Calculated by WGL
(b) Per Willis Towers Watson, data is provided by Morning Star and Factset.

ITEM 6 Selected Financial Data—WGL Holdings, Inc.

The following table presents selected financial data for WGL derived from our financial statements as of and for the last five fiscal years. The information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited Consolidated Financial Statements and the Notes to the Consolidated Financial Statements.

(In thousands, except per share data)

Years Ended September 30,	2017	2016	2015	2014	2013
Summary of earnings					
Operating Revenues					
Utility	**$ 1,143,337**	$ 1,044,117	$ 1,303,044	$ 1,416,951	$ 1,174,724
Non-utility	**1,211,387**	1,305,442	1,356,786	1,363,996	1,291,414
Total operating revenues	**$ 2,354,724**	$ 2,349,559	$ 2,659,830	$ 2,780,947	$ 2,466,138
Net income applicable to common stock	**$ 192,620**	$ 167,594	$ 131,259	$ 105,940	$ 80,253
Common stock data					
Earnings per average share:					
Basic	**$ 3.76**	3.33	$ 2.64	$ 2.05	$ 1.55
Diluted	**$ 3.74**	3.31	$ 2.62	$ 2.05	$ 1.55
Dividends declared per share	**$ 2.0175**	1.9250	$ 1.8275	$ 1.7400	$ 1.6600
Shares outstanding—year end (thousands)	**51,219**	51,081	49,729	50,657	51,774
Capitalization-year end					
WGL Holdings Common shareholders' equity	**$ 1,502,690**	1,375,561	$ 1,243,247	$ 1,246,576	$ 1,274,545
Non-controlling interest	**6,851**	409	-	-	-
Washington Gas Light Company preferred stock	**28,173**	28,173	28,173	28,173	28,173
Total equity	**1,537,714**	1,404,143	1,271,420	1,274,749	1,302,718
Long-term debt, excluding current maturities	**1,430,861**	1,435,045[(a)]	937,101[(a)]	675,095[(a)]	521,194[(a)]
Total capitalization	**$ 2,968,575**	2,839,188[(a)]	$ 2,208,521[(a)]	$ 1,949,844[(a)]	$ 1,823,912[(a)]
Other financial data					
Property, plant and equipment-net—year-end	**$ 4,630,051**	$ 4,127,237	$ 3,672,728	$ 3,314,445	$ 2,907,463
Total assets—year-end	**$ 6,626,009**	$ 6,049,450[(a)]	$ 5,254,259[(a)]	$ 4,825,702[(a)]	$ 4,232,666[(a)]

(a) *In the first quarter of fiscal year 2017, WGL retrospectively adopted ASU 2015-03 and ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost and Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements resulting in a balance sheet reclassification of Long-term debt, excluding current maturities, Total capitalization and Total assets—year end. Accordingly, these amounts have been recast to conform to current presentation.*

ITEM 6 Selected Financial Data—Washington Gas Light Company

The following table presents selected financial data for Washington Gas derived from the financial statements as of and for the last five fiscal years. The information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the audited Consolidated Financial Statements and the Notes to the Consolidated Financial Statements.

(In thousands, except per share data)

Years Ended September 30,	2017	2016	2015	2014	2013
Summary of earnings					
Operating Revenues					
Total operating revenues	**$ 1,166,968**	$ 1,070,904	$ 1,328,191	$ 1,443,800	$ 1,200,357
Net income applicable to common stock	**$ 130,472**	$ 111,794	$ 107,358	$ 97,004	$ 71,002
Capitalization-year end					
Common shareholder’s equity	**$ 1,164,749**	$ 1,113,446	$ 1,081,292	$ 1,050,166	$ 1,024,583
Preferred stock	**28,173**	28,173	28,173	28,173	28,173
Long-term debt, excluding current maturities	**1,134,461**	939,015[(a)]	691,330[(a)]	675,095[(a)]	521,194[(a)]
Total capitalization	**$ 2,327,383**	$ 2,080,634[(a)]	$ 1,800,795[(a)]	$ 1,753,434[(a)]	$ 1,573,950[(a)]
Other financial data					
Property, plant and equipment-net—year-end	**$ 3,887,715**	$ 3,526,732	$ 3,243,446	$ 3,022,064	$ 2,724,882
Total assets—year-end	**$ 4,954,714**	$ 4,609,555[(a)]	$ 4,199,577[(a)]	$ 3,938,029[(a)]	$ 3,444,517[(a)]
Utility gas sales and deliveries					
(thousands of therms)					
Gas sold and delivered					
Residential firm	**600,279**	590,625	734,874	738,963	660,424
Commercial and industrial					
Firm	**174,436**	167,832	197,543	200,153	180,942
Interruptible	**2,554**	2,771	2,072	2,193	2,897
Total gas sold and delivered	**777,269**	761,228	934,489	941,309	844,263
Gas delivered for others					
Firm	**495,031**	501,030	558,125	535,503	488,182
Interruptible	**242,545**	239,013	260,264	267,705	270,884
Electric generation	**87,611**	291,252	179,061	144,403	177,533
Total gas delivered for others	**825,187**	1,031,295	997,450	947,611	936,599
Total utility gas sales and deliveries	**1,602,456**	1,792,523	1,931,939	1,888,920	1,780,862
Other statistics					
Active customer meters—year-end	**1,163,655**	1,144,160	1,129,865	1,117,043	1,105,123
New customer meters added	**12,488**	12,221	12,099	13,327	12,468
Heating degree days—actual	**3,127**	3,341	3,929	4,111	3,769
Weather percent colder (warmer) than normal	**(15.9)%**	(10.4)%	4.6%	9.6%	(0.2)%

[(a)] *In the first quarter of fiscal year 2017, Washington Gas retrospectively adopted ASU 2015-03 and ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost and Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements resulting in a balance sheet reclassification of Long-term debt, excluding current maturities, Total capitalization and Total assets—year end. Accordingly, these amounts have been recast to conform to current presentation.*

ITEM 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

This *Management's Discussion and Analysis of Financial Condition and Results of Operations* (Management's Discussion) analyzes the financial condition, results of operations and cash flows of WGL and its subsidiaries. It also includes management's analysis of past financial results and potential factors that may affect future results, potential future risks and approaches that may be used to manage them. Except where the content clearly indicates otherwise, "WGL," "we," "us" or "our" refers to the holding company or the consolidated entity of WGL Holdings, Inc. and all of its subsidiaries.

Management's Discussion is divided into the following two major sections:

- **WGL**—This section describes the financial condition and results of operations of WGL Holdings, Inc. and its subsidiaries on a consolidated basis. It includes discussions of our regulated operations, including Washington Gas and Hampshire Gas Company (Hampshire), and our non-utility operations.
- **Washington Gas**—This section describes the financial condition and results of operations of Washington Gas, a subsidiary of WGL, which comprises the majority of the regulated utility segment.

Both sections of Management's Discussion—WGL and Washington Gas—are designed to provide an understanding of our operations and financial performance and should be read in conjunction with the respective company's financial statements and the combined Notes to Consolidated Financial Statements in this annual report.

Unless otherwise noted, earnings per share amounts are presented on a diluted basis, and are based on weighted average common and common equivalent shares outstanding.

Executive Overview

Introduction

WGL, through its subsidiaries, sells and delivers natural gas and provides a variety of energy-related products and services to customers primarily in the District of Columbia and the surrounding metropolitan areas in Maryland and Virginia. In addition to our primary markets, WGL's non-utility subsidiaries provide customized energy solutions across a much wider footprint, with business activities across the United States.

WGL has four operating segments:

- regulated utility;
- retail energy-marketing;
- commercial energy systems; and
- midstream energy services.

Refer to the *Business* section under Item 1 of this report for further discussion of our regulated utility and non-utility business segments.

Regulated Utility Operating Segment

The regulated utility operating segment is composed of our core subsidiary, Washington Gas and Hampshire. Washington Gas engages in the delivery and sale of natural gas that is regulated by regulatory commissions in the District of Columbia, Maryland and Virginia. Our EBIT this year exceeded fiscal year 2016 by \$38.1 million. Our utility customer base continued to grow as average active customer meters increased by approximately 13,200 when compared to the prior fiscal year. In addition, new base rates in Virginia and the District of Columbia and higher unrealized mark-to-market valuations associated with our asset optimization program increased our results. Partially offsetting these favorable effects were higher depreciation and amortization expenses and operation and maintenance expenses.

Retail Energy-Marketing Operating Segment

We offer competitively priced natural gas, electricity and energy from renewable sources to customers through WGL Energy Services, our non-utility retail energy-marketing subsidiary. This year, our EBIT for this segment decreased from fiscal year 2016 by \$11.8 million as a result of lower realized natural gas margins primarily due to sales volumes and margins realized from portfolio optimization, as well as declining electricity sales volumes.

Commercial Energy Systems Operating Segment

Through WGL Energy Systems and WGSW, we offer efficient and sustainable commercial energy solutions focused on owning and operating distributed generation assets such as Solar PV systems and upgrading energy related systems of large government and commercial facilities. During the fiscal year, this segment delivered improved results; the EBIT for this segment exceeded fiscal year 2016 by \$18.8 million. We continue to see earnings growth driven by the distributed generation assets that we own across the country and higher earnings from alternative energy investments, including investments in tax equity partnerships. Refer to Note 17 — *Other Investments* for more information on our investment projects. These improvements were partially offset by lower revenues from the energy-efficiency contracting business due to a decrease in active projects when compared to the prior fiscal year.

Midstream Energy Services Operating Segment

WGL Midstream specializes in the investment, management, development and optimization of natural gas storage and transportation midstream infrastructure projects. Our EBIT for this segment exceeded fiscal year 2016 by $29.9 million. This increase was primarily driven by higher income related to our pipeline investments, higher valuations and realized margins related to storage inventory and the associated economic hedging transactions, and realized margins for our transportation strategies.

Other Activities

Activities and transactions that are not significant enough on a stand-alone basis to warrant treatment as an operating segment, and that do not fit into one of our four operating segments, are aggregated as "Other Activities" and are included as part of non-utility operations. Administrative and business development costs associated with WGL and Washington Gas Resources are also included in "Other Activities." Results for "Other Activities" for fiscal year 2017 include external costs associated with the planned merger with AltaGas.

Planned Merger with AltaGas

On January 25, 2017, WGL entered into the Merger Agreement to combine with AltaGas in an all cash transaction valued at approximately $6.4 billion. The Boards of Directors of each of WGL and AltaGas have unanimously approved the Merger, which is expected to close in the second quarter of 2018. Subject to the conditions in the Merger Agreement, at the effective time of the Merger, WGL's shareholders will receive $88.25 in cash, without interest, for each share of WGL common stock issued and outstanding prior to the Effective Time (as defined in the Merger Agreement).

For further information on the Merger, see "Safe Harbor and Forward Looking Statements" in the Introduction, Item I, Item 1A. Risk Factors, and Note 21 — *Planned Merger with AltaGas Ltd.* of the Notes to Consolidated Financial Statements in this Form 10-K.

Critical Accounting Policies

Preparation of financial statements and related disclosures in compliance with GAAP requires the selection and the application of appropriate technical accounting guidance to the relevant facts and circumstances of our operations, as well as our use of estimates to compile the consolidated financial statements. The application of these accounting policies involves judgment regarding estimates and projected outcomes of future events, including the likelihood of success of particular regulatory initiatives, the likelihood of realizing estimates for legal and environmental contingencies, and the probability of recovering costs and investments in both the regulated utility and non-regulated business segments.

We have identified the following critical accounting policies discussed below that require our judgment and estimation, where the resulting estimates have a material effect on the consolidated financial statements.

Accounting for Unbilled Revenue

For regulated deliveries of natural gas, Washington Gas reads meters and bills customers on a monthly cycle basis. The billing cycles for customers do not coincide with the accounting periods used for financial reporting purposes. Washington Gas accrues unbilled revenues for gas that has been delivered but not yet billed at the end of an accounting period by jurisdiction and customer class, including the estimated effects of billing adjustment mechanisms. WGL Energy Services also accrues unbilled revenues for both gas and electricity, which is billed on cycles that do not coincide with the accounting periods used for financial reporting purposes.

Accounting for Regulatory Operations—Regulatory Assets and Liabilities

A significant portion of our business is subject to regulation by independent government entities. As the regulated utility industry continues to address competitive market issues, the cost-of-service regulation used to compensate Washington Gas for the cost of its regulated operations will continue to evolve. Non-traditional ratemaking initiatives and market-based pricing of products and services could have additional long-term financial implications for us. The carrying cost of Washington Gas' investment in fixed assets assumes continued regulatory oversight of our operations.

Washington Gas' jurisdictional tariffs contain mechanisms that provide for the recovery of the cost of gas applicable to firm customers. Under these mechanisms, Washington Gas periodically adjusts its firm customers' rates to reflect increases and decreases in the cost of gas. Annually, Washington Gas reconciles the difference between the gas costs collected from firm customers and the cost of gas incurred, defers any difference and either recovers deficiencies from, or refunds excess recoveries to, customers over a period of time authorized by the regulator.

Washington Gas accounts for its regulated operations in accordance with FASB Accounting Standards Codification (ASC) Topic 980, *Regulated Operations* (ASC Topic 980), which results in differences in the application of GAAP between regulated and unregulated businesses. ASC Topic 980 requires recording regulatory assets or liabilities for certain transactions that would have been treated as expense or revenue in unregulated businesses. Washington Gas defers the recognition of an incurred cost and records a regulatory asset when it is probable that these costs will be recovered in future rates. Washington Gas defers the recognition of revenue and records a regulatory liability when it is probable that it will refund an amount previously collected from customers or refund a gain to customers. Additionally, Washington Gas records a regulatory liability when a regulator provides current rates intended to recover costs that will be incurred in the future. Future regulatory changes or changes in the competitive environment could result in WGL and Washington Gas discontinuing the application of ASC Topic 980 for some of its business and require the write-off of the portion of any regulatory asset or liability for which recovery or refund is no longer probable. If Washington Gas were required to discontinue the application of ASC Topic 980 for any of its operations, it would record a non-cash charge or credit to income for the net book value of its regulatory assets and liabilities. Other adjustments might also be required.

The current regulatory environment and Washington Gas' specific facts and circumstances support both the continued application of ASC Topic 980 for our regulatory activities and the conclusion that all of our regulatory assets and liabilities as of September 30, 2017 are recoverable or refundable through rates charged to customers. See Note 2—*Regulated Operations* of the Notes to Consolidated Financial Statements for further discussion of our regulated operations.

Accounting for Income Taxes

We recognize deferred income tax assets and liabilities for all temporary differences between the financial statement basis and the tax basis of assets and liabilities, including those temporary differences that regulators exclude from current rates for ratemaking purposes of Washington Gas, in accordance with ASC Topic 740, *Accounting for Income Taxes*.

Regulatory assets or liabilities, corresponding to such additional deferred tax assets or liabilities, may be recorded to the extent recoverable from or payable to customers through the ratemaking process in future periods. Amounts applicable to income taxes due from and due to customers primarily represent differences between the book and tax basis of net utility plant in service.

The company is earning investment tax credits on its renewable energy investments. We have elected to record investment tax credits as deferred credits and amortize the balances to income over the life of the related property.

See Note 9—*Income Taxes* of the Notes to Consolidated Financial Statements for further discussion of income taxes.

Accounting for Contingencies

We account for contingent liabilities utilizing ASC Topic 450, *Contingencies.* By their nature, the amount of the contingency and the timing of a contingent event and any resulting accounting recognition are subject to our judgment of such events and our estimates of the amounts. Actual results related to contingencies may be difficult to predict and could differ significantly from the estimates included in reported earnings. For a discussion of contingencies, see Note 13—*Commitments and Contingencies* of the Notes to Consolidated Financial Statements.

Accounting for Derivatives

We enter into both physical and financial contracts for the purchase and sale of natural gas and electricity and generally apply the fair value requirements of ASC Topic 815, *Derivatives and Hedging.* The financial contracts and the portion of the physical contracts that qualify as derivative instruments and are subject to the mark-to-market accounting requirements are recorded on the balance sheet at fair value. A portion of our physical contracts entered into for the purpose of serving our customers are designated as "normal purchases and normal sales" and therefore, not subject to the fair value accounting requirements of ASC Topic 815. Certain physical contracts do not qualify as derivative instruments due to the significance of their notional amounts relative to the applicable liquid markets. Future changes related to these markets may result in mark-to-market accounting requirements for these contracts.

WGL and Washington Gas also utilize derivative instruments to minimize the risk of interest-rate volatility associated with planned issuances of debt securities. Depending on the applicability of ASC Topic 980 or hedge accounting, the impact of the instruments may be offset on the balance sheet as regulatory assets or liabilities, in other comprehensive income or in earnings.

The gain or loss on a derivative that qualifies as a cash flow hedge of an exposure to variable cash flows of a forecasted transaction is initially recorded in accumulated other comprehensive income (AOCI) to the extent that the hedge is effective and is subsequently reclassified into earnings, in the same category as the item hedged, when the gain or loss from the forecasted transaction occurs. If a derivative that previously qualified for cash flow hedging no longer qualifies because the underlying forecasted transaction is no longer probable of occurring, then the treatment of the fair value must be assessed. If it is reasonably possible that the forecasted transaction will occur, then the fair value changes going forward will be charged to earnings and previous amounts recorded to AOCI will remain until the forecasted transaction is probable of not occurring, in which case, the deferred gain or loss in AOCI is immediately reclassified into earnings. Gains or losses related to any ineffective portion of the cash flow hedges are also recognized in earnings immediately.

Judgment is required in determining the appropriate accounting treatment for our derivative instruments, including our ability to: *(i)* evaluate contracts and other activities as derivative instruments subject to the accounting guidelines of ASC Topic 815; *(ii)* determine whether or not our derivative instruments are recoverable from or refundable to customers in future periods and *(iii)* derive the estimated fair value of our derivative instruments. See Note 14— *Derivative and Weather-Related Instruments* of the Notes to Consolidated Financial Statements for a discussion of our derivatives.

Accounting for Fair Value Instruments

Fair value is based on actively quoted market prices when they are available. In the absence of actively quoted market prices, we seek indicative price information from external sources, including broker quotes and industry publications. If pricing information from external sources is not available, internal models are used to estimate prices based on available historical and near-term future price information and/or the use of statistical methods. These inputs are used with industry standard valuation methodologies. See Note 15— *Fair Value Measurements* of the Notes to Consolidated Financial Statements for a discussion of our valuation methodologies.

Accounting for Investments

WGL evaluates its interests in other legal entities for consolidation under the variable interest entity (VIE) model or the voting interest model. A VIE is an entity where the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support or its equity investors, as a group, lack the characteristics of a controlling financial interest. WGL would consolidate a VIE when it is the primary beneficiary because it has both the power to direct the activities that have the most significant impact on economic performance and it has the obligation to absorb potentially significant losses or the right to receive potentially significant benefits. If an entity is not a VIE, it is evaluated under the voting interest method and would be consolidated if WGL has a controlling financial interest, which is typically evidenced by an ownership of a voting interest greater than 50% allowing for the control over the operations and policies of the investee.

WGL applies the equity method or cost method of accounting to its investments in which it does not have a controlling financial interest. WGL applies the equity method of accounting to its investments when it can exercise a significant influence over an investee. Under the equity method, WGL reports its interest in the entity and its share of the earnings from the entity as single line items in its financial statements, namely *Investments in unconsolidated affiliates.*

WGL uses the HLBV methodology for certain equity method investments as well as consolidating entities with non-controlling interests when the governing structuring agreement over the equity investment results in different liquidation rights and priorities than what is reflected by the underlying ownership percentage.

WGL uses the cost method of accounting for investments where it does not exercise significant influence. Under the cost method, WGL reports its investment at cost and recognizes income only to the extent it receives dividends or distributions.

Impairment of Long-lived Assets

Management regularly reviews property and equipment and other long-lived assets, including certain definite-lived intangible assets and our equity method investments for possible impairment. For our equity method investments, an impairment is recorded when the investment has experienced decline in value that is other-than-temporary. Additionally, if the projects in which we hold an investment recognize an impairment loss, we would record our proportionate share of that impairment loss and evaluate the investment for decline in value that is other-than-temporary. This review occurs quarterly, or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable.

Principles of Consolidation and Non-controlling Interests

We consolidate an entity, after the elimination of intercompany transactions, when we have a controlling financial interest based on our evaluation of the entity under the voting interest model, or when we are the primary beneficiary based on our evaluation of the entity under the VIE model as discussed in the 'Accounting for Investments' section above. These evaluations require the use of judgment. The portion of equity interests attributable to other parties is reported as non-controlling interest.

We report the non-controlling interest in the consolidated balance sheet within the equity section, separately from WGL's common shareholders' equity. Non-controlling interest represents the non-controlling interest holder's proportionate share of consolidated total equity not attributable to WGL or its subsidiaries. Non-controlling interest is determined by the contributions from/distributions to the non-controlling interest holder, as adjusted for the non-controlling interest holder's proportionate share of the earnings or losses and other comprehensive income (loss), if any. The non-controlling interest holder continues to be allocated its share of losses even if it results in a deficit non-controlling interest balance.

Accounting for Pension and Other Post-Retirement Benefit Plans

Washington Gas maintains a qualified, trusteed, employee-non-contributory defined benefit pension plan (qualified pension plan) covering most active and vested former employees of Washington Gas and a separate non-funded defined benefit supplemental retirement plan (DB SERP) covering certain executive officers. The qualified pension plan and DB SERP were closed to new entrants on January 1, 2010. As of January 1, 2010, all new employees were entitled to participate in our defined contribution plans, and certain management employees receive benefits under a non-funded defined benefit restoration plan (DB Restoration). The DB Restoration was established for the purpose of providing supplemental pension and pension related benefits. Washington Gas also provides certain healthcare and life insurance benefits for retired employees (health and life benefit plan). Washington Gas accrues the estimated benefit obligation for all of our defined benefit plans as earned by the covered employees. The qualified pension plan and health and life benefit plan benefits are paid out of the respective trusts. For the unfunded DB SERP and DB Restoration, Washington Gas pays, from internal funds, the individual benefits as they are due. The qualified pension plan, DB SERP, DB Restoration and health and life benefit plans are collectively referred to as the "Plans."

The measurement of the Plans' obligations and costs is dependent on a variety of factors, such as employee demographics, the level of contributions made to the Plans, earnings on the Plans' assets and mortality rates. The following assumptions are also critical to this measurement. These assumptions are derived on an annual basis with the assistance of a third party actuarial firm:

- Discount rate,
- Expected long-term return on plan assets,
- Rate of compensation increase,
- Healthcare cost trend rate and
- Projected increases to the Health Reimbursement Account (HRA) plan stipend.

We determine the discount rate based on a portfolio of high quality fixed-income investments (AA- as assigned by Standard & Poor's or Aa3 as assigned by Moody's or better) whose cash flows would cover our expected benefit payments. We determine the expected long-term rate of return by averaging the expected earnings for the target asset portfolio. In developing the expected rate of return assumption, we evaluate an analysis of historical actual performance and long-term return projections, which gives consideration to the asset mix and anticipated length of obligation of the Plans. Historically, the expected long-term return on plan assets has been lower for the health and life benefit plan than for the qualified pension plan due to differences in the allocation of the assets in the plan trusts and the taxable status of one of the trusts. We calculate the rate of compensation increase based on salary expectations, expected inflation levels, union negotiated salary rates and promotional expectations. The healthcare cost trend rate is determined by working with insurance carriers, reviewing historical claims data for the health and life benefit plan, considering plan provisions and analyzing market expectations. Effective January 1, 2015, Medicare eligible retirees and dependents age 65 and older receive an annual subsidy of $3,300 as a benefit from the HRA plan and, therefore, the value of the benefits provided to these participants is not affected by the healthcare cost trend rate. While the HRA plan terms do not guarantee increases to the stipend, Washington Gas intends to review the stipend annually. Washington Gas assumed no increase to the annual subsidy in fiscal years 2017 and 2016 and a 3.0% increase beginning in 2020 in order to approximate possible future increases to the stipend.

The following table illustrates the effect of changing these actuarial assumptions, while holding all other assumptions constant:

EFFECT OF CHANGING CRITICAL ACTUARIAL ASSUMPTIONS

(In millions)	Pension Benefits			Health and Life Benefits	
Actuarial Assumptions	**Percentage-Point Change in Assumption**	**Increase (Decrease) in Ending Obligation**	**Increase (Decrease) in Annual Cost**	**Increase (Decrease) in Ending Obligation**	**Increase (Decrease) in Annual Cost**
Expected long-term return on plan assets	+/- 1.00 pt.	n/a	$(7.2) / $7.2	n/a	$(4.6) / $4.6
Discount rate	+/- 0.25 pt.	$(34.4) / $36.3	$(2.9) / $3.1	$(10.2) / $10.8	$(0.8) / $0.9
Rate of compensation increase	+/- 0.25 pt.	$6.0 / $(5.8)	$1.2 / $(1.2)	n/a	n/a
Healthcare cost trend rate	+/- 1.00 pt.	n/a	n/a	$5.5 / $(4.9)	$1.1 / $(0.9)
Projected increases to the HRA plan stipend	+/- 1.00 pt.	n/a	n/a	$36.7 / $(29.8)	$6.1 / $(3.2)

We have historically utilized the Society of Actuaries' (SOA) published mortality data in developing a best estimate of mortality as part of the calculation of the pension and other post-retirement benefit obligations. On October 27, 2014, the SOA published updated mortality tables for U.S. plans (RP-2014) and an updated improvement scale (MP-2014), which both reflect improved longevity. The MP-2014 improvement scale assumes that short-term rates of mortality improvement will converge to 1.00% per annum up to age 85 trending down to 0% between age 85 and age 115 with the ultimate long-term rate of improvement over a 20-year period from 2007 to 2027. Based upon an evaluation of the information provided by the SOA related to the RP-2014 tables and the MP-2014 improvement scale as well as recent additional studies of mortality improvement, we adopted the RP-2014 tables and adopted a modified improvement scale. We have modified the MP-2014 improvement scale to *(a)* adjust the ultimate long-term rate of mortality improvement from 1.00% to 0.75% per annum up to age 85 trending down to 0% between age 85 and age 115; and *(b)* shorten the convergence period from short term to ultimate rates of improvement from the 20-year period to a 15-year period. These mortality assumptions were used to determine the benefit obligations as of September 30, 2017 and 2016. Subsequently, the SOA published updated improvement scales (MP-2015 and MP-2016) which, compared to MP-2014, includes more recent mortality experience data and projects a lower rate of future mortality improvement. These updates are consistent with the adjustments we made to MP-2014 to develop our modified improvement scale.

Differences between actuarial assumptions and actual plan results are deferred and amortized into cost when the accumulated differences exceed ten percent of the greater of the projected benefit obligation or the market-related value of the plan assets. If necessary, the excess is amortized over the average remaining service period of active employees. At September 30, 2017, the discount rate for the pension, DB SERP and DB Restoration plans increased to 3.9%, 3.6% and 3.6%, from 3.7%, 3.4% and 3.4%, respectively, for the comparable period in the prior year. The health and post-retirement plans discount rate also increased to 3.9% from 3.7% during the same period. The higher discount rates reflect the change in long-term interest rates primarily due to current market conditions. The change in the discount rates resulted in actuarial gains decreasing our pension and other post-retirement obligations by $28.9 million and $8.6 million, respectively, for the year ended September 30, 2017. Refer to Note 10 —*Pension and Other Post-Retirement Benefit Plans* of the Notes to Consolidated Financial Statements for a listing of the actuarial assumptions used and for further discussion of the accounting for the Plans.

WGL Holdings, Inc.

Results of Operations

Our chief operating decision maker utilizes earnings before interest and tax ("EBIT") as the primary measure of profit and loss in assessing the results of each segment's operations. EBIT includes operating income, other income (expense), earnings from unconsolidated affiliates and is adjusted by amounts attributable to non-controlling interests. We believe that our use of EBIT enhances the ability to evaluate segment performance because it excludes interest and income tax expense, which are affected by corporate-wide strategies such as capital financing and tax sharing allocations.

EBIT should not be considered an alternative to, or a more meaningful indicator of our operating performance than, net income. Refer to summary results below for a reconciliation of EBIT to net income applicable to common stock.

Summary Results

WGL reported net income applicable to common stock of $192.6 million, $167.6 million and $131.3 million for the fiscal years ended September 30, 2017, 2016 and 2015, respectively. We earned a return on average common equity of 13.4%, 12.8% and 10.5%, respectively, during each of these three fiscal years.

The following table summarizes our EBIT by operating segment for fiscal years ended September 30, 2017, 2016 and 2015.

ANALYSIS OF CONSOLIDATED RESULTS

	Years Ended September 30,			Increase (Decrease)	
(In millions)	**2017**	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
EBIT:					
Regulated utility	**$ 266.3**	$ 228.2	$ 224.0	**$ 38.1**	$ 4.2
Retail energy-marketing	**53.2**	65.0	46.6	**(11.8)**	18.4
Commercial energy systems	**40.8**	22.0	9.7	**18.8**	12.3
Midstream energy services	**37.7**	7.8	(2.7)	**29.9**	10.5
Other activities	**(19.9)**	(3.2)	(9.7)	**(16.7)**	6.5
Intersegment eliminations	**1.0**	(0.5)	(1.0)	**1.5**	0.5
Total	**$ 379.1**	$ 319.3	$ 266.9	**$ 59.8**	$ 52.4
Interest expense	**74.0**	52.3	50.5	**21.7**	1.8
Income tax expense	**111.2**	98.1	83.8	**13.1**	14.3
Dividends on Washington Gas preferred stock	**1.3**	1.3	1.3	**-**	-
Net income applicable to common stock	**$ 192.6**	$ 167.6	$ 131.3	**$ 25.0**	$ 36.3
Earnings per Average Common Share					
Basic	**$ 3.76**	$ 3.33	$ 2.64	**$ 0.43**	$ 0.69
Diluted	**$ 3.74**	$ 3.31	$ 2.62	**$ 0.43**	$ 0.69

Regulated Utility Operating Results

The following table summarizes the regulated utility segment's financial data for fiscal years ended September 30, 2017, 2016 and 2015.

REGULATED UTILITY FINANCIAL DATA

	Years Ended September 30,			Increase (Decrease)	
(In millions)	**2017**	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Utility net revenues[(1)]:					
Operating revenues	**$ 1,167.0**	$ 1,070.9	$ 1,328.2	**$ 96.1**	$ (257.3)
Less: Cost of gas	**297.9**	272.0	536.0	**25.9**	(264.0)
Revenue taxes	**75.1**	73.0	83.5	**2.1**	(10.5)
Total utility net revenues	**794.0**	725.9	708.7	**68.1**	17.2
Operation and maintenance	**332.2**	322.0	320.1	**10.2**	1.9
Depreciation and amortization	**131.2**	116.1	110.4	**15.1**	5.7
General taxes and other assessments	**59.8**	57.4	53.7	**2.4**	3.7
Other income (expenses)-net	**(4.5)**	(2.2)	(0.5)	**(2.3)**	(1.7)
EBIT	**$ 266.3**	$ 228.2	$ 224.0	**$ 38.1**	$ 4.2

(1) We utilize utility net revenues, calculated as revenues less the associated cost of energy and applicable revenue taxes, to assist in the analysis of profitability for the regulated utility segment. The cost of the natural gas commodity (as adjusted for Asset Optimization sharing) and revenue taxes are included in the rates that Washington Gas charges to customers as reflected in operating revenues. Accordingly, changes in the cost of gas and revenue taxes associated with sales made to customers generally have no direct effect on utility net revenues, operating income or net income. Utility net revenues should not be considered an alternative to, or a more meaningful indicator of our operating performance than, operating income. Additionally, utility net revenues may not be comparable to similarly titled measures of other companies.

Fiscal Year 2017 vs. Fiscal Year 2016

The increase in EBIT primarily reflects the following:

- new base rates in Virginia and the District of Columbia;
- higher utility net revenue related to growth of approximately 13,200 average active customer meters; and
- higher unrealized mark-to-market valuations associated with our asset optimization program.

Partially offsetting these favorable variances were:

- higher depreciation and amortization expense; and
- higher operation and maintenance expenses.

Fiscal Year 2016 vs. Fiscal Year 2015

The increase in EBIT primarily reflects the following:

- higher utility net revenue related to growth of over 12,500 average active customer meters;
- higher unrealized mark-to-market valuations associated with our asset optimization program and
- higher rate recovery related to the accelerated pipeline replacement programs.

Partially offsetting these favorable variances were:

- lower revenues attributed to warmer weather and unfavorable effects of changes in natural gas consumption patterns in the District of Columbia;
- lower realized margins associated with our asset optimization program;
- a decrease in the recovery of carrying costs on lower average storage gas inventory balances;
- higher depreciation due to the growth in our utility plant and
- higher general taxes.

Utility Net Revenues

The following table provides the key factors contributing to the changes in the utility net revenues of the regulated utility segment between years.

COMPOSITION OF CHANGES IN UTILITY NET REVENUES

	Increase (Decrease)	
(In millions)	**2017 vs. 2016**	**2016 vs. 2015**
Customer growth	**$ 7.4**	$ 7.0
Estimated effects of weather and consumption patterns	**(0.4)**	(15.6)
Impact of rate cases	**33.5**	-
Accelerated pipe replacement programs	**(5.8)**	12.9
Asset optimization:		
Realized margins	**1.8**	(3.7)
Unrealized mark-to-market valuations	**37.4**	18.3
Lower-of-cost or market adjustment	**-**	1.3
Storage carrying costs	**(0.6)**	(2.6)
Late fees	**(2.6)**	(1.3)
Refund of reconnection fees	**(1.5)**	-
Other	**(1.1)**	0.9
Total	**$ 68.1**	$ 17.2

Customer growth — Average active customer meters increased by approximately 13,200 from fiscal year 2016 to 2017. Average active customer meters increased by more than 12,500 from fiscal year 2015 to 2016.

Estimated effects of weather and consumption patterns — Weather, when measured by HDDs, was 15.9% warmer than normal during the year ended September 30, 2017, compared to 10.4% warmer than normal and 4.6% colder than normal during the years ended September 30, 2016 and 2015. In the District of Columbia, where Washington Gas does not have a billing mechanism or financial instruments to offset the effects of weather, the warmer weather, partially offset by favorable changes in natural gas consumption patterns, for the year ended September 30, 2017, resulted in a negative variance to net revenues. Natural gas consumption patterns may be affected by shifts in weather patterns in which customer heating usage may not correlate highly with average historical levels of usage per heating degree days that occur. Natural gas consumption patterns may also be affected by non-weather related factors such as customer conservation. Refer to the section entitled "*Weather Risk*" for a discussion of billing mechanisms in Maryland and Virginia, which are designed to eliminate the net revenue effects of variations in customer usage caused by weather and other factors such as conservation.

Impact of rate cases — The increase in revenue reflects new base rates in the District of Columbia, effective March 24, 2017 as well as in Virginia, put into effect subject to refund in the December 2016 billing cycle. Refer to "Rates and Regulatory Matters" for further discussion of this matter. The increase in base rates reflects $16.9 million of revenue for plant expenditures that had previously been collected through the accelerated pipe replacement surcharge.

Accelerated pipe replacement programs — The decrease in revenue for fiscal year 2017 compared to fiscal year 2016 primarily reflects the transfer of project costs that were being collected through accelerated pipeline replacement surcharge revenues to new base rates in District of Columbia, effective March 24, 2017 as well as in Virginia, put into effect in the December 2016 billing cycle. The positive effect on revenues for fiscal year 2016 compared to fiscal year 2015 was primarily due to the continued growth of our accelerated pipe replacement programs in the District of Columbia, Maryland and Virginia.

Asset optimization — We recorded unrealized mark-to-market gains associated with our energy-related derivatives of $49.3 million for the year ended September 30, 2017, compared to unrealized mark-to-market gains of $12.0 million and unrealized mark-to-market losses of $6.3 million for the fiscal years ended September 30, 2016 and 2015, respectively. When these derivatives settle, any unrealized amounts will ultimately reverse and Washington Gas expects to realize margins in combination with related transactions that these derivatives economically hedge. The large swings in the valuations are partially due to movements in unobservable inputs used in the valuation of long-dated forward contracts. We believe that these values are not reflective of our ultimate cash flows as these purchases are utilized in the optimization of our long-term natural gas transportation and storage capacity resources, the value of which is not reflected at fair value. Refer to the section entitled "*Market Risk—Price Risk Related to the Regulated Utility Segment*" for further discussion of our asset optimization program.

Storage Carrying Costs — Each jurisdiction provides for the recovery of carrying costs based on the pre-tax cost of capital, multiplied by the average monthly investment balance of storage gas inventory. The decrease in both year-over-year comparisons reflects lower average storage gas inventory balances primarily due to significantly lower priced gas in inventory.

Late Fees — The decrease in revenue for the current period is due to the temporary suspension of late fees related to the stabilization period of our new billing system.

Refund of reconnection fees — As part of the PSC of MD's investigation into service termination notices, we have recorded an accrual related to the refund of prior period reconnection fee. Refer to Rates and Regulatory Matters for a further discussion of this matter.

Operation and Maintenance Expenses

The following table provides the key factors contributing to the changes in operation and maintenance expenses of the regulated utility segment between years.

COMPOSITION OF CHANGES IN OPERATION AND MAINTENANCE EXPENSES

	Increase/(Decrease)	
(In millions)	**2017 vs. 2016**	**2016 vs. 2015**
Employee incentives and direct labor costs	**$ 2.5**	$ 2.6
Employee benefits	**(1.0)**	(2.0)
Business development	**(1.4)**	(3.9)
System safety and integrity	**1.9**	0.8
Environment costs, net	**1.2**	(1.7)
Support services	**(1.6)**	5.9
Liability insurance	**-**	0.9
Uncollectible accounts	**4.5**	(1.3)
Other	**4.1**	0.6
Total	**$ 10.2**	$ 1.9

Employee incentives and direct labor costs — Washington Gas incurred increased employee incentives and labor costs, net, for the year ended September 30, 2017 over the previous fiscal year, as a result of an increase in the number of employees. The increase in expense for fiscal year 2016 compared to fiscal year 2015 is primarily due to an increase in employees and merit increases.

Employee benefits — The decrease in employee benefits expense in both the current and prior period comparisons was primarily due to amendments to the post-retirement benefit plans, which lowered expense in fiscal year 2016 and further lowered expense in fiscal year 2017.

Business development — The year-over-year variances for both periods primarily relate to a decrease in customer growth initiative costs for Washington Gas.

System safety and integrity — The year-over-year variances for both periods reflect increased safety and reliability activities.

Environment costs, net — The increase in the fiscal year ended September 30, 2017 from the previous fiscal year reflects an additional estimate of costs associated with our environmental liabilities recorded in the current fiscal period. The decrease in the fiscal year ended September 30, 2016 from the previous fiscal year is primarily due to proceeds received from an environmental insurance policy.

Support services — The decrease in expense for the fiscal year ended September 30, 2017 from the previous fiscal year is due to lower business process outsourcing costs. The increase in expense for fiscal year 2016 compared to fiscal year 2015 was due to increased project related costs including the implementation of a new customer information system as well as infrastructure support costs.

Uncollectible accounts — The increase in expense for the fiscal year ended September 30, 2017 from the previous fiscal year is due to a higher delinquency rate resulting from the suspension of dunning activities during the stabilization period of our new billing system. The decrease in expense for fiscal year 2016 compared to fiscal year 2015 reflects a refund to customers which was accrued in fiscal year 2015. The refund was a result of an order from the PSC of DC associated with a cash settlement to Competitive Service Providers (CSPs). *Refer to Rates and Regulatory Matters for a further discussion.*

Other — The increase in expense in the fiscal year ended September 30, 2017 over the previous fiscal year is primarily due to increased costs for administrative, transportation and telecommunication costs.

Depreciation and Amortization

The following table provides the key factors contributing to the changes in depreciation and amortization of the regulated utility segment between years.

COMPOSITION OF CHANGES IN DEPRECIATION AND AMORTIZATION

	Increase (Decrease)	
(In millions)	**2017 vs. 2016**	**2016 vs. 2015**
Accelerated pipe replacement programs	**$ 2.7**	$ 2.2
Customer information system	**6.7**	-
Other capital expenditures, net	**5.7**	3.5
Total	**$ 15.1**	$ 5.7

Non-Utility Operating Results

Retail Energy-Marketing

The following table depicts the retail energy-marketing segment's operating results along with selected statistical data.

RETAIL-ENERGY MARKETING FINANCIAL AND STATISTICAL DATA

	Years Ended September 30,			Increase (Decrease)	
	2017	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Operating Results *(In millions)*					
Gross margins[(1)]:					
Operating revenues	**$ 1,107.2**	$ 1,238.5	$ 1,306.8	**$ (131.3)**	$ (68.3)
Less: Cost of energy	**989.0**	1,110.4	1,201.1	**(121.4)**	(90.7)
Revenue taxes	**11.4**	11.0	9.3	**0.4**	1.7
Total gross margins	**106.8**	117.1	96.4	**(10.3)**	20.7
Operation expenses	**47.2**	46.5	44.7	**0.7**	1.8
Depreciation and amortization	**1.1**	1.2	0.7	**(0.1)**	0.5
General taxes and other assessments—other	**5.4**	4.5	4.5	**0.9**	-
Other income - net	**0.1**	0.1	0.1	**-**	-
EBIT	**$ 53.2**	$ 65.0	$ 46.6	**$ (11.8)**	$ 18.4
Analysis of gross margins *(In millions)*					
Natural gas					
Realized margins	**$ 41.2**	$ 49.1	$ 61.0	**$ (7.9)**	$ (11.9)
Unrealized mark-to-market valuations	**3.6**	8.1	(12.7)	**(4.5)**	20.8
Other	**-**	-	(1.1)	**-**	1.1
Total gross margins—natural gas	**44.8**	57.2	47.2	**(12.4)**	10.0
Electricity					
Realized margins	**$ 54.0**	$ 57.2	$ 57.2	**$ (3.2)**	$ —
Unrealized mark-to-market gains valuations	**8.0**	2.7	(8.0)	**5.3**	10.7
Total gross margins—electricity	**62.0**	59.9	49.2	**2.1**	10.7
Total gross margins	**$ 106.8**	$ 117.1	$ 96.4	**$ (10.3)**	$ 20.7
Other Retail-Energy Marketing Statistics					
Natural gas					
Therm sales *(millions of therms)*	**693.3**	750.7	713.0	**(57.4)**	37.7
Number of customers *(end of period)*	**116,200**	133,000	143,800	**(16,800)**	(10,800)
Electricity					
Electricity sales *(millions of kWhs)*	**12,248.4**	13,090.7	12,057.0	**(842.3)**	1,033.7
Number of accounts *(end of period)*	**113,700**	127,400	138,000	**(13,700)**	(10,600)

(1) *We utilize gross margins to assist with the analysis of profitability for the retail energy-marketing segment. Gross margins are calculated as revenues less the associated cost of energy and applicable revenue taxes. We consider gross margins to be a better reflection of performance than gross revenues or gross energy costs for our retail energy-marketing segment because gross margins are a direct measure of the success of our core strategy for the sale of natural gas and electricity. Gross margins should not be considered an alternative to, or a more meaningful indicator of our operating performance than operating income. Additionally, gross margins may not be comparable to similarly titled measures of other companies.*

Fiscal Year 2017 vs. Fiscal Year 2016. The decrease in EBIT reflects lower realized natural gas margins primarily due to lower volumes, lower portfolio optimization and less favorable prices when compared to the prior fiscal year. Realized margins from electricity were unfavorable due to lower volumes this fiscal year compared to the prior fiscal year. Capacity charges from the regional power grid operator (PJM) were relatively unchanged when compared to the prior fiscal year.

Operating expenses were higher due to increased commercial broker fees.

Fiscal Year 2016 vs. Fiscal Year 2015. The increase in EBIT primarily reflects higher unrealized mark-to-market valuations due to fluctuating market prices for derivatives related to natural gas and electricity in the current period.

The comparison of realized gross margins from natural gas sales reflects lower natural gas margins due to a decrease in portfolio optimization activity, partially offset by increased wholesale customer sales. Realized gross margins from electric sales were relatively unchanged when compared to the prior fiscal year.

Operating expenses were higher due to increased commercial broker fees.

Commercial Energy Systems

The tables below represent the financial results of the commercial energy systems segment for the fiscal years ended September 30, 2017, 2016, and 2015.

COMMERCIAL ENERGY SYSTEMS SEGMENT FINANCIAL INFORMATION

	Years Ended September 30,			Increase (Decrease)	
(*In millions*)	**2017**	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Operating revenues	**$ 95.2**	$ 89.1	$ 51.8	**$ 6.1**	$ 37.3
Operating expenses:					
Cost of sales	**36.8**	40.9	21.5	**(4.1)**	19.4
Operations	**27.0**	25.1	17.1	**1.9**	8.0
Depreciation and amortization	**21.7**	15.2	10.7	**6.5**	4.5
General taxes and other assessments	**0.5**	0.5	0.4	**-**	0.1
Operating expenses	**$ 86.0**	$ 81.7	$ 49.7	**$ 4.3**	$ 32.0
Equity earnings	**7.3**	7.6	2.2	**(0.3)**	5.4
Other income	**8.2**	6.4	5.4	**1.8**	1.0
Less: Non-controlling interest	**(16.1)**	(0.6)	-	**(15.5)**	(0.6)
EBIT	**$ 40.8**	$ 22.0	$ 9.7	**$ 18.8**	$ 12.3
EBIT by division:					
Energy-efficiency contracting	**$ (0.1)**	$ 6.6	$ (2.4)	**$ (6.7)**	$ 9.0
Commercial distributed generation	**17.6**	13.4	10.0	**4.2**	3.4
Investment in distributed generation	**23.3**	2.0	2.1	**21.3**	(0.1)
Total	**$ 40.8**	$ 22.0	$ 9.7	**$ 18.8**	$ 12.3

Fiscal Year 2017 vs. Fiscal Year 2016. The increase in EBIT primarily reflects the growth in distributed generation assets in service, including increased solar renewable energy credit sales and rebate income and higher earnings from alternative energy investments, including tax equity ventures accounted for under HLBV. Additionally, the increase in EBIT reflects an increase in other income due to the accounting treatment of a business combination. Refer to Note 17 - *Other Investments* for more information on our investment projects. These improvements were partially offset by lower revenues from the energy-efficiency contracting business and higher depreciation expenses due to the additional distributed generation assets placed in service in the current fiscal year.

Additionally, not reflected in EBIT is the amortization of investment tax credits related to our distributed generation assets which were $6.8 million and $5.3 million for the year ended September 30, 2017 and 2016, respectively.

Fiscal Year 2016 vs. Fiscal Year 2015. The increase in EBIT reflects: *(i)* higher margins from the energy-efficiency contracting business, *(ii)* growth in distributed generation assets in service, including higher income from solar renewable energy credit sales and *(iii)* higher equity earnings from alternative energy investments. Additionally, the improvement in EBIT reflects prior period losses associated with unrecovered government contracting costs of $3.0 million. These improvements in EBIT are partially offset by a $4.1 million impairment recorded during fiscal year 2016, related to our investment in thermal solar projects and higher operating and depreciation expenses due to additional in-service distributed generation assets.

Additionally, not reflected in EBIT is the amortization of investment tax credits related to our distributed generation assets which were $5.3 million and $4.1 million for the fiscal year ended September 30, 2016 and 2015, respectively.

Midstream Energy Services

The table below represents the financial results of the midstream energy services segment for the year ended September 30, 2017, 2016 and 2015.

MIDSTREAM ENERGY SERVICES SEGMENT FINANCIAL INFORMATION

	Years Ended September 30,			Increase (Decrease)	
(In millions)	**2017**	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Operating revenues[(a)]	**$ 31.3**	$ 6.6	$ 3.2	**$ 24.7**	$ 3.4
Operating expenses:					
Operations	**6.3**	4.8	7.7	**1.5**	(2.9)
Depreciation and amortization	**-**	0.1	0.1	**(0.1)**	-
General taxes and other assessments	**0.3**	0.3	0.8	**-**	(0.5)
Operating expenses	**$ 6.6**	$ 5.2	$ 8.6	**$ 1.4**	$ (3.4)
Equity earnings	**12.9**	6.2	2.6	**6.7**	3.6
Other income	**0.1**	0.2	0.1	**(0.1)**	0.1
EBIT	**$ 37.7**	$ 7.8	$ (2.7)	**$ 29.9**	$ 10.5

[(a)] *The trading margins of Midstream Energy Services, including unrealized gains and losses on derivative instruments, are netted within operating revenues.*

Fiscal Year 2017 vs. Fiscal Year 2016. The increase in EBIT for the year ended September 30, 2017 compared to 2016, primarily reflects: *(i)* $16.6 million in higher valuations and realized margins related to storage inventory and the associated economic hedging transactions, *(ii)* a $9.0 million increase primarily related to realized margins for our transportation strategies and *(iii)* higher income related to our pipeline investments. Partially offsetting these favorable variances was a $1.9 million decrease related to valuations on our derivative contracts associated with our long-term transportation strategies.

Fiscal Year 2016 vs. Fiscal Year 2015. The increase in EBIT for the year ended September 30, 2016 compared to 2015, primarily reflects: *(i)* a $26.5 million increase related to valuations on our derivative contracts associated with our long-term transportation strategies; *(ii)* lower development expenses related to our pipeline investments and *(iii)* higher income related to our pipeline investments. Partially offsetting these favorable variances are: *(i)* $9.5 million in lower valuations and realized margins related to storage inventory and the associated economic hedging transactions and *(ii)* a $13.6 million decrease primarily related to realized margins for our transportation strategies, primarily as a result of losses of approximately $15.2 million associated with the index price used in the gas purchase contract with Antero.

Although realized margins on our transportation strategies have increased year-over-year, both years reflect losses associated with certain gas purchases from Antero beginning in January 2016. The index price used to invoice these purchases had been the subject of an arbitration proceeding: however, in February 2017, the arbitral tribunal ruled in favor of Antero. Losses realized during the fiscal year ended September 30, 2017 and 2016 were $9.8 million and $15.2 million, respectively, associated with this purchase contract. Accumulated losses from the inception of the contract are $25.0 million. In March 2017, we filed suit in state court in Colorado related to the delivery point to which the gas is being delivered by Antero. The state court granted Antero's motion to dismiss the case and the case is currently on appeal. Separately, Antero has initiated suit against Washington Gas and WGL Midstream claiming that they have failed to purchase specified daily quantities of gas and seeking alleged cover damages exceeding $80 million as of October 24, 2017, which amount continues to accumulate daily according to Antero's complaint. Washington Gas and WGL Midstream oppose both the validity and amount of Antero's claim. WGL believes the probability that Antero could succeed in collecting these penalties is remote and therefore, no accrual was made as of September 30, 2017. Refer to Note 13 — *Commitments and Contingencies* of the Notes to Consolidated Financial Statements for further discussion of this matter.

Other Non-Utility Activities

Transactions that are not significant enough on a stand-alone basis to warrant treatment as an operating segment, and that do not fit into one of our four operating segments, are aggregated as "Other Activities" and included as part of non-utility operations. Our other non-utility activities reflect EBIT of $(19.9) million, $(3.2) million and $(9.7) million for the year ended September 30, 2017, 2016 and 2015, respectively. The comparison of EBIT between fiscal year 2017 and fiscal year 2016 primarily relates to external costs associated with the Merger with AltaGas. The comparison of EBIT for fiscal years 2016 and 2015 primarily reflects a $5.6 million impairment charge of our investment in American Solar Direct Holdings Inc. (ASDHI) in fiscal year 2015.

Intersegment Eliminations

Intersegment eliminations include any mark-to-market valuations associated with trading activities between WGL Midstream and WGL Energy Services and timing differences between Commercial Energy Systems' recognition of revenue for the sale of REC's to Retail Energy-Marketing and Retail Energy-Marketing's recognition of the associated expense.

For further discussion of our financial performance by operating segment, refer to Note 16 - *Operating Segment Reporting* of the Notes to Consolidated Financial Statements.

Consolidated Interest Expense

The following table shows the components of WGL's consolidated interest expense for the years ended September 30, 2017, 2016 and 2015. The increase year over year primarily reflects the issuance of additional long-term debt by both WGL and Washington Gas in fiscal years 2017 and 2016 as well as interest expense associated with WGL's interest rate swap and an increase in short-term borrowings.

COMPOSITION OF CONSOLIDATED INTEREST EXPENSE

	Years Ended September 30,			Increase (Decrease)	
(In millions)	**2017**	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Interest on debt	**$ 73.6**	$ 52.5	$ 51.2	**$ 21.1**	$ 1.3
Other net, including allowance for funds used during construction	**0.4**	(0.2)	(0.7)	**0.6**	0.5
Total	**$ 74.0**	$ 52.3	$ 50.5	**$ 21.7**	$ 1.8

Consolidated Income Taxes

The following table shows WGL's consolidated income tax expense and effective income tax rate for the years ended September 30, 2017, 2016 and 2015.

CONSOLIDATED INCOME TAXES

	Years Ended September 30,			Increase (Decrease)	
(In millions)	**2017**	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Income before income taxes	**$ 289.0**	$ 266.4	$ 216.4	**$ 22.6**	$ 50.0
Income tax expense	**111.2**	98.1	83.8	**13.1**	14.3
Effective income tax rate	**38.5%**	36.8%	38.7%	**1.7%**	(1.9)%

The increase in the effective income tax rate for fiscal year 2017 compared to fiscal year 2016 is mainly due to certain merger related costs not being deductible for tax purposes. The decrease in the effective income tax rate for fiscal year 2016 compared to the prior fiscal year is mainly due to a $5.6 million impairment charge of our investment in ASDHI recorded in fiscal year 2015 (which is not deductible for income tax purposes). Refer to *Note 9—Income Taxes* of the Notes to the Consolidated Financial Statements for details.

Liquidity and Capital Resources

General Factors Affecting Liquidity

Access to short-term debt markets is necessary for funding our short-term liquidity requirements, the most significant of which include buying natural gas, electricity and pipeline capacity, and financing accounts receivable and storage gas inventory. We have accessed long-term capital markets primarily to fund capital expenditures, investment activities and to retire long-term debt.

During the fiscal year ended September 30, 2017, WGL met its liquidity and capital needs through cash on hand, retained earnings, reduced cash outflows resulting from deferred income taxes and the issuance of commercial paper. Washington Gas met its liquidity and capital needs through cash on hand, including the proceeds of long-term debt issued in the fourth calendar quarter of 2017, retained earnings, reduced cash outflows resulting from deferred income taxes and the issuance of commercial paper.

Our ability to access capital markets depends on our credit ratings, general market liquidity, and investor demand for our securities. The Merger Agreement has placed certain restrictions on WGL's ability to access the capital markets. Our credit ratings depend largely on the financial performance of our subsidiaries, and a ratings downgrade could both increase our borrowing costs and trigger the need for us to post additional collateral with our wholesale counterparties or other creditors. In support of our credit ratings, we have a goal to maintain our long-term average common equity ratio in the 50% range of total consolidated capital over the long term. As of September 30, 2017, total consolidated capitalization, including current maturities of long-term debt and notes payable and project financing, comprised 39.9% common equity, 0.2% non-controlling interest, 0.7% preferred stock and 59.2% long and short-term debt. This ratio varies during the fiscal year primarily due to the seasonal nature of Washington Gas' business. This seasonality also affects our short-term debt balances, which are typically higher in the fall and winter months and substantially lower in the spring when a significant portion of Washington Gas' current assets are converted into cash at the end of the heating season. Our cash flow requirements and our ability to provide satisfactory resources to meet those requirements are primarily influenced by the activities of all of WGL's operating segments.

Our plans provide for sufficient liquidity to satisfy our financial obligations. At September 30, 2017, we had no significant restrictions on our cash balances or retained earnings that would affect the payment of common or preferred stock dividends by either WGL or Washington Gas. Please see Note 21 — *Planned Merger with AltaGas Ltd.* for a discussion of the proposed merger.

Short-Term Cash Requirements and Related Financing

Washington Gas has seasonal short-term cash requirements to fund the purchase of storage gas inventory in advance of the winter heating season. At September 30, 2017 and 2016, Washington Gas had balances in gas storage of $92.8 million and $82.5 million, respectively. Washington Gas collects the cost of gas under cost recovery mechanisms approved by its regulators. Additionally, Washington Gas may be required to post cash collateral for certain purchases.

During the first six months of each fiscal year, Washington Gas' large sales volumes cause its cash requirements to peak when combined storage inventory, accounts receivable, and unbilled revenues are at their highest levels. During the last six months of each fiscal year, after the heating season, Washington Gas typically experiences a seasonal net loss due to reduced demand for natural gas. During this period, large amounts of Washington Gas' current assets are converted to cash, which Washington Gas generally uses to reduce and usually eliminate short-term debt and acquire storage gas for the next heating season.

Variations in the timing of collections under Washington Gas' gas cost recovery mechanisms can significantly affect its short-term cash requirements. At September 30, 2017 and 2016, Washington Gas had $2.0 million and $3.3 million in net over-collections, respectively, of gas costs reflected in current liabilities as gas costs due to customers. Amounts under-collected or over-collected that are generated during the current gas cost recovery cycle are deferred as a regulatory asset or liability on the balance sheet until September 1 of each year, at which time the accumulated amount is transferred to gas costs due from/to customers as appropriate. At September 30, 2017 and 2016, Washington Gas had a net regulatory asset of $5.6 million and $5.7 million, respectively, related to the current gas recovery cycle.

WGL Energy Services and WGL Midstream have seasonal short-term cash requirements to fund the purchase of storage gas inventory in advance of the winter heating season. At September 30, 2017 and 2016, WGL Energy Services had balances in gas storage of $33.1 million and $31.5 million, respectively. WGL Energy Services collects revenues that are designed to reimburse commodity costs used to supply their retail customer contracts and wholesale counterparty contracts. At September 30, 2017 and 2016, WGL Midstream had balances in gas storage of $118.2 million and $93.1 million, respectively. As market opportunities arise, WGL Midstream may physically sell the inventory on the wholesale natural gas market, or economically hedge the inventory with financial derivative contracts. WGL Energy Services and WGL Midstream derive funding to finance these activities from short-term debt issued by WGL, which is made available through the money pool as discussed below. Additionally, WGL Energy Services and WGL Midstream may be required to post cash collateral for certain transactions. WGL Energy Services and WGL Midstream may be required to provide parent guarantees from WGL for certain transactions.

In addition to storage gas, WGL Midstream also has cash requirements to fund the capital requirements of its various infrastructure investments. At September 30, 2017 and 2016, WGL Midstream had investments of $384.6 million and $237.4 million related to these investments, respectively. WGL Midstream initially funds capital calls related to these investments from short-term debt issued by WGL.

WGL Energy Systems has cash requirements to fund the construction and purchase of residential and commercial distributed generation systems. WGL Energy Systems initially finances these activities through short-term debt issued by WGL.

WGL and Washington Gas use short-term debt in the form of commercial paper or unsecured short-term bank loans to fund seasonal cash requirements. Our policy is to maintain back-up bank credit facilities in an amount equal to or greater than our expected maximum commercial paper position.

WGL and Washington Gas each have credit facilities. The credit facility for WGL permits it to borrow up to $650.0 million. The credit facility for Washington Gas permits it to borrow up to $350.0 million, and further permits, with the banks' approval, additional borrowings of $100 million for a maximum potential total of $450 million. The interest rate on loans made under each of the credit facilities is a fluctuating rate per annum that is set using certain parameters at the time each loan is made. WGL and Washington Gas incur credit facility fees, which in some cases are based on the long-term debt ratings of WGL and Washington Gas. In the event that the long-term debt ratings are downgraded below certain levels, WGL and Washington Gas would be required to pay higher fees. There are five different levels of fees. For WGL, under the terms of the credit facilities, the lowest level facility fee is 0.075% and the highest is 0.225%. For Washington Gas, under the terms of the credit facilities, the lowest level facility fee is 0.06% and the highest is 0.175%. The facilities have a maturity date of December 19, 2019, and the credit agreements each provide WGL or Washington Gas with the right, as applicable to request two additional one-year extensions, with the banks' approval. Bank credit balances available to WGL and Washington Gas, net of commercial paper balances, were $268.0 million and $227.0 million at September 30, 2017 and $223.0 million and $308.0 million at September 30, 2016, respectively.

To manage credit risk, Washington Gas may require certain customers and suppliers to provide deposits, including collateral from wholesale counterparties, which are reported as current liabilities in "Customer deposits and advance payments," in the accompanying balance sheets. At September 30, 2017 and 2016, "Customer deposits and advance payments" totaled $64.2 million and $80.9 million, respectively. For Washington Gas, deposits from customers may be refunded at various times throughout the year based on the customer's payment habits. At the same time, other customers make new deposits that cause the balance of customer deposits to remain relatively steady. There are no restrictions on Washington Gas' use of these customer deposits. Washington Gas pays interest to its customers on these deposits in accordance with the requirements of its regulatory commissions.

For WGL Energy Services and WGL Midstream, deposits typically represent collateral for transactions with wholesale counterparties. These deposits may be reduced, repaid or increased at any time based on the current value of WGL Energy Services' or WGL Midstream's net position with the counterparty. Currently, there are no restrictions on the use of deposited funds and interest is paid to the counterparty on these deposits in accordance with its contractual obligations. Refer to the section entitled "*Credit Risk*" for further discussion of our management of credit risk.

Money Pool

WGL has money pool arrangements with and among its subsidiaries to coordinate and provide for certain short term cash and working capital requirements. This money pool may also accumulate cash from the periodic issuance of WGL's common stock from the company's ATM offering, dividend reinvestment program and stock based compensation programs as well as the operations of certain subsidiaries. In return, the money pool provides short-term loans to its subsidiaries to meet various working capital needs. Washington Gas does not participate in the money pool.

Project Financing

Washington Gas has obtained third-party project financing on behalf of the Federal government to provide funds during the construction of certain energy management services projects entered into under Washington Gas' area-wide contract. In connection with work completed under the area-wide contract, the construction work is performed by WGL Energy Systems on behalf of Washington Gas and an inter-company payable is recorded for work provided by WGL Energy Systems. As work is performed, Washington Gas establishes a receivable representing the government's obligation to remit principal and interest. The payable and receivable are equal to each other at the end of the construction period, but there may be timing differences in the recognition of the project related payable and receivable during the construction period. When these projects are formally "accepted" by the government and deemed complete, Washington Gas assigns the ownership of the receivable to the third party lender in satisfaction of the obligation and removes both the receivable and the obligation related to the financing from its financial statements.

In December 2016, WGL Energy Systems entered into an agreement to obtain third-party financing and receive funds directly from the third party lender during the construction period associated with the related energy management service projects. As a result, Washington Gas will no longer be liable under future third party financing arrangements, for projects entered into under the area-wide contract. The general terms of the financing agreement are the same as the prior financing arrangements between Washington Gas and the third party lender mentioned above. Washington Gas will continue to record a receivable representing the government's obligation, and will record an inter-company payable to WGL Energy Systems for the construction work performed for the same amount.

As of September 30, 2017, WGL and Washington Gas recorded $85.6 million and $78.2 million, respectively, in "Unbilled revenues" on the balance sheet and $54.8 million and $43.8 million, respectively, in a corresponding short-term obligation to third party lenders in "Notes payable and project financing", for energy management services projects that were not complete. As of September 30, 2016, WGL and Washington Gas recorded $73.3 million in "Unbilled revenues" on the balance sheet and a $62.4 million corresponding short-term obligation to third party lenders in "Notes payable and project financing" for energy management services projects that were not complete. WGL Energy Systems did not obtain any third-party project financing on behalf of the Federal Government for the fiscal year ended September 30, 2016. Because these projects are financed for government agencies which have minimal credit risk, and with which we have previous collection experience, neither WGL nor Washington Gas recorded a corresponding reserve for bad debts related to these receivables at September 30, 2017 or September 30, 2016.

Long-Term Cash Requirements and Related Financing

The primary drivers of our long-term cash requirements include capital expenditures, non-utility investments and long-term debt maturities. For the regulated utility segment, our capital expenditures primarily relate to adding new utility customers and system supply as well as maintaining the safety and reliability of Washington Gas' distribution system. For our non-utility segments, our long-term cash requirements primarily depend on the level of investments and capital expenditures. For WGL Midstream, our investments primarily relate to providing capital for construction of the infrastructure investments. For WGL Energy Systems and WGSW, our investments primarily relate to providing capital for construction of new residential, distributed generation, and commercial solar projects.

On February 18, 2016, WGL entered into a credit agreement providing for a term loan facility. On February 18, 2016 and January 26, 2017, WGL borrowed $250 million and $50 million, respectively, under the agreement. The credit agreement provides for maturity dates of February 18, 2018 and January 26, 2019, respectively, with a one year extension option with the lenders' approval. In addition to the initial borrowings, the credit agreement permits, with the lenders' approval, additional borrowings of up to $50 million, for maximum potential borrowings under the credit agreement of $350 million. The interest rate on loans made under the credit agreement will be a fluctuating rate that will be determined from time to time based on parameters set forth in the credit agreement.

On September 16, 2016, Washington Gas issued $250 million of 3.796% medium-term notes due in 2046. The notes are subject to prepayment at Washington Gas' option at any time in whole or from time to time in part, at a redemption price equal to the greater of *(i)* 100% of the principal amount thereof and *(ii)* the sum of the present values of the remaining scheduled payments of principal and interest thereon, plus a make-whole call premium, plus, in either such case, accrued and unpaid interest on the principal of such notes to the date of redemption. At any time on and after March 15, 2046, Washington Gas may redeem the notes on any date or dates, in whole or from time to time in part, at 100% of the principal of such notes, plus accrued and unpaid interest on the principal of such notes to the date of redemption. On September 18, 2017, Washington Gas issued an additional $200 million pursuant to the reopening of these notes for a total aggregate principle amount outstanding of $450 million.

On November 24, 2015, WGL entered into an equity distribution agreement relating to a continuous offering under which WGL may sell common stock with an aggregate sales price of up to $150 million through an ATM program. Sales of common stock can be made by means of privately negotiated transactions, as transactions on the New York Stock Exchange at market prices or in such other transactions as agreed upon by WGL and the sales agents and in conformance with applicable securities laws. WGL began selling shares under this agreement in February 2016. There were no shares issued under this agreement in fiscal year ended September 30, 2017 due to the Merger Agreement. During the fiscal year ended September 30, 2016, WGL has issued 1.2 million shares of common stock for gross proceeds of $78.2 million.

In connection with entering into the Merger Agreement, WGL Holdings, Inc. will not raise capital using common equity issuances or using debt longer than two years in duration.

Security Ratings

The table below reflects the current credit ratings for the outstanding debt instruments of WGL and Washington Gas. Changes in credit ratings may affect WGL's and Washington Gas' cost of short-term and long-term debt and our access to the capital markets. A security rating is not a recommendation to buy, sell or hold securities. Credit ratings are subject to revision or withdrawal at any time by the assigning rating organization and each rating should be evaluated independently of any other rating.

	WGL		Washington Gas	
Rating Service	**Senior Unsecured**	**Commercial Paper**	**Senior Unsecured**	**Commercial Paper**
Fitch Ratings[(a)]	A-	F2	A+	F1
Moody's Investors Service[(b)]	A3	P-2	A1	P-1
Standard & Poor's Ratings Services[(c)]	A-	A-1	A	A-1

(a) *The long-term debt ratings outlook issued by Fitch Ratings for WGL and Washington Gas was adjusted to negative on October 13, 2016.*

(b) *The long-term debt ratings outlook issued by Moody's Investors Service for WGL and Washington Gas was adjusted to negative on February 1, 2017.*

(c) *The long-term debt ratings outlook issued by Standard & Poor's Rating Services for WGL and Washington Gas was adjusted to negative on January 26, 2017.*

Ratings Triggers and Certain Debt Covenants

WGL and Washington Gas pay credit facility fees, which in some cases are based on the long-term debt ratings of Washington Gas. Under the terms of WGL's and Washington Gas' revolving credit agreements, term loan facility and private placement notes, the ratio of consolidated financial indebtedness to consolidated total capitalization cannot exceed 0.65 to 1.0 (65.0%). As of September 30, 2017, WGL's and Washington Gas' ratios of consolidated financial indebtedness to consolidated total capitalization were 59.2% and 52.2%, respectively. In addition, WGL and Washington Gas are required to inform lenders of changes in corporate existence, financial conditions, litigation and environmental warranties that might have a material effect on debt ratings. The failure to inform the lenders' agent of material changes in these areas might constitute default under the agreements. Additionally, failure to pay principal or interest on any other indebtedness may be deemed a default under our credit agreements. A default, if not remedied, may lead to a suspension of further loans and/or acceleration in which obligations become immediately due and payable. At September 30, 2017, we were in compliance with all of the covenants under our revolving credit facilities.

For certain of Washington Gas' natural gas purchase and pipeline capacity agreements, if the long-term debt of Washington Gas is downgraded below the lower of a BBB- rating by Standard & Poor's or a Baa3 rating by Moody's Investors Service, or if Washington Gas is deemed by a counterparty not to be creditworthy, then the counterparty may withhold service or deliveries, or may require additional credit support. For certain other agreements, if the counterparty's credit exposure to Washington Gas exceeds a contractually defined threshold amount, or if Washington Gas' credit rating declines by a certain rating level, then the counterparty may require additional credit support. At September 30, 2017, Washington Gas would not be required to provide additional credit support for these arrangements if its long-term credit rating was to be downgraded by one rating level.

WGL guarantees payments for certain purchases of natural gas and electricity on behalf of WGL Energy Services and WGL Midstream (refer to *"Contractual Obligations, Off-Balance Sheet Arrangements and Other Commercial Commitments"* for further discussion of these guarantees). If the credit rating of WGL declines, WGL Energy Services and WGL Midstream may be required to provide additional credit support and credit enhancements for these purchase contracts. At September 30, 2017, WGL Energy Services would be required to provide additional credit support of $3,000 for these arrangements, if WGL's credit ratings were to decline by one rating level. At September 30, 2017, WGL Midstream would be required to provide $779,000 of additional credit support for these arrangements if WGL's credit ratings were to decline by one rating level.

Historical Cash Flows

The following table summarizes WGL's net cash provided by (used in) operating, investing and financing activities for the fiscal years ended September 30, 2017, 2016 and 2015:

	Fiscal Years Ended September 30,			Increase / (Decrease)	Increase / (Decrease)
(In millions)	**2017**	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Cash provided by (used in):					
Operating activities	**$ 230.6**	$ 227.8	$ 504.1	**$ 2.8**	$ (276.3)
Financing activities	**$ 423.0**	$ 436.5	$ 19.0	**$ (13.5)**	$ 417.5
Investing activities	**$ (650.7)**	$ (665.5)	$ (525.1)	**$ 14.8**	$ (140.4)

Cash Flows Provided by Operating Activities

The regulated utility's cash flows from operating activities principally reflect gas sales and deliveries and the cost of operations. The volume of gas sales and deliveries is dependent primarily on factors external to the utility, such as growth of customer demand, weather, market prices for energy, economic conditions and measures that promote energy efficiency. Under revenue and weather normalization, ratemaking adjustments and decoupling mechanisms in place, changes in delivery volumes from levels assumed when rates were approved may affect the timing of cash flows but not net income. The price at which the utility provides energy to customers is determined in accordance with regulatory-approved tariffs. In general, changes in the utility's cost of gas may affect the timing of cash flows but not net income because the costs are recovered in accordance with rate agreements. In addition, the regulated utility's cash flow is impacted by the timing of derivative settlements.

The non-utility cash flows from operating activities primarily reflect: *(i)* the timing of receipts related to distributed generation and federal projects in the commercial energy systems segment; *(ii)* the timing of receipts related to electric and gas bills and the timing of payments for the cost of the commodity for WGL Energy Services and *(iii)* the timing of gas purchases and sales resulting from trading activities at WGL Midstream. Both WGL Energy Services' and WGL Midstream's cash flows are impacted by the timing of derivative settlements.

Net income is the result of cash and non-cash (or accrual) transactions. Only cash transactions affect WGL's cash flows from operating activities. Principal non-cash charges include depreciation, accrued or deferred pension and other post-retirement benefit costs and deferred income tax expense. Non-cash charges or credits may also be accrued under the revenue decoupling and cost reconciliation mechanisms in the utilities' rate plans.

Net cash flows provided by operating activities for the fiscal year ended September 30, 2017 was $230.6 million compared to net cash flows provided by operating activities of $227.8 million for the fiscal year ended September 30, 2016. The increase in net cash flows primarily reflects distributions received from our investment in the Stonewall Gas Gathering System. These distributions began in fiscal year 2017. The comparison of net cash provided by operating activities for fiscal year 2016 to fiscal year 2015 reflects decreased sales volumes to customers due to warmer than normal weather during the period and the associated timing of payments for, and recovery of, energy related costs.

Cash Flows Provided By Financing Activities

Cash flows provided by financing activities totaled $423.0 million in fiscal year ended September 30, 2017, a decrease of $13.5 million from the prior year. This decrease primarily reflects that, due to the Merger, there were no issuances of common stock under our ATM program in fiscal year 2017. Cash flows provided by financing activities increased $417.5 million in fiscal year 2016 as compared to fiscal year 2015. This comparison primarily reflects an increase in net funds received from long-term debt and issuance of common stock under our ATM program.

The following table reflects the issuances and retirements of long-term debt that occurred during the fiscal years 2017, 2016 and 2015 (also refer to Note 5 —*Long Term Debt* of Notes to Consolidated Financial Statements).

LONG-TERM DEBT ACTIVITY

	2017		2016		2015	
($ In millions)	**Interest Rate**	**Face value**	**Interest Rate**	**Face value**	**Interest Rate**	**Face value**
Long Term Debt[a]						
Issued	**1.57-3.80%**	**$ 250.0**	1.34-3.80%	$ 500.0	2.25 – 4.60%	$ 300.0
Retired			5.17%	(25.0)	4.83%	(20.0)
Other financing						
Issued	**n/a**	**-**	n/a	-	n/a	-
Retired	**n/a**	**-**	n/a	-	2.52 – 4.10%	(8.3)
Other activity						
Total		**$ 250.0**		$ 475.0		$ 271.7

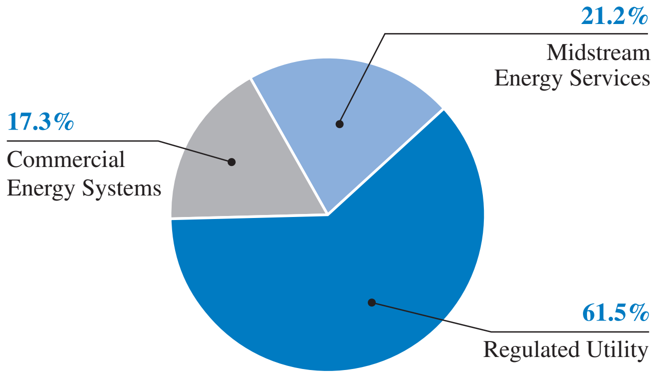
[a] *Includes senior notes for WGL Holdings, MTN's and private placement debt for Washington Gas. Certain issuances for WGL Holdings contain make-whole call provisions.*

Cash Flows Used in Investing Activities

Net cash flows used in investing activities totaled $650.7 million, $665.5 million and $525.1 million during fiscal years 2017, 2016 and 2015, respectively, which primarily consists of utility capital expenditures made by Washington Gas and non-utility investments in pipeline and distributed generation.

Capital Investments

Total WGL expenditures for capital investments for the year ended September 30, 2017 are shown in the chart below:



The following table depicts our actual capital investments for fiscal years 2015, 2016 and 2017. Our capital outlays include expenditures to extend service to new areas, and to ensure safe, reliable and improved service for our utility and to grow our non-utility investments.

Capital Expenditures	Actual		
(In millions)	2015	2016	2017
New business[a]	$ 84.8	$ 106.6	**$ 129.4**
Replacements:			
Regulatory plans[b]	113.1	132.2	**130.9**
Other	56.0	74.8	**68.1**
Customer information system	24.6	39.4	**28.1**
Other utility	42.5	43.0	**44.0**
Cash basis-utility	6.4	(2.5)	**7.8**
Total utility[c]	327.4	393.5	**408.3**
Pipeline investments	42.7	158.1	**140.8**
Distributed generation	158.3	163.8	**85.5**
Other non-utility	0.2	8.3	**7.0**
Cash basis-non-utility	3.1	(35.3)	**22.2**
Total investments	$ 531.7	$ 688.4	**$ 663.8**

[a] *Includes certain projects that support the existing distribution system.*

[b] *Represents capital expenditures (excluding cost of removal), both approved, and expected to be approved, under our Accelerated Pipeline Replacement Programs in all jurisdictions. Refer to the section entitled "Accelerated Pipeline Replacement Programs" for a further discussion.*

[c] *Excludes Allowance for Funds Used During Construction and cost of removal. Includes capital expenditures accrued and capital expenditure adjustments recorded in the fiscal year.*

Accelerated Pipe Recovery Plans

Accelerated pipe replacement programs are in place in all three of our jurisdictions. Washington Gas is accelerating pipe replacement in order to reduce risk and further enhance the safety and reliability of the pipeline system. Each regulatory commission having jurisdiction over Washington Gas' retail rates has approved accelerated replacement programs with an associated surcharge mechanism to recover the cost, including a return, on those capital investments. In contrast to the traditional rate-making approach to capital investments, for the accelerated pipe replacement programs, Washington Gas is receiving recovery for these investments through the approved surcharges for each program. Once new rates are put into effect in a given jurisdiction, then costs previously collected through the accelerated pipe replacement surcharges will be collected through the new rates. Refer to Rates and Regulatory Matters for a further discussion on rate case decisions during the fiscal year. The following table presents the expenditures made and revenues recognized for the accelerated pipe replacement programs in fiscal year 2017.

ACCELERATED PIPE REPLACEMENT PROGRAMS

Fiscal Year 2017 Activity				
(In millions)	District of Columbia	Maryland	Virginia	Total
Capital expenditures, excluding cost of removal	$ 18.1	$ 48.6	$ 64.2	**$ 130.9**
Revenues recognized[a]	$ 5.5	$ 13.4	$ 6.6	**$ 25.5**

[a] *New base rates were effective in the District of Columbia on March 24, 2017 and in Virginia, in the December 2016 billing cycle.*

District of Columbia Jurisdiction

In the District of Columbia, pursuant to a settlement approved in 2009, construction activities began, related to an accelerated replacement and encapsulation program targeting vintage mechanically coupled pipe. These targeted replacements were completed in January 2017, with related restoration and paving continuing into calendar year 2017. In 2013, Washington Gas filed PROJECT *pipes* in which Washington Gas proposed to replace bare and/or unprotected steel services, bare and targeted unprotected steel main, and cast iron main in its distribution system in the District of Columbia. On January 29, 2015, the PSC of DC issued an order approving the settlement agreement and approving recovery through the surcharge of annual project costs up to $25 million through fiscal year 2019. PROJECT *pipes* is in addition to the program which targets vintage mechanically coupled pipe. Cumulative plant additions through September 30, 2015 were included in rate base in the most recent rate cases and are now being recovered through base rates and not reflected in revenues shown in the table above.

Maryland Jurisdiction

In 2014, pursuant to the Strategic Infrastructure Development and Enhancement (STRIDE) law in Maryland, the PSC of MD approved Washington Gas' initial STRIDE Plan to recover the reasonable and prudent costs associated with qualifying infrastructure replacements through monthly surcharges. The Commission approved replacement of bare and/or unprotected steel services and targeted copper and/or pre-1975 plastic services, bare and targeted unprotected steel main, mechanically coupled pipe main and service, and cast iron main in Washington Gas' Maryland distribution system at an estimated five-year cost of $200 million, including cost of removal, through calendar year 2018. In 2015, the PSC of MD approved one additional program applicable to gas distribution system replacements and three of the four requested additional programs applicable to gas transmission system replacements at an incremental cost of $18.5 million, including cost of removal, in eligible infrastructure replacements over the remaining four years of the initial STRIDE Plan.

Virginia Jurisdiction

On April 21, 2011, the SCC of VA, pursuant to a new law to advance Virginia's Energy Plan ("SAVE Act"), Washington Gas's initial SAVE Plan for accelerated replacement of infrastructure facilities and a SAVE Rider to recover eligible costs associated with those replacement programs. Subsequently, the Commission approved three amendments to the Company's SAVE Plan, increasing the overall investment, the scope of approved programs and new facilities replacement programs. Washington Gas' current, approved SAVE Plan encompasses eight ongoing programs: *(i)* bare and/or unprotected steel service replacement program, *(ii)* bare and unprotected steel main replacement program, *(iii)* mechanically coupled pipe replacement, *(iv)* copper services replacement program, *(v)* black plastic services replacement program, *(vi)* cast iron mains replacement program, *(vii)* meter set and piping remediation/replacement program and *(viii)* transmission programs. Washington Gas is authorized to invest $256.3 million, including cost of removal, over the five-year calendar period through 2017. Cumulative expenditures through November 30, 2016 were included in rate base in the most recent rate cases and are now being recovered in base rates and are not reflected in the revenues shown in the table above. On July 25, 2017, the Company filed an Application with the Commission to amend and extend its SAVE Plan. Washington Gas proposes to invest approximately $543 million over a five-year period to continue work on previously approved distribution and transmission system accelerated replacement programs.

Pipeline Investments

Constitution Pipeline

In 2013, WGL Midstream invested in Constitution Pipeline Company, LLC (Constitution). The pipeline project is designed to transport at least 650,000 dekatherms of natural gas per day from the Marcellus region in northern Pennsylvania to major northeastern markets. Fully contracted with long-term commitments from established natural gas producers currently operating in Pennsylvania, the pipeline is designed to originate from the Marcellus production areas in Susquehanna County, Pennsylvania, and interconnect with the Iroquois Gas Transmission and Tennessee Gas Pipeline systems in Schoharie County, New York. At September 30, 2017, WGL Midstream's total share of the cost of Constitution is estimated to be $95.5 million over the term of the agreement, reflecting a 10% share in the pipeline venture. On December 2, 2014, the Federal Energy Regulatory Commission (FERC) issued an order granting a certificate of public convenience and necessity.

On April 22, 2016, the New York State Department of Environmental Conservation (NYSDEC) denied Constitution's application for a Section 401 Certification for the pipeline, which is necessary for the construction and operation of the pipeline. Constitution has stated that it remains committed to pursuing the project and that it intends to pursue all available options to challenge the legality and appropriateness of NYSDEC's decision. In May 2016, Constitution filed actions in both the U.S. Circuit Court of Appeals for the Second Circuit and the U.S. District Court for the Northern District of New York, appealing the decision and seeking declaratory judgment that the State of New York's permitting authority is preempted by federal law. In May 2016, Constitution appealed the NYSDEC's denial of the Section 401 certification to the United States Court of Appeals for the Second Circuit, and in August 2017 the court issued a decision denying in part and dismissing in part Constitution's appeal. The court expressly declined to rule on Constitution's argument that the NYSDEC's decision on Constitution's Section 401 application constitutes a waiver of the certification requirement. The court determined that it lacked jurisdiction to address that contention, and found that jurisdiction over the waiver issue lies exclusively with the United States Court of Appeals for the District of Columbia Circuit. As to the denial itself, the court determined that NYSDEC's action was not arbitrary or capricious. Constitution has filed a petition for rehearing with the Second Circuit Court's decision, but in October the court denied our petition.

We remain steadfastly committed to the project, and in October 2017 Constitution filed a petition for declaratory order requesting the FERC to find that, by operation of law, the Section 401 certification requirement for the New York State portion of Constitution's pipeline project was waived due to the failure by the NYSDEC to act on Constitution's Section 401 application within a reasonable period of time as required by the express terms of such statute. The petition is consistent with a recent decision by the District of Columbia Circuit Court in another proceeding, in which the court clarified that an applicant facing similar circumstances should present evidence of waiver to the FERC.

In light of the forgoing matters, Constitution has revised its target in-service date to as early as the first half of 2019, which assumes the timely receipt of a Notice to Proceed from the FERC. We can give no assurance, however, that Constitution's efforts to obtain the Section 401 Certification will be successful.

WGL Midstream held a $38.1 million equity method investment in Constitution at September 30, 2017. Refer to Note 17, *Other Investments* of the Notes to the Consolidated Financial Statements for further discussion of this matter.

Meade

In February 2014, WGL Midstream and certain venture partners formed, and WGL Midstream acquired a 55% interest in Meade Pipeline Co LLC (Meade). Meade was formed to develop and own, jointly with Transcontinental Gas Pipe Line Company, LLC (Transco), an approximately 185-mile pipeline originating in Susquehanna County, Pennsylvania and extending to Lancaster County, Pennsylvania (Central Penn) that will have the capacity to transport and deliver up to approximately 1.7 million dekatherms per day of natural gas. Additionally, WGL Midstream entered into an agreement with Cabot Oil & Gas Corporation (Cabot) whereby WGL Midstream will purchase 500,000 dekatherms per day of natural gas from Cabot over a 15 year term. As part of this agreement, Cabot has acquired 500,000 dekatherms per day of firm gas transportation capacity on Transco's Atlantic Sunrise project of which Central Penn is a part. This capacity will be released to WGL Midstream.

Central Penn will be an integral part of Transco's "Atlantic Sunrise" project and will be fully integrated into Transco's system. WGL Midstream will invest an estimated $410.0 million for its interest in Meade, and Meade will invest an estimated $746 million in Central Penn for an approximate 39% interest in Central Penn. Transco will hold the remaining ownership interests in Central Penn. Central Penn currently has a projected in-service date of mid-2018. On February 3, 2017, the FERC issued an order granting Transco's certificate of public convenience and necessity, subject to certain conditions. On February 6, 2017 Transco accepted the certificate of public convenience and necessity. On September 15, 2017, FERC issued the Notice to Proceed and construction on Central Penn has begun.

Mountain Valley Pipeline

In March 2015, WGL Midstream acquired a 7% equity interest in Mountain Valley Pipeline, LLC (Mountain Valley). On October 24, 2016, WGL Midstream acquired an additional 3% equity interest in Mountain Valley by assuming all of Vega Midstream MVP LLC's (Vega Energy) interest in the joint venture for $10.0 million. As a result of this acquisition, WGL's obligation to fund Mountain Valley capital contributions on behalf of Vega Energy was terminated. WGL Midstream now owns a 10% interest in Mountain Valley. Mountain Valley continues to target an in-service date in late 2018.

The proposed pipeline to be developed, constructed, owned and operated by Mountain Valley will transport approximately 2.0 million dekatherms of natural gas per day from two interconnects with EQT Corporation's Equitrans system in Wetzel County, West Virginia to Transco's Station 165 in Pittsylvania County, Virginia. The pipeline is scheduled to be in service by December 2018. On October 13, 2017, FERC issued an order granting a certificate of public convenience and necessity to construct and operate the Mountain Valley Pipeline Project ("Project"). Construction on the Project is expected to begin in late 2017.

WGL Midstream expects to invest in scheduled capital contributions through the in-service date of the pipeline, its pro rata share (based on its 10% equity interest) of project costs, for an estimated aggregate amount of approximately $327.6 million. In addition, WGL Midstream entered into a gas purchase commitment to buy 500,000 dekatherms of natural gas per day, at index-based prices, for a 20 year term, and will also be a shipper on the proposed pipeline.

Stonewall System

In February 2016, WGL Midstream acquired a 30% equity interest in an entity that owns and operates certain assets known as the Stonewall System for an investment of $89.4 million. The Stonewall System has the capacity to gather up to 1.4 billion cubic feet of natural gas per day from the Marcellus production region in West Virginia, and connects with an interstate pipeline system that serves markets in the mid-Atlantic region. During the fiscal year ended September 30, 2017, WGL Midstream contributed an additional $45.5 million related to retiring debt at the entity level.

Contractual Obligations, Off-Balance Sheet Arrangements and other Commercial Commitments

Contractual Obligations

WGL and Washington Gas have certain contractual obligations incurred in the normal course of business that require fixed and determinable payments in the future. These commitments include long-term debt, lease obligations, unconditional purchase obligations for pipeline capacity, transportation and storage services, certain natural gas and electricity commodity commitments and our commitments related to the business process outsourcing program.

The total estimated purchase obligations for WGL as of September 30, 2017 for future fiscal years are shown below.

ESTIMATED CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

	Years Ended September 30,						
(In millions)	2018	2019	2020	2021	2022	Thereafter	Total
Pipeline and storage contracts[(a)]	$ 252.7	$ 308.1	$ 310.3	$ 300.5	$ 293.6	$ 2,081.2	$ 3,546.4
Long-term debt[(b)]	250.0	100.0	150.0	-	-	1,196.0	1,696.0
Interest expense[(c)]	68.2	62.4	57.2	56.8	56.8	957.6	1,259.0
Gas purchase commitments[(d)]							
—Washington Gas	451.0	378.3	361.4	363.7	367.0	2,701.6	4,623.0
—WGL Energy Services	143.8	78.5	30.0	7.3	0.4	–	260.0
—WGL Midstream[(e)]	712.9	1,385.2	1,450.1	1,359.0	1,307.0	20,130.0	26,344.2
Electric purchase commitments[(f)]	342.0	201.4	110.0	43.8	7.4	1.5	706.1
Operating leases	8.5	5.4	8.1	8.5	8.4	89.8	128.7
Business process outsourcing[(g)]	25.5	25.6	25.1	18.3	5.1	-	99.6
Other long-term commitments[(h)]	7.1	4.9	2.6	-	-	0.3	14.9
Total	**$ 2,261.7**	**$ 2,549.8**	**$ 2,504.8**	**$ 2,157.9**	**$ 2,045.7**	**$ 27,158.0**	**$ 38,677.9**

(a) *Represents minimum payments for natural gas transportation, storage and peaking contracts for Washington Gas, WGL Energy Services and WGL Midstream.*

(b) *Represents scheduled repayment of principal.*

(c) *Represents the scheduled interest payments associated with long-term debt for WGL and Washington Gas.*

(d) *Includes known and reasonably likely commitments to purchase fixed volumes of natural gas. Cost estimates are based on forward market prices as of September 30, 2017. Certain of our gas purchase agreements have optionality, which may cause increases in these commitments.*

(e) *Includes gas purchase commitments to be sold under a gas sale and purchase, and capacity agreement with GAIL Global (USA) LNG LLC, a subsidiary of GAIL (India) Limited, under which WGL Midstream has agreed to sell and deliver a minimum of 340,000 dekatherms per day and up to 430,000 dekatherms per day of natural gas, for a term of 20 years from the in-service date of the export facility. Also includes gas purchase commitments related to certain of our pipeline investments.*

(f) *Represents electric purchase commitments that are based on existing fixed price and fixed volume contracts. Includes $14.7 million related to renewable energy credits.*

(g) *Represents fixed costs to service providers related to various contracts for business process outsourcing.*

(h) *Includes secured supply agreements' minimum program fees and committed payments related to certain environmental response costs and excludes uncertain tax positions.*

The table above reflects fixed and variable obligations. Certain of these estimates reflect likely purchases under various contracts, and may differ from minimum future contractual commitments disclosed in Note 13 — *Commitments and Contingencies* of the Notes to Consolidated Financial Statements. Refer to Note 21 — *Planned Merger with AltaGas Ltd.* for information regarding the Merger Agreement.

Washington Gas outsources certain of its business processes related to human resources, information technology, consumer services, construction, integrated supplier and finance operations. The continued management of service levels provided is critical to the success of these outsourcing arrangements. Washington Gas has divided its BPO governance among functional areas within the organization, each containing a comprehensive set of processes to monitor and control the cost effectiveness and quality of services provided through the BPO.

For commitments related to Washington Gas' pension and post-retirement benefit plans, during fiscal year 2017, Washington Gas did not contribute to its qualified pension plan but did contribute $4.4 million to its non-funded DB SERP. In addition, Washington Gas contributed $8.3 million to its health and life insurance benefit plans during fiscal year 2017. During fiscal year 2018, Washington Gas does not expect to make a contribution to its qualified pension plan but does expect to make a payment totaling $6.5 million to its non-funded DB SERP. Washington Gas expects to make a contribution of $5.2 million to its health and life insurance benefit plans during fiscal year 2018. For a further discussion of our pension and post-retirement benefit plans, refer to Note 10—*Pension and Other Post-Retirement Benefit Plans* of the Notes to Consolidated Financial Statements.

Financial Guarantees

WGL has guaranteed payments primarily for certain commitments on behalf of certain subsidiaries. At September 30, 2017, these guarantees totaled $30.7 million, $167.8 million, $124.3 million and $389.1 million for Washington Gas, WGL Energy Services, WGL Energy Systems and WGL Midstream, respectively. At September 30, 2017, WGL also had guarantees on behalf of other subsidiaries totaling $2.1 million. The amount of such guarantees is periodically adjusted to reflect changes in the level of WGL's financial exposure related to these commitments. For all of our financial guarantees, WGL may cancel any or all future obligations upon written notice to the counterparty, but WGL would continue to be responsible for the obligations created under the guarantees prior to the effective date of the cancellation. WGL has also guaranteed payments for certain of our external partners. At September 30, 2017, the maximum potential amount of future payments under the guarantees for external parties totaled $13.5 million.

Operating Issues Related to Changes in Natural Gas Supply

In fiscal year 2005, Washington Gas began addressing a significant increase in the number of natural gas leaks on its distribution system in certain geographic areas. Natural gas containing a low concentration of HHCs caused the seals in certain mechanical couplings in Washington Gas' distribution system to shrink, increasing the propensity for the coupling to leak. Independent laboratory tests performed on behalf of Washington Gas showed that the injection of HHCs offset the effect of the low HHC gas on the seals in couplings, reducing their propensity to leak.

Washington Gas constructed three facilities to inject HHCs into the gas stream entering the Washington Gas distribution system and replaced gas service lines and replaced or rehabilitated gas mains that contained the affected mechanical couplings in certain geographic areas. Additionally, Washington Gas continues to mitigate the impact of low HHC gas from whatever source through the operation of three HHC injection facilities and its accelerated pipeline replacement programs in all three of its jurisdictions. These accelerated pipeline replacement programs include the replacement of higher risk mains and services, including vintage mechanically coupled mains and services (refer to the section *"Accelerated Pipeline Replacement Programs"* for further discussion of these programs).

Credit Risk

Wholesale Credit Risk

Certain wholesale suppliers that sell natural gas to any or all of Washington Gas, WGL Energy Services, and WGL Midstream and electricity to WGL Energy Services, may have relatively low credit ratings or may not be rated by major credit rating agencies.

Washington Gas enters into transactions with wholesale counterparties for the purpose of meeting firm ratepayer commitments, to optimize the value of its long-term capacity assets, and for hedging natural gas costs. In the event of a counterparty's failure to deliver contracted volumes of gas or fulfill its payment obligations, Washington Gas may incur losses that would typically be passed through to its sales customers under the purchased gas cost adjustment mechanisms; however, Washington Gas may be at risk for financial loss to the extent these losses are not passed through to its customers.

For WGL Energy Services, any failure of wholesale counterparties to deliver natural gas or electricity under existing contracts could cause financial exposure for the difference between the price at which WGL Energy Services has contracted to buy these commodities and their replacement cost from another supplier. To the extent that WGL Energy Services sells natural gas to these wholesale counterparties, WGL Energy Services may be exposed to payment risk if WGL Energy Services is in a net receivable position. Additionally, WGL Energy Services enters into contracts with counterparties to hedge the costs of natural gas and electricity. Depending on the ability of the counterparties to fulfill their commitments, WGL Energy Services could be at risk for financial loss.

WGL Midstream enters into transactions with wholesale counterparties to hedge and optimize its portfolio of owned and managed natural gas assets. Any failure of wholesale counterparties to deliver natural gas under existing contracts could cause financial exposure for the difference between the price at which WGL Midstream has contracted to buy these commodities and their replacement cost. To the extent that WGL Midstream sells natural gas to these wholesale counterparties, WGL Midstream may be exposed to payment risk if it is in a net receivable position. In addition, WGL Midstream enters into contracts with counterparties to hedge the costs of natural gas. Depending on the ability of the counterparties to fulfill their commitments, WGL Midstream could be at risk for financial loss.

Washington Gas, WGL Energy Services, and WGL Midstream operate under an existing wholesale counterparty credit policy that is designed to mitigate credit risks through requirements for credit enhancements including, but not limited to, letters of credit, parent guarantees and cash collateral when deemed necessary. In accordance with this policy, Washington Gas, WGL Energy Services, and WGL Midstream have each obtained credit enhancements from certain of their counterparties. If certain counterparties or their guarantors meet the policy's creditworthiness criteria, Washington Gas, WGL Energy Services, and WGL Midstream may grant unsecured credit to those counterparties or their guarantors. The creditworthiness of all counterparties is continuously monitored.

Washington Gas, WGL Energy Services and WGL Midstream are also subject to the collateral requirements of their counterparties. At September 30, 2017, Washington Gas, WGL Energy Services and WGL Midstream provided $3.7 million, $32.4 million and $44.6 million in cash collateral to counterparties, respectively.

The following table provides information on our credit exposure, net of collateral, to wholesale counterparties as of September 30, 2017 for Washington Gas, WGL Energy Services and WGL Midstream, separately.

CREDIT EXPOSURE TO WHOLESALE COUNTERPARTIES *(In millions)*

Rating[a]	Exposure Before Credit Collateral[b]	Offsetting Credit Collateral Held[c]	Net Exposure	Number of Counterparties Greater Than 10%[d]	Net Exposure of Counterparties Greater Than 10%
Washington Gas					
Investment Grade	$ 38.2	$ -	$ 38.2	2	$ 27.6
Non-Investment Grade	1.1	1.1	-	-	-
No External Ratings	8.9	3.6	5.3	-	-
WGL Energy Services					
Investment Grade	$ 1.2	$ -	$ 1.2	2	$ 1.1
Non-Investment Grade	-	-	-	-	-
No External Ratings	0.4	0.1	0.3	-	-
WGL Midstream					
Investment Grade	$ 52.9	$ 1.7	$ 51.2	2	$ 26.1
Non-Investment Grade	1.6	1.6	-	-	-
No External Ratings	9.7	1.4	8.3	-	-

(a) *Investment grade is primarily determined using publicly available credit ratings of the counterparty. If the counterparty has provided a guarantee by a higher-rated entity (e.g., its parent), it is determined based upon the rating of it guarantor. Included in "Investment grade" are counterparties with a minimum Standard & Poor's or Moody's Investor Service rating of BBB- or Baa3, respectively.*

(b) *Includes the net of all open positions on energy-related derivatives subject to mark-to-market accounting requirements and the net receivable/payable for the realized transactions. Amounts due from counterparties are offset by liabilities payable to those counterparties to the extent that contractual netting arrangements are in place.*

(c) *Represents cash deposits and letters of credit received from counterparties, not adjusted for probability of default.*

(d) *Using a percentage of the net exposure.*

Retail Credit Risk

Washington Gas is exposed to the risk of non-payment of utility bills by certain of its customers. To manage this customer credit risk, Washington Gas may require cash deposits from its high risk customers to cover payment of their bills until the requirements for the deposit refunds are met. In addition, Washington Gas has a purchase of receivables (POR) program in Maryland, whereby it purchases receivables from participating energy marketers at approved discount rates. Under the program, Washington Gas is exposed to the risk of non-payment by the retail customers for these receivables. This risk is factored into the approved discount rate at which Washington Gas purchases the receivables.

WGL Energy Services is also exposed to the risk of non-payment by its retail customers. WGL Energy Services manages this risk by evaluating the credit quality of certain new customers as well as by monitoring collections from existing customers. To the extent necessary, WGL Energy Services can obtain collateral from, or terminate service to, its existing customers based on credit quality criteria. In addition, WGL Energy Services participates in POR programs with certain Maryland, District of Columbia and Pennsylvania utilities, whereby it sells its receivables to various utilities at approved discount rates. Under the POR programs, WGL Energy Services is exposed to the risk of non-payment by its retail customers for delivered commodities that have not yet been billed. Once the invoices are billed, however, the associated credit risk is assumed by the purchasing utilities that sponsor POR programs. While participation in POR programs reduces the risk of collection and fixes a discount rate on the receivables, there is a risk that the discount rate paid to participate in the POR program will exceed the actual bad debt expense and billing fees associated with these receivables.

WGL Energy Systems is subject to retail credit risk associated with customers who purchase electricity under long term agreements from distributed generation assets owned by the company. The customers undergo credit evaluation prior to contract execution and are monitored periodically during the contract term for payment performance and credit quality. These steps mitigate credit risk associated with the distributed generation asset customers.

At September 30, 2017, WGSW was indirectly subject to retail credit risk associated with non-payment by customers who lease distributed energy equipment or maintain energy service agreements through affiliates. This credit risk was mitigated through minimum credit quality criteria established in each of WGSW's agreements for customer agreements. These criteria were satisfied to enable WGSW to participate in the project financing arrangement or partnership interest. Refer to Note 17, *Other Investments* of the Notes to Consolidated Financial Statements for a further discussion of these investments.

WGL Midstream is not subject to retail credit risk.

Market Risk

We are exposed to various forms of market risk including commodity price risk, weather risk and interest-rate risk. The following discussion describes these risks and our management of them.

Price Risk Related to the Regulated Utility Segment

Washington Gas faces price risk associated with the purchase and sale of natural gas. Washington Gas generally recovers the cost of the natural gas to serve customers through gas cost recovery mechanisms as approved in jurisdictional tariffs; therefore, a change in the price of natural gas generally has no direct effect on Washington Gas' net income. However, Washington Gas is responsible for following competitive and reasonable practices in purchasing natural gas for its customers.

To manage price risk associated with its natural gas supply to its firm customers, Washington Gas: *(i)* actively manages its gas supply portfolio to balance sales and delivery obligations; *(ii)* injects natural gas into storage during the summer months when prices are generally lower, and withdraws that gas during the winter heating season when prices are generally higher and *(iii)* enters into hedging contracts and other contracts that may qualify as derivative instruments related to the sale and purchase of natural gas.

Washington Gas executes commodity-related physical and financial contracts in the form of forward, futures and option contracts as part of an asset optimization program that is managed by its internal staff. Under this program, Washington Gas realizes value from its long-term natural gas transportation and storage capacity resources when they are not being fully used to serve utility customers. Regulatory sharing mechanisms in all three jurisdictions allow the profit from these transactions to be shared between Washington Gas' customers and shareholders.

The following two tables summarize the changes in the fair value of our net assets (liabilities) associated with the Regulated Utility segment's energy-related derivatives during the fiscal year ended September 30, 2017.

REGULATED UTILITY SEGMENT
CHANGES IN FAIR VALUE OF ENERGY-RELATED DERIVATIVES

(In millions)		
Net assets (liabilities) at September 30, 2016	$	(257.4)
Net fair value of contracts entered into during the period		9.7
Other changes in net fair value		117.6
Realized net settlement of derivatives		8.8
Net assets (liabilities) at September 30, 2017	$	(121.3)

REGULATED UTILITY SEGMENT
ROLL FORWARD OF ENERGY-RELATED DERIVATIVES

(In millions)		
Net assets (liabilities) at September 30, 2016	$	(257.4)
Recorded to income		50.1
Recorded to regulatory assets/liabilities		77.2
Net option premium payments		-
Realized net settlement of derivatives		8.8
Net assets (liabilities) at September 30, 2017	$	(121.3)

The maturity dates of our net assets (liabilities) associated with the regulated utility segment's energy-related derivatives recorded at fair value at September 30, 2017, is summarized in the following table based on the level of the fair value calculation under ASC Topic 820:

REGULATED UTILITY SEGMENT
MATURITY OF NET ASSETS (LIABILITIES) ASSOCIATED WITH OUR ENERGY-RELATED DERIVATIVES

(In millions)	2018	2019	2020	2021	2022	Thereafter	Total
Level 1 — Quoted prices in active markets	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Level 2 — Significant other observable inputs	0.9	0.4	-	-	-	-	1.3
Level 3 — Significant unobservable inputs	(26.1)	(8.9)	(7.3)	(7.2)	(7.3)	(65.8)	(122.6)
Total net assets (liabilities) associated with our energy-related derivatives	**$ (25.2)**	**$ (8.5)**	**$ (7.3)**	**$ (7.2)**	**$ (7.3)**	**$ (65.8)**	**$ (121.3)**

Refer to Note 14, *Derivative and Weather-Related Instruments* and Note 15, *Fair Value Measurements* of the Notes to Consolidated Financial Statements for a further discussion of our derivative activities and fair value measurements.

Price Risk Related to the Non-Utility Segments

Retail Energy Marketing

Our retail energy-marketing subsidiary, WGL Energy Services, sells natural gas and electricity to retail customers at both fixed and indexed prices. WGL Energy Services must manage daily and seasonal demand fluctuations for these products with its suppliers. Price risk may exist to the extent WGL Energy Services does not closely match the timing and volume of natural gas and electricity it purchases with the related fixed price or indexed sales commitments. WGL Energy Services' risk management policies and procedures are designed to minimize this risk.

A portion of WGL Energy Services' annual natural gas sales volumes is subject to variations in customer demand associated with fluctuations in weather and other factors. Purchases of natural gas to fulfill retail sales commitments are generally made under fixed-volume contracts based on certain weather assumptions. If there is significant deviation from normal weather or from other factors that affect customer usage or utility delivery requirements, purchase commitments may differ significantly from actual customer usage. To the extent that WGL Energy Services cannot match its customer requirements and supply commitments, it may be exposed to commodity price and volume variances, which could negatively impact expected gross margins (refer to the section entitled "*Weather Risk*" for further discussion of our management of weather risk). WGL Energy Services manages these risks through the use of derivative instruments, including financial products.

WGL Energy Services procures electricity supply under contract structures in which WGL Energy Services assumes the responsibility of matching its customer requirements with its supply purchases. WGL Energy Services assembles the various components of supply, including electric energy from various suppliers, and capacity, ancillary services and transmission service from the PJM Interconnection, a regional transmission organization, in matching its customer requirements obligations. While the capacity and transmission costs within PJM are generally stable and identifiable several years into the future, the cost of ancillary services which support the reliable operation of the transmission system does fluctuate as changes occur in the balance between generation and the consumption mix within the electric system. WGL Energy Services could be exposed to price risk associated with changes in ancillary costs due to lack of available forward market products to sufficiently hedge those risks. Commercial retail contracts for larger customers often include terms which permit WGL Energy Services to pass through regulatory approved changes in capacity and transmission costs, as well as some changes in ancillary costs. These terms reduce the price risk exposure related to these changes for WGL Energy Services.

To the extent WGL Energy Services has not sufficiently matched its customer requirements with its supply commitments, it could be exposed to electricity commodity price risk. WGL Energy Services manages this risk through the use of derivative instruments, including financial products.

WGL Energy Services' electric business is also exposed to fluctuations in weather and varying customer usage. Purchases generally are made under fixed-price, fixed-volume contracts that are based on certain weather assumptions. If there are significant deviations in weather or usage from these assumptions, WGL Energy Services may incur price and volume variances that could negatively impact expected gross margins (refer to the section entitled "*Weather Risk*" for further discussion of our management of weather risk).

The following two tables summarize the changes in the fair value of our net assets (liabilities) associated with the Retail Energy-Marketing segment's energy-related derivatives during the fiscal year ended September 30, 2017.

RETAIL ENERGY-MARKETING SEGMENT
CHANGES IN FAIR VALUE OF ENERGY-RELATED DERIVATIVES

(In millions)	
Net assets (liabilities) at September 30, 2016	$ (17.1)
Net fair value of contracts entered into during the period	(0.2)
Other changes in net fair value	9.0
Realized net settlement of derivatives	(3.5)
Net assets (liabilities) at September 30, 2017	$ (11.8)

RETAIL ENERGY-MARKETING SEGMENT
ROLL FORWARD OF ENERGY-RELATED DERIVATIVES

(In millions)	
Net assets (liabilities) at September 30, 2016	$ (17.1)
Recorded to income	14.6
Recorded to accounts payable	(5.8)
Realized net settlement of derivatives	(3.5)
Net assets (liabilities) at September 30, 2017	$ (11.8)

The maturity dates of our net assets (liabilities) associated with the retail energy-marketing segments' energy-related derivatives recorded at fair value at September 30, 2017 is summarized in the following table based on the level of the fair value calculation under ASC Topic 820:

RETAIL ENERGY-MARKETING SEGMENT
MATURITY OF NET ASSETS (LIABILITIES) ASSOCIATED WITH OUR ENERGY-RELATED DERIVATIVES

(In millions)	2018	2019	2020	2021	2022	Thereafter	Total
Level 1 — Quoted prices in active markets	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Level 2 — Significant other observable inputs	(1.3)	(1.1)	(1.0)	(0.1)	-	-	(3.5)
Level 3 — Significant unobservable inputs	(1.3)	(5.2)	(1.4)	(0.4)	-	-	(8.3)
Total net assets (liabilities) associated with our energy-related derivatives	**$ (2.6)**	**$ (6.3)**	**$ (2.4)**	**$ (0.5)**	**$ -**	**$ -**	**$ (11.8)**

Refer to Note 14, *Derivative and Weather-Related Instruments* and Note 15, *Fair Value Measurements* of the Notes to Consolidated Financial Statements for a further discussion of our derivative activities and fair value measurements.

Commercial Energy Systems

WGL Energy Systems sells energy (both electricity and thermal) and RECs from distributed generation assets. The sale of energy is under long term power purchase agreements (PPAs) with a general duration of 20 years, while the sale of RECs are usually under shorter term or immediate delivery contracts. Weather patterns have an effect on WGL Energy Systems solar generation assets to the extent that output is reduced. WGL Energy Systems may also be exposed to REC price risk. The REC market has limited visibility to forward market prices. WGL Energy Systems seeks to mitigate this price risk by entering into bundled energy and REC long-term purchase agreements and independent forward REC sale agreements, when possible.

WGL Energy Systems also earns revenues by providing energy efficiency and sustainability solutions to governmental agencies pursuant to various contractual vehicles, including the area-wide contract. WGL Energy Systems earns margins between the price at which the solutions are sold and the cost to design and build them. Margins may be eroded by an underestimation of costs. WGL Energy Systems also conducts business with government agencies and faces future revenue risks relating to such government agencies not receiving appropriations funding or projects being unfunded by Congress.

WGSW holds project financing arrangements, whereby it holds an interest in a limited partnership that acquires distributed generation solar assets at fair market value and leases back those assets to counterparties, with fixed target rates of return over terms between 6-20 years. WGSW also enters into arrangements in which investment partners purchase solar assets and leases them to retail customers. In these cases, the purchased solar assets are expected to achieve a target rate of return from the lease payments that are collected from the retail customers. WGSW manages this price risk through its investment agreements and evaluation of the asset purchase in conjunction with the inception of the lease.

Midstream Energy Services

WGL Midstream engages in wholesale commodity transactions to optimize its owned and managed natural gas assets. Price risk exists to the extent WGL Midstream does not closely match the volume of physical natural gas in storage with the related forward sales entered into as hedges. WGL Midstream seeks to mitigate this risk by actively managing and hedging these assets in accordance with corporate risk management policies and procedures. Depending upon the nature of its forward hedges, WGL Midstream may also be exposed to fluctuations in mark-to-market valuations based on changes in forward price curves. WGL Midstream pays fixed, fair market prices for its owned storage assets and is subject to variations in annual summer-winter price differentials associated with weather and other market factors. To the extent there are significant variations in weather, WGL Midstream may incur price variances that negatively impact expected gross margins (refer to the section entitled "*Weather Risk*" for further discussion of our management of weather risk). WGL Midstream manages this risk through the use of derivative instruments, including financial products.

The following two tables summarize the changes in the fair value of our net assets (liabilities) associated with the Midstream Energy Services segments' energy-related derivatives during the fiscal year ended September 30, 2017.

MIDSTREAM ENERGY SERVICES SEGMENT
CHANGES IN FAIR VALUE OF ENERGY-RELATED DERIVATIVES

(In millions)	
Net assets (liabilities) at September 30, 2016	$ (19.8)
Net fair value of contracts entered into during the period	(29.4)
Other changes in net fair value	79.1
Realized net settlement of derivatives	(18.7)
Net assets (liabilities) at September 30, 2017	**$ 11.2**

MIDSTREAM ENERGY SERVICES SEGMENT
ROLL FORWARD OF ENERGY-RELATED DERIVATIVES

(In millions)		
Net assets (liabilities) at September 30, 2016	$	(19.8)
Recorded to income		49.7
Realized net settlement of derivatives		(18.7)
Net assets (liabilities) at September 30, 2017	**$**	**11.2**

The maturity dates of our net assets (liabilities) associated with the Midstream Energy Services segments' energy-related derivatives recorded at fair value at September 30, 2017 is summarized in the following table based on the level of the fair value calculation under ASC Topic 820:

MIDSTREAM ENERGY SERVICES SEGMENT
MATURITY OF NET ASSETS (LIABILITIES) ASSOCIATED WITH OUR ENERGY-RELATED DERIVATIVES

(In millions)	2018	2019	2020	2021	2022	Thereafter	Total
Level 1 — Quoted prices in active markets	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Level 2 — Significant other observable inputs	0.1	1.0	-	-	-	-	1.1
Level 3 — Significant unobservable inputs	(3.1)	3.4	3.3	2.5	2.2	1.8	10.1
Total net assets associated with our energy-related derivatives	**$ (3.0)**	**$ 4.4**	**$ 3.3**	**$ 2.5**	**$ 2.2**	**$ 1.8**	**$ 11.2**

Refer to Note 14, *Derivative and Weather-Related Instruments* and Note 15, *Fair Value Measurements* of the Notes to Consolidated Financial Statements for a further discussion of our derivative activities and fair value measurements.

Value-at-Risk

WGL Energy Services measures the market risk of its energy commodity portfolio by determining its value-at-risk. Value-at-risk is an estimate of the maximum loss that can be expected at some level of probability if a portfolio is held for a given time period. The value-at-risk calculation for natural gas and electric portfolios include assumptions for normal weather, new customer additions and renewing customers for which supply commitments have been secured. Based on a 95% confidence interval for a one-day holding period, WGL Energy Services' value-at-risk at September 30, 2017 was approximately $6,100 and $23,400, related to its natural gas and electric portfolios, respectively. The high, low and average value-at-risk for natural gas and electric portfolios between the period October 1, 2016 and September 30, 2017, are noted in the table below.

WGL ENERGY SERVICES
VALUE-AT-RISK AT SEPTEMBER 30, 2017

(In thousands)	High	Low	Average
Natural Gas Portfolio	**$ 102.3**	**$ 2.4**	**$ 32.0**
Electric Portfolio	**195.8**	**7.0**	**46.9**
Total	**$ 298.1**	**$ 9.4**	**$ 78.9**

Weather Risk

We are exposed to various forms of weather risk in both our regulated utility and non-utility business segments. Washington Gas' operations are seasonal, with a significant portion of its revenues derived from the delivery of natural gas to residential and commercial heating customers during the winter heating season. Weather conditions directly influence the volume of natural gas delivered by Washington Gas. Weather patterns tend to be more volatile during "shoulder" months within our fiscal year in which Washington Gas is going into or coming out of the primary portion of its winter heating season. During the shoulder months within quarters ending December 31 (particularly in October and November) and June 30 (particularly in April and May), customer heating usage may not highly correlate with historical levels or with the level of heating degree days (HDDs) that occur, particularly when weather patterns experienced are not consistently cold or warm.

To the extent Washington Gas does not have weather related instruments or billing adjustment mechanisms in place, its revenues are volume driven and its current rates are based upon an assumption of normal weather. In the District of Columbia, without weather protection strategies, variations from normal weather will cause our earnings to increase or decrease depending on the weather pattern.

The financial results of our retail energy-marketing business, WGL Energy Services, are affected by variations from normal weather primarily in the winter relating to its natural gas sales, and throughout the fiscal year relating to its electricity sales. WGL Energy Services manages these weather risks with, among other things, weather related instruments.

Weather patterns have an effect on WGL Energy Systems solar generation assets to the extent that output is reduced. WGL Energy Systems seeks to mitigate weather risk by negotiating unit contingency and other measures to limit exposure in the PPAs.

Variations from normal weather may also affect the financial results of our wholesale energy business, WGL Midstream, primarily with regards to summer-winter price differentials between time periods and transportation delivery locations throughout the fiscal year. WGL Midstream manages these weather risks with, among other things, physical and financial hedging products.

Billing Adjustment Mechanisms

In Maryland, Washington Gas has a RNA billing mechanism that is designed to stabilize the level of net revenues collected from Maryland customers by eliminating the effect of deviations in customer usage caused by variations in weather from normal levels and other factors such as conservation. In Virginia, Washington Gas has a WNA billing adjustment mechanism that is designed to eliminate the effect of variations in weather from normal levels on utility net revenues. Additionally, in Virginia, as part of the CARE plan, Washington Gas has a CRA mechanism that, in conjunction with the WNA, eliminates the effect of both weather and other factors such as conservation for residential, small commercial and industrial and group metered apartment customers.

For the RNA, WNA and CRA mechanisms, periods of colder-than-normal weather generally would cause Washington Gas to record a reduction to its revenues and establish a refund liability to customers, while the opposite would generally result during periods of warmer-than-normal weather. However, factors such as volatile weather patterns and customer conservation may cause the RNA and the CRA mechanisms to function conversely because they adjust billed revenues to provide a designed level of net revenue per meter.

Weather-Related Instruments

WGL Energy Services utilizes HDD instruments from time to time to manage weather risks related to its natural gas and electricity sales. WGL Energy Services also utilizes cooling degree day (CDD) instruments and other instruments to manage weather and price risks related to its electricity sales during the summer cooling season. These instruments cover a portion of estimated revenue or energy-related cost exposure to variations in HDDs or CDDs. Refer to Note 14—*Derivative and Weather-Related Instruments* of the Notes to Consolidated Financial Statements for further discussion of the accounting for these weather-related instruments.

Interest-Rate Risk

We are exposed to interest-rate risk associated with our short-term and long-term financing. WGL and Washington Gas utilize derivative instruments from time to time in order to reduce their exposure to the risk of interest-rate volatility.

Short-Term Debt

At September 30, 2017, WGL and Washington Gas had outstanding notes payable of $559.8 million and $166.8 million, respectively. At September 30, 2016, WGL and Washington Gas had outstanding notes payable of $331.4 million and $104.4 million, respectively. The carrying amount of our short-term debt approximates fair value. A change of 100 basis points in the underlying average interest rate for our short-term debt would have caused a change in interest expense for WGL and Washington Gas of approximately $3.0 million and $1.7 million respectively.

Long-Term Debt

At September 30, 2017 and 2016, WGL had outstanding fixed-rate and variable-rate MTNs and other long-term debt of $1,430.9 million and $1,435.0 million, respectively, excluding current maturities and unamortized discounts. While fixed-rate debt does not expose us to earnings risk when market interest rates change, such debt is subject to changes in fair value. Fair value is defined as the present value of the debt securities' future cash flows discounted at interest rates that reflect market conditions as of the measurement date. As of September 30, 2017, the fair value of WGL's debt was $1,577.3 million. Our sensitivity analysis indicates that fair value would increase by approximately $74.4 million or decrease by approximately $68.7 million if interest rates were to decline or increase by 10%, respectively, from current market levels. At September 30, 2017 and 2016, Washington Gas had outstanding fixed-rate MTNs and other long-term debt of $1,134.5 million and $1,444.3 million, respectively, excluding current maturities and unamortized discounts. As of September 30, 2017, the fair value of Washington Gas' fixed-rate debt was $1,271.0 million. Our sensitivity analysis indicates that fair value would increase by approximately $62.8 million or decrease by approximately $58.0 million if interest rates were to decline or increase by 10%, respectively, from current market levels. In general, such an increase or decrease in fair value would impact earnings and cash flows only if WGL or Washington Gas were to reacquire some or all of these instruments in the open market prior to their maturity.

A total of $1,252.5 million, or approximately 86.6%, of WGL's outstanding long-term debt, excluding current maturities, have make-whole call options which, if exercised, would require us to pay a premium over the face amount.

A total of $1,002.5 million, or approximately 87.5%, of Washington Gas' outstanding long-term debt, excluding current maturities, have make-whole call options which, if exercised, would require us to pay a premium over the face amount

Derivative Instruments

WGL had expected to issue 30-year debt in January 2018. In anticipation of the debt issuance, WGL entered into forward starting interest rate swaps with a total notional amount outstanding of $250.0 million, to hedge the variability in future interest payments. WGL designated these interest rate swaps as cash flow hedges. Through December 31, 2016, the effective portion of changes in fair value was reported as a component of other comprehensive income (loss). As a result of certain covenants related to the proposed merger with AltaGas, in January 2017, WGL de-designated these hedges and will record charges in their fair value in interest expense. The balance in accumulated other comprehensive income at September 30, 2017, was $6.4 million related to these hedges. Refer to Note 14 - Derivative and Weather-Related Instruments of the Notes to Consolidated Financial Statements for a further discussion of our interest-rate risk management activity.

Washington Gas Light Company

This section of Management's Discussion focuses on Washington Gas for the reported periods. In many cases, explanations and disclosures for both WGL and Washington Gas are substantially the same.

Results of Operations

The results of operations for the regulated utility segment and Washington Gas are substantially the same; therefore, this section primarily focuses on statistical information and other information that is not discussed in the results of operations for the regulated utility segment. Refer to the section entitled *"Results of Operations—Regulated Utility"* for a detailed discussion of the results of operations for the regulated utility segment.

Key gas delivery, weather and meter statistics are shown in the table below for the fiscal years ending September 30, 2017, 2016 and 2015.

GAS DELIVERIES, WEATHER AND METER STATISTICS

	Years Ended September 30,			Increase (decrease)	
	2017	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Gas Sales and Deliveries *(millions of therms)*					
Firm					
Gas sold and delivered	**774.8**	758.4	932.3	**16.4**	(173.9)
Gas delivered for others	**495.0**	501.0	558.1	**(6.0)**	(57.1)
Total firm	**1,269.8**	1,259.4	1,490.4	**10.4**	(231.0)
Interruptible					
Gas sold and delivered	**2.6**	2.8	2.1	**(0.2)**	0.7
Gas delivered for others	**242.5**	239.0	260.3	**3.5**	(21.3)
Total interruptible	**245.1**	241.8	262.4	**3.3**	(20.6)
Electric generation—delivered for others	**87.6**	291.3	179.1	**(203.7)**	112.2
Total deliveries	**1,602.5**	1,792.5	1,931.9	**(190.0)**	(139.4)
Degree Days					
Actual	**3,127**	3,341	3,929	**(214)**	(588)
Normal	**3,717**	3,730	3,758	**(13)**	(28)
Percent colder (warmer) than normal	**(15.9)%**	(10.4)%	4.6%	**n/a**	n/a
Average active customer meters	**1,154,952**	1,141,763	1,129,240	**13,189**	12,523
New customer meters added	**12,488**	12,221	12,099	**267**	122

Gas Service to Firm Customers

The volume of gas delivered to firm customers is highly sensitive to weather variability as a large portion of the natural gas delivered by Washington Gas is used for space heating. Washington Gas' rates are based on an assumption of normal weather. The tariffs in the Maryland and Virginia jurisdictions include provisions that consider the effects of the RNA and the WNA/CRA mechanisms, respectively, that are designed to, among other things, eliminate the effect on net revenues of variations in weather from normal levels (refer to the section entitled *"Weather Risk"* for a further discussion of these mechanisms and other weather-related instruments included in our weather protection strategy).

Fiscal Year 2017 vs. Fiscal Year 2016

During the fiscal year ended 2017, the comparison in natural gas deliveries to firm customers primarily reflects 15.9% warmer than normal weather when measured by HDDs, compared to 10.4% warmer than normal weather for fiscal year 2016. This was partially offset by an increase in average active customer meters of 13,189 in fiscal year 2017, when compared to fiscal year 2016.

Many customers choose to buy the natural gas commodity from unregulated third party marketers, rather than purchase the natural gas commodity and delivery service from Washington Gas on a "bundled" basis. Natural gas delivered to firm customers but purchased from unregulated third party marketers represented 39.0% of total firm therms delivered during fiscal year 2017, compared to 39.8% of therms delivered during fiscal year 2016. On a per unit basis, Washington Gas earns the same net revenues from delivering gas for others as it earns from bundled gas sales in which customers purchase both the natural gas commodity and the associated delivery service from Washington Gas. Therefore, Washington Gas does not experience any loss in utility net revenues when customers choose to purchase the natural gas commodity from an unregulated third party marketer.

Fiscal Year 2016 vs. Fiscal Year 2015

During the fiscal year ended 2016, the comparison in natural gas deliveries to firm customers primarily reflects 10.4% warmer than normal weather when measured by HDDs, compared to 4.6% colder than normal weather for fiscal year 2015. This was partially offset by an increase in average active customer meters of 12,523 in fiscal year 2016, when compared to fiscal year 2015.

Natural gas delivered to firm customers but purchased from unregulated third party marketers represented 39.8% of total firm therms delivered during fiscal year 2016, compared to 37.4% of therms delivered during fiscal year 2015.

Gas Service to Interruptible Customers

Washington Gas must curtail or interrupt service to this class of customer when the demand by firm customers exceeds specified levels. Therm deliveries to interruptible customers increased by 3.3 million therms in fiscal year 2017 compared to fiscal year 2016 primarily due to increased demand, partially offset by warmer weather during fiscal year 2017. Therm deliveries to interruptible customers decreased by 20.6 million therms in fiscal year 2016 compared to fiscal year 2015 primarily due to warmer weather during fiscal year 2016, as well as conversions of certain interruptible customers to firm service.

In the District of Columbia, the effect on net income of any changes in delivered volumes and prices to interruptible customers is limited by margin-sharing arrangements that are included in Washington Gas' firm rate designs. Rates for interruptible customers in Maryland and Virginia are based on a traditional cost of service approach. In Virginia, Washington Gas retains a majority of the margins earned on interruptible gas and delivery sales. Washington Gas shares actual non-gas margins from interruptible sales service customers that are in excess of delivery service rates. In Maryland, Washington Gas retains a defined amount of revenues based on a set threshold.

Gas Service for Electric Generation

Washington Gas delivers natural gas for use at two electric generation facilities in Maryland that are each owned by companies independent of WGL. During fiscal year 2017, deliveries to these customers decreased by 203.7 million therms from fiscal year 2016. During fiscal year 2016, deliveries to these customers increased by 112.2 million therms from fiscal year 2015. Washington Gas shares with firm customers a significant majority of the margins earned from natural gas deliveries to these customers. Therefore, changes in the volume of interruptible gas deliveries to these customers do not materially affect either net revenues or net income.

Cost of Gas

Washington Gas' cost of natural gas purchased includes both fixed and variable components. Washington Gas pays fixed costs or "demand charges" to pipeline companies for system capacity needed to transport and store natural gas. Washington Gas pays variable costs, or the cost of the natural gas commodity itself, to natural gas producers and suppliers. Variations in the utility's cost of gas expense result from changes in gas sales volumes, the price of the gas purchased and the level of gas costs collected through the operation of firm gas cost recovery mechanisms. Under these regulated recovery mechanisms, Washington Gas records cost of gas expense equal to the cost of gas recovered from customers and included in revenues. The difference between the firm gas costs incurred and the gas costs recovered from customers is deferred on the balance sheet as an amount to be collected from or refunded to customers in future periods. Therefore, increases or decreases in the cost of gas associated with sales made to firm customers have no direct effect on Washington Gas' net revenues and net income. Changes in the cost of gas can cause significant variations in Washington Gas' cash provided by or used in operating activities. Washington Gas receives from or pays to its customers in the District of Columbia and Virginia, carrying costs associated with under-collected or over-collected gas costs recovered from its customers using short-term interest rates. Additionally, included in "Utility cost of gas" for Washington Gas are the net margins associated with our asset optimization program. To the extent these amounts are shared with customers, they are a reduction to the cost of gas invoiced to customers. Refer to the section entitled *"Market Risk"* for a further discussion of Washington Gas' optimization program.

The commodity cost of gas invoiced to Washington Gas (excluding the cost and related volumes applicable to asset optimization) were $0.27, $0.21, and $0.42 per therm for fiscal years 2017, 2016 and 2015, respectively.

Interest Expense

The following table shows the components of Washington Gas' interest expense for the years ended September 30, 2017, 2016 and 2015.

COMPOSITION OF INTEREST EXPENSE

	Years Ended September 30,			Increase (Decrease)	
(In millions)	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Interest on debt	**$ 51.7**	$ 40.8	$ 41.9	**$ 10.9**	$ (1.1)
Other-net including allowance for funds used during construction	**0.5**	0.6	(0.1)	**(0.1)**	0.7
Total	**$ 52.2**	$ 41.4	$ 41.8	**$ 10.8**	$ (0.4)

Income Taxes

The following table shows Washington Gas' income tax expense and effective income tax rate for the years ended September 30, 2017, 2016 and 2015. The decrease in the effective income tax rates for both years is related to a tax sharing agreement among WGL's subsidiaries.

INCOME TAXES

	Years Ended September 30,			Increase (Decrease)	
(In millions)	**2017**	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Income before income taxes	**$ 211.6**	$ 184.8	$ 180.1	**$ 26.8**	$ 4.7
Income tax expense	**79.8**	71.7	71.4	**8.1**	0.3
Effective income tax rate	**37.7%**	38.8%	39.6%	**(1.1)%**	(0.8)%

Refer to Note 9 — Income Taxes of the Notes to the Consolidated Financial Statements for details.

Liquidity and Capital Resources

Liquidity and capital resources for Washington Gas are substantially the same as the liquidity and capital resources discussion included in the Management's Discussion of WGL (except for certain items and transactions that pertain to WGL Holdings and its unregulated subsidiaries). Those explanations are incorporated by reference into this discussion.

Rates and Regulatory Matters

Washington Gas makes its requests to modify existing rates based on its determination of the level of net investment in plant and equipment, operating expenses, and a level of return on invested capital that is just and reasonable.

SUMMARY OF MAJOR RATE INCREASE APPLICATIONS AND RESULTS

Jurisdiction	Application Filed	Effective Date	Test Year 12 Months Ended	Increase in Annual Revenues *(Millions)* Requested		Granted		Allowed Rate of Return Overall	Equity
District of Columbia	2/26/2016	3/24/2017	9/30/2015	$ 17.3	7.60%	$ 8.5	7.60%	7.60%	9.25%
District of Columbia	2/29/2012	6/4/2013	9/30/2011	$ 29.0	14.00%	$ 8.4	4.03%	7.93%	9.25%
Maryland	4/26/2013	11/22/2013	3/31/2013	$ 28.3	5.80%	$ 8.9	1.80%	7.70%	9.50%
Virginia	6/30/2016	11/28/2016	9/30/2015	$ 45.6	9.30%	$ 34.0	6.93%	-%[(a)]	9.50%
Virginia	1/31/2011	10/1/2011	9/30/2010	$ 28.5	5.75%	$ 20.0	4.04%	8.26%	9.75%

[(a)] *The Virginia order did not specify an overall allowed rate of return.*

The following is a discussion of significant current regulatory matters. Refer to the section "Accelerated Pipe Replacement Programs" for a discussion of regulatory matters associated with those programs.

District of Columbia Jurisdiction

Investigation into Washington Gas' Cash Reimbursement to CSPs

On August 5, 2014, the Office of the People's Counsel's (OPC) of DC filed a complaint with the PSC of DC requesting that the Commission open an investigation into Washington Gas' payments to CSPs to cash-out over-deliveries of natural gas supplies during the 2008-2009 winter heating season. OPC asserted that Washington Gas made excess payments in the amount of $2.4 million to CSPs. On December 19, 2014, the PSC of DC granted the OPC of DC's request and opened a formal investigation. On October 27, 2015, the PSC of DC issued an order finding that Washington Gas, in performing the cash-out, had violated D.C. Code 34-1101's requirement that no service shall be provided without Commission approval. The PSC of DC directed Washington Gas to provide calculations showing what the impact would have been had Washington Gas made volumetric adjustments to CSP deliveries as of April 2009, which Washington Gas calculates would result in a refund of approximately $2.4 million, which was recognized by WGL in fiscal year 2015. On February 3, 2016, the PSC of DC issued an order denying OPC's application for reconsideration and granting in part, and denying in part, Washington Gas' application for reconsideration. Washington Gas and OPC filed initial briefs on February 18, 2016, and reply briefs on February 29, 2016, on the issue of whether there is a more reasonable way to reconcile the over-deliveries by CSPs such as through volumetric adjustments, or through cash payments. On August 11, 2016, the PSC of DC issued an order requiring Washington Gas to refund approximately $2.4 million through the ACA. On August 26, 2016, Washington Gas filed its plan for implementing the $2.4 million refund within a 12-month period. The PSC of DC issued an Order on October 7, 2016, directing WGL to apply the refunds consistent with the next annual 12-month ACA reporting period which is December 1, 2016 to November 30, 2017. During the fiscal year ended September 30, 2017, Washington Gas issued refunds of approximately $1.9 million on active customer bills. Additionally, Washington gas billed third-party CSPs approximately $1.4 million to cover amounts credited to firm rate-payers in connections with the DC order.

District of Columbia Rate Case

On February 26, 2016, Washington Gas filed an application with the PSC of DC. The application, as amended, requested an increase of $17.3 million to base rates for natural gas delivery service. This request included $4.5 million associated with the transfer to base rates of revenue associated with natural gas system upgrades previously approved by the PSC of DC and currently recovered through monthly surcharges. The filing addressed rate relief necessary for Washington Gas to recover its costs and earn its allowed rate of return. The filing also satisfied the requirement for Washington Gas to file a new rate proposal by August 1, 2016, under a settlement agreement approved by the PSC of DC in 2015, which provides for the recovery through a surcharge mechanism of costs related to an accelerated pipe replacement program to upgrade the Washington Gas distribution system and enhance safety.

On March 3, 2017, the PSC of DC issued an Order approving an overall increase in rates for Washington Gas of $8.5 million effective for services rendered on and after March 24, 2017. This increase is based on a hypothetical 55.7% equity component of Washington Gas' capital structure and an overall return of 7.57%, which retained the current return on equity of 9.25%. Washington Gas had requested an increase of $17.3 million, assuming a 57.8% equity component and a 10.25% return on equity. The PSC of DC denied Washington Gas' request for approval of an RNA and Combined Heat and Power (CHP) tariffs; however, the PSC of DC approved a two-year pilot incentive program for developers of multi-family housing projects to bring the benefits of natural gas, including lower energy bills and reduced carbon emissions to more residents in the District of Columbia. On April 3, 2017, the Apartment and Office Building Association of Metropolitan Washington (AOBA) and DC Climate Action filed applications for reconsideration of portions of the Opinion and Order. On May 12, 2017, the PSC of DC denied the application for reconsideration filed by AOBA and denied, in part, the application for reconsideration of DC Climate Action. Further, the PSC of DC directed its staff to develop proposed criteria to facilitate the PSC of DC's review of the economic benefits of the Multifamily Piping Program and submit the criteria for public comment. On June 30, 2017, the PSC of DC issued a Notice outlining its proposed evaluation criteria for the pilot Multifamily Piping Program. Comments on the proposed criteria were filed by Washington Gas and DC Climate Action. A PSC of DC decision on the pilot Multifamily Piping Program is pending.

Investigation into the Establishment of a Purchase of Receivables Program

On June 15, 2017, the PSC of DC directed Washington Gas to develop a Purchase of Receivables program for natural gas suppliers and their customers in the District of Columbia. On July 15, 2017, Washington Gas submitted its Purchase of Receivables Implementation Plan which was approved by the PSC of DC on October 19, 2017. Washington Gas expects that it will take seven to nine months to implement the program.

Maryland Jurisdiction

Termination Notice Inquiry

On March 28, 2017, the PSC of MD initiated an investigation into the service termination notices sent by Washington Gas to its customers between December 1, 2013 and December 31, 2016. The case will investigate whether the service termination notices complied with Code of Maryland Regulations (COMAR). The PSC of MD's investigation of this matter shall also consider whether fines and or a civil penalty should be assessed. A procedural schedule has been adopted in the case for the filing of testimony, establishing the dates for evidentiary hearings on October 18-20, 2017 and for the filing of briefs and reply briefs on November 20, 2017 and December 11, 2017, respectively. A decision could issue in the latter part of December 2017 or during the first calendar quarter of 2018. As of October 12, 2017, Washington Gas and other parties to and persons interested in the case —including Washing Gas, the Office of the People's Counsel, Staff of the PSC of MD, the Office of MD Attorney General and Montgomery County, MD—are engaged in settlement discussions. We have accrued an estimated liability of $2.0 million at September 30, 2017.

Virginia Jurisdiction

Virginia Rate Case

On June 30, 2016, Washington Gas filed an application with the SCC of VA to increase its base rates for natural gas service by $45.6 million, which includes $22.3 million of revenue associated with natural gas pipeline replacement initiatives previously approved by the Commission and paid by customers through a monthly rider. Additionally, the proposed rate increase includes provisions designed to deliver the benefits of natural gas to more customers that include: (i) facilitating conversion to natural gas in locations already served by Washington Gas; (ii) expanding the natural gas system to high-growth communities in Virginia and (iii) research and development that we believe will enable innovations to enhance service for our customers.

Interim rates went into effect, subject to refund, in the December 2016 billing cycle. Intervenors filed testimony on January 31, 2017, Staff of the SCC of VA filed testimony on February 28, 2017, and Washington Gas filed its rebuttal testimony on March 28, 2017. On April 17, 2017, Washington Gas filed with the SCC of VA a unanimous settlement as to a specific annual revenue increase, but not as to a specific return on equity, specific accounting adjustments, or specific ratemaking methodologies, except as otherwise set forth therein. The Stipulation sets forth, for purposes of settlement, a base rate increase of $34 million (of which $14.1 million represents incremental base rate revenues over and above the inclusion of SAVE Plan costs which were previously recovered through monthly surcharges). For purposes of the settlement, the mid-point of the return on equity range of 9.0-10.0% will be used in any application or filing, other than a change in base rates, effective December 1, 2016. On June 30, 2017, the Chief Hearing Examiner issued a report recommending that the Commission approve the Stipulation. On September 8, 2017, Washington Gas received a final order from the Commission accepting settlement subject to minor modifications to Washington Gas' System Expansion Proposals. All parties agreed to a Revised Stipulation filed on September 20, 2017, reflecting the Commission's denial of one of the System Expansion Proposals and Washington Gas' withdrawal of the second one. The Commission issued its final order approving the revised stipulation on September 25, 2017. Refunds to customers, which have been accrued by Washington Gas at September 30, 2017, will be made related to the interim billings in accordance with the final order.

Affiliate Transactions

On December 30, 2016, Washington Gas filed an application for approval to permanently release its contracts with Transcontinental Gas Pipe Line Company LLC' ("Transco") for MarketLink and Leidy East interstate pipeline transportation capacity to WGL Midstream, Inc. Washington Gas has not used the MarketLink and Leidy East interstate pipeline transportation capacity to provide gas utility service since 2013 and will not use these resources for system supply in the future. On March 29, 2017, the SCC of VA issued an order approving the transfer of MarketLink and Leidy East interstate pipeline transportation capacity to WGL Midstream Inc. The transfer of the contracts occurred on May 1, 2017.

Other Matters

Labor Contracts

Washington Gas has four labor contracts with bargaining units represented by three labor unions. On April 30, 2015, Washington Gas entered into a five-year labor contract with the Teamsters Local Union No. 96 (Local 96), a union affiliated with the International Brotherhood of Teamsters. The contract covers approximately 515 employees and is effective from June 1, 2015 through May 31, 2020. Local 96 also represents union-eligible employees in the Shenandoah Gas division of Washington Gas and has a five-year labor contract with Washington Gas that became effective on August 1, 2015 and expires on July 31, 2020. This contract covers approximately 21 employees. Washington Gas entered into a three-year labor contract with the Office and Professional Employees International Union (OPEIU-Local 2). The contract covers approximately 105 employees. OPEIU-Local 2 ratified the contract on March 21, 2016 and is effective from April 1, 2016 through March 31, 2019. Additionally, on August 1, 2017, Washington Gas entered into a three-year labor contract with the International Brotherhood of Electrical Workers Local 1900 that covers approximately 22 employees and will expire on July 31, 2020. Washington Gas is subject to the terms of its labor contracts with respect to operating practices and compensation matters dealing with employees represented by the various bargaining units described above.

ITEM 7A Quantitative and Qualitative Disclosures About Market Risk

The following issues related to our market risks are included under Item 7 of this report and are incorporated by reference into this discussion.

- Price Risk Related to the Regulated Utility Segment
- Price Risk Related to the Non-Utility Segments
- Value-At-Risk
- Weather Risk
- Interest-Rate Risk

ITEM 8 Financial Statements and Supplementary Data

WGL HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	September 30,	
(In thousands)	**2017**	**2016**
ASSETS		
Property, Plant and Equipment		
At original cost	**$ 6,143,841**	$ 5,542,916
Accumulated depreciation and amortization	**(1,513,790)**	(1,415,679)
Net property, plant and equipment	**4,630,051**	4,127,237
Current Assets		
Cash and cash equivalents	**8,524**	5,573
Receivables		
Accounts receivable	**398,149**	329,989
Gas costs and other regulatory assets	**21,705**	15,294
Unbilled revenues	**165,483**	173,076
Allowance for doubtful accounts	**(32,025)**	(27,339)
Net receivables	**553,312**	491,020
Materials and supplies—principally at average cost	**20,172**	18,414
Storage gas	**243,984**	207,132
Prepaid taxes	**31,549**	33,397
Other prepayments	**86,465**	42,626
Derivatives	**15,327**	18,510
Other	**26,556**	26,802
Total current assets	**985,889**	843,474
Deferred Charges and Other Assets		
Regulatory assets		
Gas costs	**90,136**	179,856
Pension and other post-retirement benefits	**139,499**	223,242
Other	**104,596**	98,592
Prepaid post-retirement benefits	**231,577**	180,686
Derivatives	**38,389**	55,020
Investments in direct financing leases, capital leases	**-**	29,780
Investments in unconsolidated affiliates	**394,201**	303,491
Other	**11,671**	8,072
Total deferred charges and other assets	**1,010,069**	1,078,739
Total Assets	**$ 6,626,009**	$ 6,049,450
CAPITALIZATION AND LIABILITIES		
Capitalization		
WGL Holdings common shareholders' equity	**$ 1,502,690**	$ 1,375,561
Non-controlling interest	**6,851**	409
Washington Gas Light Company preferred stock	**28,173**	28,173
Total equity	**1,537,714**	1,404,143
Long-term debt	**1,430,861**	1,435,045
Total capitalization	**2,968,575**	2,839,188
Current Liabilities		
Current maturities of long-term debt	**250,000**	-
Notes payable and project financing	**559,844**	331,385
Accounts payable and other accrued liabilities	**423,824**	405,351
Wages payable	**18,096**	17,908
Accrued interest	**7,806**	7,645
Dividends declared	**26,452**	25,283
Customer deposits and advance payments	**65,841**	86,384
Gas costs and other regulatory liabilities	**22,814**	12,973
Accrued taxes	**17,657**	15,672
Derivatives	**43,990**	82,334
Other	**52,664**	41,991
Total current liabilities	**1,488,988**	1,026,926
Deferred Credits		
Unamortized investment tax credits	**155,007**	163,493
Deferred income taxes	**868,067**	726,763
Accrued pensions and benefits	**181,552**	228,377
Asset retirement obligations	**296,810**	203,105
Regulatory liabilities		
Accrued asset removal costs	**292,173**	310,788
Other post-retirement benefits	**135,035**	113,875
Other	**9,403**	14,450
Derivatives	**122,607**	304,198
Other	**107,792**	118,287
Total deferred credits	**2,168,446**	2,183,336
Commitments and Contingencies (Note 13)		
Total Capitalization and Liabilities	**$ 6,626,009**	$ 6,049,450

The accompanying notes are an integral part of these statements.

WGL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended September 30,		
(In thousands, except per share data)	**2017**	**2016**	**2015**
OPERATING REVENUES			
Utility	**$ 1,143,337**	$ 1,044,117	$ 1,303,044
Non-utility	**1,211,387**	1,305,442	1,356,786
Total Operating Revenues	**2,354,724**	2,349,559	2,659,830
OPERATING EXPENSES			
Utility cost of gas	**274,247**	245,189	510,900
Non-utility cost of energy-related sales	**1,002,908**	1,123,077	1,218,331
Operation and maintenance	**429,890**	401,776	395,770
Depreciation and amortization	**154,138**	132,566	121,892
General taxes and other assessments	**152,528**	146,655	152,164
Total Operating Expenses	**2,013,711**	2,049,263	2,399,057
OPERATING INCOME	**341,013**	300,296	260,773
Equity in earnings of unconsolidated affiliates	**20,216**	13,806	5,468
Other income—net	**1,819**	4,646	653
Interest expense	**74,026**	52,310	50,511
INCOME BEFORE INCOME TAXES	**289,022**	266,438	216,383
INCOME TAX EXPENSE	**111,159**	98,074	83,804
NET INCOME	**$ 177,863**	$ 168,364	$ 132,579
Non-controlling interest	**(16,077)**	(550)	-
Dividends on Washington Gas Light Company preferred stock	**1,320**	1,320	1,320
NET INCOME APPLICABLE TO COMMON STOCK	**$ 192,620**	$ 167,594	$ 131,259
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	**51,205**	50,369	49,794
Diluted	**51,475**	50,564	50,060
EARNINGS PER AVERAGE COMMON SHARE			
Basic	**$ 3.76**	$ 3.33	$ 2.64
Diluted	**$ 3.74**	$ 3.31	$ 2.62
DIVIDENDS DECLARED PER COMMON SHARE	**$ 2.0175**	$ 1.9250	$ 1.8275

The accompanying notes are an integral part of these statements.

WGL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended September 30,		
(In thousands)	**2017**	**2016**	**2015**
NET INCOME	**$ 177,863**	$ 168,364	$ 132,579
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE INCOME TAXES:			
Qualified cash flow hedging instruments	**49,610**	(39,289)	(11,309)
Pension and other post-retirement benefit plans			
Change in prior service (cost) credit	**(767)**	(891)	696
Change in actuarial net gain (loss)	**6,232**	(936)	(1,195)
Total other comprehensive income (loss) before taxes	**$ 55,075**	$ (41,116)	$ (11,808)
INCOME TAX EXPENSE (BENEFIT) RELATED TO OTHER COMPREHENSIVE INCOME (LOSS)	**22,533**	(16,813)	(5,533)
OTHER COMPREHENSIVE INCOME (LOSS)	**$ 32,542**	$ (24,303)	$ (6,275)
COMPREHENSIVE INCOME	**$ 210,405**	$ 144,061	$ 126,304
Non-controlling interest	**(16,077)**	(550)	-
Dividends on Washington Gas Light Company preferred stock	**1,320**	1,320	1,320
COMPREHENSIVE INCOME ATTRIBUTABLE TO WGL HOLDINGS	**$ 225,162**	$ 143,291	$ 124,984

The accompanying notes are an integral part of these statements.

WGL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30,		
(In thousands)	**2017**	**2016**	**2015**
OPERATING ACTIVITIES			
Net income	**$ 177,863**	$ 168,364	$ 132,579
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Depreciation and amortization	**154,138**	132,566	121,892
Amortization of:			
Other regulatory assets and liabilities—net	**6,422**	1,909	1,305
Debt related costs	**2,027**	1,284	1,187
Deferred income taxes—net	**114,966**	163,879	104,405
Distributions received from equity method investments	**16,738**	-	-
Accrued/deferred pension and other post-retirement benefit cost	**22,601**	19,548	25,572
Earnings in equity interests	**(20,216)**	(13,806)	(5,066)
Compensation expense related to stock-based awards	**17,154**	12,308	16,478
Provision for doubtful accounts	**17,212**	13,036	18,197
Impairment loss	**-**	4,110	5,625
Gain on consolidation	**(1,807)**	-	-
Unrealized (gain) loss on derivative contracts	**(85,591)**	(24,774)	19,441
Amortization of investment tax credits	**(7,504)**	(6,132)	(4,939)
Other non-cash charges (credits)—net	**(840)**	(1,308)	(3,903)
Changes in operating assets and liabilities (Note 20)	**(182,538)**	(243,218)	71,286
Net Cash Provided by Operating Activities	**230,625**	227,766	504,059
FINANCING ACTIVITIES			
Common stock issued	**293**	78,287	-
Long-term debt issued	**245,556**	498,125	298,227
Long-term debt retired	**-**	(25,000)	(20,000)
Debt issuance costs	**(665)**	(445)	(3,497)
Notes payable issued (retired)—net	**236,000**	(63,000)	(121,500)
Contributions from non-controlling interest	**22,336**	959	-
Distributions to non-controlling interest	**(300)**	-	-
Project financing	**20,386**	38,468	-
Dividends on common stock and preferred stock	**(102,123)**	(92,841)	(91,316)
Repurchase of common stock	**-**	-	(41,485)
Other financing activities—net	**1,550**	1,986	(1,457)
Net Cash Provided By Financing Activities	**423,033**	436,539	18,972
INVESTING ACTIVITIES			
Capital expenditures (excluding AFUDC)	**(516,534)**	(530,385)	(464,291)
Investments in non-utility interests	**(147,294)**	(158,052)	(67,447)
Distributions and receipts from non-utility interests	**4,126**	8,254	10,780
Net proceeds from sale of assets	**9,858**	19,749	-
Loans to external parties	**(863)**	(5,031)	(4,151)
Net Cash Used in Investing Activities	**(650,707)**	(665,465)	(525,109)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,951**	(1,160)	(2,078)
Cash and Cash Equivalents at Beginning of Year	**5,573**	6,733	8,811
Cash and Cash Equivalents at End of Year	**$ 8,524**	$ 5,573	$ 6,733
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION (Note 20)			

The accompanying notes are an integral part of these statements.

WGL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CAPITALIZATION

($ In thousands, except shares)	September 30, 2017		2016	
WGL Holdings Common Shareholders' Equity				
Common stock, no par value, 120,000,000 shares authorized, 51,219,000 and 51,080,612 shares issued, respectively	**$ 582,716**		$ 574,496	
Paid-in capital	**10,149**		12,519	
Retained earnings	**915,822**		827,085	
Accumulated other comprehensive loss, net of taxes	**(5,997)**		(38,539)	
WGL Holdings common shareholders' equity	**1,502,690**	**50.6%**	1,375,561	48.5%
Non-controlling Interest	**6,851**	**0.2%**	409	-%
Preferred Stock				
WGL Holdings, Inc., without par value, 3,000,000 shares authorized, none issued	**-**		-	
Washington Gas Light Company, without par value, 1,500,000 shares authorized—issued and outstanding:	**-**		-	
$4.80 series, 150,000 shares	**15,000**		15,000	
$4.25 series, 70,600 shares	**7,173**		7,173	
$5.00 series, 60,000 shares	**6,000**		6,000	
Total Preferred Stock	**28,173**	**0.9%**	28,173	1.0%
Total Equity	**1,537,714**	**51.7%**	1,404,143	49.5%
Long-Term Debt				
Due fiscal year 2018, 2.11%	**250,000**		250,000	
Due fiscal year 2019, 2.11%	**50,000**		-	
Due fiscal year 2019, 7.46%	**50,000**		50,000	
Due fiscal year 2020, 2.25% to 4.76%	**150,000**		150,000	
Due fiscal year 2023, 6.65%	**20,000**		20,000	
Due fiscal year 2025, 5.44%	**40,500**		40,500	
Due fiscal year 2027, 6.40% to 6.82%	**125,000**		125,000	
Due fiscal year 2028, 6.57% to 6.85%	**52,000**		52,000	
Due fiscal year 2030, 7.50%	**8,500**		8,500	
Due fiscal year 2036, 5.70% to 5.78%	**50,000**		50,000	
Due fiscal year 2041, 5.21%	**75,000**		75,000	
Due fiscal year 2044, 4.22% to 5.00%	**175,000**		175,000	
Due fiscal year 2045, 4.24% to 4.60%	**200,000**		200,000	
Due fiscal year 2046, 3.80%	**450,000**		250,000	
Total Long-Term Debt	**1,696,000**		1,446,000	
Unamortized discount	**(4,541)**		(1,700)	
Unamortized debt expense	**(10,598)**		(9,255)	
Less—current maturities	**250,000**		-	
Total Long-Term Debt	**1,430,861**	**48.3%**	1,435,045	50.5%
Total Capitalization	**$ 2,968,575**	**100.0%**	$ 2,839,188	100.0%

The accompanying notes are an integral part of these statements.

WGL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands, except shares)	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Loss, Net of Taxes	WGL Holdings Common Shareholders' Equity	Non-controlling Interest	Washington Gas Light Company Preferred Stock	Total Equity
Balance, September 30, 2014	50,656,553	$ 525,932	$ 11,847	$ 716,758	$ (7,961)	$ 1,246,576	$ -	$ 28,173	$ 1,274,749
Net income	-	-	-	131,259	-	131,259	-	1,320	132,579
Other comprehensive loss	-	-	-	-	(6,275)	(6,275)	-	-	(6,275)
Repurchase of common stock	(948,604)	(41,485)	-	-	-	(41,485)	-	-	(41,485)
Stock-based compensation	20,713	1,009	3,087	-	-	4,096	-	-	4,096
Dividends declared:									
Common stock ($1.8275 per share)	-	-	-	(90,924)	-	(90,924)	-	-	(90,924)
Preferred stock	-	-	-	-	-	-	-	(1,320)	(1,320)
Balance, September 30, 2015	49,728,662	485,456	14,934	757,093	(14,236)	1,243,247	-	28,173	1,271,420
Net income	-	-	-	167,594	-	167,594	(550)	1,320	168,364
Contributions from non-controlling interest	-	-	-	-	-	-	959	-	959
Other comprehensive loss	-	-	-	-	(24,303)	(24,303)	-	-	(24,303)
Stock-based compensation[(a)]	115,974	6,742	(2,415)	(164)	-	4,163	-	-	4,163
Issuance of common stock[(b)]	1,235,976	82,298	-	-	-	82,298	-	-	82,298
Dividends declared:									
Common stock ($1.9250 per share)	-	-	-	(97,438)	-	(97,438)	-	-	(97,438)
Preferred stock	-	-	-	-	-	-	-	(1,320)	(1,320)
Balance, September 30, 2016	51,080,612	574,496	12,519	827,085	(38,539)	1,375,561	409	28,173	1,404,143
Net income	**-**	**-**	**-**	**192,620**	**-**	**192,620**	**(16,077)**	**1,320**	**177,863**
Contributions from non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**22,336**	**-**	**22,336**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**(300)**	**-**	**(300)**
Business combination[(c)]	**-**	**-**	**-**	**-**	**-**	**-**	**483**	**-**	**483**
Other comprehensive income	**-**	**-**	**-**	**-**	**32,542**	**32,542**	**-**	**-**	**32,542**
Stock-based compensation[(a)]	**112,146**	**6,564**	**(2,370)**	**(549)**	**-**	**3,645**	**-**	**-**	**3,645**
Issuance of common stock[(b)]	**26,242**	**1,656**	**-**	**-**	**-**	**1,656**	**-**	**-**	**1,656**
Dividends declared:									
Common stock ($2.0175 per share)	**-**	**-**	**-**	**(103,334)**	**-**	**(103,334)**	**-**	**-**	**(103,334)**
Preferred stock	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,320)**	**(1,320)**
Balance, September 30, 2017	**51,219,000**	**$ 582,716**	**$ 10,149**	**$ 915,822**	**$ (5,997)**	**$ 1,502,690**	**$ 6,851**	**$ 28,173**	**$ 1,537,714**

(a) *Includes dividend equivalents related to our performance shares.*

(b) *Includes shares issued under the ATM program and the dividend reinvestment and common stock purchase plans.*

(c) *Resulted from the consolidation of ASD Solar LP (ASD). For more information, see Note 17—Other investments of the Notes to Consolidated Financial Statements.*

The accompanying notes are an integral part of these statements.

WASHINGTON GAS LIGHT COMPANY
BALANCE SHEETS

	September 30,	
(In thousands)	**2017**	**2016**
ASSETS		
Property, Plant and Equipment		
At original cost	**$ 5,310,337**	$ 4,874,905
Accumulated depreciation and amortization	**(1,422,622)**	(1,348,173)
Net property, plant and equipment	**3,887,715**	3,526,732
Current Assets		
Cash and cash equivalents	**1**	1
Receivables		
Accounts receivable	**190,740**	140,457
Gas costs and other regulatory assets	**21,705**	15,294
Unbilled revenues	**107,967**	89,945
Allowance for doubtful accounts	**(23,741)**	(20,220)
Net receivables	**296,671**	225,476
Materials and supplies—principally at average cost	**20,126**	18,368
Storage gas	**92,753**	82,473
Prepaid taxes	**23,350**	16,826
Other prepayments	**13,238**	10,924
Receivables from associated companies	**32,362**	13,799
Derivatives	**5,061**	7,285
Other	**102**	51
Total current assets	**483,664**	375,203
Deferred Charges and Other Assets		
Regulatory assets		
Gas costs	**90,136**	179,856
Pension and other post-retirement benefits	**138,573**	221,971
Other	**104,538**	98,527
Prepaid post-retirement benefits	**230,283**	179,675
Derivatives	**16,244**	25,590
Other	**3,561**	2,001
Total deferred charges and other assets	**583,335**	707,620
Total Assets	**$ 4,954,714**	$ 4,609,555
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shareholder’s equity	**$ 1,164,749**	$ 1,113,446
Preferred stock	**28,173**	28,173
Long-term debt	**1,134,461**	939,015
Total capitalization	**2,327,383**	2,080,634
Current Liabilities		
Notes payable and project financing	**166,772**	104,385
Accounts payable and other accrued liabilities	**219,827**	204,980
Wages payable	**16,508**	16,235
Accrued interest	**3,967**	3,758
Dividends declared	**22,098**	21,453
Customer deposits and advance payments	**64,194**	80,936
Gas costs and other regulatory liabilities	**22,814**	12,973
Accrued taxes	**12,808**	17,639
Payables to associated companies	**94,844**	65,770
Derivatives	**30,263**	58,295
Other	**7,473**	7,193
Total current liabilities	**661,568**	593,617
Deferred Credits		
Unamortized investment tax credits	**4,100**	4,851
Deferred income taxes	**888,385**	763,720
Accrued pensions and benefits	**179,814**	226,339
Asset retirement obligations	**291,871**	199,377
Regulatory liabilities		
Accrued asset removal costs	**292,173**	310,788
Other post-retirement benefits	**134,181**	113,169
Other	**9,403**	14,450
Derivatives	**112,299**	232,040
Other	**53,537**	70,570
Total deferred credits	**1,965,763**	1,935,304
Commitments and Contingencies (Note 13)		
Total Capitalization and Liabilities	**$ 4,954,714**	$ 4,609,555

The accompanying notes are an integral part of these statements.

WASHINGTON GAS LIGHT COMPANY
STATEMENTS OF INCOME

	Years Ended September 30,		
(In thousands)	**2017**	**2016**	**2015**
OPERATING REVENUES	**$ 1,166,968**	$ 1,070,904	$ 1,328,191
OPERATING EXPENSES			
Utility cost of gas	**297,856**	271,975	536,027
Operation and maintenance	**336,676**	325,726	323,967
Depreciation and amortization	**129,428**	114,605	108,902
General taxes and other assessments	**134,696**	130,231	136,911
Total Operating Expenses	**898,656**	842,537	1,105,807
OPERATING INCOME	**268,312**	228,367	222,384
Other expense—net	**(4,473)**	(2,143)	(487)
Interest expense	**52,207**	41,444	41,828
INCOME BEFORE INCOME TAXES	**211,632**	184,780	180,069
INCOME TAX EXPENSE	**79,840**	71,666	71,391
NET INCOME	**$ 131,792**	$ 113,114	$ 108,678
Dividends on preferred stock	**1,320**	1,320	1,320
NET INCOME APPLICABLE TO COMMON STOCK	**$ 130,472**	$ 111,794	$ 107,358

The accompanying notes are an integral part of these statements.

WASHINGTON GAS LIGHT COMPANY
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended September 30,		
(In thousands)	**2017**	**2016**	**2015**
NET INCOME	**$ 131,792**	$ 113,114	$ 108,678
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE INCOME TAXES:			
Pension and other post-retirement benefit plans			
Change in prior service (cost) credit	**(767)**	(891)	696
Change in actuarial net gain (loss)	**6,232**	(936)	(1,195)
Total pension and other post-retirement benefit plans	**$ 5,465**	$ (1,827)	$ (499)
INCOME TAX EXPENSE (BENEFIT) RELATED TO OTHER COMPREHENSIVE INCOME (LOSS)	**2,157**	(709)	(200)
OTHER COMPREHENSIVE INCOME (LOSS)	**$ 3,308**	$ (1,118)	$ (299)
COMPREHENSIVE INCOME	**$ 135,100**	$ 111,996	$ 108,379

The accompanying notes are an integral part of these statements.

WASHINGTON GAS LIGHT COMPANY
STATEMENTS OF CASH FLOWS

	Years Ended September 30,		
(In thousands)	2017	2016	2015
OPERATING ACTIVITIES			
Net income	**$ 131,792**	$ 113,114	$ 108,678
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Depreciation and amortization	**129,428**	114,605	108,902
Amortization of:			
Other regulatory assets and liabilities—net	**6,422**	1,909	1,305
Debt related costs	**1,448**	1,191	1,275
Deferred income taxes—net	**77,586**	123,482	76,621
Accrued/deferred pension and other post-retirement benefit cost	**22,547**	19,497	24,757
Compensation expense related to stock-based awards	**16,153**	11,452	14,958
Provision for doubtful accounts	**14,484**	10,945	12,734
Unrealized (gain) loss on derivative contracts	**(48,950)**	(11,552)	6,322
Other non-cash charges (credits)—net	**(1,592)**	(197)	1,679
Changes in operating assets and liabilities (Note 20)	**(145,463)**	(147,489)	15,123
Net Cash Provided by Operating Activities	**203,855**	236,957	372,354
FINANCING ACTIVITIES			
Long-term debt issued	**195,556**	248,125	50,000
Long-term debt retired	**-**	(25,000)	(20,000)
Debt issuance costs	**(661)**	(333)	(741)
Notes payable issued (retired)—net	**81,000**	(47,000)	-
Project financing	**9,314**	38,468	-
Dividends on common stock and preferred stock	**(87,118)**	(83,116)	(79,763)
Other financing activities—net	**1,492**	2,891	-
Net Cash Provided by (Used in) Financing Activities	**199,583**	134,035	(50,504)
INVESTING ACTIVITIES			
Net proceeds from sale of assets	**-**	19,749	-
Capital expenditures (excluding AFUDC)	**(403,438)**	(390,741)	(322,909)
Net Cash Used in Investing Activities	**(403,438)**	(370,992)	(322,909)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-**	-	(1,059)
Cash and Cash Equivalents at Beginning of Year	**1**	1	1,060
Cash and Cash Equivalents at End of Year	**$ 1**	$ 1	$ 1

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION (Note 20)

The accompanying notes are an integral part of these statements.

WASHINGTON GAS LIGHT COMPANY
STATEMENTS OF CAPITALIZATION

	September 30,			
($ In thousands, except shares)	2017		2016	
Common Shareholder's Equity				
Common stock, $1 par value, 80,000,000 shares authorized, 46,479,536 shares issued	**$ 46,479**		$ 46,479	
Paid-in capital	**492,101**		488,135	
Retained earnings	**630,691**		586,662	
Accumulated other comprehensive loss, net of taxes	**(4,522)**		(7,830)	
Total Common Shareholder's Equity	**1,164,749**	**50.1%**	1,113,446	53.5%
Preferred Stock				
Washington Gas Light Company, without par value, 1,500,000 shares authorized—issued and outstanding:				
$4.80 series, 150,000 shares	**15,000**		15,000	
$4.25 series, 70,600 shares	**7,173**		7,173	
$5.00 series, 60,000 shares	**6,000**		6,000	
Total Preferred Stock	**28,173**	**1.2%**	28,173	1.4%
Long-Term Debt				
Due fiscal year 2019, 7.46%	**50,000**		50,000	
Due fiscal year 2020, 4.76%	**50,000**		50,000	
Due fiscal year 2023, 6.65%	**20,000**		20,000	
Due fiscal year 2025, 5.44%	**40,500**		40,500	
Due fiscal year 2027, 6.40% to 6.82%	**125,000**		125,000	
Due fiscal year 2028, 6.57% to 6.85%	**52,000**		52,000	
Due fiscal year 2030, 7.50%	**8,500**		8,500	
Due fiscal year 2036, 5.70% to 5.78%	**50,000**		50,000	
Due fiscal year 2041, 5.21%	**75,000**		75,000	
Due fiscal year 2044, 4.22% to 5.00%	**175,000**		175,000	
Due fiscal year 2045, 4.24%	**50,000**		50,000	
Due fiscal year 2046, 3.80%	**450,000**		250,000	
Total Long-Term Debt	**1,146,000**		946,000	
Unamortized discount	**(3,042)**		(109)	
Unamortized debt expense	**(8,497)**		(6,876)	
Total Long-Term Debt	**1,134,461**	**48.7%**	939,015	45.1%
Total Capitalization	**$ 2,327,383**	**100.0%**	$ 2,080,634	100.0%

The accompanying notes are an integral part of these statements.

WASHINGTON GAS LIGHT COMPANY
STATEMENTS OF COMMON SHAREHOLDER'S EQUITY

	Common Stock					Accumulated Other Comprehensive	
(In thousands, except shares)	Shares	Amount	Paid-In Capital	Retained Earnings		Loss, Net of Taxes	Total
Balance, September 30, 2014	46,479,536	$ 46,479	$ 480,620	$ 529,480	$	(6,413)	$ 1,050,166
Net income	-	-	-	108,678		-	108,678
Other comprehensive loss	-	-	-	-		(299)	(299)
Stock-based compensation[(a)]	-	-	3,057	-		-	3,057
Dividends declared:							
Common stock	-	-	-	(78,990)		-	(78,990)
Preferred stock	-	-	-	(1,320)		-	(1,320)
Balance, September 30, 2015	46,479,536	46,479	483,677	557,848		(6,712)	1,081,292
Net income	-	-	-	113,114		-	113,114
Other comprehensive loss	-	-	-	-		(1,118)	(1,118)
Stock-based compensation[(a)]	-	-	4,458	-		-	4,458
Dividends declared:							
Common stock	-	-	-	(82,980)		-	(82,980)
Preferred stock	-	-	-	(1,320)		-	(1,320)
Balance, September 30, 2016	46,479,536	46,479	488,135	586,662		(7,830)	1,113,446
Net income	**-**	**-**	**-**	**131,792**		**-**	**131,792**
Other comprehensive loss	**-**	**-**	**-**	**-**		**3,308**	**3,308**
Stock-based compensation[(a)]	**-**	**-**	**3,966**	**-**		**-**	**3,966**
Dividends declared:							
Common stock	**-**	**-**	**-**	**(86,443)**		**-**	**(86,443)**
Preferred stock	**-**	**-**	**-**	**(1,320)**		**-**	**(1,320)**
Balance, September 30, 2017	**46,479,536**	**$ 46,479**	**$ 492,101**	**$ 630,691**	**$**	**(4,522)**	**$ 1,164,749**

[(a)] *Stock-based compensation is based on the stock awards of WGL that are allocated to Washington Gas Light Company for its pro-rata share.*

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

NOTE 1 Accounting Policies

General

WGL Holdings, Inc. (WGL) is a holding company that owns all of the shares of common stock of Washington Gas Light Company (Washington Gas), a regulated natural gas utility, and all of the shares of common stock of Washington Gas Resources Corporation (Washington Gas Resources), and Hampshire Gas Company (Hampshire). Washington Gas Resources owns all of the shares of common stock of four non-utility subsidiaries that include WGL Energy Services, Inc. (WGL Energy Services), WGL Energy Systems, Inc. (WGL Energy Systems), WGL Midstream, Inc. (WGL Midstream) and WGSW, Inc. (WGSW). Except where the content clearly indicates otherwise, "WGL," "we," "us" or "our" refers to the holding company or the consolidated entity of WGL Holdings, Inc. and all of its subsidiaries. Unless otherwise noted, these notes apply equally to WGL and Washington Gas.

Nature of Operations

Washington Gas and Hampshire comprise our regulated utility segment. Washington Gas is a public utility that sells and delivers natural gas to more than one million customers primarily in the District of Columbia and the surrounding metropolitan areas in Maryland and Virginia. Deliveries to firm residential and commercial customers accounted for 79% of the total therms delivered to customers by Washington Gas in the fiscal year ended September 30, 2017. Deliveries to interruptible customers accounted for 15% and deliveries to customers who use natural gas to generate electricity accounted for 6%. These amounts do not include deliveries related to Washington Gas' asset optimization program discussed below. Hampshire operates an underground natural gas storage facility that provides services exclusively to Washington Gas. Hampshire is regulated under a cost of service tariff by the Federal Energy Regulatory Commission (FERC).

The retail energy-marketing segment consists of WGL Energy Services which competes with regulated utilities and other unregulated third party marketers to sell natural gas and electricity directly to residential, commercial, industrial and governmental customers with the objective of earning a profit through competitive pricing. The commodities that WGL Energy Services sells are delivered to retail customers through assets owned by regulated utilities. Washington Gas delivers the majority of natural gas sold by WGL Energy Services, and unaffiliated electric utilities deliver all of the electricity sold. WGL Energy Services owned multiple solar PV distributed generation assets at September 30, 2017, though the results from these activities are presented in the commercial energy systems segment. Other than these facilities, WGL Energy Services does not own or operate any other natural gas or electric generation, production, transmission or distribution assets. At September 30, 2017, WGL Energy Services served approximately 116,200 natural gas customers and approximately 113,700 electricity customers located in Maryland, Virginia, Delaware, Pennsylvania and the District of Columbia.

The commercial energy systems segment consists of WGL Energy Systems, WGSW and the results of operations of affiliate-owned commercial distributed energy projects. This segment focuses on clean and energy efficient solutions for its customers, driving earnings through: *(i)* upgrading the mechanical, electrical, water and energy-related infrastructure of large governmental and commercial facilities by implementing both traditional and alternative energy technologies; *(ii)* owning and operating distributed generation assets such as solar PV systems, combined heat and power plants, and natural gas fuel cells and *(iii)* investments in residential and commercial retail solar PV companies. In addition to our primary markets, this segment provides customized energy solutions across a much wider footprint, with business activities across the United States.

The midstream energy services segment, which consists of the operations of WGL Midstream, specializes in the investment, management, development and optimization of natural gas storage and transportation midstream infrastructure projects. WGL Midstream enters into both physical and financial transactions in a manner intended to utilize energy risk management products to mitigate risks while seeking to maximize potential profits from the optimization of the transportation and storage assets it has under contract.

Refer to Note 16—*Operating Segment Reporting* for further discussion of our segments.

Consolidation of Financial Statements

The consolidated financial statements include the accounts of WGL and its subsidiaries during the fiscal years reported. On October 1, 2016, WGL and Washington Gas adopted Accounting Standards Update (ASU) 2015-03 and ASU 2015-15. These standards require an entity to account for debt issuance costs as a deduction from the carrying amount of debt in the balance sheet and the amortization of debt issuance costs presented as interest expense, consistent with its accounting treatment of debt discounts. Prior period amounts related to other deferred assets and long-term debt in the accompanying balance sheets have been reclassified to conform to the current period presentation. Inter-company transactions have been eliminated. Refer to Note 18—*Related Party Transactions* for a discussion of inter-company transactions. WGL has a variable interest in five investments that qualify as variable interest entities (VIEs). At September 30, 2017, WGSW is the primary beneficiary for four of the VIEs; SFGF, SFRC, SFGF II, and ASD and accordingly, they have been consolidated. WGL and its subsidiaries are not the primary beneficiary for one of the five VIEs; therefore, we have not consolidated this VIE entity. Refer to Note 17—*Other Investments* for a discussion of VIEs and other investments.

Use of Estimates in the Preparation of Financial Statements

In accordance with generally accepted accounting principles in the United States of America (GAAP), we make certain estimates and assumptions regarding: *(i)* reported assets and liabilities;

(ii) disclosed contingent assets and liabilities at the date of the financial statements and *(iii)* reported revenues, revenues subject to refund, and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification on the Statement of Cash Flows

During the current fiscal year, both WGL and Washington Gas separately presented “Unrealized gain/loss on derivative contracts” as an adjustment to reconcile net income to net cash provided by operating activities on the Statements of Cash Flows. In prior years, these amounts were included in “Changes in Assets and Liabilities-Derivatives”. Additionally, for WGL, in the current year we separately presented “Amortization of investment tax credits” as an adjustment to reconcile net income to net cash provided by operating activities on the Statements of Cash Flows. In previous years, these amounts were included in “Changes in Assets and Liabilities-Unamortized investment tax credits”. The presentation for prior years has been recast to conform with the current period presentation. These reclassifications did not change Net Cash Provided by Operating Activities.

Property, Plant and Equipment

Property, plant and equipment (comprised principally of utility plant) are stated at original cost, including labor, materials, taxes and overhead costs incurred during the construction period. The cost of utility plant of Washington Gas includes an allowance for funds used during construction (AFUDC) that is calculated under a formula prescribed by our regulators in Maryland and the District of Columbia. Washington Gas capitalizes AFUDC as a component of construction overhead. The rates for AFUDC for fiscal years September 30, 2017, 2016 and 2015 were 2.73%, 5.51% and 4.12%, respectively. In addition, WGL Energy Systems and WGL Midstream incur capitalized interest during the cost of constructing and acquiring their long-term assets. For the fiscal years ended September 30, 2017, 2016 and 2015, capitalized interest was $2.9 million, $2.1 million and $1.1 million, respectively.

Washington Gas charges maintenance and repairs directly to operating expenses. Washington Gas capitalizes betterments and renewal costs, and calculates depreciation applicable to its utility gas plant in service primarily using a straight-line method over the estimated remaining life of the plant. The composite depreciation and amortization rate of the regulated utility segment was 2.80%, 2.70% and 2.73% during fiscal years 2017, 2016 and 2015, respectively. In accordance with regulatory requirements, such rates include a component related to asset removal costs for Washington Gas. These asset removal costs are accrued through depreciation expense with a corresponding credit to “Regulatory liabilities—Accrued asset removal costs.” When Washington Gas retires depreciable utility plant and equipment, it charges the associated original costs to “Accumulated depreciation and amortization” and any related removal costs incurred are charged to “Regulatory liabilities—Accrued asset removal costs.” Washington Gas periodically reviews the adequacy of its depreciation rates by considering estimated remaining lives and other factors. For information about Asset Retirement Obligations (ARO’s), refer to the section entitled *“Asset Retirement Obligations”*.

At September 30, 2017 and 2016, 87.2% and 88.7%, respectively, of WGL’s consolidated original cost of property, plant and equipment was related to the regulated utility segment as shown below.

PROPERTY, PLANT AND EQUIPMENT AT ORIGINAL COST

	September 30,			
($ In millions)	2017		2016	
Regulated utility segment				
Distribution, transmission and storage	**$ 4,544.7**	**74.0%**	$ 4,210.6	75.9%
General, miscellaneous and intangibles	**548.5**	**8.9%**	435.2	7.9%
Construction work in progress (CWIP)	**264.8**	**4.3%**	273.1	4.9%
Total regulated utility segment	**5,358.0**	**87.2%**	4,918.9	88.7%
Unregulated segments	**786.0**	**12.8%**	624.1	11.3%
Total	**$ 6,144.0**	**100.0%**	$ 5,543.0	100.0%

Assets Sale - Building

During the year ended September 30, 2016, Washington Gas completed the sale of the Springfield Operation Center for approximately $20.3 million, net of selling and administrative expenses of $0.5 million. As a result of the sale, a minimal loss was recorded to “Other expense-net” in the accompanying Consolidated Statements of Income.

Impairment of Long-Lived Assets

Management regularly reviews property and equipment and other long-lived assets, including certain definite-lived intangible assets and our equity method investments for possible impairment. For our equity method investments, an impairment is recorded when the investment has experienced decline in value that is other-than-temporary. Additionally, if the projects in which we hold an investment recognize an impairment loss, we would record our proportionate share of that impairment loss and evaluate the investment for decline in value that is other-than-temporary. This review occurs quarterly, or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable.

During the fiscal year ended September 2017, WGL did not record any impairments related to our long-lived assets. During the fiscal year ended September 30, 2016, WGL recorded a $4.1 million impairment for the Nextility investment in direct financing leases. During the fiscal year ended September 30, 2015, WGL impaired its entire investment in ASDHI by its carrying value of $5.6 million based on management’s assumption of the current valuation and expected return from the investment.

Refer to Note 15 — *Fair Value Measurements* and Note 17 — *Other Investments* of the Notes to Consolidated Financial Statements for further discussion of these assets.

Operating Leases

We have classified the lease of our corporate headquarters as an operating lease. We amortize as rent expense the total of all scheduled lease payments (including lease payment escalations) and tenant allowances on a straight-line basis over the term of the lease. For this purpose, the lease term began on the date when the lessor commenced constructing the leasehold improvements which allowed us to occupy our corporate headquarters. Leasehold improvement costs are classified as "Property, Plant and Equipment" on the Balance Sheets, and are being amortized to depreciation and amortization expense on a straight-line basis over the 15-year non-cancelable period of the lease. Refer to Note 13—*Commitments and Contingencies* for financial data for all of our operating leases.

Cash and Cash Equivalents

We consider all investments with original maturities of three months or less to be cash equivalents. We did not have any restrictions on our cash balances that would impact the payment of dividends by WGL or our subsidiaries as of September 30, 2017 and 2016.

Revenue and Cost Recognition

Regulated Utility Operations

Revenues

For regulated deliveries of natural gas, Washington Gas reads meters and bills customers on a 19-day monthly cycle basis. The billing cycles for customers do not coincide with the accounting periods used for financial reporting purposes; therefore, Washington Gas accrues unbilled revenues for gas delivered, but not yet billed, at the end of each accounting period.

Cost of Gas

Washington Gas' jurisdictional tariffs contain mechanisms that provide for the recovery of the cost of gas incurred on behalf of firm customers, including related pipeline transportation and storage capacity charges. Under these mechanisms, Washington Gas periodically adjusts its firm customers' rates to reflect increases and decreases in these costs. Under or over-collections of gas costs in the current cycle are charged or credited to deferred charges or credits on the balance sheet as non-current regulatory assets or liabilities. Amounts deferred at the end of the cycle, August 31 of each year, are fully reconciled and transferred to current assets or liabilities under the balance sheet captions "Gas costs and other regulatory assets" and "Gas costs and other regulatory liabilities." These balances are recovered or refunded to customers over the subsequent 12 month period.

Revenue Taxes

Revenue taxes such as gross receipts taxes, Public Service Commission (PSC) fees, franchise fees and energy taxes are reported gross in operating revenues. During fiscal years ended September 30, 2017, 2016 and 2015, $75.1 million ,and $73.0 million, and $83.5 million, respectively, were recorded to operating revenues.

Transportation Gas Imbalance

Interruptible shippers and third party marketer shippers transport gas to Washington Gas' distribution system as part of the unbundled services offered. The delivered volumes of gas from third party shippers into Washington Gas' distribution system rarely equal the volumes billed to third party marketer customers, resulting in transportation gas imbalances. These imbalances are usually short-term in duration, and Washington Gas monitors the activity and regularly notifies the shippers when their accounts have an imbalance. In accordance with regulatory treatment, Washington Gas does not record a receivable from or liability to third party marketers associated with gas volumes related to these transportation imbalances but, rather, reflects the financial impact as a regulatory asset or liability related to its gas cost adjustment mechanism, thereby eliminating any profit or loss that would occur as a result of the imbalance. The regulatory treatment combines the imbalance for all marketers, including WGL Energy Services, into a single "net" adjustment to the regulatory asset or liability. Refer to Note 18—*Related Party Transactions* for further discussion of the accounting for these imbalance transactions.

Asset Optimization Program

Washington Gas optimizes the value of its long-term natural gas transportation and storage capacity resources by entering into physical and financial transactions in the form of forwards, futures and option contracts for periods when these resources are not being used to physically serve utility customers. Refer to *"Derivative Activities"* below for further discussion of the accounting for derivative transactions entered into under this program. Regulatory sharing mechanisms in all three jurisdictions allow the profit from these transactions to be shared between Washington Gas' customers and shareholders.

All unrealized fair value gains and losses, and margins generated from the physical and financial settlement of these asset optimization contracts are recorded in "Utility cost of gas" on the income statement or, in the case of amounts to be shared with rate payers, regulatory assets/liabilities on the balance sheet.

Non-Utility Operations

Retail Energy-Marketing Segment

WGL Energy Services sells natural gas and electricity on an unregulated basis to residential, commercial and industrial customers both inside and outside the Washington Gas service territory.

WGL Energy Services enters into indexed or fixed-rate contracts with residential, commercial and industrial customers for sales of natural gas and electricity. Customer contracts, which typically have terms less than 24 months, but may extend up to 5 years, allow WGL Energy Services to bill customers based upon metered gas and electricity usage. Usage is measured either on a cycle basis at customer premises or based on quantities delivered to the local utility, both of which may vary by month. The billing cycles for customers do not coincide with the accounting periods used for financial reporting purposes; therefore, WGL Energy Services accrues unbilled revenues for gas and electricity delivered, but not yet billed, at the end of each accounting period.

In addition, WGL Energy Services periodically makes spot sales in the wholesale market due to specific delivery requirements or to reduce customer supply costs. Revenues are reflected in "Operating Revenues—Non utility."

WGL Energy Services procures natural gas and electricity supply under contract structures in which it assembles the various components of supply from multiple suppliers to match its customer requirements. The cost of natural gas and electricity for these purchases is recorded using the contracted volumes and prices in "Non-Utility cost of energy-related sales."

Commercial Energy Systems Segment

WGL Energy Systems recognizes income and expenses for all design-build construction contracts using the percentage-of-completion method in "Operating Revenues—Non-utility" and "Non-Utility cost of energy-related sales." WGL Energy Systems also recognizes income from its distributed energy assets based on the terms of the related power purchase agreements. Renewable Energy Certificates (RECs) are generated by WGL Energy Systems after every 1,000 Kilowatt-hours (kWh) of electricity are produced by an eligible solar facility. WGL Energy Systems recognizes income on the sale of RECs based on the contractual terms and conditions of the sale. Refer to Note 17—*Other Investments* for discussion of our income from operating lease arrangements and equity method investments.

Midstream Energy Services Segment

WGL Midstream nets its revenues and costs related to its trading activities in "Operating Revenues—Non-utility". Any profits and losses from WGL Midstream's pipeline investments are included in "Equity in earnings of unconsolidated affiliates" in the accompanying Consolidated Statement of Income and are added to or subtracted from the carrying amount of WGL's investment balance. Refer to Note 17—*Other Investments* for discussion of our pipeline equity method investments.

Storage Gas Valuation Methods

For Washington Gas and WGL Energy Services, storage gas inventories are accounted for using the first-in, first-out method. For WGL Midstream, storage gas inventory is accounted for using the weighted average cost method. Our inventory is stated at the lower-of-cost or market. Interim period inventory losses attributable to lower-of-cost or market adjustments may be reversed if the market value of the inventory is recovered by the end of the same fiscal year.

For the fiscal year ended September 30, 2017, Washington Gas and WGL Midstream did not record a lower-of-cost or market adjustment to net income. During the fiscal year ended September 30, 2016, Washington Gas did not record a lower-of-cost or market adjustment to net income and WGL Midstream recorded quarterly adjustments that netted to zero. During the fiscal year ended September 30, 2015, Washington Gas and WGL Midstream recorded lower-of-cost or market adjustments to net income of $(1.3) million and $(21.5) million, respectively.

Weather-Related Instruments

Periodically, we purchase certain weather-related instruments, such as HDD derivatives and CDD derivatives. We account for these weather related instruments in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Subtopic 815-45, *Derivatives and Hedging—Weather Derivatives.* For weather insurance policies and HDD derivatives, benefits or costs are ultimately recognized to the extent actual HDDs fall above or below the contractual HDDs for each instrument. Benefits or costs are recognized for CDD derivatives when the average temperature exceeds or is below a contractually stated level during the contract period. Premiums for weather-related instruments are amortized based on the pattern of normal temperature days over the coverage period. Weather-related instruments for which we collect a premium are carried at fair value. Refer to Note 14—*Derivative and Weather-Related Instruments* for further discussion of our weather-related instruments.

Derivative Activities

Regulated Utility

Washington Gas enters into both physical and financial derivative contracts for the purchase and sale of natural gas that are subject to mark-to-market accounting. Changes in the fair value of derivative instruments recoverable or refundable to customers and therefore subject to ASC Topic 980, *Regulated Operations,* are recorded as regulatory assets or liabilities while changes in the fair value of derivative instruments not affected by rate regulation are reflected in earnings.

As part of its asset optimization program, Washington Gas enters into derivative contracts related to the sale and purchase of natural gas at a future price with the primary objective of securing operating margins that Washington Gas expects to ultimately realize. The derivatives used under this program may cause significant period-to-period volatility in earnings for the portion of net profits retained for shareholders; however, this earnings volatility will not change the realized margins that Washington Gas expects to earn. In accordance with ASC Topic 815, all financially and physically settled contracts under our asset optimization program are reported on a net basis in the statements of income in "Utility cost of gas".

From time to time, Washington Gas also utilizes derivative instruments that are designed to minimize the risk of interest-rate volatility associated with planned issuances of long-term debt. Gains or losses associated with these derivative transactions are deferred as regulatory assets or liabilities and amortized to interest expense in accordance with regulatory accounting requirements. Refer to Note 14—*Derivative and Weather-Related Instruments* for further discussion of our derivative activities.

Non-Utility Operations

WGL Energy Services enters into both physical and financial contracts for the purchase and sale of natural gas and electricity. WGL Energy Services designates a portion of these physical contracts related to the purchase of natural gas and electricity to serve our customers as "normal purchases and normal sales;" therefore, they are not subject to the mark-to-market accounting requirements of ASC Topic 815. WGL Energy Services records these derivatives as revenues or expenses depending on the nature of the economically hedged item. WGL Midstream enters into derivative contracts for the purpose of optimizing its storage and transportation capacity as well as managing the transportation and storage assets on behalf of third parties. The financial contracts and the portion of the physical contracts that qualify as derivative instruments are subject to the mark-to-market accounting requirements and are recorded on the balance sheet at fair value and are reflected in earnings. WGL Midstream nets financial and physical contracts in "Operating Revenues-Non-utility". WGL may, from time to time, designate interest rate swaps used to manage the interest rate risk associated with future debt issuances, as cash flow hedges. Any gains or losses arising from the effective portion of cash flow hedges are recorded in other comprehensive income and are amortized using the effective interest rate method into earnings over the same period as the hedged interest payments are made. Gains or losses arising from the ineffective portion of cash flow hedges are recognized in earnings immediately.

Income Taxes

We recognize deferred income tax assets and liabilities for all temporary differences between the financial statement basis and the tax basis of assets and liabilities, including those that are currently excluded for ratemaking purposes of Washington Gas. Regulatory assets or liabilities, corresponding to such additional deferred income tax assets or liabilities, may be recorded to the extent recoverable from or payable to customers through the ratemaking process in future periods. Refer to Note 2—*Regulated Operations* for Washington Gas' regulatory assets and liabilities associated with income taxes due from and due to customers at September 30, 2017 and 2016. Amounts applicable to income taxes due from and due to customers primarily represent differences between the book and tax basis of net utility plant in service. We amortize investment tax credits as reductions to income tax expense over the estimated service lives of the related properties. Refer to Note 9—*Income Taxes* which provides detailed financial information related to our income taxes.

Stock-Based Compensation

We account for stock-based compensation expense in accordance with ASC Topic 718, *Compensation—Stock Compensation,* which requires us to measure and recognize stock-based compensation expense in our financial statements based on the fair value at the date of grant for our equity-classified share-based awards, which include performance shares granted to certain employees and shares issued to directors. For liability-classified share-based awards, which include performance units, we recognize stock-based compensation expense based on their fair value at the end of each reporting period. For both equity-classified and liability-classified share-based awards, we estimate forfeitures over the requisite service period when recognizing compensation expense; these estimates are periodically adjusted to the extent to which actual forfeitures differ from such estimates. Refer to Note 11—*Stock-Based Compensation* for further discussion of the accounting for our stock-based compensation plans.

Asset Retirement Obligations

Washington Gas accounts for its AROs in accordance with ASC Subtopic 410-20, *Asset Retirement and Environmental Obligations—Asset Retirement Obligations.* Our asset retirement obligations include the costs to cut, purge and cap Washington Gas' distribution and transmission system and plug storage wells upon their retirement. We also have asset retirement obligations associated with our distributed generation assets. These standards require recording the estimated retirement cost over the life of the related asset by depreciating the present value of the retirement obligation, measured at the time of the asset's acquisition, and accreting the liability until it is settled. There are timing differences between the ARO-related accretion and depreciation amounts being recorded pursuant to GAAP and the recognition of depreciation expense for legal asset removal costs that we are currently recovering in rates. These timing differences are recorded as a reduction to "Regulatory liabilities—Accrued asset removal costs" in accordance with ASC Topic 980. We do not have any assets that are legally restricted related to the settlement of asset retirement obligations.

WGL HOLDINGS, INC.
CHANGES IN ASSET RETIREMENT OBLIGATIONS

	September 30,	
(In millions)	**2017**	**2016**
Asset retirement obligations at beginning of year	**$ 210.3**	$ 207.7
Liabilities incurred in the period	**3.0**	12.1
Revaluation of asset retirement obligation	**89.5**	-
Liabilities settled in the period	**(7.2)**	(16.9)
Accretion expense	**8.3**	7.4
Asset retirement obligations at the end of the year[(a)]	**$ 303.9**	$ 210.3

WASHINGTON GAS LIGHT COMPANY
CHANGES IN ASSET RETIREMENT OBLIGATIONS

	September 30,	
(In millions)	**2017**	**2016**
Asset retirement obligations at beginning of year	**$ 206.6**	$ 205.9
Liabilities incurred in the period	**2.0**	10.4
Revaluation of asset retirement obligation	**89.5**	-
Liabilities settled in the period	**(7.2)**	(16.9)
Accretion expense	**8.0**	7.2
Asset retirement obligations at the end of the year[(a)]	**$ 298.9**	$ 206.6

[(a)] *Includes short-term asset retirement obligations of $7.1 million and $7.2 million for fiscal year 2017 and 2016, respectively.*

ACCOUNTING STANDARDS ADOPTED IN FISCAL YEAR 2017

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability To Continue As A Going Concern	The standard requires an entity to assess the ability to continue as a going concern. The standard will require management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements were issued.	September 30, 2017	We have evaluated the impact of this new standard and no additional footnote disclosure is required.
ASU 2015-03 and ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost and Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements	The standard requires an entity to present debt issuance costs in the balance sheet as a direct deduction of the debt liability and the amortization of debt issuance costs be presented as interest expense in a manner consistent with its accounting treatment of debt discounts. The standard requires retrospective application. An entity can defer and present debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The new guidance does not change the recognition and measurement guidance for debt issuance costs.	October 1, 2016	Implementation of these standards resulted in a reduction of other deferred assets and long-term debt in our Consolidated Balance Sheets. The amounts that were reclassified at September 30, 2016 for WGL and Washington Gas were \$9.3 million and \$6.8 million, respectively.
ASU 2015-02 and ASU 2016-17, Consolidation (Topic 810): Amendments to the Consolidation Analysis and Interests Held through Related Parties that are Under Common Control	The standards changed the analysis to be performed in determining whether certain types of legal entities should be consolidated, specifically the analysis of limited partnerships and similar entities, fee arrangements and related party relationships. The standard permits prospective or retrospective application for different parts. The consolidation guidance was also amended as to how a reporting entity, that is the single decision maker of a VIE, should treat indirect interests in the entity held through related parties that are under common control with the reporting entity, when determining whether it is the primary beneficiary of that VIE.	October 1, 2016	The amendments to the consolidation guidance under these standards were applied and did not have an impact on the financial statements.
ASU 2015-05, Intangibles-Goodwill and Other - Internal-Use Software (Subtopic 350-40)-Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	The standard clarifies that a cloud computing customer may account for the arrangement as a software license when (1) the customer has a contractual right to take possession of the software at any time during the hosting period without significant penalty, and (2) it is feasible for the customer to either operate the software on its own hardware or contract with another party unrelated to the vendor to host the software. If the arrangement does not meet these criteria, it would be accounted for as a service contract and accounted for as an operating expense in the period incurred.	October 1, 2016	WGL elected to apply the standard on a prospective basis, which did not have a material impact on the financial statements.

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
2015-07, Fair Value Measurement (Topic 820) - Disclosures in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)	This standard removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value ("NAV") per share as a practical expedient. Instead, entities would be required to disclose those investments as a reconciling item to the total fair value of investments in the disclosure and to be consistent with the amount reported in the balance sheet. Retrospective application is required.	October 1, 2016	WGL and Washington Gas do not have any financial instruments presented in the Consolidated Balance Sheets measured at NAV. Implementation of the standard affected the fair value hierarchy related to the pension plan and health and life insurance plan assets disclosed in Note 10 - *Pension and Other Post-Retirement Benefit Plans.*

OTHER NEWLY ISSUED ACCOUNTING STANDARDS

Standard	Description	Required date of adoption	Effect on the financial statements or other significant matters
ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting	This standard simplifies several aspects of the accounting for share-based payment transactions, including accounting for income taxes, forfeitures, and statutory tax withholding requirements.	October 1, 2017	WGL has elected to continue to estimate forfeitures for its share-based payment awards rather than account for forfeitures when they occur. WGL and Washington Gas each expect to report $6.2 million, as a cumulative effect adjustment to retained earnings in the first quarter of fiscal year 2018 related to the recognizing all excess tax benefits previously unrecognized.
ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This standard requires entities to report the service cost component in the same financial statement line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are to be presented separately from service cost and outside of operating income. In addition, only the service cost component of net benefit cost is eligible for capitalization. Changes to the presentation of service costs and other components of net benefit cost should be applied retrospectively. Changes in capitalization practices should be implemented prospectively.	October 1, 2018*	We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.
ASU 2016-15, Statement of Cash Flows (Topic 230)—Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)	This update provides guidance on the classification of certain cash receipts and payments in the statement of cash flows.	October 1, 2018*	We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.

Standard	Description	Required date of adoption	Effect on the financial statements or other significant matters
ASU 2014-09, Revenue from Contracts with Customers (Topic 606), including subsequent ASUs clarifying the guidance.	ASU 2014-09 establishes a comprehensive revenue recognition model clarifying the method used to determine the timing and requirements for revenue recognition from contracts with customers. The disclosure requirements under the new standard will enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.	October 1, 2018*	An implementation team is currently evaluating all revenue streams and reviewing contracts with customers, as well as, related financial statement disclosures to determine the impact the adoption of this standard will have on our financial statements. WGL is also monitoring unresolved industry specific implementation issues that could impact the timing of revenue recognition for our regulated utility tariff based sales. WGL will adopt using the modified retrospective approach.
ASU 2016-01, Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	The new standard amends certain disclosure requirements associated with the fair value of financial instruments, and significantly revises an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value.	October 1, 2018*	We performed a preliminary evaluation and the adoption of this standard will primarily impact the disclosure of our financial instruments in our Fair Value Measurements Footnote.
ASU 2016-02, Leases (Topic 842)	This standard requires recognition of a right-to-use asset and lease liability on the statement of financial position and disclosure of key information about leasing arrangements. The standard requires application using a modified retrospective approach.	October 1, 2019*	We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.
ASU 2017-12, Derivatives and Hedging (Topic 815)—Targeted Improvements to Accounting for Hedging Activities	This standard seeks to better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedging results.	October 1, 2019*	We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.
ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	For credit losses on financial instruments, this standard changes the current incurred loss impairment methodology to an expected loss methodology and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates.	October 1, 2020*	We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.

* *Subject to acceleration if the merger with AltaGas is consummated due to the difference in Parent and Subsidiary fiscal year ends.*

NOTE 2 Regulated Operations

Washington Gas accounts for its regulated operations in accordance with ASC Topic 980. This standard includes accounting principles for companies whose rates are determined by independent third party regulators. When setting rates, regulators may require us to record expense in different periods than may be appropriate for unregulated enterprises. When this occurs, Washington Gas defers the associated costs as assets (regulatory assets) on its balance sheet and records them as expenses on its income statement as it collects the revenues designed to recover these costs through customers' rates. Further, regulators can also impose liabilities upon a company for gains previously realized or for amounts previously collected from customers for expenses expected to be incurred in the future (regulatory liabilities).

When Washington Gas files a request with certain regulatory commissions to modify customers' rates, it may be permitted to charge customers new rates, subject to refund, until the regulatory commission renders a final decision on the amount of the authorized change in rates. During this interim period, Washington Gas records a provision for a rate refund regulatory liability based on the difference between the amount it collects in rates and the amount it expects to recover from a final regulatory decision. Similarly, Washington Gas periodically records provisions for rate refunds related to other transactions. Actual results for these regulatory contingencies are often difficult to predict and could differ significantly from the estimates reflected in the financial statements. Refer to Note 13—*Commitments and Contingencies* for further discussion of regulatory matters and related contingencies.

At September 30, 2017 and 2016, we recorded the following regulatory assets and liabilities on our balance sheets. These assets and liabilities will be recognized as revenues or expenses in future periods as they are reflected in customers' rates.

REGULATORY ASSETS AND LIABILITIES

(In millions)	Regulatory Assets		Regulatory Liabilities	
September 30,	**2017**	**2016**	**2017**	**2016**
Current:				
Gas costs due from/to customers[(a)]	**$ 0.2**	$ 4.1	**$ 10.6**	$ 12.1
Interruptible sharing[(a)]	**2.4**	0.9	**0.7**	0.6
Revenue normalization mechanisms for Maryland and Virginia[(a)]	**11.7**	6.6	**1.4**	-
Accelerated replacement recovery mechanisms	**7.4**	3.7	**1.1**	0.3
Rates subject to refund[(c)]	**-**	-	**9.0**	-
Total current	**$ 21.7**	$ 15.3	**$ 22.8**	$ 13.0
Deferred:				
Accrued asset removal costs	**$ -**	$ -	**$ 292.2**	$ 310.8
Deferred gas costs[(a)(b)]	**90.1**	179.9	**-**	-
Pension and other post-retirement benefits				
Deferred pension costs—trackers[(d)]	**19.7**	29.8	**-**	-
ASC Topic 715 unrecognized costs/income[(a)(e)]				
Pensions	**119.6**	193.4	**-**	-
Other post-retirement benefits	**0.2**	-	**135.0**	113.9
Total pension and other post-retirement benefits	**139.5**	223.2	**135.0**	113.9
Other:				
Income tax-related amounts due from/to customers[(f)]	**37.9**	33.6	**3.2**	3.6
Losses/gains on issuance and extinguishments of debt and interest-rate derivative instruments[(a)(g)]	**16.4**	17.5	**1.4**	1.5
Deferred gain on sale of assets[(a)]	**-**	-	**0.7**	1.0
Rights-of-way fees[(a)]	**-**	0.3	**0.7**	-
Business process outsourcing and related costs[(a)]	**8.2**	9.8	**-**	-
Non-retirement post-employment benefits[(a)(h)]	**17.8**	19.2	**-**	-
Deferred integrity management expenditures[(a)(i)]	**7.7**	8.5	**-**	-
Recoverable portion of abandoned LNG facility	**3.1**	4.3	**-**	-
Environmental response costs[(a)(j)]	**2.5**	1.3	**-**	-
Other regulatory expenses	**11.0**	4.1	**3.4**	8.3
Total other	**$ 104.6**	$ 98.6	**$ 9.4**	$ 14.4
Total deferred	**$ 334.2**	$ 501.7	**$ 436.6**	$ 439.1
Total	**$ 355.9**	$ 517.0	**$ 459.4**	$ 452.1

(a) *Washington Gas does not earn its overall rate of return on these assets. Washington Gas is allowed to recover and required to pay, using short-term interest rates, the carrying costs related to billed gas costs due from and to its customers in the District of Columbia and Virginia jurisdictions.*

(b) *Includes fair value of derivatives, which are not included in customer bills until settled.*

(c) *Represents provision established for interim base rate billings, subject to refund, in Virginia, effective in the December 2016 billing cycle.*

(d) *Relates to the District of Columbia jurisdiction.*

(e) *Refer to Note 10-Pension and Other Post-Retirement Benefit Plans for a further discussion of these amounts.*

(f) *This balance represents amounts due from customers for deferred tax liabilities related to tax benefits on deduction flowed directly to customers prior to the adoption of income tax normalization for ratemaking purposes.*

(g) *The losses or gains on the issuance and extinguishment of debt and interest-rate derivative instruments include unamortized balances from transactions executed in prior fiscal years. These transactions create gains and losses that are amortized over the remaining life of the debt as prescribed by regulatory accounting requirements.*

(h) *Represents the timing difference between the recognition of workers compensation and short-term disability costs in accordance with generally accepted accounting principles and the way these costs are recovered through rates.*

(i) *This balance represents amounts for deferred expenditures associated with Washington Gas' Distribution Integrity Management Program (DIMP) in Virginia.*

(j) *This balance represents allowed remediation expenditures at Washington Gas sites to be recovered through rates for Maryland and the District of Columbia. The recovery period is over several years.*

As required by ASC Topic 980, Washington Gas monitors its regulatory and competitive environment to determine whether the recovery of its regulatory assets remains probable. If Washington Gas were to determine that recovery of these assets is no longer probable, it would write off the assets against earnings. We have determined that ASC Topic 980 continues to apply to our regulated operations, and the recovery of our regulatory assets at September 30, 2017 is probable.

NOTE 3 Accounts Payable and Other Accrued Liabilities

The tables below provide details for the amounts included in "Accounts payable and other accrued liabilities" on the balance sheets for both WGL and Washington Gas.

WGL HOLDINGS, INC.

	September 30,	
(In millions)	**2017**	**2016**
Accounts payable—trade	**$ 361.6**	$ 353.0
Employee benefits and payroll accruals	**35.0**	34.4
Other accrued liabilities	**27.2**	18.0
Total	**$ 423.8**	$ 405.4

WASHINGTON GAS LIGHT COMPANY

	September 30,	
(In millions)	**2017**	**2016**
Accounts payable—trade	**$ 174.9**	$ 161.0
Employee benefits and payroll accruals	**32.4**	32.2
Other accrued liabilities	**12.5**	11.8
Total	**$ 219.8**	$ 205.0

NOTE 4 Short-Term Debt

WGL and Washington Gas satisfy their short-term financing requirements through the sale of commercial paper, financing arrangements with third-party lenders, or through bank borrowings. Due to the seasonal nature of the regulated utility and retail energy-marketing segments, short-term financing requirements can vary significantly during the year. Revolving credit agreements are maintained to support outstanding commercial paper and to permit short-term borrowing flexibility. The policy of each WGL and Washington Gas is to maintain bank credit facilities in amounts equal to or greater than the expected maximum commercial paper position. The following is a summary of committed credit available at September 30, 2017 and 2016.

COMMITTED CREDIT AVAILABLE *(IN MILLIONS)*

September 30, 2017	**WGL[b]**	**Washington Gas**	**Total Consolidated**
Committed credit agreements			
Unsecured revolving credit facility, expires December 19, 2019[a]	**$ 650.0**	**$ 350.0**	**$ 1,000.0**
Less: Commercial Paper	**(382.0)**	**(123.0)**	**(505.0)**
Net committed credit available	**$ 268.0**	**$ 227.0**	**$ 495.0**
Weighted average interest rate	**1.52%**	**1.22%**	**1.45%**
September 30, 2016			
Committed credit agreements			
Unsecured revolving credit facility, expires December 19, 2019[a]	$ 450.0	$ 350.0	$ 800.0
Less: Commercial Paper	(227.0)	(42.0)	(269.0)
Net committed credit available	$ 223.0	$ 308.0	$ 531.0
Weighted average interest rate	0.73%	0.46%	0.69%

[a] *Washington Gas has the right to request extensions with the banks' approval. Washington Gas' revolving credit facility permits it to borrow an additional $100 million, with the banks' approval, for a total of $450 million.*

[b] *WGL includes WGL Holdings and all subsidiaries other than Washington Gas.*

At September 30, 2017 and 2016, there were no outstanding bank loans from WGL's or Washington Gas' revolving credit facilities.

Under the terms of the credit agreements, the ratio of consolidated financial indebtedness to consolidated total capitalization may not exceed 0.65 to 1.0 (65.0%). At September 30, 2017, WGL's and Washington Gas' ratios of consolidated financial indebtedness to consolidated total capitalization were 59.2% and 52.2%, respectively. In addition, WGL and Washington Gas are required to inform lenders of changes in corporate existence, financial conditions, litigation and environmental warranties that might have a material adverse effect. Failure to inform the lenders' agent of these material changes might constitute default under the agreements. Another potential default may be deemed to exist if WGL or Washington Gas were to fail to pay principal or interest when due on any other indebtedness. Such defaults, if not remedied, could lead to suspension of further loans and/or acceleration in which obligations become immediately due and payable. At September 30, 2017, WGL and Washington Gas were in compliance with all of the covenants under their revolving credit facilities.

Project Financing

Washington Gas previously obtained third-party project financing on behalf of the federal government to provide funds during the construction of certain energy management services projects entered into under Washington Gas' area-wide contract. In connection with work completed under the area-wide contract, the construction work is performed by WGL Energy Systems on behalf of Washington Gas and an inter-company payable is recorded for work provided by WGL Energy Systems. As work is performed, Washington Gas establishes a receivable representing the government's obligation to remit principal and interest. The payable and receivable are equal to each other at the end of the construction period, but there may be timing differences in the recognition of the project related payable and receivable during the construction period. When these projects are formally "accepted" by the government and deemed complete, Washington Gas assigns the ownership of the receivable to the third party lender in satisfaction of the obligation and removes both the receivable and the obligation related to the financing from its financial statements.

In December 2016, WGL Energy Systems entered into an agreement to obtain third-party financing and receive funds directly from the third party lender during the construction period associated with the related energy management service projects. As a result, Washington Gas will no longer be liable under future third party financing arrangements, for projects entered into under the area-wide contract. The general terms of the financing agreement are the same as the prior financing arrangements between Washington Gas and the third party lender mentioned above. Washington Gas will continue to record a receivable representing the government's obligation, and will record an inter-company payable to WGL Energy Systems for the construction work performed for the same amount.

As of September 30, 2017, WGL and Washington Gas recorded $85.6 million and $78.2 million, respectively in "Unbilled revenues" on the balance sheet, and $54.8 million and $43.8 million, respectively, in a corresponding short-term obligation to the lender in "Notes payable and project financing", for energy management services projects that were not complete. At September 30, 2016, Washington Gas recorded $73.3 million in "Unbilled revenues" on the balance sheet and a $62.4 million corresponding short-term obligation to third party lenders in "Notes payable and project financing" for energy management services projects that were not complete. WGL Energy Systems did not obtain any third-party project financing on behalf of the Federal Government for the fiscal year ended September 30, 2016. Because these projects are financed for government agencies that have minimal credit risk, and with which we have previous collection experience, neither WGL nor Washington Gas recorded a corresponding reserve for bad debts related to these receivables at September 30, 2017 or September 30, 2016.

NOTE 5 Long-Term Debt

First Mortgage Bonds

The Mortgage of Washington Gas dated January 1, 1933 (Mortgage), as supplemented and amended, securing any First Mortgage Bonds (FMBs) it issues, constitutes a direct lien on substantially all property and franchises owned by Washington Gas, other than a small amount of property that is expressly excluded. At September 30, 2017 and 2016, Washington Gas had no debt outstanding under the Mortgage. Any FMBs that may be issued in the future will represent indebtedness of Washington Gas.

Shelf Registration

At September 30, 2017, WGL had capacity under a shelf registration to issue an unspecified amount of long-term debt securities and Washington Gas had capacity under a shelf registration statement to issue up to $100.0 million of additional medium term notes (MTNs). As a result of certain covenants included in the Merger Agreement among WGL, AltaGas and Wrangler, Inc., WGL is limited to the length of term that it may issue debt. Refer to Note 21 — *Planned Merger with AltaGas Ltd.* for a discussion of the proposed merger.

Unsecured Notes

WGL and Washington Gas issue long-term notes with individual terms regarding interest rates, maturities and call or put options. These notes can have maturity dates of one or more years from the date of issuance. The following tables show the outstanding notes as of September 30, 2017 and 2016.

LONG-TERM DEBT OUTSTANDING

($ In millions)	WGL[(a)]	Washington Gas	Total Consolidated
September 30, 2017			
Long-term debt[(b)]	**$ 550.0**	**$ 1,146.0**	**$ 1,696.0**
Unamortized discount	**(1.5)**	**(3.0)**	**(4.5)**
Unamortized debt expenses	**(2.1)**	**(8.5)**	**(10.6)**
Total Long-Term Debt	**$ 546.4**	**$ 1,134.5**	**$ 1,680.9**
Weighted average interest rate	**2.81%**	**4.89%**	**4.21%**
September 30, 2016			
Long-term debt[(b)]	$ 500.0	$ 946.0	$ 1,446.0
Unamortized discount	(1.6)	(0.1)	(1.7)
Unamortized debt expenses	(2.4)	(6.9)	(9.3)
Total Long-Term Debt	$ 496.0	$ 939.0	$ 1,435.0
Weighted average interest rate	2.50%	5.12%	4.21%

(a) *WGL includes WGL Holdings and all subsidiaries other than Washington Gas.*

(b) *Includes Senior Notes and term loans for WGL and both MTNs and private placement notes for Washington Gas. Represents face value including current maturities.*

The indenture for the unsecured MTNs and the note purchase agreement for the private placement notes provide that Washington Gas will not issue any FMBs under its Mortgage without securing all MTNs and the subject private placement notes with the Mortgage.

Certain of Washington Gas' outstanding MTNs and private placement notes have a make-whole call feature that pays the holder a premium based on a spread over the yield to maturity of a U.S. Treasury security having a comparable maturity, when that particular note is called by Washington Gas before its stated maturity date. With the exception of this make-whole call feature, Washington Gas is not required to pay call premiums for calling debt prior to the stated maturity date.

On February 18, 2016, WGL entered into a credit agreement providing for a term loan facility. On February 18, 2016 and January 26, 2017, WGL borrowed $250 million and $50 million, respectively, under the agreement. The credit agreement provides for maturity dates of February 18, 2018 and January 26, 2019, respectively, with a one year extension option with the lenders' approval. In addition to the initial borrowings, the credit agreement permits, with the lenders' approval, additional borrowings of up to $50 million, for maximum potential borrowings under the credit agreement of $350 million. The interest rate on loans made under the credit agreement will be a fluctuating rate that will be determined from time to time based on parameters set forth in the credit agreement.

In addition, on September 18, 2017, Washington Gas issued an aggregate principle amount of $200 million, 3.796% medium-term notes due in 2046. The notes are subject to prepayment at Washington Gas' option at any time in whole or from time to time in part, at a redemption price equal to the greater of *(i)* 100% of the principal amount thereof and *(ii)* the sum of the present values of the remaining scheduled payments of principal and interest thereon, plus a make-whole call premium, plus, in either such case, accrued and unpaid interest on the principal of such notes to the date of redemption. At any time on and after March 15, 2046, Washington Gas may redeem the notes on any date or dates, in whole or from time to time in part, at 100% of the principal of such notes, plus accrued and unpaid interest on the principal of such notes to the date of redemption.

The following tables show long-term debt issuances and retirements for the years ended September 30, 2017 and 2016.

LONG-TERM DEBT ISSUANCES AND RETIREMENTS

($ In millions)		Principal[b]	Interest Rate	Effective Cost	Nominal Maturity Date
Year Ended September 30, 2017					
WGL[a]					
Issuances:					
1/26/2017	**$**	**50.0**	**1.57%[c]**	**1.57%[c]**	**1/26/2019**
Total	**$**	**50.0**			
Washington Gas					
Issuances:					
9/18/2017	**$**	**200.0**	**3.80%**	**3.80%[d]**	**9/15/2046**
Total		**200.0**			
Total consolidated issuances	**$**	**250.0**			
Washington Gas					
Year Ended September 30, 2016					
WGL[a]					
Issuances:					
2/18/2016	$	250.0	1.34%[c]	1.34%[c]	2/18/2018
Total	$	250.0			
Washington Gas					
Issuances:					
9/16/2016	$	250.0	3.80%	4.01%[d]	3/15/2046
Total		250.0			
Total consolidated issuances	$	500.0			
Washington Gas					
Retirements:					
1/18/2016	$	25.0	5.17%	n/a	1/18/2016
Total	$	25.0			

(a) *WGL includes WGL Holdings and all subsidiaries other than Washington Gas.*
(b) *Represents face amount.*
(c) *Floating rate per annum that will be determined from time to time based on parameters set forth in the credit agreement. Effective cost reflects current rate.*
(d) *The estimated effective cost of the issued notes, including consideration of issuance fees and hedge costs.*

Long-Term Debt Maturities

Maturities of long-term debt for each of the next five fiscal years and thereafter as of September 30, 2017 are summarized in the following table.

LONG-TERM DEBT MATURITIES[a]

(In millions)		WGL[b]		Washington Gas		Total
2018	$	250.0	$	-	$	250.0
2019		50.0		50.0		100.0
2020		100.0		50.0		150.0
2021		-		-		-
2022		-		-		-
Thereafter		150.0		1,046.0		1,196.0
Total	**$**	**550.0**	**$**	**1,146.0**	**$**	**1,696.0**
Less: current maturities		250.0		-		250.0
Total non-current	**$**	**300.0**	**$**	**1,146.0**	**$**	**1,446.0**

(a) *Excludes unamortized discounts and debt issuance costs of $3.6 million and $11.5 million at September 30, 2017, for WGL and Washington Gas, respectively.*
(b) *WGL includes WGL Holdings and all subsidiaries other than Washington Gas.*

NOTE 6 Common Stock—WGL

Common Stock Outstanding

Shares of common stock outstanding were 51,219,000 and 51,080,612 at September 30, 2017 and 2016, respectively.

Common Stock Reserves

At September 30, 2017, there were 8,114,587 authorized, but unissued, shares of common stock reserved under the following plans:

COMMON STOCK RESERVES

Reserve for:	Number of Shares
Omnibus incentive compensation plans[(a)]	2,686,036
Dividend reinvestment and common stock purchase plan	2,749,099
Employee savings plans	637,196
Directors' stock compensation plan	61,224
ATM program	1,981,032
Total common stock reserves	**8,114,587**

(a) *In March 2007, WGL adopted a shareholder-approved Omnibus Incentive Compensation Plan to replace on a prospective basis the 1999 Incentive Compensation Plan. In December 2015, the Board of Directors approved the 2016 Omnibus Incentive Compensation Plan that became effective upon shareholder approval at WGL's Annual Meeting of Shareholders on March 1, 2016. The plan was included as an exhibit to WGL's proxy statement under cover of Form 14A filed on January 20, 2016. WGL no longer makes equity grants under the 2007 Omnibus Incentive Compensation Plan (but shares issued pursuant to outstanding grants under the 2007 plan will be issued pursuant to that plan). Refer to Note 11—Stock-Based Compensation for a discussion regarding our stock-based compensation plans.*

On November 24, 2015, WGL entered into an equity distribution agreement and filed a prospectus supplement relating to a continuous offering under which WGL may sell common stock with an aggregate sales price of up to $150 million through an at-the-market (ATM) program. Sales of common stock can be made by means of privately negotiated transactions, as transactions on the New York Stock Exchange at market prices or in such other transactions as agreed upon by WGL and the sales agents and in accordance with applicable securities laws. During the fiscal year ended September 30, 2016, WGL issued 1,162,305 shares of common stock under the ATM program for gross proceeds of $78.2 million. There were no common shares issued under the ATM program during the fiscal year ended September 30, 2017 due to the Merger Agreement.

NOTE 7 Preferred Stock

Washington Gas has three series of cumulative preferred stock outstanding, and each series is subject to redemption by Washington Gas. All three series have a dividend preference that prohibits Washington Gas from declaring and paying dividends on shares of its common stock unless dividends on all outstanding shares of the preferred stock have been fully paid for all past quarterly dividend periods. In addition, all outstanding shares of preferred stock have a preference as to the amounts that would be distributed in the event of a liquidation or dissolution of Washington Gas. The following table presents this information, as well as call prices for each preferred stock series outstanding.

PREFERRED STOCK

		Liquidation Preference Per Share		
Preferred Series Outstanding	Shares Outstanding	Involuntary	Voluntary	Call Price Per Share
$4.80	150,000	$100	$101	$101
$4.25	70,600	$100	$105	$105
$5.00	60,000	$100	$102	$102

NOTE 8 Earnings Per Share

Basic EPS of WGL is computed by dividing net income by the weighted average number of common shares outstanding during the reported period. Diluted EPS assumes the issuance of common shares pursuant to stock-based compensation plans at the beginning of the applicable period unless the effect of such issuance would be anti-dilutive (refer to Note 11—*Stock-Based Compensation).*

For the fiscal year ended September 30, 2017, there were no outstanding stock options and there were no anti-dilutive shares excluded from the calculation of diluted EPS. For the fiscal year ended September 30, 2016, we had 86,500 weighted average performance shares issuable pursuant to our stock-based compensation plans that were excluded from the diluted share calculation due to the anti-dilutive effect of such shares. For the fiscal year ended September 30, 2015, there were no anti-dilutive shares excluded from the calculation of diluted EPS. The following table reflects the computation of our basic and diluted EPS for the fiscal years ended September 30, 2017, 2016 and 2015.

BASIC AND DILUTED EPS

	Years Ended September 30,		
(In thousands, except per share data)	**2017**	**2016**	**2015**
Basic earnings per average common share:			
Net income applicable to common stock	**$ 192,620**	$ 167,594	$ 131,259
Average common shares outstanding—basic	**51,205**	50,369	49,794
Basic earnings per average common share	**$ 3.76**	$ 3.33	$ 2.64
Diluted earnings per average common share:			
Net income applicable to common stock	**$ 192,620**	$ 167,594	$ 131,259
Average common shares outstanding—basic	**51,205**	50,369	49,794
Stock-based compensation plans	**270**	195	266
Total average common shares outstanding—diluted	**51,475**	50,564	50,060
Diluted earnings per average common share	**$ 3.74**	$ 3.31	$ 2.62

NOTE 9 Income Taxes

WGL files a consolidated federal tax return and state returns where there is a business presence. We are no longer subject to income tax examinations by the Internal Revenue Service (IRS) for years ended prior to September 30, 2013 except for pending carryback refund claims. Substantially all state income tax years in major jurisdictions are closed for years ended prior to September 30, 2013.

WGL and each of its subsidiaries participate in a tax sharing agreement that establishes the method for allocating tax benefits from losses that are utilized on the consolidated income tax return. The consolidated tax is apportioned among the subsidiaries on the separate return method and losses are allocated to the subsidiaries that have taxable income pro-rata basis. In fiscal year 2017, Washington Gas recognized a receivable for $18.6 million from subsidiaries with taxable income for the utilization of Washington Gas' net operating loss pursuant to the tax sharing agreement. State income tax returns are filed on a separate company basis in most states where we have operations and/or a requirement to file.

On September 13, 2013, the U.S. Treasury Department issued final income tax regulations to address the costs incurred in acquiring, producing, or improving tangible property. The regulations are effective for WGL and Washington Gas for the tax year beginning October 1, 2014. WGL and Washington Gas filed Forms 3115 along with its income tax return for the year ended September 30, 2015 in June 2016. The financial impact of these regulations did not have a material impact on the financial statements.

On October 1, 2015, WGL and Washington Gas early adopted ASU 2015-17. This standard amends the requirements to separately classify deferred income tax liabilities and assets into current and non-current amounts on a classified balance sheet, and requires all deferred income tax liabilities and assets to be offset by taxing jurisdiction and classified as non-current. WGL and Washington Gas applied ASU 2015-17 retrospectively. As a result of the retrospective adoption, $32.8 million and $24.7 million were reclassified from "Current Assets-Deferred income taxes" to "Deferred Credits-Deferred income taxes" on WGL's and Washington Gas' September 30, 2015 balance sheets, respectively.

The tables below provide the following for WGL and Washington Gas: (i) the components of income tax expense; (ii) a reconciliation between the statutory federal income tax rate and the effective income tax rate and (iii) the components of accumulated deferred income tax assets and liabilities at September 30, 2017 and 2016.

WGL HOLDINGS, INC.
COMPONENTS OF INCOME TAX EXPENSE

	Years Ended September 30,		
(In thousands)	**2017**	**2016**	**2015**
Income tax expense			
Current:			
Federal	**$ 430**	$ (57,690)	$ (18,639)
State	**3,267**	(1,983)	2,977
Total current	**3,697**	(59,673)	(15,662)
Deferred:			
Federal			
Accelerated depreciation	**83,637**	93,175	71,529
Other	**13,042**	49,638	17,726
State			
Accelerated depreciation	**15,097**	12,993	13,739
Other	**3,190**	8,073	1,411
Total deferred	**114,966**	163,879	104,405
Amortization of investment tax credits	**(7,504)**	(6,132)	(4,939)
Total income tax expense	**$ 111,159**	$ 98,074	$ 83,804

WGL HOLDINGS, INC.
RECONCILIATION BETWEEN THE STATUTORY FEDERAL INCOME TAX RATE AND EFFECTIVE TAX RATE

	Years Ended September 30,					
($ In thousands)	**2017**		**2016**		**2015**	
Income taxes at statutory federal income tax rate	**$ 101,157**	**35.00%**	$ 93,253	35.00%	$ 75,760	35.00%
Increase (decrease) in income taxes resulting from:						
Accelerated depreciation less amount deferred	**589**	**0.20**	908	0.34	1,187	0.55
Amortization of investment tax credits	**(7,504)**	**(2.60)**	(6,132)	(2.30)	(4,939)	(2.28)
Cost of removal	**(2,944)**	**(1.02)**	(3,722)	(1.40)	(2,721)	(1.26)
State income taxes-net of federal benefit	**12,601**	**4.36**	12,969	4.87	11,109	5.13
ASDHI impairment	**-**	**-**	-	-	1,969	0.91
Merger related costs	**2,292**	**0.79**	-	-	-	-
Non-controlling interest	**5,627**	**1.95**	-	-	-	-
Other items-net	**(659)**	**(0.23)**	798	0.30	1,439	0.66
Total income tax expense and effective tax rate	**$ 111,159**	**38.45%**	$ 98,074	36.81%	$ 83,804	38.71%

WGL HOLDINGS, INC.
COMPONENTS OF ACCUMULATED DEFERRED INCOME TAX ASSETS (LIABILITIES)

(In thousands)	2017	2016
Deferred income tax assets:		
Pensions	$ 42,593	$ 60,685
Uncollectible accounts	10,617	12,441
Inventory overheads	6,617	5,046
Employee compensation and benefits	45,202	49,443
Derivatives	13,802	58,203
Deferred gas costs	1,485	-
Solar grant/investment tax credit	61,773	64,149
Tax credit carry forward	160,077	118,980
Net operating loss	30,278	27,741
Other[(a)]	2,693	1,075
Total assets	375,137	397,763
Deferred income tax liabilities:		
Other post-retirement benefits	90,031	69,899
Accelerated depreciation and other plant related items	1,068,951	949,807
Losses/gains on reacquired debt	1,047	1,155
Income taxes recoverable through future rates	33,502	71,352
Deferred gas costs	-	1,696
Partnership basis differences	46,968	27,532
Valuation allowances	2,188	2,188
Total liabilities	1,242,687	1,123,629
Net accumulated deferred income tax assets (liabilities)	$ (867,550)	$ (725,866)

[(a)] *For the fiscal years ended September 30, 2017 and 2016, amount includes $0.5 million and $0.9 million, respectively, in deferred income tax assets reported in "Deferred charges and other assets" on the consolidated balance sheet.*

WASHINGTON GAS LIGHT COMPANY
COMPONENTS OF INCOME TAX EXPENSE

	Years Ended September 30,		
(In thousands)	2017	2016	2015
Income tax expense			
Current:			
Federal	$ 1,722	$ (48,064)	$ (5,305)
State	1,283	(2,957)	907
Total current	3,005	(51,021)	(4,398)
Deferred:			
Federal			
Accelerated depreciation	83,009	93,385	71,046
Other	(18,419)	13,826	(6,619)
State			
Accelerated depreciation	15,033	13,081	13,701
Other	(2,037)	3,190	(1,507)
Total deferred	77,586	123,482	76,621
Amortization of investment tax credits	(751)	(795)	(832)
Total income tax expense	$ 79,840	$ 71,666	$ 71,391

WASHINGTON GAS LIGHT COMPANY
RECONCILIATION BETWEEN THE STATUTORY FEDERAL INCOME TAX RATE AND EFFECTIVE TAX RATE

	Years Ended September 30,								
($ In thousands)	2017			2016			2015		
Income taxes at statutory federal income tax rate	**$**	**74,071**	**35.00%**	$	64,673	35.00%	$	63,024	35.00%
Increase (decrease) in income taxes resulting from:									
Accelerated depreciation less amount deferred		**1,922**	**0.91**		1,936	1.05		2,108	1.17
Amortization of investment tax credits		**(751)**	**(0.35)**		(795)	(0.43)		(832)	(0.46)
Cost of removal		**(2,944)**	**(1.39)**		(3,722)	(2.01)		(2,721)	(1.51)
State income taxes-net of federal benefit		**8,610**	**4.07**		8,310	4.50		8,986	4.99
Consolidated tax sharing allocation		**-**	**-**		1,073	0.58		(533)	(0.30)
Other items-net		**(1,068)**	**(0.50)**		191	0.10		1,359	0.76
Total income tax expense and effective tax rate	**$**	**79,840**	**37.74%**	$	71,666	38.79%	$	71,391	39.65%

WASHINGTON GAS LIGHT COMPANY
COMPONENTS OF ACCUMULATED DEFERRED INCOME TAX ASSETS (LIABILITIES)

(In thousands)	2017		2016	
Deferred income tax assets:				
Pensions	**$**	**41,907**	$	59,878
Uncollectible accounts		**7,815**		8,054
Inventory overheads		**6,617**		5,046
Employee compensation and benefits		**47,479**		43,755
Derivatives		**11,187**		27,394
Deferred gas costs		**1,485**		-
Net operating loss		**-**		24,588
Total assets		**116,490**		168,715
Deferred income tax liabilities:				
Other post-retirement benefits		**89,494**		69,520
Accelerated depreciation and other plant related items		**876,235**		783,919
Losses/gains on reacquired debt		**1,047**		1,155
Income taxes recoverable through future rates		**33,324**		71,063
Deferred gas costs		**-**		1,696
Other		**4,775**		5,082
Total liabilities		**1,004,875**		932,435
Net accumulated deferred income tax assets (liabilities)	**$**	**(888,385)**	$	(763,720)

In June 2017, we filed our tax return for the year ended September 30, 2016.

The following table summarizes the change in unrecognized tax benefits during fiscal year 2017, 2016, 2015 and our total unrecognized tax benefits at September 30, under the provisions of ASC Topic 740, Income Taxes:

UNRECOGNIZED TAX BENEFITS

(In thousands)	2017		2016		2015	
Total unrecognized tax benefits, October 1,	**$**	**42,283**	$	38,627	$	32,613
Increases in tax positions relating to current year		**10,766**		10,645		12,848
Decreases in tax positions relating to prior year		**(5,040)**		(6,989)		(6,834)
Total unrecognized tax benefits, September 30,	**$**	**48,009**	$	42,283	$	38,627

During the year, the unrecognized tax benefits for WGL and Washington Gas increased by approximately $5.7 million relating to uncertain tax positions, primarily due to the change in tax accounting for repairs. If the amounts of unrecognized tax benefits are eventually realized, it would not materially impact the effective tax rate. It is reasonably possible that the amount of the unrecognized tax benefit with respect to some of WGL's and Washington Gas' uncertain tax positions will significantly increase or decrease in the next 12 months. The IRS completed its audit of the tax years related to the change in accounting method for repairs without proposing any changes, however, they could re-examine this issue in the future.

WGL and Washington Gas recognize any accrued interest associated with uncertain tax positions in interest expense and recognizes any accrued penalties associated with uncertain tax positions in other expenses in the statements of income. During the fiscal year ended September 30, 2017, 2016, and 2015, there was no accrued interest expense associated with uncertain tax positions.

NOTE 10 Pension and Other Post-Retirement Benefit Plans

Washington Gas maintains a qualified, trusteed, non-contributory defined benefit pension plan (qualified pension plan) covering most active and vested former employees of Washington Gas and certain employees of WGL subsidiaries. The non-contributory defined benefit pension plan is closed to all employees hired on or after January 1, 2010 and instead employees are eligible to receive supplemental contributions to their defined-contribution savings plan. Washington Gas accounts for the qualified pension plan and other post-retirement benefit plans under the provisions of ASC 715, *Compensation-Retirement Benefits.*

Several executive officers of Washington Gas also participate in a non-funded defined benefit supplemental executive retirement plan (DB SERP), a non-qualified pension plan. A rabbi trust has been established for the potential future funding of the DB SERP liability. The DB SERP was closed to new entrants beginning January 1, 2010 and instead, executive officers are eligible to participate in a non-funded defined contribution SERP (DC SERP). In addition, effective January 1, 2010, Washington Gas established a non-funded defined benefit restoration plan (DB restoration) for the purpose of providing supplemental pension and pension-related benefits to a select group of management employees.

WGL subsidiaries offer defined-contribution savings plans to all eligible employees. These plans allow participants to defer on a pre-tax or after-tax basis, a portion of their salaries for investment in various alternatives. We make matching contributions to the amounts contributed by employees in accordance with the specific plan provisions. Total matching contributions to our savings plans were $5.1 million, $5.1 million and $4.6 million during fiscal years ended September 30, 2017, 2016 and 2015, respectively. All employees not earning benefits in the qualified pension plan receive an employer provided supplemental contribution ranging from 4% to 6% depending on years of service. Total supplemental contributions to the plan were $2.9 million, $2.6 million and $2.1 million during fiscal years ended September 30, 2017, 2016 and 2015, respectively.

Washington Gas provides certain healthcare and life insurance benefits for retired employees of Washington Gas and certain employees of WGL subsidiaries. Substantially all employees of Washington Gas may become eligible for such benefits if they attain retirement status while working for Washington Gas. For eligible retirees and dependents not yet receiving Medicare benefits, Washington Gas provides medical, prescription drug and dental benefits through Preferred Provider Organization (PPO) or Health Maintenance Organization (HMO) plans. On April 24, 2014, Washington Gas replaced the existing retiree medical, prescription drug and dental benefit plan options for Medicare-eligible retirees age 65 and older with a special tax-free HRA plan effective January 1, 2015. With the introduction of the new plan, participating retirees and dependents will receive an annual subsidy to help purchase supplemental medical, prescription drug and dental coverage in the marketplace. As part of the new HRA plan, participants who enroll in a Medicare Part D prescription drug plan and meet the threshold for Medicare catastrophic prescription drug coverage will be eligible for an additional reimbursement of their out-of-pocket prescription drug costs in excess of the threshold. Retirees and dependents under age 65 will still be covered under the existing Washington Gas Light Company Retiree Medical Plan until they become eligible for Medicare at age 65 and can obtain coverage through the new HRA plan. Washington Gas accounts for these benefits under the provisions of ASC 715, *Compensation-Retirement Benefits.*

On September 25, 2015, the Washington Gas Light Company Retiree Medical Plan was amended to limit the aggregate cost of applicable employer-sponsored coverage, thereby avoiding the 40% excise tax enacted by the Patient Protection and Affordable Care Act of 2010. The resolution, which is effective September 30, 2015 applies to plan years beginning on or after January 1, 2018, and includes a limit of $11,850 per participant, with a maximum limit of $30,950 for family coverage. This amendment resulted in a prior service credit of $26.1 million.

Almost all costs associated with Washington Gas' defined benefit post-retirement plans have historically been, and are expected to be, recovered through Washington Gas' rates. Therefore, in accordance with ASC Topic 980 and ASC Topic 715, Washington Gas established a regulatory asset/liability for the substantial majority of the unrecognized costs/income associated with its defined benefit post-retirement plans. To the extent these amounts will not be recovered through Washington Gas' rates, they are recorded directly to "Accumulated other comprehensive loss, net of taxes."

Obligations and Assets

Washington Gas uses a measurement date of September 30 for its pension, and retiree healthcare and life insurance benefit plans. The following table provides certain information about Washington Gas' post-retirement benefits:

POST-RETIREMENT BENEFITS

(In millions)	Pension Benefits[a]		Health and Life Benefits	
Year Ended September 30,	**2017**	**2016**	**2017**	**2016**
Change in projected benefit obligation[b]				
Benefit obligation at beginning of year	**$ 1,069.3**	$ 947.5	**$ 324.3**	$ 299.9
Service cost	**16.5**	14.2	**5.8**	4.6
Interest cost	**38.4**	41.3	**11.7**	13.1
Change in plan benefits	**-**	0.5	**1.1**	-
Actuarial loss (gain)	**(28.2)**	110.5	**(18.9)**	19.5
Retiree contributions	**-**	-	**1.6**	2.3
Employer group waiver plan rebates	**-**	-	**0.2**	1.2
Benefits paid	**(48.5)**	(44.7)	**(16.8)**	(16.3)
Projected benefit obligation at end of year[b]	**$ 1,047.5**	$ 1,069.3	**$ 309.0**	$ 324.3
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 850.0**	$ 780.2	**$ 505.0**	$ 438.5
Actual return on plan assets	**68.6**	115.0	**48.1**	65.1
Company contributions	**4.4**	1.8	**8.2**	14.9
Retiree contributions and employer group waiver plan rebates	**-**	-	**1.8**	3.5
Expenses	**(2.0)**	(2.3)	**(5.8)**	(0.7)
Benefits paid	**(48.5)**	(44.7)	**(16.8)**	(16.3)
Fair value of plan assets at end of year	**$ 872.5**	$ 850.0	**$ 540.5**	$ 505.0
Funded status at end of year	**$ (175.0)**	$ (219.3)	**$ 231.5**	$ 180.7
Total amounts recognized on balance sheet				
Non-current asset	**$ -**	$ -	**$ 231.5**	$ 180.7
Current liability	**(6.5)**	(6.3)	**-**	-
Non-current liability	**(168.5)**	(213.0)	**-**	-
Total recognized	**$ (175.0)**	$ (219.3)	**$ 231.5**	$ 180.7

[a] *The DB SERP and DB Restoration, included in pension benefits in the table above, have no assets.*

[b] *For the Health and Life Benefits, the change in projected benefit obligation represents the accumulated benefit obligation.*

The following table provides the projected benefit obligation (PBO) and accumulated benefit (ABO) for the qualified pension plan, DB SERP and DB Restoration at September 30, 2017 and 2016.

PROJECTED AND ACCUMULATED BENEFIT OBLIGATION

(In millions)	Qualified Pension Plan		DB SERP		DB Restoration	
September 30,	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Projected benefit obligation	**$ 983.1**	$ 1,005.0	**$ 60.2**	$ 60.4	**$ 4.2**	$ 3.9
Accumulated benefit obligation	**$ 905.8**	$ 922.3	**$ 57.5**	$ 56.5	**$ 3.0**	$ 2.3

Amounts Recognized in Regulatory Assets/Liabilities and Accumulated Other Comprehensive Income

The following table provides amounts recorded to regulatory assets, regulatory liabilities and accumulated other comprehensive loss/(income) at September 30, 2017 and 2016:

UNRECOGNIZED COSTS/INCOME RECORDED ON THE BALANCE SHEET

(In millions)	Pension Benefits		Health and Life Benefits	
September 30,	**2017**	**2016**	**2017**	**2016**
Actuarial net loss (gain)	**$ 136.1**	$ 211.9	**$ (21.8)**	$ 18.1
Prior service cost (credit)	**1.2**	1.5	**(124.9)**	(142.5)
Total	**$ 137.3**	$ 213.4	**$ (146.7)**	$ (124.4)
Regulatory asset (liability)[a]	**$ 119.6**	$ 193.4	**$ (137.2)**	$ (118.0)
Pre-tax accumulated other comprehensive loss (gain)[b]	**17.7**	20.0	**(9.5)**	(6.4)
Total	**$ 137.3**	$ 213.4	**$ (146.7)**	$ (124.4)

[a] *The regulatory liability recorded on our balance sheets at September 30, 2017 and 2016 is net of a deferred income tax benefit of $2.2 million and $4.1 million, respectively.*

[b] *The total amount of accumulated other comprehensive loss recorded on our balance sheets at September 30, 2017 and 2016 is net of an income tax benefit of $3.6 million and $5.8 million, respectively.*

The following table provides amounts that are included in regulatory assets/liabilities and accumulated other comprehensive loss associated with our unrecognized pension and other post-retirement benefit costs that were recognized as components of net periodic benefit cost during fiscal year 2017.

AMOUNTS RECOGNIZED DURING FISCAL YEAR 2017

	Regulatory assets/liabilities		Accumulated other comprehensive loss	
(In millions)	Pension Benefits	Health and Life Benefits	Pension Benefits	Health and Life Benefits
Actuarial net loss	$ 19.9	$ 0.7	$ 2.1	$ -
Prior service cost (credit)	0.2	(16.7)	0.1	(0.9)
Total	$ 20.1	$ (16.0)	$ 2.2	$ (0.9)

The following table provides amounts that are included in regulatory assets/liabilities and accumulated other comprehensive loss associated with our unrecognized pension and other post-retirement benefit costs that are expected to be recognized as components of net periodic benefit cost during fiscal year 2018.

AMOUNTS TO BE RECOGNIZED DURING FISCAL YEAR 2018

	Regulatory assets/liabilities		Accumulated other comprehensive loss	
(In millions)	Pension Benefits	Health and Life Benefits	Pension Benefits	Health and Life Benefits
Actuarial net loss	$ 13.5	$ -	$ 2.1	$ -
Prior service cost (credit)	0.2	(16.5)	0.1	(1.1)
Total	$ 13.7	$ (16.5)	$ 2.2	$ (1.1)

Realized and unrealized gains and losses for assets under Washington Gas' post-retirement benefit plans are spread over a period of five years. Each year, 20% of the prior five years' asset gains and losses are recognized. The market-related value of assets is equal to the market value of assets less the following percentages of prior years' realized and unrealized gains and losses on equities: 80% of the prior year, 60% of the second prior year, 40% of the third prior year and 20% of the fourth prior year.

Net Periodic Benefit Cost

The components of the net periodic benefit costs (income) for fiscal years ended September 30, 2017, 2016 and 2015 related to pension and other post-retirement benefits were as follows:

COMPONENTS OF NET PERIODIC BENEFIT COSTS (INCOME)

(In millions)	Pension Benefits			Health and Life Benefits		
Year Ended September 30,	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Service cost	$ 16.5	$ 14.2	$ 15.5	$ 5.8	$ 4.6	$ 7.1
Interest cost	38.4	41.3	39.1	11.7	13.1	14.7
Expected return on plan assets	(41.0)	(40.9)	(44.6)	(22.1)	(20.4)	(20.8)
Recognized prior service cost (credit)	0.3	0.3	0.3	(17.7)	(17.7)	(15.3)
Recognized actuarial loss	22.0	16.9	18.7	1.9	1.2	4.4
Net periodic benefit cost	36.2	31.8	29.0	(20.4)	(19.2)	(9.9)
Amount allocated to construction projects	(6.4)	(5.6)	(4.6)	4.6	4.1	1.9
Amount deferred as regulatory asset (liability)-net	6.9	7.1	7.1	-	(0.2)	(0.2)
Amount charged (credited) to expense	$ 36.7	$ 33.3	$ 31.5	$ (15.8)	$ (15.3)	$ (8.2)

Amounts included in the line item "Amount deferred as regulatory asset/liability-net," as shown in the table above, represent the amortization of previously unrecovered costs of the applicable pension benefits or the health and life benefits as approved in the District of Columbia through 2019.

Assumptions

The weighted average assumptions used to determine net periodic benefit obligations and net periodic benefit costs were as follows:

BENEFIT OBLIGATIONS ASSUMPTIONS

	Pension Benefits		Health and Life Benefits	
September 30,	**2017**	**2016**	**2017**	**2016**
Discount rate[(a)]	**3.60%-3.90%**	3.40%-3.70%	**3.90%**	3.70%
Rate of compensation increase	**3.50%-4.10%**	3.50%-4.10%	**4.10%**	4.10%

(a) *The increase in the discount rate in fiscal year 2017 compared to prior year primarily reflects the increase in long-term interest rates.*

NET PERIODIC BENEFIT COST ASSUMPTIONS

	Pension Benefits			Health and Life Benefits		
Years Ended September 30,	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Discount rate[(a)]	**3.40%-3.70%**	4.10%-4.50%	4.00%-4.40%	**3.70%**	4.50%	4.40%
Expected long-term return on plan assets[(b)]	**5.75%**	6.00%	6.75%	**5.50%**	5.75%	6.25%
Rate of compensation increase[(c)]	**3.50%-4.10%**	3.50%-4.10%	3.50%-4.10%	**4.10%**	4.10%	4.10%

(a) *The changes in the discount rates over the last three fiscal years primarily reflect the changes in long-term interest rates.*

(b) *For health and life benefits, the expected returns for certain funds may be lower due to certain portions of income that are subject to an assumed income tax rate of 44.8%.*

(c) *The changes in the rate of compensation reflects the best estimates of actual future compensation levels including consideration of general price levels, productivity, seniority, promotion, and other factors such as inflation rates.*

Discount Rate

Washington Gas determines the discount rate based on a portfolio of high quality fixed-income investments (AA- as assigned by Standard & Poor's or Aa3 as assigned by Moody's or better) whose cash flows would cover our expected benefit payments.

Expected long-term return on plan assets

Washington Gas determines the expected long-term rate of return on plan assets by averaging the expected earnings for the target asset portfolio. In developing the expected rate of return assumption, Washington Gas evaluates an analysis of historical actual performance and long-term return projections, which gives consideration to our asset mix and anticipated length of obligation of our plan.

Mortality Assumptions

During the fiscal year ended September 30, 2015, Washington Gas adopted new mortality assumptions for its pension and other post-retirement benefit obligations, which reflect increased life expectancies in the U.S. The adoption of new mortality assumptions increased the projected benefit obligations for Washington Gas' pension and other post-retirement benefit by $46.8 million and $15.3 million, respectively. At September 30, 2017 and 2016 there were no changes to the mortality assumptions.

Healthcare cost trend

Washington Gas assumed the healthcare cost trend rates related to the accumulated post-retirement benefit obligation as of September 30, 2017, for non-Medicare eligible retirees, to be 6.3% for fiscal year 2018. Washington Gas expects the trend rate to decrease to 6.0% in fiscal year 2019 and 2.2% in fiscal year 2020, and remain at that level thereafter. The healthcare cost trend rate used to measure the accumulated post-retirement benefit obligation for non-Medicare eligible retirees as of September 30, 2016 was 6.3% for fiscal year 2017. This rate was expected to decrease to 3.2% in fiscal year 2018, 2.2% in fiscal year 2019 and remain at that level thereafter.

HEALTHCARE TREND

(In millions)	One Percentage-Point Increase	One Percentage-Point Decrease
Increase (decrease) total service and interest cost components	$ 0.6	$ (0.5)
Increase (decrease) post-retirement benefit obligation	$ 5.5	$ (4.9)

For Medicare eligible retirees age 65 and older that will receive a subsidy each year as a benefit from the HRA plan, Washington Gas assumed no increase to the annual subsidy in fiscal years 2017 and 2018 and a 3.0% increase thereafter in order to approximate possible future increases to the stipend. While the plan terms do not guarantee increases to the stipend, Washington Gas intends to review the stipend annually.

Investment Policies and Strategies

The investment objective of the qualified pension, healthcare, and life insurance benefit plans ("Plan" or "Plans") is to allocate each Plan's assets to appropriate investment asset classes (asset categories) so that the benefit obligations of each Plan are adequately funded, consistent with appropriate risk tolerance guidelines for the Plans' and Washington Gas' tolerance for risk. Washington Gas' portion of retired employee healthcare and life insurance benefits obligation is funded through two trusts: *(i)* the Washington Gas Light Company Post-retirement Benefit Master Trust for Retired Previously Union-Eligible Employees ("union-eligible trust") and *(ii)* the Washington Gas Light Company Post-retirement Benefit Master Trust for Retired Management Employees ("management trust").

In order to best achieve the investment objectives for each Plan, strategic allocation targets and ranges are established that control exposure to selected investment asset classes. Target qualified pension plan trust asset allocations are 32% U.S. Equities, 8% International Equities, 5% Real Estate and 55% Fixed Income. Target asset allocations are 50% U.S. Large-Cap Equities and 50% Fixed Income for the union-eligible trust. Target asset allocations are 60% U.S. Large-Cap Equities and 40% Fixed Income for the management trust. Actual asset balances are reviewed monthly and are allowed to range within plus or minus 5% or less of the target allocations. Assets are generally rebalanced to target allocations before actual amounts fall below or rise above the allowable ranges.

Asset/liability modeling (ALM) is used to test the benefits and risks of several potential strategic asset allocation mixes. Simulated investment performance results based on assumptions about expected return, volatility, and correlation characteristics of the selected asset classes are tested for their effects on contributions, pension expense, PBO funded status, and downside Value at Risk metrics over a ten-year planning time horizon. Important outcomes from past ALM studies include decisions to increase fixed income exposure, lengthen the duration of those fixed income assets and implement a dynamic asset allocation strategy that allows for the de-risking of the portfolio over time. Under this strategy, the target fixed income allocation percentage is increased by 5% for each 5% improvement in the qualified pension plan's funded ratio, as measured by an investment consultant. This strategy resulted in portfolio de-risking during May 2017 when Fixed Income and U.S. Equities exposures were increased and reduced, respectively.

The most recent pension plan ALM study was completed during November 2014. The study did not result in any changes to investment strategy. A new ALM study is expected to be presented in December 2017.

For the qualified pension plan, Washington Gas' funding policy is to contribute an amount sufficient to satisfy the minimum annual funding requirements under the Pension Protection Act. Any contributions above the minimum annual funding requirements would be limited to amounts that are deductible under appropriate tax law. For the healthcare and life insurance benefit plans, Washington Gas' funding policy is to contribute amounts that are collected from ratepayers.

Significant amounts of each various Plan's assets are managed by the same financial institution. Each Plan has a high exposure to U.S. based investments. There are no other significant risk concentrations related to investments in any entity, industry, country, commodity, or investment fund.

Commingled funds are employed in the management of qualified pension plan trust, management trust, and union-eligible trust assets. A publicly offerable mutual fund and a separately managed portfolio are also employed in the management of qualified pension plan trust and management trust assets, respectively.

U.S. and international equity assets are diversified across sectors, industries, and investment styles. Fixed income assets are primarily diversified across U.S. government and investment grade corporate debt instruments, with some exposure to foreign sovereign debt and minor exposure to non-investment-grade securities. Real estate is diversified geographically across the U.S. by property type.

The qualified pension plan's investment policy allows the use of futures, options, and other derivatives for purposes of reducing portfolio risk and as a low-cost option for gaining market exposure, but derivatives may not be used for leverage. The qualified pension plan's investment policy prohibits investments in Washington Gas securities. The prohibition applies to separately managed portfolios but does not apply to any commingled fund investments.

The following tables present the fair value of the pension plan assets and health and life insurance plan assets by asset category as of September 30, 2017 and 2016:

PENSION PLAN ASSETS

($ In millions)	Level 1	Level 2	Level 3	Total	% of Total
At September 30, 2017					
Cash and cash equivalents	**$ 0.7**	**$ -**	**$ -**	**$ 0.7**	**0.1%**
Equity securities					
Preferred Securities	**-**	**0.6**	**-**	**0.6**	**0.1**
Fixed income securities					
U.S. Treasuries	**-**	**140.9**	**-**	**140.9**	**16.2**
U.S. Corporate Debt	**-**	**232.3**	**-**	**232.3**	**26.6**
U.S. Agency Obligations and Government Sponsored Entities	**-**	**20.0**	**-**	**20.0**	**2.3**
Asset-Backed Securities	**-**	**2.0**	**-**	**2.0**	**0.2**
Municipalities	**-**	**14.9**	**-**	**14.9**	**1.7**
Non-U.S. Corporate Debt	**-**	**48.1**	**-**	**48.1**	**5.5**
Repurchase Agreement[(a)]	**-**	**3.7**	**-**	**3.7**	**0.4**
Other[(b)]	**-**	**6.7**	**-**	**6.7**	**0.8**
Mutual Funds[(c)]	**41.4**	**-**	**-**	**41.4**	**4.7**
Derivatives[(d)]	**-**	**1.9**	**-**	**1.9**	**0.2**
Total investments in the fair value hierarchy	**$ 42.1**	**$ 471.1**	**$ -**	**$ 513.2**	**58.8%**
Investments measured at net asset value using the NAV practical expedient[(e)]					
Commingled Funds and Pooled Separate Accounts[(f)]				**324.4**	**37.2%**
Private Equity/Limited Partnership[(g)]				**37.6**	**4.3%**
Total fair value of plan investments				**875.2**	**100.3%**
Net payable[(h)]				**(2.7)**	**(0.3)**
Total plan assets at fair value				**$ 872.5**	**100.0%**
At September 30, 2016					
Cash and cash equivalents	$ 0.3	$ -	$ -	$ 0.3	-%
Equity securities					
U.S. Small Cap	36.5	-	-	36.5	4.3
Preferred Securities	-	1.1	-	1.1	0.1
Fixed income securities					
U.S. Treasuries	-	135.4	-	135.4	15.9
U.S. Corporate Debt	-	200.6	-	200.6	23.6
U.S. Agency Obligations and Government Sponsored Entities	-	18.2	-	18.2	2.1
Asset-Backed Securities and Collateralized Mortgage Obligations	-	1.5	-	1.5	0.2
Municipalities	-	13.7	-	13.7	1.6
Non-U.S. Corporate Debt	-	45.5	-	45.5	5.4
Other[(b)]	-	6.8	-	6.8	0.8
Mutual Funds[(c)]	34.0	-	-	34.0	4.0
Derivatives[(d)]	-	1.2	-	1.2	0.2
Total investments in the fair value hierarchy	$ 70.8	$ 424.0	$ -	$ 494.8	58.2 %
Investments measured at net asset value using the NAV practical expedient[(e)]					
Commingled Funds and Pooled Separate Accounts[(f)]				$ 324.7	38.2%
Private Equity/Limited Partnership[(g)]				$ 31.8	3.8%
Total fair value of plan investments				851.3	100.2%
Net payable[(h)]				(1.3)	(0.2)
Total plan assets at fair value				$ 850.0	100.0%

(a) *This category includes Treasury Bills with a pre-commitment from the counterparty to repurchase the same securities on the next business day at an agreed-upon price.*

(b) *This category primarily includes non-U.S. government bonds as of September 30, 2017 and 2016.*

(c) *At September 30, 2017 and September 30, 2016, the investment in a mutual fund consisted primarily of common stock of non-U.S. based companies.*

(d) *At September 30, 2017 and 2016, this category included a combination of long-term U.S. Treasury interest rate future contracts, currency forwards, currency option interest rate swaps, and put and call options on both interest rate swaps and credit default swap index products.*

(e) *In accordance with ASC Topic 820, these investments are measured at fair value using NAV per share as a practical expedient and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliations of the fair value hierarchy to the statements of net assets available for plan benefits.*

(f) *At September 30, 2017, investments in commingled funds and a pooled separate account consisted primarily of 91% common stock U.S companies; 8% income producing properties located in the United States; and 1% short-term money market investments. As of September 30, 2016, investments in commingled funds and pooled separate accounts consisted primarily of 85% common stock of large-cap U.S companies; 14% income producing properties located in the United States; and 1% short-term money market investments.*

(g) *At September 30, 2017 and 2016, investments in a private equity/limited partnership consisted of common stock of international companies.*

(h) *At September 30, 2017 and September 30, 2016 this net payable primarily represents pending trades for investments purchased net of pending trades for investments sold and interest receivable.*

HEALTHCARE AND LIFE INSURANCE PLAN ASSETS

($ In millions)	Level 1	Level 2	Level 3	Total	% of Total
At September 30, 2017					
Cash and Cash Equivalents	**$ 2.6**	**$ -**	**$ -**	**$ 2.6**	**0.5%**
Fixed Income Securities					
U.S Agency Obligations	**-**	**1.7**	**-**	**1.7**	**0.3**
U.S. Treasuries	**-**	**36.0**	**-**	**36.0**	**6.7**
U.S. Corporate Debt	**-**	**41.9**	**-**	**41.9**	**7.8**
Municipalities	**-**	**3.6**	**-**	**3.6**	**0.7**
Non-U.S. Corporate Debt	**-**	**7.2**	**-**	**7.2**	**1.3**
Other[(a)]	**-**	**2.8**	**-**	**2.8**	**0.5**
Total investments in the fair value hierarchy	**$ 2.6**	**$ 93.2**	**$ -**	**$ 95.8**	**17.8%**
Investments measured at net asset value using the NAV practical expedient[(b)]					
Commingled Funds[(c)]				**444.0**	**82.1%**
Total fair value of plan investments				**539.8**	**99.9%**
Net receivable[(d)]				**0.7**	**0.1**
Total plan assets at fair value				**$ 540.5**	**100.0%**
At September 30, 2016					
Cash and Cash Equivalents	$ 2.2	$ -	$ -	$ 2.2	0.4%
Fixed Income Securities					
U.S Agency Obligations	-	1.7	-	1.7	0.3
U.S. Treasuries	-	33.3	-	33.3	6.6
U.S. Corporate Debt	-	38.2	-	38.2	7.6
Municipalities	-	4.1	-	4.1	0.8
Non-U.S. Corporate Debt	-	6.4	-	6.4	1.3
Other[(a)]	-	2.8	-	2.8	0.6
Total investments in the fair value hierarchy	$ 2.2	$ 86.5	$ -	$ 88.7	17.6%
Investments measured at net asset value using the NAV practical expedient[(b)]					
Commingled Funds[(c)]				415.6	82.3%
Total fair value of plan investments				504.3	99.9%
Net receivable[(d)]				0.7	0.1
Total plan assets at fair value				$ 505.0	100.0%

(a) *At September 30, 2017 and 2016, this category consisted primarily of non-U.S. government bonds.*

(b) *In accordance with ASC Topic 820, these investments are measured at fair value using Net Asset Value (NAV) per share as a practical expedient and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliations of the fair value hierarchy to the statements of net assets available for plan benefits.*

(c) *At September 30, 2017, investments held by commingled funds in which the plan invests consisted primarily of 67% of common stock of large-cap U.S. companies, 13% of U.S. Government fixed income securities and 20% of corporate bonds. At September 30, 2016, investments held by commingled funds in which the plan invests consisted primarily of 68% of common stock of large-cap U.S. companies,12% of U.S. Government fixed income securities and 20% of corporate bonds.*

(d) *At September 30, 2017 and September 30, 2016, this net receivable primarily represents pending trades for investments sold and interest receivable net of pending trades for investments purchased.*

Valuation Methods

Equity securities are traded on a securities exchange and are valued at the closing quoted market price as of the balance sheet date.

Mutual funds are valued at the quoted net asset value (NAV) per share, which is computed as of the close of business on the balance sheet date. Mutual funds with a publicly quoted NAV per share are classified as Level 1; mutual funds with a NAV per share that is not made publicly available are classified as Level 2. A pooled separate account which has redemption restrictions is classified as Level 3.

Commingled funds and pooled separate accounts are valued at the quoted NAV per unit, computed as of the close of business on the balance sheet date.

The Private Equity/Limited Partnership funds is valued at the quoted NAV, which is computed monthly and allocated based on ownership interest in partners' capital.

Fixed income securities are valued using pricing models that consider various observable inputs such as benchmark yields, reported trades, broker quotes and issuer spreads to determine fair value.

The Plans may engage in repurchase transactions. Generally, in accordance with the terms of a repurchase agreement, the Plans take possession of Treasury Bills in exchange for cash and the counterparty is obligated to repurchase, and the Plan to resell, the same securities at an agreed-upon price and time. The repurchase agreements have a one-day maturity and a fair value equal to the Plan's cash outlay at the time the agreement is executed.

Benefit Contribution

During fiscal year 2017, Washington Gas did not contribute to its qualified pension but did contribute $4.4 million to its non-funded DB SERP plan. During fiscal year 2018, Washington Gas does not expect to make a contribution to its qualified pension plan and expects to make a payment of $6.5 million to its non-funded DB SERP. During fiscal year 2017, Washington Gas contributed $8.3 million to its health and life insurance benefit plans. Washington Gas expects to make a contribution of $5.2 million to its health and life insurance benefit plans during fiscal year 2018.

Expected Benefit Payments

Expected benefit payments, including benefits attributable to estimated future employee service, which are expected to be paid over the next ten years are as follows:

EXPECTED BENEFIT PAYMENTS

(In millions)	Pension Benefits	Health and Life Benefits
2018	$ 52.7	$ 16.8
2019	54.7	17.0
2020	55.2	16.3
2021	59.0	16.3
2022	55.7	16.4
2023—2027	290.1	82.6

Regulatory Matters

A significant portion of the estimated pension and post-retirement medical and life insurance benefits apply to our regulated activities. Each regulatory commission having jurisdiction over Washington Gas requires it to fund amounts reflected in rates for post-retirement medical and life insurance benefits into irrevocable trusts.

District of Columbia Jurisdiction

The PSC of DC has approved a level of rates sufficient to recover annual costs associated with the qualified pension and other post-retirement benefits. Expenses of the SERP allocable to the District of Columbia are not recovered through rates. On May 15, 2013, the PSC of DC issued an order providing for recovery of unrecovered costs for pension and other post-retirement benefits as of the effective date of new rates. On March 3, 2017, the Commission issued an order that continued the amortization for prior unrecovered pension and other post-retirement benefits through 2019.

Maryland Jurisdiction

In Washington Gas' most recent rate case, the PSC of MD approved 50% of the expenses of the SERP for recovery through rates. The PSC of MD has approved a level of rates sufficient to recover pension and other post-retirement benefit costs as determined under GAAP.

Virginia Jurisdiction

On September 28, 1995, the SCC of VA issued a generic order that allowed Washington Gas to recover most costs determined under GAAP for post-retirement medical and life insurance benefits in rates over twenty years. The SCC of VA, however, set a forty-year recovery period of the transition obligation. As prescribed by GAAP, Washington Gas amortizes these costs over a twenty-year period. With the exception of the transition obligation, the SCC of VA has approved a level of rates sufficient to recover annual costs for all pension and other post-retirement medical and life insurance benefit costs determined under GAAP.

NOTE 11 Stock-Based Compensation

Stock-Based Compensation for Key Employees

We have stock-based awards outstanding in the form of performance shares and performance units. In March 2016, WGL adopted a shareholder-approved Omnibus Plan (2016 Plan) to replace, on a prospective basis, the Omnibus Incentive Plan (2007 Plan). Stock options, stock appreciation rights, restricted stock, deferred stock as a bonus or awards in lieu of obligations, dividend equivalents, other stock-based awards and cash awards may be granted under the 2016 Plan. The 2016 Plan allows WGL to issue up to 2,197,546 shares of common stock, subject to adjustment as provided by the plan, to persons including officers and key employees, designated by the Human Resources Committee of the Board of Directors. Refer to Note 6—*Common Stock*—W*GL* for amounts remaining to be issued under these plans.

In March 2007, WGL adopted a shareholder-approved 2007 Plan to replace, on a prospective basis, its then-existing plan. The 2007 Plan allowed WGL to issue up to 1,700,000 shares of common stock, subject to adjustment as provided by the plan, to persons including officers and key employees, designated by the Human Resources Committee of the Board of Directors.

During the fiscal year ended September 30, 2017, we granted performance shares and performance units under the 2016 Plan. We have not issued stock options under either the 2007 Plan or the 2016 Plan.

For the fiscal years ended September 30, 2017, 2016 and 2015, we recognized stock-based compensation expense of $16.4 million, $11.5 million and $15.5 million, respectively, and related income tax benefits of $6.5 million, $4.6 million and $6.2 million, respectively. As of September 30, 2017, total unrecognized compensation expense related to stock-based awards granted was $14.1 million. Performance shares and performance units comprised $5.4 million and $8.7 million of total unrecognized compensation expense, respectively. The total unrecognized compensation expense is expected to be recognized over a weighted average cost period of 1.7 years for performance shares and performance units.

Description of Awards

Performance shares earned pursuant to the terms of the grant are settled in an equivalent number of shares of WGL common stock and, for grants made in fiscal years 2017 and 2016, dividend equivalents paid in cash. Performance units earned pursuant to terms of the grant are paid in cash and are valued at $1.00 per performance unit. Performance units and performance shares provide for accelerated vesting upon a change in control of WGL under certain circumstances. We generally issue new shares of common stock to provide for redemption of performance shares; however, we may, from time to time, repurchase shares of our common stock on the open market in order to meet these requirements. Performance shares are accounted for as equity awards, and performance units are accounted for as liability awards as they are settled in cash. For information regarding the treatment of awards pursuant to the Merger, please refer to our definitive proxy statement on Schedule 14A filed with the SEC on March 31, 2017.

During fiscal 2017 and 2016, WGL granted performance shares and performance units that vest three years from the grant date based on the satisfaction of certain market or performance conditions. For half of the performance shares and half of the performance units granted in fiscal year 2017 and 2016, the actual award that vests will vary from zero to 200 percent of the target award based on WGL's total shareholder return relative to a selected peer group of companies, which is a market condition under ASC Topic 718. The remaining half of the performance shares granted in fiscal year 2017 and 2016 vest if our non-GAAP operating earnings per share on a diluted basis exceed dividends paid per share of common stock during the performance period, which is a performance condition under ASC Topic 718. For the remaining half of the performance units granted in fiscal year 2017 and 2016 the actual award that vests will vary from zero to 200 percent of the target award based on our return on equity ratio achieved during the performance period, which is a performance condition under ASC Topic 718.

Prior to fiscal 2016, WGL granted performance shares and performance units that vest three years from the grant date based on the satisfaction of a market condition. The actual performance shares and performance units that vest will vary from zero to 200 percent of the target award based on the Company's total shareholder return relative to a selected peer group of companies, which is a market condition under ASC Topic 718.

Performance Shares

The following table summarizes information regarding performance share activity during the fiscal year ended September 30, 2017.

PERFORMANCE SHARE ACTIVITY

	Year Ended September 30, 2017	
	Number of Shares[a]	**Weighted Average Grant-Date Fair Value**
Non-vested and outstanding, beginning of year	**292,179**	**$ 50.28**
Granted	**87,346**	**67.41**
Settled	**(94,858)**	**45.76**
Cancelled/forfeited	**(9,785)**	**56.72**
Non-vested and outstanding, end of year	**274,882**	**$ 57.05**

(a) *The number of common shares issued related to 190,315 non-vested performance shares outstanding at year-end may range from zero to 200% of this number based on our satisfaction of the market condition for total shareholder return relative to a selected peer group of companies. For 84,566 non-vested performance shares outstanding at year-end, the number of common shares issued may range from zero to 100% of this number based on our satisfaction of the performance condition for non-GAAP diluted earnings per share as compared to dividends paid per share.*

The total intrinsic value of the performance shares outstanding at September 30, 2017 for the shares expected to vest in the future was $26.7 million. The total intrinsic value of performance shares vested during the year ended September 30, 2017 and 2016 was $10.2 million and $9.2 million, respectively. There were no performance shares vested during the year ended September 30, 2015.

We measure compensation expense related to performance shares based on the fair value of the awards at their date of grant. The grant-date fair value of performance shares that vest based on the satisfaction of a performance condition is the WGL closing stock price on the day prior to the grant date, which was $62.70 for performance shares granted in fiscal 2017. The grant-date fair value of performance shares that vest based on the satisfaction of a market condition is estimated using a Monte Carlo simulation model and the following assumptions:

FAIR VALUE ASSUMPTIONS

Years Ended September 30,	2017	2016	2015
Expected stock-price volatility[a]	**20.40%**	19.10%	18.30%
Dividend yield[b]	**-**	-	4.18%
Weighted average grant-date fair value	**$ 72.11**	$ 67.30	$ 44.44

(a) *Expected stock-price volatility is based on the daily historical volatility of our common shares for the past three fiscal years.*

(b) *The dividend yield represents our annualized dividend yield on the closing market price of our common stock at the date of the grant. Performance shares granted in fiscal year 2017 and 2016 accrue dividend equivalents and, therefore, this assumption is not used when determining the grant-date fair value.*

We recognize compensation expense related to performance shares over the three-year requisite service period. Compensation expense for performance shares that vest based on the satisfaction of a performance condition is recognized for awards that ultimately vest. Compensation expense for performance shares that vest based on the satisfaction of a market conditions is recognized if the requisite service is rendered, but is not adjusted to reflect the ultimate achievement of the market condition.

Performance Units

The following table summarizes information regarding performance unit activity during the fiscal year ended September 30, 2017.

PERFORMANCE UNIT ACTIVITY

	Year Ended September 30, 2017
	Number of Units[(a)]
Non-vested and outstanding, beginning of year	13,724,718
Granted	5,476,846
Settled	(4,051,340)
Cancelled/forfeited	(518,226)
Non-vested and outstanding, end of year	14,631,998

(a) *The number of performance units vested related to 9,543,099 non-vested performance units outstanding at year-end may range from zero to 200% of this number based on our satisfaction of the market condition for total shareholder return relative to a selected peer group of companies. For 5,088,899 non-vested performance units outstanding at year-end, the number of performance units vested may range from zero to 200% of this number based on our satisfaction of the performance condition for the return on equity ratio achieved during the performance period.*

The total fair value of performance units outstanding at September 30, 2017 for the units expected to vest in the future was $26.3 million. As of September 30, 2017 and 2016, we recorded a current and deferred liability of $17.6 million and $13.6 million, respectively, related to our performance units. The current liability was recorded in "Accounts payable and other accrued liabilities—other" in the amounts of $8.9 million and $6.9 million at September 30, 2017 and 2016, respectively. The deferred liability was recorded in "Deferred Credits—other" in the amounts of $8.7 million and $6.7 million, at September 30, 2017 and 2016, respectively. During the fiscal years ended September 30, 2017 and 2016, we paid $6.9 million and $6.4 million, respectively, in cash to settle performance unit awards.

Our performance units are liability awards as they settle in cash; therefore, we measure and record compensation expense for these awards based on their fair value at the end of each period until their vesting date. The percentage of the fair value that is accrued as compensation expense at the end of each period equals the percentage of the requisite service that has been rendered at that date. Consequently, fluctuations in earnings may result, that do not occur under the accounting requirements for our performance shares.

The fair value of each performance unit that vests based on the satisfaction of a performance condition is $1.00. The amount of total compensation cost to be recognized for these performance units is a function of this fair value and the number of awards vested as a result of the performance condition being met and the requisite service provided. The fair value of each performance unit that vests based on the satisfaction of a market condition is estimated using a Monte Carlo simulation model and the following assumptions:

FAIR VALUE ASSUMPTIONS

	September 30, 2017	
	10/1/2016 Grant	10/1/2015 Grant
Expected stock-price volatility[(a)]	19.20%	17.30%

(a) *Expected stock-price volatility is based on the daily historical volatility of our common shares for a period equal to the remaining term of the performance units.*

The amount of total compensation cost to be recognized for these performance units is a function of this estimated fair value and the number of awards granted for which the requisite service is provided.

Stock Grants to Directors

Non-employee directors receive a portion of their annual retainer fee in the form of common stock through the Directors' Stock Compensation Plan. Up to 270,000 shares of common stock may be awarded under the plan. Shares granted to directors were approximately 10,000, 13,000 and 15,100 for the fiscal years ended September 30, 2017, 2016 and 2015, respectively. For those years, the weighted average fair value of the stock on the grant dates was $76.28, $62.99, and $54.05, respectively. Shares awarded to the participants; (i) vest immediately and cannot be forfeited; (ii) may be sold or transferred (subject to WGL's stock ownership guidelines) and (iii) have voting and dividend rights. For each of the fiscal years ended September 30, 2017, 2016 and 2015, WGL recognized stock-based compensation expense related to stock grants of $0.8 million, net of related income tax benefits of $0.3 million, respectively.

NOTE 12 Environmental Matters

We are subject to federal, state and local laws and regulations related to environmental matters. These laws and regulations may require expenditures over a long time frame to control environmental effects. Almost all of the environmental liabilities we have recorded are for costs expected to be incurred to remediate sites where we or a predecessor affiliate operated MGPs. Estimates of liabilities for environmental response costs are difficult to determine with precision because of the various factors that can affect their ultimate level. These factors include, but are not limited to, the following:

- the complexity of the site;
- changes in environmental laws and regulations at the federal, state and local levels;
- the number of regulatory agencies or other parties involved;
- new technology that renders previous technology obsolete or experience with existing technology that proves ineffective;
- the level of remediation required; and
- variations between the estimated and actual period of time that must be dedicated to respond to an environmentally-contaminated site.

Washington Gas has identified up to ten sites where it or its predecessors may have operated MGPs. Washington Gas last used any such plant in 1984. In connection with these operations, we are aware that coal tar and certain other by-products of the gas manufacturing process are present at or near some former sites, and may be present at others. Based on the information available to us, we have concluded that none of the sites are likely to present an unacceptable risk to human health or the environment, and either the appropriate remediation is being undertaken or Washington Gas believes no remediation is necessary.

At September 30, 2017 and 2016, Washington Gas reported a liability of $7.7 million and $8.2 million, respectively, on an undiscounted basis related to future environmental response costs. These estimates principally include the minimum liabilities associated with a range of environmental response costs expected to be incurred. At September 30, 2017 and 2016, Washington Gas estimated the maximum liability associated with all of its sites to be approximately $24.0 million and $18.6 million, respectively. The estimates were determined by Washington Gas' environmental experts, based on experience in remediating MGP sites and advice from legal counsel and environmental consultants. The variation between the recorded and estimated maximum liability primarily results from differences in the number of years that will be required to perform environmental response processes and the extent of remediation that may be required. Washington Gas is currently conducting a remedial investigation and feasibility study of potential contamination in the Anacostia River associated with and adjacent to one of Washington Gas' former MGP sites under a 2012 consent decree with the District of Columbia and federal governments.

Washington Gas received a letter in February 2016 from the District of Columbia and National Park Service regarding the Anacostia River Sediment Project, indicating that the District of Columbia is conducting a separate remedial investigation and feasibility study of the river to determine if and what cleanup measures may be required and to prepare a natural resource damage assessment. The sediment project draft report identifies one of Washington Gas' former MGP sites as one of seventeen potential environmental cleanup sites. During the fiscal year ended September 30, 2017, Washington Gas received a request for information related to three Washington Gas properties: the previously identified former MGP site under the 2012 consent decree, one other former MGP site and another Washington Gas location. We are not able to estimate the total amount of potential damages or timing associated with the District of Columbia's environmental investigation on the Anacostia River at this time. While an allocation method has not been established, Washington Gas has accrued an amount based on a potential range of estimates.

Regulatory orders issued by the PSC of MD allow Washington Gas to recover the costs associated with the sites applicable to Maryland over the period ending in 2025. Rate orders issued by the PSC of DC allow Washington Gas a three-year recovery of prudently incurred environmental response costs, and allow Washington Gas to defer additional costs incurred between rate cases. Regulatory orders from the SCC of VA have generally allowed the recovery of prudent environmental remediation costs to the extent they were included in the underlying financial data supporting an application for rate change.

At September 30, 2017 and 2016, Washington Gas reported a regulatory asset of $2.5 million and $1.3 million, respectively, for the portion of environmental response costs that are expected to be recoverable in future rates.

We do not expect that the ultimate impact of these matters will have a material effect on our financial position, cash flows, capital expenditures, earnings or competitive position.

NOTE 13 Commitments and Contingencies

Operating Leases

Minimum future rental payments under operating leases over the next five years and thereafter are as follows:

MINIMUM PAYMENTS UNDER OPERATING LEASES

(In millions)		
2018	$	8.5
2019		5.4
2020		8.1
2021		8.5
2022		8.4
Thereafter		89.8
Total	$	**128.7**

Rent expense totaled $8.7 million, $8.4 million and $6.0 million in fiscal years ended September 30, 2017, 2016 and 2015, respectively.

Regulated Utility Operations

Natural Gas Contracts—Minimum Commitments

At September 30, 2017, Washington Gas had service agreements with four pipeline companies that provide direct service for firm transportation and/or storage services. These agreements, which have expiration dates ranging from fiscal years 2018 to 2034, require Washington Gas to pay fixed charges each month. Additionally, Washington Gas had agreements for other pipeline and peaking services with expiration dates ranging from 2018 to 2027. These agreements were entered into based on current estimates of growth of the Washington Gas system, together with other factors, such as current expectations of the timing and extent of unbundling initiatives in the Washington Gas service territory.

The following table summarizes the minimum contractual payments that Washington Gas will make under its pipeline transportation, storage and peaking contracts, as well as minimum contractual payments to purchase natural gas at prices based on market conditions during the next five fiscal years and thereafter.

WASHINGTON GAS CONTRACT MINIMUMS

(In millions)	Pipeline Contracts[(a)]	Gas Purchase Commitments[(b)]
2018	$ 206.7	$ 451.0
2019	221.3	378.3
2020	220.4	361.4
2021	211.8	363.7
2022	207.4	367.0
Thereafter	1,036.3	2,701.6
Total	**$ 2,103.9**	**$ 4,623.0**

(a) *Represents minimum payments for natural gas transportation, storage and peaking contracts that have expiration dates through fiscal year 2034.*

(b) *Includes known and reasonably likely commitments to purchase natural gas. Cost estimates are based on forward market prices at September 30, 2017.*

When a customer selects a third party marketer to provide supply, Washington Gas generally assigns pipeline and storage capacity to unregulated third party marketers to deliver gas to Washington Gas' city gate. In order to provide the gas commodity to customers who do not select an unregulated third party marketer, Washington Gas has a commodity acquisition plan to acquire the natural gas supply to serve the customers.

To the extent these commitments are to serve its customers, Washington Gas has rate provisions in each of its jurisdictions that would allow it to continue to recover these commitments in rates. Washington Gas also actively manages its supply portfolio to ensure its sales and supply obligations remain balanced. This reduces the likelihood that the contracted supply commitments would exceed supply obligations. However, to the extent Washington Gas were to determine that changes in regulation would cause it to discontinue recovery of these costs in rates, Washington Gas would be required to charge these costs to expense without any corresponding revenue recovery. If this occurred, depending upon the timing of the occurrence, the related impact on our financial position, results of operations and cash flows would likely be significant.

Silver Spring, Maryland Incident

Washington Gas continues to support the investigation by the NTSB into the August 10, 2016 explosion and fire at an apartment complex on Arliss Street in Silver Spring, Maryland, the cause of which has not been determined. Additional information will be made available by the NTSB at the appropriate time. On November 2, 2016, two civil actions were filed in the District of Columbia Superior Court against WGL and Washington Gas (as well as a property management company that is not affiliated with WGL or Washington Gas), by residents of the apartment complex. In one lawsuit, twenty-nine plaintiffs sought unspecified damages for, among others, wrongful death and personal injury. The other action was a class action suit seeking total damages stated to be less than $5 million for, among others, property damage and various counts relating to the loss of the use of the premises. Both actions alleged causes of action for negligence, product liability, and declaratory relief. The cases were dismissed on November 16, 2017. Thirty-five civil actions have been filed in the Circuit Court for Montgomery County, Maryland seeking unspecified damages for personal injury and property damage. We maintain excess liability insurance coverage from highly-rated insurers, subject to a nominal self-insured retention. We believe that this coverage will be sufficient to cover any significant liability to it that may result from this incident. Management is unable to determine a range of potential losses that are reasonably possible of occurring and therefore we have not recorded a reserve associated with this incident. Washington Gas was invited by the NTSB to be a party to the investigation and in that capacity continues to work closely with the NTSB to help determine the cause of this incident.

Regulatory Contingencies

Certain legal and administrative proceedings incidental to our business, including regulatory contingencies, involve WGL and/or its subsidiaries. In our opinion, we have recorded an adequate provision for probable losses or refunds to customers for regulatory contingencies related to these proceedings.

District of Columbia Jurisdiction

Investigation into Washington Gas' Cash Reimbursement to Competitive Service Providers (CSPs).

On August 5, 2014, the Office of the People's Counsel's (OPC) of DC filed a complaint with the PSC of DC requesting that the Commission open an investigation into Washington Gas' payments to CSPs to cash-out over-deliveries of natural gas supplies during the 2008-2009 winter heating season. OPC asserted that Washington Gas made excess payments in the amount of $2.4 million to CSPs. On December 19, 2014, the PSC of DC granted the OPC of DC's request and opened a formal investigation. On October 27, 2015, the PSC of DC issued an order finding that Washington Gas, in performing the cash-out, had violated D.C. Code 34-1101's requirement that no service shall be provided without Commission approval. The PSC of DC directed Washington Gas to provide calculations showing what the impact would have been had Washington Gas made volumetric adjustments to CSP deliveries as of April 2009, which Washington Gas calculates would result in a refund of approximately $2.4 million, which was recognized by WGL in fiscal year 2015. On February 3, 2016, the PSC of DC issued an order denying OPC's application for reconsideration and granting in part, and denying in part, Washington Gas' application for reconsideration. Washington Gas and OPC filed initial briefs on February 18, 2016, and reply briefs on February 29, 2016, on the issue of whether there is a more reasonable way to reconcile the over-deliveries by CSPs such as through volumetric adjustments or through cash payments. On August 11, 2016, the PSC of DC issued an order requiring Washington Gas to refund approximately $2.4 million through the ACA. On August 26, 2016, Washington Gas filed its plan for implementing the $2.4 million refund within a 12-month period. The PSC of DC issued an Order on October 7, 2016, directing WGL to apply the refunds consistent with the next annual 12-month ACA reporting period which is December 1, 2016 to November 30, 2017. During the fiscal year ended September 30, 2017, Washington Gas issued refunds of approximately $1.9 million on active customer bills. Additionally, Washington gas billed third-party CSPs approximately $1.4 million to cover amounts credited to firm rate-payers in connections with the DC order.

Virginia Jurisdiction

Virginia Rate Case

On June 30, 2016, Washington Gas filed an application with the SCC of VA to increase its base rates for natural gas service by $45.6 million, which includes $22.3 million of revenue associated with natural gas pipeline replacement initiatives previously approved by the Commission and paid by customers through a monthly rider. Additionally, the proposed rate increase includes provisions designed to deliver the benefits of natural gas to more customers that include: (i) facilitating conversion to natural gas in locations already served by Washington Gas; (ii) expanding the natural gas system to high-growth communities in Virginia and (iii) research and development that we believe will enable innovations to enhance service for our customers.

Interim rates went into effect, subject to refund, in the December 2016 billing cycle. Intervenors filed testimony on January 31, 2017, Staff of the SCC of VA filed testimony on February 28, 2017, and Washington Gas filed its rebuttal testimony on March 28, 2017. On April 17, 2017, Washington Gas filed with the SCC of VA a unanimous settlement as to a specific annual revenue increase, but not as to a specific return on equity, specific accounting adjustments, or specific ratemaking methodologies, except as otherwise set forth therein. The Stipulation sets forth, for purposes of settlement, a base rate increase of $34 million (of which $14.1 million represents incremental base rate revenues over and above the inclusion of SAVE Plan costs which were previously recovered through monthly surcharges). For purposes of the settlement, the mid-point of the return on equity range of 9.0-10.0% will be used in any application or filing, other than a change in base rates, effective December 1, 2016. On June 30, 2017, the Chief Hearing Examiner issued a report recommending that the Commission approve the Stipulation. On September 8, 2017, Washington Gas received a final order from the Commission accepting settlement subject to minor modifications to Washington Gas' System Expansion Proposals. All parties agreed to a Revised Stipulation filed on September 20, 2017, reflecting the Commission's denial of one of the System Expansion Proposals and Washington Gas' withdrawal of the second one. The Commission issued its final order approving the revised stipulation on September 25, 2017. Refunds to customers, which have been accrued by Washington Gas at September 30, 2017, will be made related to the interim billings in accordance with the final order.

Non-Utility Operations

WGL Energy Services enters into contracts to purchase natural gas and electricity designed to match the duration of its sales commitments, and to secure a margin on estimated sales over the terms of existing sales contracts. WGL Midstream enters into contracts to acquire, invest in, manage and optimize natural gas storage and transportation assets. Gas purchase commitments increased during fiscal year 2017 due to purchase commitments related to investment pipeline infrastructure and long-term sales agreements.

The following table summarizes the minimum commitments and contractual obligations of WGL Energy Services and WGL Midstream for the next five fiscal years and thereafter.

CONTRACT MINIMUMS

	WGL Energy Services			WGL Midstream		
(In millions)	Gas Purchase Commitments[(a)]	Pipeline Contracts[(b)]	Electric Purchase Commitments[(c)]	Gas Purchase Commitments[(d)]	Pipeline Contracts[(b)]	Total
2018	$ 143.8	$ 3.4	$ 342.0	$ 712.9	$ 42.6	$ 1,244.7
2019	78.5	0.9	201.4	1,385.2	85.8	1,751.8
2020	30.0	0.5	110.0	1,450.1	89.4	1,680.0
2021	7.3	0.4	43.8	1,359.0	88.2	1,498.7
2022	0.4	0.3	7.4	1,307.0	85.9	1,401.0
Thereafter	-	0.6	1.5	20,130.0	1,044.3	21,176.4
Total	**$ 260.0**	**$ 6.1**	**$ 706.1**	**$ 26,344.2**	**$ 1,436.2**	**$ 28,752.6**

(a) *Represents fixed price commitments with city gate equivalent deliveries.*
(b) *Represents minimum payments for natural gas transportation and storage contracts that have expiration dates through fiscal year 2044.*
(c) *Represents electric purchase commitments that are based on existing fixed price and fixed volume contracts. Includes $14.7 million of commitments related to renewable energy credits.*
(d) *Includes known and reasonably likely commitments to purchase natural gas. Cost estimates are based on forward market prices as of September 30, 2017. Certain of our gas purchase agreements have optionality, which may cause increases in these commitments.*

Financial Guarantees

WGL has guaranteed payments primarily for certain commitments on behalf of certain subsidiaries. At September 30, 2017, these guarantees totaled $30.7 million, $167.8 million, $124.3 million and $389.1 million for Washington Gas, WGL Energy Services, WGL Energy Systems and WGL Midstream, respectively. At September 30, 2017, WGL also had guarantees on behalf of other subsidiaries totaling $2.1 million. The amount of such guarantees is periodically adjusted to reflect changes in the level of WGL's financial exposure related to these commitments. For all of our financial guarantees, WGL may cancel any or all future obligations upon written notice to the counterparty, but WGL would continue to be responsible for the obligations created under the guarantees prior to the effective date of the cancellation. WGL has also guaranteed payments for certain of our external partners. At September 30, 2017, these guarantees totaled $13.5 million and the fair value of these guarantees was insignificant.

Antero Contract

Washington Gas and WGL Midstream contracted in June 2014 with Antero Resources Corporation (Antero) to buy gas from Antero at invoiced prices based on an index, and at a delivery point, specified in the contracts. Since deliveries began, however, the index price paid has been more than the fair market value at the same physical delivery point, resulting in losses to date of $25.0 million. Accordingly, Washington Gas and WGL Midstream notified Antero that it sought to apply a provision of the contracts that would permit a new index to be established. Antero objected, claiming that the contract provisions permitting re-pricing did not apply, unless Antero itself chose to sell gas at cheaper prices at the delivery point (which Antero claimed it had not). The dispute was arbitrated in January 2017, and the arbitral tribunal ruled in favor of Antero on the applicability of the re-pricing mechanism. However, the tribunal ruled that it lacked authority to determine whether Antero was in breach of its obligation to deliver gas to Washington Gas and WGL Midstream at a point where they could obtain the higher pricing. Accordingly, Washington Gas and WGL Midstream filed suit in state court in Colorado for a determination of this issue. The state court granted Antero's motion to dismiss the case and the case is currently on appeal. Separately, Antero has initiated suit against Washington Gas and WGL Midstream, claiming that they have failed to purchase specified daily quantities of gas and seeking alleged cover damages exceeding $80 million as of October 24, 2017, which amount continues to accumulate daily according to Antero's complaint. Washington Gas and WGL Midstream oppose both the validity and amount of Antero's claim. WGL believes the probability that Antero could succeed in collecting these penalties is remote and therefore, no accrual was made as of September 30, 2017.

NOTE 14 Derivative and Weather-Related Instruments

Derivative Instruments

Regulated Utility Operations

Washington Gas enters into contracts that qualify as derivative instruments and are accounted for under ASC Topic 815. These derivative instruments are recorded at fair value on our balance sheets and Washington Gas does not currently designate any derivatives as hedges under ASC Topic 815. Washington Gas' derivative instruments relate to: (i) Washington Gas' asset optimization program; (ii) managing price risk associated with the purchase of gas to serve utility customers and (iii) managing interest rate risk.

Asset Optimization

Washington Gas optimizes the value of its long-term natural gas transportation and storage capacity resources during periods when these resources are not being used to physically serve utility customers. Specifically, Washington Gas utilizes its transportation capacity assets to benefit from favorable natural gas prices between different geographic locations and utilizes its storage capacity assets to benefit from favorable natural gas prices between different time periods. As part of this asset optimization program, Washington Gas enters into physical and financial derivative transactions in the form of forwards, futures and option contracts with the primary objective of securing operating margins that Washington Gas will ultimately realize. The derivative transactions entered into under this program are subject to mark-to-market accounting treatment under ASC 820.

Regulatory sharing mechanisms provide for the annual realized profit from these transactions to be shared between Washington Gas' shareholders and customers; therefore, changes in fair value are recorded through earnings, or as regulatory assets or liabilities to the extent that it is probable that realized gains and losses associated with these derivative transactions will be included in the rates charged to customers when they are realized. Unrealized gains and losses recorded to earnings may cause significant period-to-period volatility; this volatility does not change the operating margins that Washington Gas expects to ultimately realize from these transactions through the use of its storage and transportation capacity resources.

All physically and financially settled contracts under our asset optimization program are reported on a net basis in the statements of income in "Utility cost of gas." Total net margins recorded to "Utility cost of gas" after sharing and management fees associated with all asset optimization transactions for the fiscal year ended September 30, 2017 was a net gain of $82.9 million including an unrealized gain of $49.3 million. During the fiscal year ended September 30, 2016, we recorded a net gain of $43.8 million including an unrealized gain of $12.0 million. During the fiscal year ended September 30, 2015, we recorded a net gain of $27.9 million including an unrealized loss of $6.3 million.

Managing Price Risk

To manage price risk associated with acquiring natural gas supply for utility customers, Washington Gas enters into physical and financial derivative transactions in the form of forward, option and other contracts, as authorized by its regulators. Any gains and losses associated with these derivatives are recorded as regulatory liabilities or assets, respectively, to reflect the rate treatment for these economic hedging activities.

Managing Interest-Rate Risk

Washington Gas may utilize derivative instruments that are designed to minimize the risk of interest-rate volatility associated with planned issuances of debt securities. Any gains and losses associated with these types of derivatives are recorded as regulatory liabilities or assets, respectively, and amortized in accordance with regulatory requirements, typically over the life of the related debt.

Non-Utility Operations

Optimization

WGL Midstream enters into derivative contracts for the purpose of optimizing its storage and transportation capacity as well as managing the transportation and storage assets on behalf of third parties. WGL Midstream does not designate these derivatives as hedges under ASC Topic 815; therefore, changes in the fair value of these derivative instruments are reflected in the earnings of our non-utility operations and may cause significant period-to-period volatility in earnings.

Managing Price Risk

WGL Energy Services enters into certain derivative contracts as part of its strategy to manage the price risk associated with the sale and purchase of natural gas and electricity. WGL Energy Services designates a portion of these physical contracts related to the purchase of natural gas and electricity to serve our customers as "normal purchases and normal sales" and therefore, they are not subject to the fair value accounting requirements of ASC Topic 815. Derivative instruments not designated as "normal purchases and normal sales" are recorded at fair value on our consolidated balance sheets, and changes in the fair value of these derivative instruments are reflected in the earnings of our non-utility operations, which may cause significant period-to-period volatility in earnings. WGL Energy Services does not designate derivatives as hedges under ASC Topic 815.

Managing Interest-Rate Risk

WGL utilizes derivative instruments that are designed to limit the risk of interest-rate volatility associated with future debt issuances.

At September 30, 2017, WGL had $250 million of forward starting interest rate swaps.WGL had designated these interest rate swaps as cash flow hedges in anticipation of a 30-year debt issuance in January 2018 and reported the effective portion of changes in fair value is reported as a component of other comprehensive income (loss). As a result of certain covenants related to the proposed merger with AltaGas, in January 2017, WGL de-designated these hedges and any further changes in the fair value of the interest rate swaps will be recorded to interest expense. The remaining balance in accumulated other comprehensive income at September 30, 2017 is $6.4 million related to these hedges. Refer to Note 21 — *Planned Merger with AltaGas Ltd.* for a discussion of the proposed merger.

Consolidated Operations

Reflected in the tables below is information for WGL and Washington Gas. The information for WGL includes derivative instruments for both utility and non-utility operations.

At September 30, 2017 and 2016, respectively, the absolute notional amounts of our derivatives are as follows:

ABSOLUTE NOTIONAL AMOUNTS OF OPEN POSITIONS ON DERIVATIVE INSTRUMENTS

Derivative transactions	Notional Amounts	
September 30, 2017	**WGL Holdings**	**Washington Gas**
Natural Gas *(In millions of therms)*		
Asset optimization & trading	**21,663.5**	**11,223.0**
Retail sales	**124.3**	**-**
Other risk-management activities	**1,546.7**	**1,181.0**
Electricity *(In millions of kWhs)*		
Retail sales	**10,011.7**	**-**
Other risk-management activities[(a)]	**22,962.1**	**-**
Interest Rate Swaps *(In millions of dollars)*	**$ 250.0**	**$ -**
September 30, 2016		
Natural Gas *(In millions of therms)*		
Asset optimization & trading	21,084.5	12,725.0
Retail sales	50.2	-
Other risk-management activities	1,789.0	1,309.0
Electricity *(In millions of kWhs)*		
Retail sales	4,377.5	-
Other risk-management activities[(a)]	21,070.4	-
Interest Rate Swaps *(In millions of dollars)*	$ 250.0	$ -

(a) *Comprised primarily of financial swaps, financial transmission rights and physical forward purchases.*

The following tables present the balance sheet classification for all derivative instruments as of September 30, 2017 and 2016.

WGL HOLDINGS, INC.
BALANCE SHEET CLASSIFICATION OF DERIVATIVE INSTRUMENTS

(In millions)	Derivative Instruments Not Designated as Hedging Instruments		Derivative Instruments Designated as Hedging Instruments			
As of September 30, 2017	**Gross Derivative Assets**	**Gross Derivative Liabilities**	**Gross Derivative Assets**	**Gross Derivative Liabilities**	**Netting of Collateral**	**Total[(a)]**
Current Assets—Derivatives	**$ 26.6**	**$ (11.3)**	**$ -**	**$ -**	**$ -**	**$ 15.3**
Deferred Charges and Other Assets—Derivatives	**38.9**	**(0.4)**	**-**	**-**	**(0.1)**	**38.4**
Accounts Payable	**1.0**	**-**	**-**	**-**	**-**	**1.0**
Current Liabilities—Derivatives	**10.9**	**(57.0)**	**-**	**-**	**2.1**	**(44.0)**
Deferred Credits—Derivatives	**19.2**	**(148.8)**	**-**	**-**	**7.0**	**(122.6)**
Total	**$ 96.6**	**$ (217.5)**	**$ -**	**$ -**	**$ 9.0**	**$ (111.9)**
As of September 30, 2016						
Current Assets—Derivatives	$ 24.0	$ (5.5)	$ -	$ -	$ -	$ 18.5
Deferred Charges and Other Assets—Derivatives	55.6	(0.6)	-	-	-	55.0
Current Liabilities—Derivatives	18.3	(113.2)	-	-	12.6	(82.3)
Deferred Credits—Derivatives	6.4	(279.3)	0.2	(43.1)	11.6	(304.2)
Total	$ 104.3	$ (398.6)	$ 0.2	$ (43.1)	$ 24.2	$ (313.0)

(a) *WGL has elected to offset the fair value of recognized derivative instruments against the right to reclaim or the obligation to return collateral for derivative instruments executed under the same master netting arrangement in accordance with ASC 815. All recognized derivative contracts and associated financial collateral subject to a master netting arrangement or similar that is eligible for offset under ASC 815 have been presented net in the balance sheet.*

WASHINGTON GAS LIGHT COMPANY
BALANCE SHEET CLASSIFICATION OF DERIVATIVE INSTRUMENTS[(b)]

(In millions) **As of September 30, 2017**	**Gross Derivative Assets**	**Gross Derivative Liabilities**	**Total[(a)]**
Current Assets—Derivatives	**$ 7.5**	**$ (2.4)**	**$ 5.1**
Deferred Charges and Other Assets—Derivatives	**16.5**	**(0.3)**	**16.2**
Current Liabilities—Derivatives	**-**	**(30.3)**	**(30.3)**
Deferred Credits—Derivatives	**-**	**(112.3)**	**(112.3)**
Total	**$ 24.0**	**$ (145.3)**	**$ (121.3)**
As of September 30, 2016			
Current Assets—Derivatives	$ 11.7	$ (4.4)	$ 7.3
Deferred Charges and Other Assets—Derivatives	26.2	(0.6)	25.6
Current Liabilities—Derivatives	1.9	(60.2)	(58.3)
Deferred Credits—Derivatives	-	(232.0)	(232.0)
Total	$ 39.8	$ (297.2)	$ (257.4)

(b) *Washington Gas did not have any derivative instruments outstanding that were designated as hedging instruments at September 30, 2017 or 2016.*

The following tables present all gains and losses associated with derivative instruments for the years ended September 30, 2017, 2016 and 2015.

GAINS AND LOSSES ON DERIVATIVE INSTRUMENTS

(In millions)	WGL Holdings, Inc.			Washington Gas		
Fiscal Year Ended September 30,	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Recorded to income						
Operating revenues—non-utility	**$ 30.8**	$ 5.8	$ 71.3	**$ -**	$ -	$ -
Utility cost of gas	**50.1**	12.1	(14.5)	**50.1**	12.1	(14.5)
Non-utility cost of energy-related sales	**33.5**	33.5	(43.7)	**-**	-	-
Interest expense	**(5.8)**	(0.2)	(0.6)	**-**	-	-
Recorded to regulatory assets						
Gas costs	**77.2**	13.9	(18.4)	**77.2**	13.9	(18.4)
Other[(a)]	**-**	(7.3)	-	**-**	(7.3)	-
Recorded to other comprehensive income[(b)]	**49.6**	(39.3)	(11.3)	**-**	-	-
Total	**$ 235.4**	$ 18.5	$ (17.2)	**$ 127.3**	$ 18.7	$ (32.9)

(a) *Represents the settlement of Washington Gas' forward starting interest rate swap in September 2016.*

(b) *Represents the effective portion of our cash flow hedges. Includes $0.2 million, $0.2 million, and $0.1 million of amortization related to interest rate hedges for WGL for September 30, 2017 , 2016 , and 2015 respectively.*

Collateral

WGL utilizes standardized master netting agreements, which facilitate the netting of cash flows into a single net exposure for a given counterparty. As part of these master netting agreements, cash, letters of credit and parental guarantees may be required to be posted or obtained from counterparties in order to mitigate credit risk related to both derivatives and non-derivative positions. Under WGL's offsetting policy, collateral balances are offset against the related counterparties' derivative positions to the extent the application would not result in the over-collateralization of those derivative positions on the balance sheet.

The table below presents collateral positions at September 30, 2017 and 2016, respectively.

COLLATERAL NOT OFFSET AGAINST DERIVATIVE ASSETS AND LIABILITIES *(IN MILLIONS)*

September 30, 2017	Collateral deposits posted with counterparties	Cash collateral held representing an obligation
Washington Gas	**$ 3.7**	**$ 0.1**
WGL Energy Services	**23.7**	**-**
WGL Midstream	**44.4**	**1.6**
September 30, 2016		
Washington Gas	$ 4.3	$ 0.1
WGL Energy Services	9.1	-
WGL Midstream	18.5	5.4

Any collateral posted that is not offset against derivative assets and liabilities is included in "Other prepayments" in the accompanying balance sheets. Collateral received and not offset against derivative assets and liabilities is included in "Customer deposits and advance payments" in the accompanying balance sheets.

Certain derivative instruments of WGL, Washington Gas, WGL Energy Services and WGL Midstream contain contract provisions that require collateral to be posted if the credit rating of Washington Gas or WGL falls below certain levels or if counterparty exposure to WGL, Washington Gas, WGL Energy Services or WGL Midstream exceeds a certain level. Due to counterparty exposure levels, at September 30, 2017, WGL Energy Services posted $8.6 million of collateral related to its derivative liabilities that contained credit-related contingent features. At September 30, 2016, WGL Energy Services posted $5.5 million of collateral related to these aforementioned derivative liabilities. At September 30, 2017, WGL was not required to post collateral related to a derivative liability that contained a credit-related contingent feature. At September 30, 2016, WGL was required to post $6.5 million collateral related to its derivative liabilities that contained credit-related contingent features. At both September 30, 2017 and 2016, Washington Gas and WGL Midstream were not required to post any collateral related to their respective derivative liabilities that contained credit-related contingent features. The following table shows the aggregate fair value of all derivative instruments with credit-related contingent features that are in a liability position, as well as the maximum amount of collateral that would be required if the most intrusive credit-risk-related contingent features underlying these agreements were triggered on September 30, 2017 and 2016, respectively.

POTENTIAL COLLATERAL REQUIREMENTS FOR DERIVATIVE LIABILITIES WITH CREDIT-RISK-CONTINGENT FEATURES

(In millions)	WGL Holdings, Inc.	Washington Gas
September 30, 2017		
Derivative liabilities with credit-risk-contingent features	**$ 25.0**	**$ 2.8**
Maximum potential collateral requirements	**21.9**	**2.8**
September 30, 2016		
Derivative liabilities with credit-risk-contingent features	$ 53.9	$ 11.3
Maximum potential collateral requirements	41.4	11.3

We do not enter into derivative contracts for speculative purposes.

Concentration of Credit Risk

We are exposed to credit risk from derivative instruments with wholesale counterparties, which is represented by the fair value of these instruments at the reporting date. We actively monitor and work to minimize counterparty concentration risk through various practices. At September 30, 2017, two counterparties each represented over 10% of Washington Gas' credit exposure to wholesale derivative counterparties for a total credit risk of $27.6 million; two counterparties each represented over 10% of WGL Energy Services' credit exposure to wholesale derivative counterparties for a total credit risk of $1.1 million; and two counterparties represented over 10% of WGL Midstream's credit exposure to wholesale counterparties for a total credit risk of $26.1 million.

Weather-Related Instruments

WGL Energy Services utilizes weather-related instruments for managing the financial effects of weather risks. These instruments cover a portion of WGL Energy Services' estimated revenue or energy-related cost exposure to variations in heating or cooling degree days. These contracts provide for payment to WGL Energy Services of a fixed-dollar amount for every degree day over or under specific levels during the calculation period depending upon the type of contract executed. During the years ended September 30, 2017, 2016 and 2015, WGL Energy Services recorded pre-tax gains of $1.4 million, $1.7 million and $0.6 million, respectively, related to these instruments.

NOTE 15 Fair Value Measurements

Recurring Basis

We measure the fair value of our financial assets and liabilities using a combination of the income and market approach in accordance with ASC Topic 820. These financial assets and liabilities primarily consist of derivatives recorded on our balance sheet under ASC Topic 815 and short-term investments, commercial paper and long-term debt outstanding required to be disclosed at fair value. Under ASC Topic 820, fair value is defined as the exit price, representing the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To value our financial instruments, we use market data or assumptions that market participants would use, including assumptions about credit risk (both our own credit risk and the counterparty's credit risk) and the risks inherent in the inputs to valuation.

We enter into derivative contracts in the futures and over-the-counter (OTC) wholesale and retail markets. These markets are the principal markets for the respective wholesale and retail contracts. Our relevant market participants are our existing counterparties and others who have participated in energy transactions at our delivery points. These participants have access to the same market data as WGL. We value our derivative contracts based on an "in-exchange" premise, and valuations are generally based on pricing service data or indicative broker quotes depending on the market location. We measure the net credit exposure at the counterparty level where the right to set-off exists. The net exposure is determined using the mark-to-market exposure adjusted for collateral, letters of credit and parent guarantees. We use published default rates from Standard & Poor's Ratings Services and Moody's Investors Service as inputs for determining credit adjustments.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1. Level 1 of the fair value hierarchy consists of assets or liabilities that are valued using observable inputs based upon unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date. WGL did not have any Level 1 derivatives at September 30, 2017 and 2016.

Level 2. Level 2 of the fair value hierarchy consists of assets or liabilities that are valued using directly or indirectly observable inputs either corroborated with market data or based on exchange traded market data. Level 2 includes fair values based on industry-standard valuation techniques that consider various assumptions: *(i)* quoted forward prices, including the use of mid-market pricing within a bid/ask spread; *(ii)* discount rates; *(iii)* implied volatility and *(iv)* other economic factors. Substantially all of these assumptions are observable throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the relevant market. At September 30, 2017 and 2016, Level 2 financial assets and liabilities included energy-related physical and financial derivative transactions such as forward, option and other contracts for deliveries at active market locations, as well as our interest rate swaps.

Level 3. Level 3 of the fair value hierarchy consists of assets or liabilities that are valued using significant unobservable inputs at the reporting date. These unobservable assumptions reflect our assumptions about estimates that market participants would use in pricing the asset or liability, including natural gas basis prices, annualized volatilities of natural gas prices, and electricity congestion prices. A significant change to any one of these inputs in isolation could result in a significant upward or downward fluctuation in the fair value measurement. These inputs may be used with industry standard valuation methodologies that result in our best estimate of fair value for the assets or liabilities at the reporting date.

Our Risk Analysis and Mitigation (RA&M) Group determines the valuation policies and procedures. The RA&M Group reports to WGL's Chief Financial Officer. In accordance with WGL's valuation policy, we may utilize a variety of valuation methodologies to determine the fair value of Level 3 derivative contracts, including internally developed valuation inputs and pricing models. The prices used in our valuations are corroborated using multiple pricing sources, and we periodically conduct assessments to determine whether each valuation model is appropriate for its intended purpose. The RA&M Group also evaluates changes in fair value measurements on a daily basis.

At September 30, 2017 and 2016, Level 3 derivative assets and liabilities included: *(i)* physical contracts valued at illiquid market locations with no observable market data; *(ii)* long-dated positions where observable pricing is not available over the life of the contract; *(iii)* contracts valued using historical spot price volatility assumptions and *(iv)* valuations using indicative broker quotes for inactive market locations.

The following tables set forth financial instruments recorded at fair value as of September 30, 2017 and 2016, respectively. A financial instrument's classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy.

WGL HOLDINGS, INC.
FAIR VALUE MEASUREMENTS UNDER THE FAIR VALUE HIERARCHY

(In millions)	Level 1	Level 2	Level 3	Total
At September 30, 2017				
Assets				
Natural gas related derivatives	**$ -**	**$ 18.4**	**$ 52.8**	**$ 71.2**
Electricity related derivatives	**-**	**0.1**	**15.5**	**15.6**
Interest rate derivatives	**-**	**9.8**	**-**	**9.8**
Total Assets	**$ -**	**$ 28.3**	**$ 68.3**	**$ 96.6**
Liabilities				
Natural gas related derivatives	**$ -**	**$ (15.5)**	**$ (167.4)**	**$ (182.9)**
Electricity related derivatives	**-**	**(4.1)**	**(21.7)**	**(25.8)**
Interest rate derivatives	**-**	**(8.8)**	**-**	**(8.8)**
Total Liabilities	**$ -**	**$ (28.4)**	**$ (189.1)**	**$ (217.5)**
At September 30, 2016				
Assets				
Natural gas related derivatives	$ -	$ 28.8	$ 54.0	$ 82.8
Electricity related derivatives	-	0.6	20.9	21.5
Interest rate derivatives	-	0.2	-	0.2
Total Assets	$ -	$ 29.6	$ 74.9	$ 104.5
Liabilities				
Natural gas related derivatives	$ -	$ (46.7)	$ (318.2)	$ (364.9)
Electricity related derivatives	-	(3.8)	(29.9)	(33.7)
Interest rate derivatives	-	(43.1)	-	(43.1)
Total Liabilities	$ -	$ (93.6)	$ (348.1)	$ (441.7)

WASHINGTON GAS LIGHT COMPANY
FAIR VALUE MEASUREMENTS UNDER THE FAIR VALUE HIERARCHY

(In millions)	Level 1	Level 2	Level 3	Total
At September 30, 2017				
Assets				
Natural gas related derivatives	**$ -**	**$ 7.0**	**$ 17.0**	**$ 24.0**
Total Assets	**$ -**	**$ 7.0**	**$ 17.0**	**$ 24.0**
Liabilities				
Natural gas related derivatives	**$ -**	**$ (5.7)**	**$ (139.6)**	**$ (145.3)**
Total Liabilities	**$ -**	**$ (5.7)**	**$ (139.6)**	**$ (145.3)**
At September 30, 2016				
Assets				
Natural gas related derivatives	$ -	$ 15.4	$ 24.4	$ 39.8
Total Assets	$ -	$ 15.4	$ 24.4	$ 39.8
Liabilities				
Natural gas related derivatives	$ -	$ (21.2)	$ (276.0)	$ (297.2)
Total Liabilities	$ -	$ (21.2)	$ (276.0)	$ (297.2)

The following table includes quantitative information about the significant unobservable inputs used in the fair value measurement of our Level 3 financial instruments and the respective fair values of the net derivative asset and liability positions, by contract type, as of September 30, 2017 and 2016.

QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

(In millions)	Net Fair Value September 30, 2017	Valuation Techniques	Unobservable Inputs	Range
WGL Holdings, Inc.				
Natural gas related derivatives	**$ (112.4)**	Discounted Cash Flow	Natural Gas Basis Price *(per dekatherm)*	**$ (2.095) - $ 2.805**
		Option Model	Natural Gas Basis Price *(per dekatherm)*	**$ (2.095) - $ 2.358**
	$ (2.2)		Annualized Volatility of Spot Market Natural Gas	**28.7% - 566.8%**
Electricity related derivatives	**$ (6.2)**	Discounted Cash Flow	Electricity Congestion Price *(per megawatt hour)*	**$ (2.736) - $ 56.5**
Washington Gas Light Company				
Natural gas related derivatives	**$ (122.6)**	Discounted Cash Flow	Natural Gas Basis Price *(per dekatherm)*	**$ (1.928) - $ 2.805**
WGL Holdings, Inc.	**Net Fair Value September 30, 2016**			
Natural gas related derivatives	$ (264.1)	Discounted Cash Flow	Natural Gas Basis Price *(per dekatherm)*	$ (2.021) - $ 3.290
	$ (0.1)	Option Model	Natural Gas Basis Price *(per dekatherm)*	$ (2.105) - $ 3.310
			Annualized Volatility of Spot Market Natural Gas	25.5% - 869.9%
Electricity related derivatives	$ (9.1)	Discounted Cash Flow	Electricity Congestion Price *(per megawatt hour)*	$ (6.199) - $ 68.700
Washington Gas Light Company				
Natural gas related derivatives	$ (251.6)	Discounted Cash Flow	Natural Gas Basis Price *(per dekatherm)*	$ (2.021) - $ 3.290

The following tables are a summary of the changes in the fair value of our derivative instruments that are measured at net fair value on a recurring basis in accordance with ASC Topic 820 using significant Level 3 inputs during the years ended September 30, 2017 and 2016, respectively.

RECONCILIATION OF FAIR VALUE MEASUREMENTS USING SIGNIFICANT LEVEL 3 INPUTS

	WGL Holdings Inc.				Washington Gas Light Company
(In millions)	Natural Gas Related Derivatives	Electricity Related Derivatives	Warrants	Total	Total - Natural Gas Related Derivatives
Fiscal Year Ended September 30, 2017					
Balance at October 1, 2016	**$ (264.1)**	**$ (9.1)**	**$ -**	**$ (273.2)**	**$ (251.6)**
Realized and unrealized gains (losses)					
Recorded to income	**62.0**	**(7.6)**	**-**	**54.4**	**44.2**
Recorded to regulatory assets—gas costs	**69.7**	**-**	**-**	**69.7**	**69.7**
Transfers into Level 3	**(0.8)**	**-**	**-**	**(0.8)**	**(0.4)**
Transfers out of Level 3	**(0.7)**	**-**	**-**	**(0.7)**	**(0.4)**
Purchases	**-**	**1.0**	**-**	**1.0**	**-**
Settlements	**19.3**	**9.5**	**-**	**28.8**	**15.9**
Balance at September 30, 2017	**$ (114.6)**	**$ (6.2)**	**$ -**	**$ (120.8)**	**$ (122.6)**
Fiscal Year Ended September 30, 2016					
Balance at October 1, 2015	$ (309.7)	$ (16.0)	$ -	$ (325.7)	$ (281.1)
Realized and unrealized gains (losses)					
Recorded to income	18.3	(21.4)	-	(3.1)	4.0
Recorded to regulatory assets—gas costs	4.2	-	-	4.2	4.2
Transfers into Level 3	(0.8)	-	-	(0.8)	(0.2)
Transfers out of Level 3	8.9	-	-	8.9	9.0
Purchases	-	(2.4)	-	(2.4)	-
Settlements	15.0	30.7	-	45.7	12.5
Balance at September 30, 2016	$ (264.1)	$ (9.1)	$ -	$ (273.2)	$ (251.6)

Transfers between different levels of the fair value hierarchy may occur based on fluctuations in the valuation and on the level of observable inputs used to value the instruments from period to period. It is our policy to show both transfers into and out of the different levels of the fair value hierarchy at the fair value as of the beginning of the period. Transfers out of Level 3 during the fiscal year ended September 30, 2017 and 2016 were due to an increase in valuations using observable market inputs. Transfers into Level 3 during the fiscal year ended September 30, 2017 were due to an increase in unobservable market inputs used in valuations.

The table below sets forth the line items on the statements of income to which amounts are recorded for the fiscal years ended September 30, 2017, 2016 and 2015, respectively, related to fair value measurements using significant Level 3 inputs.

REALIZED AND UNREALIZED GAINS (LOSSES) RECORDED TO INCOME FOR LEVEL 3 MEASUREMENTS

	WGL Holdings, Inc.				Washington Gas Light Company
(In millions)	Natural Gas Related Derivatives	Electricity Related Derivatives	Warrants	Total	Total - Natural Gas Related Derivatives
Fiscal Year Ended September 30, 2017					
Operating revenues—non-utility	**$ 12.2**	**$ (17.5)**	**$ -**	**$ (5.3)**	**$ -**
Utility cost of gas	**44.2**	**-**	**-**	**44.2**	**44.2**
Non-utility cost of energy-related sales	**5.6**	**9.9**	**-**	**15.5**	**-**
Total	**$ 62.0**	**$ (7.6)**	**$ -**	**$ 54.4**	**$ 44.2**
Fiscal Year Ended September 30, 2016					
Operating revenues—non-utility	$ 8.2	$ (26.5)	$ -	$ (18.3)	$ -
Utility cost of gas	4.0	-	-	4.0	4.0
Non-utility cost of energy-related sales	6.1	5.1	-	11.2	-
Total	$ 18.3	$ (21.4)	$ -	$ (3.1)	$ 4.0
Fiscal Year Ended September 30, 2015					
Operating revenues—non-utility	$ (5.7)	$ 19.9	$ -	$ 14.2	$ -
Utility cost of gas	(25.0)	-	-	(25.0)	(25.0)
Non-utility cost of energy-related sales	-	(52.2)	-	(52.2)	-
Total	$ (30.7)	$ (32.3)	$ -	$ (63.0)	$ (25.0)

Unrealized gains (losses) attributable to derivative assets and liabilities measured using significant Level 3 inputs were recorded as follows for the fiscal years ended September 30, 2017, 2016 and 2015, respectively:

UNREALIZED GAINS (LOSSES) RECORDED FOR LEVEL 3 MEASUREMENTS

	WGL Holdings, Inc.				Washington Gas Light Company
(In millions)	Natural Gas Related Derivatives	Electricity Related Derivatives	Warrants	Total	Total - Natural Gas Related Derivatives
Fiscal Year Ended September 30, 2017					
Recorded to income					
Operating revenues—non-utility	**$ 12.6**	**$ 0.8**	**$ -**	**$ 13.4**	**$ -**
Utility cost of gas	**31.0**	**-**	**-**	**31.0**	**31.0**
Non-utility cost of energy-related sales	**(0.4)**	**9.4**	**-**	**9.0**	**-**
Recorded to regulatory assets—gas costs	**51.0**	**-**	**-**	**51.0**	**51.0**
Total	**$ 94.2**	**$ 10.2**	**$ -**	**$ 104.4**	**$ 82.0**
Fiscal Year Ended September 30, 2016					
Recorded to income					
Operating revenues—non-utility	$ 9.9	$ (2.3)	$ -	$ 7.6	$ -
Utility cost of gas	0.3	-	-	0.3	0.3
Non-utility cost of energy-related sales	(0.4)	13.2	-	12.8	-
Recorded to regulatory assets—gas costs	(2.6)	-	-	(2.6)	(2.6)
Total	$ 7.2	$ 10.9	$ -	$ 18.1	$ (2.3)
Fiscal Year Ended September 30, 2015					
Recorded to income					
Operating revenues—non-utility	$ (2.2)	$ 25.1	$ -	$ 22.9	$ -
Utility cost of gas	(15.8)	-	-	(15.8)	(15.8)
Non-utility cost of energy-related sales	(1.7)	(41.7)	-	(43.4)	-
Recorded to regulatory assets—gas costs	(20.9)	-	-	(20.9)	(20.9)
Total	$ (40.6)	$ (16.6)	$ -	$ (57.2)	$ (36.7)

The following table presents the carrying amounts and estimated fair values of our financial instruments at September 30, 2017 and 2016.

WGL HOLDINGS, INC.
FAIR VALUE OF FINANCIAL INSTRUMENTS

	September 30, 2017		September 30, 2016	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Money market funds[(a)]	$ **11.8**	$ **11.8**	$ 10.6	$ 10.6
Other short-term investments[(a)]	$ **-**	$ **-**	$ 1.4	$ 1.4
Commercial paper[(b)]	$ **505.0**	$ **505.0**	$ 269.0	$ 269.0
Project financing[(b)]	$ **54.8**	$ **54.8**	$ 62.4	$ 62.4
Long-term debt[(c)]	$ **1,430.9**	$ **1,577.3**	$ 1,444.3	$ 1,641.9

WASHINGTON GAS LIGHT COMPANY
FAIR VALUE OF FINANCIAL INSTRUMENTS

	September 30, 2017		September 30, 2016	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Money market funds[(a)]	$ **4.8**	$ **4.8**	$ 5.0	$ 5.0
Other short-term investments[(a)]	$ **-**	$ **-**	$ 1.4	$ 1.4
Commercial paper[(b)]	$ **123.0**	$ **123.0**	$ 42.0	$ 42.0
Project financing[(b)]	$ **43.8**	$ **43.8**	$ 62.4	$ 62.4
Long-term debt[(c)]	$ **1,134.5**	$ **1,271.0**	$ 945.9	$ 1,126.4

(a) *Balance is located in cash and cash equivalents in the accompanying balance sheets. These amounts may be offset by outstanding checks.*
(b) *Balance is located in notes payable in the accompanying balance sheets.*
(c) *Includes adjustments for current maturities and unamortized discounts, as applicable.*

Our money market funds are Level 1 valuations and their carrying amount approximates fair value. Other short-term investments are primarily overnight investment accounts; their carrying amount approximates fair value based on Level 2 inputs. The maturity of our commercial paper outstanding at both September 30, 2017 and 2016 is under 30 days. Due to the short term nature of these notes, the carrying cost of our commercial paper approximates fair value using Level 2 inputs. Due to the short term nature of our project financing arrangements, the carrying cost approximates fair value using Level 2 inputs. Neither WGL's nor Washington Gas' long-term debt is actively traded. The fair value of long-term debt was estimated based on the quoted market prices of the U.S. Treasury issues having a similar term to maturity, adjusted for the credit quality of the debt issuer, WGL or Washington Gas. Our long-term debt fair value measurement is classified as Level 3.

Non Recurring Basis

During the fiscal year ended September 30, 2016, WGSW recognized a loss of $4.1 million associated with the impairment of its investment in direct financing leases from Nextility. The fair value of this investment was a Level 3 measurement. As of September 30, 2017, there is no investment in direct financing leases.

During the fiscal year ended September 30, 2015, Washington Gas Resources recorded an impairment charge on its investment in ASDHI to its fair value using the income approach. The amount of the impairment was equivalent to the amount of the carrying value of $5.6 million and was due to management's assumption of the current valuation and expected return from the investment. The fair value of this investment was a Level 3 measurement.

NOTE 16 Operating Segment Reporting

We have four reportable operating segments: regulated utility, retail energy-marketing, commercial energy systems and midstream energy services. The division of these segments into separate revenue generating components is based upon regulation, products and services. Our chief operating decision maker is our Chief Executive Officer and we evaluate segment performance based on Earnings Before Interest and Taxes (EBIT). EBIT is defined as earnings before interest and taxes net of amounts attributable to non-controlling interests. Items we do not include in EBIT are interest expense, intercompany financing activity, dividends on Washington Gas preferred stock, and income taxes. EBIT includes transactions between reportable segments. We also evaluate our operating segments based on other relevant factors, such as penetration into their respective markets and return on equity.

Our four segments are summarized below.

- **Regulated Utility** – The regulated utility segment is our core business. It consists of Washington Gas and Hampshire. Washington Gas provides regulated gas distribution services (including the sale and delivery of natural gas) to end use customers and natural gas transportation services to an unaffiliated natural gas distribution company in West Virginia under a FERC approved interstate transportation service operating agreement. Hampshire provides regulated interstate natural gas storage services to Washington Gas under a FERC approved interstate storage service tariff.

- **Retail Energy-Marketing –** The retail energy-marketing segment consists of WGL Energy Services, which sells natural gas and electricity directly to retail customers in competition with regulated utilities and unregulated gas and electricity marketers.
- **Commercial Energy Systems –** The commercial energy systems segment consists of WGL Energy Systems which provides clean and energy efficient solutions including commercial solar, energy efficiency and combined heat and power projects and other distributed generation solutions to government and commercial clients. In addition, this segment comprises the operations of WGSW, a holding company formed to invest in alternative energy assets.
- **Midstream Energy Services –** The midstream energy services segment consists of WGL Midstream, which specializes in the investment, management, development and optimization of natural gas storage and transportation midstream infrastructure projects.

Administrative and business development activity costs associated with WGL and Washington Gas Resources and activities and transactions that are not significant enough on a stand-alone basis to warrant treatment as an operating segment, and that do not fit into one of our four operating segments, are aggregated as "Other Activities" in the Operating Segment Financial Information presented below. Results for other activities primarily relate to external costs associated with the planned merger with AltaGas.

As a result of the adoption of ASU 2015-03 and ASU 2015-15, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost and Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements,* prior period total assets have been recast to conform to current quarter presentation.

The following tables present operating segment information for the fiscal years ended September 30, 2017, 2016 and 2015.

OPERATING SEGMENT FINANCIAL INFORMATION

(In thousands)	Operating Revenues[(a)]	Depreciation and Amortization	Equity in Earnings of Unconsolidated Affiliates	EBIT	Total Assets	Capital Expenditures	Equity Method Investments
Fiscal Year Ended September 30, 2017							
Regulated utility	**$ 1,166,968**	**$ 131,231**	**$ -**	**$ 266,307**	**$ 4,984,121**	**$ 408,308**	**$ -**
Retail energy-marketing	**1,107,151**	**1,141**	**-**	**53,195**	**513,415**	**614**	**-**
Commercial energy systems[(b)]	**95,178**	**21,690**	**7,303**	**40,834**	**1,031,921**	**107,552**	**9,578**
Midstream energy services	**31,339**	**25**	**12,913**	**37,689**	**699,560**	**60**	**384,623**
Other activities	**-**	**-**	**-**	**(19,865)**	**409,938**	**-**	**-**
Eliminations[(c)]	**(45,912)**	**51**	**-**	**965**	**(1,012,946)**	**-**	**-**
Total consolidated	**$ 2,354,724**	**$ 154,138**	**$ 20,216**	**$ 379,125**	**$ 6,626,009**	**$ 516,534**	**$ 394,201**
Fiscal Year Ended September 30, 2016							
Regulated utility	$ 1,070,904	$ 116,129	$ -	$ 228,219	$ 4,636,954	$ 393,501	$ -
Retail energy-marketing	1,238,480	1,154	-	64,968	486,778	8,104	-
Commercial energy systems[(b)]	89,072	15,201	7,620	21,992	885,734	128,780	66,100
Midstream energy services	6,619	107	6,186	7,807	485,099	-	237,391
Other activities	-	-	-	(3,184)	273,738	-	-
Eliminations[(c)]	(55,516)	(25)	-	(504)	(718,853)	-	-
Total consolidated	$ 2,349,559	$ 132,566	$ 13,806	$ 319,298	$ 6,049,450	$ 530,385	$ 303,491
Fiscal Year Ended September 30, 2015							
Regulated utility	$ 1,328,191	$ 110,416	$ -	$ 223,977	$ 4,224,258	$ 327,429	$ -
Retail energy-marketing	1,306,758	671	-	46,629	452,424	28	-
Commercial energy systems	51,813	10,733	2,095	9,688	682,149	136,749	63,521
Midstream energy services	3,191	129	2,623	(2,720)	237,839	85	73,363
Other activities	-	-	750	(9,667)	196,515	-	-
Eliminations[(c)]	(30,123)	(57)	-	(1,013)	(538,926)	-	-
Total consolidated	$ 2,659,830	$ 121,892	$ 5,468	$ 266,894	$ 5,254,259	$ 464,291	$ 136,884

(a) *Operating revenue amounts in the "Eliminations" row represent total intersegment revenues associated with sales from the regulated utility segment to the retail energy-marketing segment. Midstream Energy Services' cost of energy related sales is netted with its gross revenues.*

(b) *As of August 2016, Commercial energy systems' operating revenues include revenues from non-controlling interest. Commercial energy systems' EBIT is adjusted for the effects of non-controlling interest.*

(c) *Intersegment eliminations include any mark-to market valuations associated with trading activities between WGL Midstream and WGL Energy Services, intercompany loans and a timing difference between Commercial Energy Systems' recognition of revenue for the sale of Renewable Energy Credits (RECs) to Retail Energy-Marketing and Retail Energy-Marketing's recognition of the associated expense. Retail Energy-Marketing has recorded a portion of the REC's purchased as inventory to be used in future periods at which time they will be expensed.*

The following table provides a reconciliation from EBIT to net income applicable to common stock.

	Fiscal Year Ended September 30,		
(In thousands)	2017	2016	2015
Total consolidated EBIT	**$ 379,125**	$ 319,298	$ 266,894
Interest expense	**74,026**	52,310	50,511
Income tax expense	**111,159**	98,074	83,804
Dividends on Washington Gas Light Company preferred stock	**1,320**	1,320	1,320
Net income applicable to common stock	**$ 192,620**	$ 167,594	$ 131,259

NOTE 17 Other Investments

WGL has both solar and pipeline investments and accounts for its interests in legal entities as either a: *(i)* variable interest entity (VIE) or a *(ii)* voting interest entity (non-VIE). A VIE is a legal entity with the following characteristics: *(i)* has insufficient at-risk equity to fund its activities without additional subordinated financial support from any other party or parties; *(ii)* whose at-risk equity holders as a group do not have the power through voting or similar rights to direct the entity's activities that most significantly affect its economic performance; or *(iii)* whose at-risk equity holders do not have the right to receive the expected residual returns.

The determination of whether or not to consolidate a VIE under GAAP requires a significant amount of judgment. This includes, but is not limited to, consideration of our contractual relationship with the entity, the legal structure of the entity, whether or not the entity has enough equity to finance its activities without additional financial support, the voting power of the equity holders, the obligation of the equity holders to absorb losses of the entity and their rights to receive any expected residual returns.

We have investments in both consolidated and unconsolidated VIEs which are described in detail below. The unconsolidated investments are accounted for under the equity method of accounting with profits and losses included in "Equity in earnings of unconsolidated affiliates" in the accompanying Consolidated Statements of Income.

Under the VIE model, we have a controlling financial interest in a VIE (i.e., are the primary beneficiary) when we have current or potential rights that give us the power to direct the activities of a VIE that most significantly impact the VIE's economic performance combined with a variable interest that gives us the right to receive potentially significant benefits or the obligation to absorb potentially significant losses. When changes occur to the design of an entity, we reconsider whether it is subject to the VIE model. We continuously evaluate whether we have a controlling financial interest in a VIE.

Under the voting interest model, we generally have a controlling financial interest in an entity where we currently hold, directly or indirectly, more than 50% of the voting rights or where we exercise control through substantive participating rights. However, we consider substantive rights held by other partners in determining if we hold a controlling financial interest, and in some cases, despite owning more than 50% of the common stock of an investee, an evaluation of our rights may result in the determination that we do not have a controlling financial interest. We reevaluate whether we have a controlling financial interest in these entities when our voting or substantive participating rights change. Where we do not have significant influence, the affiliates are accounted for under the cost method. Investments in, and advances to, affiliated companies are presented in the caption "Investments in unconsolidated affiliates" in the accompanying Consolidated Balance Sheets.

WGL uses the Hypothetical Liquidation at Book Value (HLBV) methodology for certain equity method investments as well as consolidating equity investments with non-controlling interests when the governing structuring agreement over the equity investment results in different liquidation rights and priorities than what is reflected by the underlying ownership interest percentage. For investments accounted for under the HLBV method, simply applying the percentage ownership interest to GAAP net income in order to determine earnings or losses does not accurately represent the income allocation and cash flow distributions that will ultimately be received by the investors. The calculation may vary in its complexity depending on the capital structure and the tax considerations for the investments.

When applying HLBV, WGL determines the amount that it would receive if an equity investment entity were to liquidate all of its assets at book value (as valued in accordance with GAAP) and distribute that cash to the investors based on the contractually defined liquidation priorities. The change in WGL's claim on the investee's book value at the beginning and end of the reporting period (adjusted for contributions and distributions) is WGL's share of the earnings or losses from the equity investment for the period.

Consolidated Investments

Variable Interest Entities

At September 30, 2017, WGL's subsidiary, WGSW, Inc. was the primary beneficiary of SFGF, SFRC, SFGF II, and ASD as a result of its ability to direct the activities most significant to the economic performance of those entities. Accordingly, we have consolidated those VIE entities.

SFGF

On August 24, 2016, WGSW and a tax equity partner formed SFGF to acquire distributed generation solar projects in the State of Georgia that were developed by WGL Energy Systems. WGSW is the managing member and contributed cash equity equal to the purchase price of the solar projects less any contributions from the tax-equity partner. As of September 30, 2017, WGSW has contributed $16.8 million into the tax equity partnership.

WGL Energy Systems is the operations and maintenance provider and was the developer of the projects. Profits and losses are allocated between the partners under the HLBV method of accounting and the portion allocated to the tax equity partner is included in non-controlling interest on the consolidated statements of income and is recorded to "Non-controlling interest" on the consolidated balance sheets.

SFRC

On October 28, 2016, WGSW and a tax equity partner formed SFRC to acquire distributed generation solar projects in the State of Minnesota that are developed by WGL Energy Systems. WGSW is the managing member and will provide cash equity equal to the purchase price of the solar projects less any contributions from the tax-equity partner. As of September 30, 2017, WGSW has contributed $20.8 million into the tax equity partnership.

WGL Energy Systems is the operations and maintenance provider, and the developer of the projects. Profits and losses are allocated between the partners under the HLBV method of accounting and the portion allocated to the tax equity partner is included in to non-controlling interest on the consolidated statement of income and is recorded to "Non-controlling interest" on the consolidated balance sheets.

SFGF II

On June 30, 2017, WGSW and a tax equity partner formed SFGF II to acquire distributed generation solar projects in the United States of America that are expected to be developed by WGL Energy Systems. WGSW is the managing member and will provide cash equity equal to the purchase price of the solar projects less any contributions from the tax-equity partner. As of September 30, 2017, no contributions have been made into the tax equity partnership.

WGL Energy Systems will be the operations and maintenance provider and the developer of the projects. Profits and losses are allocated between the partners under the HLBV method of accounting and the portion allocated to the tax equity partner is included in "Net income (loss) attributable to non-controlling interest" on the consolidated statements of income and is recorded to "Non-controlling interest" on the consolidated balance sheets.

ASD

WGSW is a limited partner in ASD Solar LP (ASD), a limited partnership formed to own and operate a portfolio of residential solar projects, primarily rooftop photovoltaic power generation systems. As a limited partner, WGSW had provided funding to the partnership but did not have power to direct the activities that most significantly affect the operations and economic performance of the entity. In January 2014, the funding commitment period ended for the partnership. Prior to July 10, 2017 ASD was being consolidated by the general partner, Solar Direct LLC (Solar Direct). Solar Direct is a wholly owned subsidiary of American Solar Direct Inc. (ASDI).

In June 2017, ASDI filed for Chapter 7 bankruptcy as a result of financial difficulties. To ensure continuing operations of the partnership and minimal disruptions to the customers, WGSW petitioned the Bankruptcy Court to remove Solar Direct as manager of ASD operations and to approve the appointment of SF ASD, a wholly-owned subsidiary of WGL Energy Systems, which was formed to take over the management and operations of the partnership, as manager of ASD operations. On July 10, 2017, the Bankruptcy Court granted the bankruptcy trustee's emergency motion to assign management rights and control of ASD to SF ASD. As of September 30, 2017, ASD is a VIE of and consolidated by WGSW.

WGSW's equity method investment was eliminated and Solar Direct's non-controlling interest in ASD was recognized at fair value. During the fiscal year ended September 30, 2017, WGSW recognized a $1.8 million gain to other income based on the difference between WGSW's net investment in the partnership and WGSW's partnership interest measured at fair value. Revenue and earnings recognized since the date of consolidation and the impact on WGL's Consolidated Statements of Income for the current and prior fiscal year were not material. Associated with the financial difficulties of ASDI, WGL paid $2.1 million to satisfy a bank guarantee on behalf of ASDI.

The following table summarizes the fair value amounts of ASD assets and liabilities, as well as the non-controlling interest recorded at estimated fair value as of the date of control.

FAIR VALUE OF ASD AT DATE OF CONSOLIDATION

(In millions)		Fair Value
Current assets	$	0.2
Accounts receivable		1.9
Property, plant and equipment		48.2
Total assets	**$**	**50.3**
Deferred credits		0.6
Total liabilities	**$**	**0.6**
Net assets	**$**	**49.7**
Non-controlling interest	**$**	**0.5**
WGSW equity interest	**$**	**49.2**

Property, plant and equipment represents residential solar assets for ASD that were measured at estimated fair value using the income derived from discounted cash flows. The fair values were determined based on significant estimates and assumptions that are judgmental in nature, including projected cash flows and discount rates reflecting inherent risk in the future cash flows.

The carrying amounts and classification of the consolidated VIEs' assets and liabilities included in our consolidated balance sheet at September 30, 2017 and September 30, 2016 are as follows:

WGL HOLDINGS, INC.
BALANCE SHEET LOCATION OF CONSOLIDATED INVESTMENTS

(In millions)	September 30, 2017	September 30, 2016
Current assets	$ 4.4	$ -
Property, Plant and Equipment	121.7	13.2
Total assets	**$ 126.1**	$ 13.2
Current liabilities	0.2	0.6
Deferred credits	0.8	-
Total liabilities	**$ 1.0**	$ 0.6

Non-VIE Investments

SunEdison

As of June 30, 2017, WGSW ended its agreement with SunEdison, Inc. (SunEdison) by assigning the master purchase agreement and master lease agreement with SunEdison to its newly formed affiliate, SF Echo LLC.

In April 2017, EchoFirst Finance Company LLC (EchoFirst), the subsidiary of SunEdison that was party to our master purchase and lease agreements filed a voluntary petition with the United States Bankruptcy Court for relief under Title 11 of the United States Code. In April 2016, SunEdison filed a voluntary bankruptcy petition with the United States Bankruptcy Court for relief under Title 11 of the United States Code.

In April 2017, we executed an assignment of the master lease agreement, master purchase agreement and the EchoFirst customer leases from SunEdison, allowing SunEdison to divest the WGSW lease arrangement. SF Echo, a wholly-owned subsidiary of WGSW, will operate and maintain the assets and be entitled to all cash flows from the assets for the remainder of their lease terms. The master lease between SF Echo and WGSW is accounted for as a direct financing lease and eliminated in consolidation. SF Echo accounts for the customer leases as operating leases. The fair value of the assets did not result in any adjustments during the year. Our maximum financial exposure is limited to lease payment receivables from retail residential solar customers, future maintenance and performance payments and customer non-payments. On a quarterly basis, we evaluate our lease receivables for credit losses.

SF Echo records lease income in the accompanying consolidated statements of income. We had a balance of $9.2 million of unamortized tax credits related to the leased assets in "Unamortized investment tax credits" on the accompanying consolidated balance sheets at September 30, 2017. WGSW did not hold an investment in SunEdison at September 30, 2017.

Unconsolidated Investments

Variable Interest Entity

Meade

In 2014, WGL through its subsidiary WGL Midstream, entered into a limited liability company agreement and formed Meade Pipeline Co LLC (Meade), a Delaware limited liability company, with Transcontinental Gas Pipe Line Company, LLC (Williams) to invest in a regulated pipeline, a segment of Transco's Atlantic Sunrise project, called Central Penn Pipeline (Central Penn). Central Penn will be an approximately 185-mile pipeline originating in Susquehanna County, Pennsylvania and extending to Lancaster County, Pennsylvania that will have the capacity to transport and deliver up to approximately 1.7 million dekatherms per day of natural gas.

WGL Midstream plans to invest an estimated $410 million for a 55% interest in Meade. Although WGL Midstream holds greater than a 50% interest in Meade, Meade is accounted for under the equity method of accounting because WGL Midstream does not have the power to direct the activities most significant to the economic performance of Meade. Meade is accounted for under the HLBV equity method of accounting, and any profits and losses are included in "Equity in earnings of unconsolidated affiliates" in the accompanying Consolidated Statement of Income and are added to or subtracted from the carrying amount of WGL's investment balance. At September 30, 2017 and 2016, WGL Midstream held a $146.7 million and $80.8 million, respectively, equity method investment in Meade.

At September 30, 2017, this VIE was not consolidated because WGL and its subsidiaries were not the primary beneficiaries. The nature of WGL's involvement with this investment lacks the characteristics of a controlling financial interest. WGL either does not have control over Meade's activities that are economically significant to the VIEs and/or WGL does not have the obligation to absorb expected losses or the right to receive expected gains that could be significant to the VIE.

Our maximum financial exposure to loss as a result of our involvement with this VIE includes *(a)* the amount invested in, and advanced to, the VIE as of the reporting date and *(b)* any legal or contractual obligation to provide financing in the future, such as liquidity arrangements, guarantees, and other contractual commitments.

Non-VIE Investments

Constitution

In 2013, WGL Midstream invested in Constitution Pipeline Company, LLC (Constitution). At September 30, 2017, WGL Midstream's share of the total forecasted cash contributions over the term of the construction agreement for Constitution is $95.5 million, reflecting a 10% share in the pipeline venture. This natural gas pipeline venture will transport natural gas from the Marcellus region in northern Pennsylvania to major northeastern markets. Constitution is accounted for under the equity method of accounting; any profits and losses are included in "Equity in earnings of unconsolidated affiliates" in the accompanying Consolidated Statement of Income and are added to or subtracted from the carrying amount of WGL's investment balance. The equity method is considered appropriate because Constitution is an LLC with specific ownership accounts and ownership between five and fifty percent resulting in WGL Midstream maintaining a more than minor influence over the partnership operating and financing policies.

On April 22, 2016, the New York State Department of Environmental Conservation (NYSDEC) denied Constitution's application for a Section 401 Certification for the pipeline, which is necessary for the construction and operation of the pipeline. Constitution has stated that it remains committed to pursuing the project and that it intends to pursue all available options to challenge the legality and appropriateness of NYSDEC's decision. In May 2016, Constitution filed actions in both the U.S. Circuit Court of Appeals for the Second Circuit and the U.S. District Court for the Northern District of New York, appealing the decision and seeking declaratory judgment that the State of New York's permitting authority is preempted by federal law. In May 2016, Constitution appealed the NYSDEC's denial of the Section 401 certification to the United States Court of Appeals for the Second Circuit, and in August 2017 the court issued a decision denying in part and dismissing in part Constitution's appeal. The court expressly declined to rule on Constitution's argument that the NYSDEC's decision on Constitution's Section 401 application constitutes a waiver of the certification requirement. The court determined that it lacked jurisdiction to address that contention, and found that jurisdiction over the waiver issue lies exclusively with the United States Court of Appeals for the District of Columbia Circuit. As to the denial itself, the court determined that NYSDEC's action was not arbitrary or capricious. Constitution has filed a petition for rehearing with the Second Circuit Court's decision, but in October the court denied our petition.

We remain steadfastly committed to the project, and in October 2017, Constitution filed a petition for declaratory order requesting FERC to find that, by operation of law, the Section 401 certification requirement for the New York State portion of Constitution's pipeline project was waived due to the failure by the NYSDEC to act on Constitution's Section 401 application within a reasonable period of time as required by the express terms of such statute. The petition is consistent with a recent decision by the District of Columbia Circuit Court in another proceeding, in which the court clarified that an applicant facing similar circumstances should present evidence of waiver to the FERC.

Beginning in April 2016, we discontinued capitalization of development costs related to this project. It is also possible that we could incur certain supplier-related costs in the event of a prolonged delay or termination of the project.

In light of the forgoing matters, Constitution has revised its target in-service date to as early as the first half of 2019, which assumes the timely receipt of a Notice to Proceed from FERC. We can give no assurance, however, that Constitution's efforts to obtain the Section 401 Certification will be successful. Beginning in April 2016, Constitution discontinued capitalization of development costs related to this project. At September 30, 2017 and September 30, 2016, WGL Midstream held a $38.1 million and $38.6 million, equity method investment in Constitution, respectively. We have evaluated our investment in Constitution for other than temporary impairment as of September 30, 2017. Our impairment assessment used income and market approaches in determining the fair value of our investment in Constitution, including consideration of the severity and duration of any decline in fair value of our investment in the project. Our key inputs included, but are not limited to, significant management judgments and estimates, including projections of the project's cash flows, selection of a discount rate, market multipliers and probability weighting of potential outcomes of legal and regulatory proceedings. At this time, we do not have an other than temporary impairment and have not recorded any impairment charge to reduce the carrying value of our investment. If Constitution is ultimately unable to obtain the Section 401 Certification or other future developments or indicators of an unfavorable resolution arise subsequently, an impairment charge of up to substantially all of our investment in the capitalized project costs may be required. It is also possible that Constitution could incur certain supplier-related costs in the event of a prolonged delay or termination of the project. We will continue to monitor and update our impairment analysis as required.

Mountain Valley Pipeline

In March 2015, WGL Midstream acquired a 7% equity interest in Mountain Valley Pipeline, LLC (Mountain Valley). On October 24, 2016, WGL Midstream acquired an additional 3% equity interest in Mountain Valley by assuming all of Vega Midstream MVP LLC's (Vega Energy) interest in the joint venture. WGL Midstream now owns a 10% interest in Mountain Valley.

The proposed pipeline to be developed, constructed, owned and operated by Mountain Valley, will transport approximately 2.0 million dekatherms of natural gas per day from interconnects with EQT Corporation's Equitrans system, near the MarkWest Mobley plant in West Virginia to Transcontinental Gas Pipe Line Company LLC's Station 165 in Pittsylvania County, Virginia. The pipeline is scheduled to be in service by December 2018.

WGL Midstream expects to invest, in scheduled capital contributions through the in-service date of the pipeline, its pro rata share (based on its 10% equity interest) of project costs, an estimated aggregate amount of approximately $327.6 million. At September 30, 2017 and September 30, 2016, WGL Midstream held a $63.0 million and $22.5 million equity method investment in Mountain Valley, respectively. The equity method is considered appropriate because Mountain Valley is an LLC with specific ownership accounts and ownership between five and fifty percent resulting in WGL Midstream maintaining a more than minor influence over the partnership operating and financing policies.

The carrying amount of WGL Midstream's investment in MVP exceeded the amount of the underlying equity in net assets by $0.5 million, which will be amortized over the life of the assets when it is put in production. Profits and losses are allocated under the HLBV method of accounting and are included in "Equity in earnings of unconsolidated affiliates" in the accompanying Consolidated Statement of Income and are added to or subtracted from the carrying amount of WGL's investment balance. On October 13, 2017, FERC issued an order granting a certificate of public convenience and necessity to construct and operate the Mountain Valley Pipeline Project ("Project"). Construction on the Project is expected to begin in late 2017.

Stonewall System

WGL has a 30% equity interest in an entity that owns and operates certain assets known as the Stonewall Gas Gathering System (the Stonewall System). WGL Midstream paid $89.4 million to acquire the equity interest pursuant to an option that WGL Midstream previously acquired. During the twelve months ended September 30, 2017, WGL Midstream contributed an additional $45.5 million related to retiring debt at the entity level. The Stonewall System has the capacity to gather up to 1.4 billion cubic feet of natural gas per day from the Marcellus production region in West Virginia, and connects with an interstate pipeline system that serves markets in the mid-Atlantic region.

WGL Midstream held a $136.7 million and $95.5 million equity method investment in the Stonewall System at September 30, 2017 and September 30, 2016 respectively. The equity method is considered appropriate because the Stonewall System is an LLC with specific ownership accounts and ownership between five and fifty percent resulting in WGL Midstream maintaining a more than minor influence over the partnership operating and financing policies.

The carrying amount of WGL Midstream's investment in the Stonewall System exceeded the amount of the underlying equity in net assets by $8.9 million, which will be amortized over the life of the assets when it is put in production. Profits and losses are allocated under the HLBV method of accounting and are included in "Equity in earnings of unconsolidated affiliates" in the accompanying Consolidated Statement of Income and are added to or subtracted from the carrying amount of WGL's investment balance.

Nextility-Lease Settlement and Assignment

On December 9, 2016, WGSW agreed to an amendment and assignment of its sale/leaseback agreement with Nextility and another unrelated third party, with significantly reduced payments and lease terms. Based on the lease classification criteria per ASC Topic 840, it was determined that the amendment and assignment would be considered a termination of the existing lease and the creation of a new lease with the third party. Under this accounting criteria the new lease is considered an operating lease. As a result, the net investment of $5.4 million on the consolidated balance sheet was eliminated. The solar assets were recorded at present fair value utilizing an income approach for valuation as $4.0 million to "Property, plant and equipment" with an additional $1.4 million recorded as a receivable. The unamortized investment tax credits (ITC) balance associated with these assets continue to be deferred and amortized over the assets' useful life. As of September 30, 2017, the deferred net ITC receivable related to these assets is $2.7 million. In May 2017, Nextility informed WGSW that it was unable to finalize a financing arrangement and is in the process of winding down its business. A $1.0 million reserve was recorded for the receivable due from Nextility as part of the settlement to amend and assign the sale/leaseback agreement.

SFEE

On November 23, 2016, WGSW and a tax equity partner formed SFEE to acquire distributed generation solar projects that are developed by a third-party developer or WGL Energy Systems. New projects will be designed and constructed under long-term power purchase agreements. As of September 30, 2017, WGSW has contributed $6.5 million and held a $9.6 million interest in SFEE.

SFEE is not considered a VIE and is not consolidated under the voting interest model for limited partnerships. WGSW is the managing member of SFEE. WGSW is also the operations and maintenance provider for SFEE. In addition, WGL Energy Systems has the option to sell its own distributed generation solar projects to the developer for sale to SFEE and these assets remain on WGL Energy System's books until we no longer have continuing involvement. The equity method is considered appropriate because WGSW has significant influence over the operating and financial policies of SFEE. Profits and losses are allocated between the partners under the HLBV method of accounting and are included in "Equity in earnings of unconsolidated affiliates" in the accompanying Consolidated Statement of Income and are added to or subtracted from the carrying amount of WGSW's investment balance. For SFEE, WGL has also provided a guarantee that could require additional future payments of $13.0 million.

The following tables present summary information about our unconsolidated VIEs and non-VIEs:

WGL HOLDINGS, INC.
BALANCE SHEET LOCATION OF UNCONSOLIDATED INVESTMENTS

	Solar Investments		Pipelines		
(In millions)	VIEs[(a)]	Non-VIEs[(b)]	VIEs[(c)]	Non-VIEs[(d)]	Total
September 30, 2017					
Assets					
Investments in unconsolidated affiliates	**$ -**	**$ 9.6**	**$ 146.7**	**$ 237.9**	**$ 394.2**
Total assets	**$ -**	**$ 9.6**	**$ 146.7**	**$ 237.9**	**$ 394.2**
September 30, 2016					
Assets					
Investments in unconsolidated affiliates	$ 66.1	$ -	$ 80.8	$ 156.6	$ 303.5
Investments in direct financing leases, capital leases[(e)]	29.8	-	-	-	29.8
Accounts receivable[(e)]	1.1	-	-	9.2	10.3
Total assets	$ 97.0	$ -	$ 80.8	$ 165.8	$ 343.6

(a) *"Investments in unconsolidated affiliates" balance relates to equity method investment in ASD.*
(b) *Balance relates to interest held in SFEE.*
(c) *Balance relates to equity method investment in Meade.*
(d) *Balance relates to equity method investments in Constitution, Mountain Valley Pipeline and Stonewall System.*
(e) *Prior year balances relate to direct financing leases in Nextility and SunEdison.*

NOTE 18 Related Party Transactions

WGL and its subsidiaries engage in inter-company transactions in the ordinary course of business. Inter-company transactions and balances have been eliminated from the consolidated financial statements of WGL, except as described below. Washington Gas provides accounting, treasury, legal and other administrative and general support to affiliates, and files consolidated tax returns that include affiliated taxable transactions. Washington Gas bills its affiliates in accordance with regulatory requirements for the actual cost of providing these services, which approximates their market value. To the extent such billings are not paid, they are reflected in "Receivables from associated companies" on Washington Gas' balance sheets. Washington Gas assigns or allocates these costs directly to its affiliates and, therefore, does not recognize revenues or expenses associated with providing these services. Washington Gas believes that allocations based on broad measures of business activity are appropriate for allocating expenses resulting from common services. Affiliate entities are allocated a portion of common services based on a formula driven by appropriate indicators of activity, as approved by management.

In connection with billing for unregulated third party marketers, including WGL Energy Services and with other miscellaneous billing processes, Washington Gas collects cash on behalf of affiliates and transfers the cash in a reasonable time period. Cash collected by Washington Gas on behalf of its affiliates but not yet transferred is recorded in "Payables to associated companies" on Washington Gas' balance sheets.

Washington Gas previously obtained third-party project financing on behalf of the federal government to provide funds during the construction of certain energy management services projects entered into under Washington Gas' area-wide contract. In December 2016, WGL Energy Systems entered into an agreement to obtain third-party financing and receive funds directly from the third party lender during the construction period associated with the related energy management service projects. Washington Gas will continue to record a receivable representing the government's obligation, and will record an inter-company payable to WGL Energy Systems for the construction work performed for the same amount. Refer to *Note 4—Short Term Debt* for further discussions of the project financing.

The following table presents the receivables and payables from associated companies as of September 30, 2017 and September 30, 2016.

WASHINGTON GAS LIGHT COMPANY
RECEIVABLES / PAYABLES FROM ASSOCIATED COMPANIES

(In millions)	September 30, 2017	September 30, 2016
Receivables from Associated Companies	**$ 32.4**	$ 13.8
Payables to Associated Companies	**$ 94.8**	$ 65.8

Washington Gas provides gas balancing services related to storage, injections, withdrawals and deliveries to all energy marketers participating in the sale of natural gas on an unregulated basis through the customer choice programs that operate in its service territory. These balancing services include the sale of natural gas supply commodities related to various peaking arrangements contractually supplied to Washington Gas and then partially allocated and assigned by Washington Gas to the energy marketers, including WGL Energy Services. Washington Gas records revenues for these balancing services pursuant to tariffs approved by the appropriate regulatory bodies. These related party amounts related to balancing services provided to WGL Energy Services have been eliminated in the consolidated financial statements of WGL. The following table shows the amounts Washington Gas charged WGL Energy Services for balancing services.

WASHINGTON GAS - GAS BALANCING SERVICE CHARGES

	Years Ended September 30,		
(In millions)	2017	2016	2015
Gas balancing service charge	**$ 23.6**	$ 26.8	$ 25.1

As a result of these balancing services, an imbalance is created for volumes of natural gas received by Washington Gas that are not equal to the volumes of natural gas delivered to customers of the energy marketers. WGL Energy Services recognized receivable to Washington Gas of $1.4 million and a $0.8 million payable at September 30, 2017 and 2016, respectively, related to an imbalance in gas volumes. Due to regulatory treatment, these payables are not eliminated in the consolidated financial statements of WGL. Refer to *Note 1—Accounting Policies for the Notes to Consolidated Financial Statements* for further discussion of these imbalance transactions.

Washington Gas participates in a purchase of receivables (POR) program as approved by the PSC of MD, whereby it purchases receivables from participating energy marketers at approved discount rates. In addition, WGL Energy Services participates in POR programs with certain Maryland and Pennsylvania utilities, whereby it sells its receivables to various utilities, including Washington Gas, at approved discount rates. The receivables purchased by Washington Gas are included in "Accounts receivable" in the accompanying balance sheet. Any activity between Washington Gas and WGL Energy Services related to the POR program has been eliminated in the accompanying financial statements for WGL. At September 30, 2017 and 2016, Washington Gas had balances of $3.2 million and $4.2 million, respectively, of purchased receivables from WGL Energy Services. Additionally, Washington Gas is implementing a program in the District of Columbia to participate in a POR program in fiscal year 2018. Washington Gas expects that it will take seven to nine months to implement the program.

NOTE 19 Accumulated other Comprehensive Income (Loss)

The following tables show the changes in accumulated other comprehensive income (loss) for WGL and Washington Gas by component for the fiscal years ended September 30, 2017 and 2016.

WGL HOLDINGS, INC.
CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT

	September 30,	
(In thousands)	**2017**	**2016**
Beginning Balance	**$ (38,539)**	$ (14,236)
Qualified cash flow hedging instruments[a]	**49,610**	(39,289)
Change in prior service cost[b]	**(767)**	(891)
Amortization of actuarial gain (loss)[b]	**6,232**	(936)
Current-period other comprehensive income (loss)	**55,075**	(41,116)
Income tax expense (benefit) related to other comprehensive income (loss)	**22,533**	(16,813)
Ending Balance	**$ (5,997)**	$ (38,539)

[a] *Cash flow hedging instruments represent interest rate swap agreements related to debt issuances. Refer to Note 14—Derivative and Weather-related Instruments for further discussion of the interest rate swap agreements.*

[b] *These accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit cost. Refer to Note 10—Pension and other post-retirement benefit plans for additional details.*

WASHINGTON GAS LIGHT COMPANY
CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT

	September 30,	
(In thousands)	**2017**	**2016**
Beginning Balance	**$ (7,830)**	$ (6,712)
Change in prior service cost[a]	**(767)**	(891)
Amortization of actuarial gain (loss)[a]	**6,232**	(936)
Current-period other comprehensive income (loss)	**5,465**	(1,827)
Income tax expense (benefit) benefit related to other comprehensive income (loss)	**2,157**	(709)
Ending Balance	**$ (4,522)**	$ (7,830)

[a] *These accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit cost. Refer to Note 10—Pension and other post-retirement benefit plans for additional details.*

NOTE 20 Supplemental Cash Flow Information

The following tables detail the changes in operating assets and liabilities from operating activities , cash payments that have been included in the determination of earnings and non-cash investing and financing activities:

WGL HOLDINGS INC.

	For the Year Ended September 30,		
(In thousands)	**2017**	**2016**	**2015**
Changes in Operating Assets And Liabilities			
Accounts receivable and unbilled revenues—net	**$ (108,236)**	$ (105,720)	$ (71,514)
Gas costs and other regulatory assets/liabilities—net	**3,430**	(31,075)	9,943
Storage gas	**(36,852)**	4,311	122,159
Prepaid Taxes	**1,848**	(76,779)	(38,630)
Accounts payable and other accrued liabilities	**51,307**	31,792	25,670
Customer deposits and advance payments	**(20,543)**	(2,513)	20,579
Accrued taxes	**1,985**	1,805	(266)
Other current assets	**(30,123)**	(24,502)	7,364
Other current liabilities	**7,072**	(8,774)	13,583
Deferred gas costs—net	**2,467**	(5,104)	(2,054)
Deferred assets—other	**(18,538)**	(22,312)	(10,153)
Deferred liabilities—other	**(29,407)**	2,076	8,500
Pension and other post-retirement benefits	**(9,950)**	(10,244)	(14,546)
Other—net	**3,002**	3,821	651
Changes in operating assets and liabilities	**$ (182,538)**	$ (243,218)	$ 71,286

	For the Year Ended September 30,		
(In thousands)	**2017**	**2016**	**2015**
Supplemental Disclosures of Cash Flow Information			
Income taxes paid (refunded)—net	**$ (10,002)**	$ (10,723)	$ 6,935
Interest paid	**$ 66,023**	$ 51,838	$ 45,654
Supplemental Disclosures of Non-Cash Investing and Financing Activities:			
Extinguishment of project debt financing	**$ (27,927)**	$ -	$ (8,350)
Capital expenditure accruals included in accounts payable and other accrued liabilities	**$ 54,212**	$ 84,132	$ 45,780
Dividends paid in common stock	**$ 1,362**	$ 4,011	$ -
Stock based compensation	**$ 6,564**	$ 6,742	$ 1,009
Transfer of investments to fixed assets (excluding ASD)	**$ 30,114**	$ -	$ -
Transfer of notes receivables to investments	**$ 10,031**	$ -	$ -
Effects of ASD Consolidation:			
Elimination of equity method investment	**$ (66,719)**	$ -	$ -
Consolidation of property, plant and equipment	**$ 48,248**	$ -	$ -
Elimination of unamortized investment tax credits	**$ 19,322**	$ -	$ -
Accounts receivable and other	**$ 956**	$ -	$ -
Gain on consolidation	**$ (1,807)**	$ -	$ -

WASHINGTON GAS

	For the Year Ended September 30,		
(In thousands)	**2017**	**2016**	**2015**
Changes in Operating Assets and Liabilities			
Accounts receivable, unbilled revenues and receivables from associated companies—net	**$ (125,758)**	$ (78,304)	$ (16,127)
Gas costs and other regulatory assets/liabilities—net	**3,430**	(31,075)	9,943
Storage gas	**(10,280)**	12,016	61,594
Prepaid Taxes	**(6,524)**	13,539	(14,228)
Accounts payable and other accrued liabilities, including payables to associated companies	**46,995**	31,408	(1,007)
Customer deposits and advance payments	**(16,742)**	(7,514)	20,132
Accrued taxes	**(4,831)**	5,980	(12,951)
Other current assets	**(4,123)**	3,912	5,826
Other current liabilities	**(3,194)**	(4,486)	1,435
Deferred gas costs—net	**2,467**	(5,104)	(2,054)
Deferred assets—other	**(15,088)**	(22,057)	(10,036)
Deferred liabilities—other	**(5,418)**	(57,660)	(13,912)
Pension and other post-retirement benefits	**(9,806)**	(10,251)	(13,750)
Other—net	**3,409**	2,107	258
Changes in operating assets and liabilities	**$ (145,463)**	$ (147,489)	$ 15,123
Supplemental Disclosures of Cash Flow Information			
Income taxes paid (refunded)—net	**$ -**	$ (19,004)	$ 8,902
Interest paid	**$ 50,539**	$ 40,972	$ 36,971
Supplemental Disclosures of Non-Cash Investing and Financing Activities:			
Extinguishment of project debt financing	**$ (27,927)**	$ -	$ (8,350)
Capital expenditure accruals included in accounts payable and other accrued liabilities	**$ 37,049**	$ 43,687	$ 40,926

NOTE 21 Planned Merger With Altagas Ltd.

On January 25, 2017, WGL entered into an agreement and plan of merger (Merger Agreement) to combine with AltaGas in an all cash transaction valued at approximately $6.4 billion. The Merger Agreement provides for the merger of a newly formed indirect wholly-owned subsidiary of AltaGas with and into WGL, with WGL continuing as a surviving corporation in the merger (the Merger) and becoming an indirect wholly-owned subsidiary of AltaGas. Subject to the terms and conditions set forth in the Merger Agreement, at the Effective Time (as defined in the Merger Agreement) of the Merger, WGL shareholders will receive $88.25 in cash, without interest, for each share of WGL common stock issued and outstanding immediately prior to the Effective Time (as defined in the Merger Agreement). The Boards of Directors of each of WGL and AltaGas have unanimously approved the Merger, which is expected to close in the second quarter of calendar year 2018.

Consummation of the Merger is subject to the satisfaction or waiver of specified closing conditions, including, among others, the approval of the Merger by the holders of more than two-thirds of the outstanding shares of WGL common stock, which occurred on May 10, 2017 and approvals required from certain antitrust and other regulatory bodies. A status of each of these conditions is described below. The Merger Agreement also contains customary representations, warranties and covenants of both WGL and AltaGas. These covenants include, among others, an obligation on behalf of WGL to operate its business in the ordinary course until the Merger is consummated, subject to certain exceptions.

The Merger Agreement may be terminated by each of WGL and AltaGas under certain circumstances, including if the Merger is not consummated by January 25, 2018 (subject to a 180 day extension by either party subject to certain conditions being met). The Merger Agreement also contains certain additional termination rights for both AltaGas and WGL, and provides that, upon termination of the Merger Agreement under specified circumstances, AltaGas would be required to pay a termination fee of \$205 million, \$182 million, or \$68 million (depending on the specific circumstances of termination) to WGL, and WGL would be required to pay AltaGas a termination fee of \$136 million, only under specific circumstances as outlined in the Merger Agreement.

In connection with entering into the Merger Agreement, WGL entered into a subscription agreement with AltaGas, in which WGL agreed, upon the occurrence of certain conditions, to issue and sell to AltaGas up to an aggregate of 15,000 shares of Series A Non-Voting Non-Convertible Perpetual Preferred Stock (Non-Voting Preferred Stock) for a purchase price of \$10,000 per share. If the consolidated debt to total capitalization ratio is forecasted to be in excess of 62% at December 31, 2017 or any quarterly period thereafter, AltaGas will purchase a number of shares of Non-Voting Preferred Stock to produce a forecasted ratio equal to 62%, but not more than 5,000 shares in any single quarter or more than 15,000 shares in the aggregate. If the Merger Agreement is terminated or the Outside Date (as defined in the Merger Agreement) expires, no subscription will be made after the date of termination or expiration, and WGL will have 6 months thereafter to redeem any Non-Voting Preferred Stock previously issued.

Merger Approval Proceedings

District of Columbia

On April 24, 2017, AltaGas, WGL and Washington Gas ("Applicants") filed an application with the PSC of DC seeking approval of the Merger Agreement. In an order issued on April 25, 2017, the PSC of DC scheduled a procedural conference on May 18, 2017 with the Staff of the PSC of DC and interested parties to consider the factors to be considered in the case to determine whether the Merger is in the public interest, identify factual issues in dispute and consider a procedural schedule for the proceeding. To approve the Merger Agreement, the PSC of DC must find that the Merger taken as a whole is in the public interest. In the April 25, 2017 order, the PSC of DC stated that in making this determination, it has balanced the interests of shareholders and investors with ratepayers and the community; determined that benefits to shareholders must not come at the expense of ratepayers; and found that to be approved, the transaction must produce a direct and tangible benefit to ratepayers. It stated further that in determining whether the public interest requirements are met, the PSC of DC has in past merger cases identified seven factors it has considered in reviewing each transaction, including the effects of the transaction on *(i)* ratepayers, shareholders, the financial health of the utilities standing alone and as merged, and the economy of the District; *(ii)* utility management and administrative operations; *(iii)* public safety and the safety and reliability of services; *(iv)* risks associated with all of the applicants' affiliated non-jurisdictional business operations; *(v)* the PSC of DC's ability to regulate Washington Gas effectively; *(vi)* competition in the local retail and wholesale markets that impact the District and District ratepayers; and *(vii)* conservation of natural resources and preservation of environmental quality. The law of the District of Columbia does not impose any time limit on the PSC of DC's review of the Merger. The District of Columbia Office of the People's Counsel, the District of Columbia Government and other intervenors filed testimony with the PSC of DC opposing the application on September 29, 2017. The Applicants filed rebuttal testimony on October 27, 2017. Evidentiary hearings are scheduled before the PSC of DC in the first half of December 2017. An order is expected by the second calendar quarter of 2018.

Maryland

On April 24, 2017, AltaGas, WGL and Washington Gas ("Applicants") filed an application with the PSC of MD seeking approval of the Merger Agreement. On April 26, 2017, the PSC of MD issued an order scheduling a pre-hearing conference on May 30, 2017, to set a procedural schedule for the proceeding, to consider any petition to intervene that have been filed, and to consider any other preliminary matters requested by the parties. Maryland law requires the PSC of MD to approve a merger subject to its review if it finds that the merger agreement is consistent with the public interest, convenience and necessity, including benefits and no harm to consumers. In making this determination, the PSC of MD is required to consider the following criteria: *(i)* the potential impact of the acquisition on rates and charges paid by customers and on the services and conditions of operation of the public service company; *(ii)* the potential impact of the acquisition on continuing investment needs for the maintenance of utility services, plant, and related infrastructure; *(iii)* the proposed capital structure that will result from the acquisition, including allocation of earnings from Washington Gas; *(iv)* the potential effects on employment; *(v)* the projected allocation of any savings that are expected between shareholders and rate payers; *(vi)* issues of reliability, quality of service, and quality of customer service; *(vii)* the potential impact of the acquisition on community investment; (viii) affiliate and cross-subsidization issues; *(ix)* the use or pledge of utility assets for the benefit of an affiliate; *(x)* jurisdictional and choice-of-law issues; *(xi)* whether it is necessary to revise the PSC of MD's ring-fencing and code of conduct regulations in light of the acquisition; and *(xii)* any other issues the PSC of MD considers relevant to the assessment of the acquisition in relation to the public interest, convenience, and necessity. The Staff of the PSC of MD, the Maryland Office of People's Counsel and other intervenors filed testimony opposing the application on August 14, 2017. The Applicants filed rebuttal testimony with the PSC of MD on September 11, 2017. Evidentiary hearings were held before the PSC of MD on October 3, 2017 through October 16, 2017. Initial Briefs were filed on November 6, 2017 and Reply Briefs were due by November 16, 2017. The PSC of MD is required to issue an order within 180 days of the date the application was filed, but may extend the date by 45 days for good cause. The PSC of MD issued an order extending the date for review. Accordingly, an order is expected by December 5, 2017.

Virginia

On April 24, 2017, AltaGas , WGL and Washington Gas, filed a petition with the SCC of VA seeking approval of the Merger Agreement. Virginia law provides that, if the SCC of VA determines, with or without hearing, that adequate service to the public at just and reasonable rates will not be impaired or jeopardized by granting the petition for approval, then the SCC of VA shall approve a merger with such conditions that the SCC of VA deems to be appropriate in order to satisfy this standard. On October 20, 2017, the SCC of VA issued an order approving the merger, subject to accounting, financial, and safety related requirements to which joint applicants agree.

Committee on Foreign Investment in the United States

On April 24, 2017, AltaGas, WGL and Washington Gas, filed a joint voluntary notice with the CFIUS. This notice was approved on August 18, 2017.

HSR

On June 15, 2017, AltaGas and WGL submitted to the Federal Trade Commission and the Antitrust Division of the Department of Justice completed Premerger Notification and Report Forms with respect to the proposed acquisition by AltaGas Ltd. of certain voting securities of WGL. The waiting period required by Section 7A(b)(1) of the Clayton Act, 15 U.S.C. Section 18a(b)(1) (aka the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended) expired on July 17, 2017. The expiration of the Clayton Act's waiting period deems the Merger approved by the Federal Trade Commission and the Department of Justice.

FERC

On April 24, 2017, AltaGas and WGL Energy Services submitted to FERC a Joint Application for Authorization of Disposition of Jurisdictional Assets and Merger under Section 203 of the Federal Power Act. Under that section, FERC shall approve a merger if it finds that the proposed transaction will be consistent with the public interest. In making this determination, the FERC will consider the following criteria: *(i)* horizontal competition analysis; *(ii)* vertical competition issues; *(iii)* no adverse effect on rates; *(iv)* no adverse effect on regulation; and *(v)* no improper cross-subsidization. On July 6, 2017, the FERC issued an order authorizing the Merger, concluding that the proposed transaction is consistent with the public interest.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of WGL Holdings, Inc.

Washington, DC

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of WGL Holdings, Inc. and subsidiaries ("WGL") as of September 30, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended September 30, 2017. Our audits also included the consolidated financial statement schedule of WGL listed in the Index at Item 15 under Schedule II. These financial statements and financial statement schedule are the responsibility of WGL's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of WGL Holdings, Inc. and subsidiaries as of September 30, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), WGL's internal control over financial reporting as of September 30, 2017, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 21, 2017 expressed an unqualified opinion on WGL's internal control over financial reporting.

/s/ DELOITTE & TOUCHE

Mclean, Virginia
November 21, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of Washington Gas Light Company

Washington, DC

We have audited the accompanying balance sheets and statements of capitalization of Washington Gas Light Company ("Washington Gas") as of September 30, 2017 and 2016, and the related statements of income, comprehensive income, common shareholder's equity, and cash flows for each of the three years in the period ended September 30, 2017. Our audits also included the financial statement schedule of Washington Gas listed in the Index at Item 15 under Schedule II. These financial statements and financial statement schedule are the responsibility of Washington Gas' management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Washington Gas is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Washington Gas' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Washington Gas Light Company as of September 30, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE

Mclean, Virginia
November 21, 2017

Supplementary Financial Information (Unaudited)

Quarterly Financial Data

All adjustments necessary for a fair presentation have been included in the quarterly information provided below. Due to the seasonal nature of our business, we report substantial variations in operations on a quarterly basis.

QUARTER ENDED

(In thousands, except per share data)	December 31[a]	March 31[a]	June 30[b]	September 30[c]
Fiscal Year 2017[a]				
WGL Holdings, Inc.				
Operating revenues	**$ 609,487**	**$ 841,750**	**$ 474,364**	**$ 429,123**
Operating income	**$ 104,713**	**$ 197,597**	**$ 22,855**	**$ 15,848**
Net income	**$ 55,767**	**$ 117,955**	**$ 4,036**	**$ 105**
Net income applicable to common stock	**$ 57,972**	**$ 123,064**	**$ 8,265**	**$ 3,319**
Earnings per average share of common stock:				
Basic	**$ 1.13**	**$ 2.40**	**$ 0.16**	**$ 0.06**
Diluted	**$ 1.13**	**$ 2.39**	**$ 0.16**	**$ 0.06**
Washington Gas Light Company				
Operating revenues	**$ 333,986**	**$ 475,021**	**$ 203,186**	**$ 154,775**
Operating income (loss)	**$ 103,008**	**$ 165,858**	**$ 11,464**	**$ (12,018)**
Net income (loss)	**$ 55,461**	**$ 93,610**	**$ (1,671)**	**$ (15,608)**
Net income (loss) applicable to common stock	**$ 55,131**	**$ 93,280**	**$ (2,001)**	**$ (15,938)**
Fiscal Year 2016				
WGL Holdings, Inc.				
Operating revenues	$ 613,384	$ 835,689	$ 440,587	$ 459,899
Operating income (loss)	$ 117,509	$ 174,411	$ 13,683	$ (5,307)
Net income (loss)	$ 68,501	$ 106,618	$ 2,355	$ (9,110)
Net income (loss) applicable to common stock	$ 68,171	$ 106,288	$ 2,025	$ (8,890)
Earnings (loss) per average share of common stock:				
Basic	$ 1.37	$ 2.13	$ 0.04	$ (0.17)
Diluted	$ 1.36	$ 2.11	$ 0.04	$ (0.17)
Washington Gas Light Company				
Operating revenues	$ 295,246	$ 452,024	$ 187,077	$ 136,557
Operating income (loss)	$ 98,977	$ 164,226	$ (20,528)	$ (14,308)
Net income (loss)	$ 54,612	$ 94,433	$ (18,519)	$ (17,412)
Net income (loss) applicable to common stock	$ 54,282	$ 94,103	$ (18,849)	$ (17,742)

[a] *During the fiscal year ended September 30, 2017, and the first and second quarter of the fiscal year ended September 30, 2016, there were no substantial variations in operations.*

[b] *During the third quarter of fiscal year 2016, WGL recorded an impairment charge of $3.0 million related to its investment in direct financing leases from Nextility.*

[c] *During the fourth quarter of fiscal year 2016, WGL recorded an additional impairment charge of $1.1 million related to its investment in direct financing leases from Nextility and $1.7 million in proceeds from an environmental insurance policy.*

ITEM 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A Controls and Procedures—WGL Holdings, Inc.

Evaluation of Disclosure Controls and Procedures

Senior management, including the Chairman and Chief Executive Officer and the Senior Vice President and Chief Financial Officer of WGL, evaluated the effectiveness of WGL's disclosure controls and procedures as of September 30, 2017. Based on this evaluation, the Chairman and Chief Executive Officer and the Senior Vice President and Chief Financial Officer have concluded that WGL's disclosure controls and procedures were effective as of September 30, 2017.

Management's Report on Internal Control Over Financial Reporting

Management of WGL is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. WGL's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

Because of the inherent limitations of internal control over financial reporting, including the possibility of human error and the circumvention or overriding of controls, material misstatements may not be prevented or detected on a timely basis. Accordingly, even internal controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Furthermore, projections of any evaluation of the effectiveness to future periods are subject to the risk that such controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of WGL's internal control over financial reporting as of September 30, 2017 based upon the criteria set forth in the *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, management has concluded that WGL maintained effective internal control over financial reporting as of September 30, 2017.

Deloitte & Touche LLP, the independent registered public accounting firm of WGL, has audited the effectiveness of WGL's internal control over financial reporting as of September 30, 2017. Deloitte & Touche LLP's report on the audit of WGL's internal control over financial reporting is included in Item 9A of this Form 10-K.

Changes in Internal Control Over Financial Reporting

There have been no changes in the internal control over financial reporting of WGL during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting of WGL.

ITEM 9A Controls and Procedures—Washington Gas Light Company

Evaluation of Disclosure Controls and Procedures

Senior management, including the Chairman and Chief Executive Officer and the Senior Vice President and Chief Financial Officer of Washington Gas, evaluated the effectiveness of Washington Gas' disclosure controls and procedures as of September 30, 2017. Based on this evaluation, the Chairman and Chief Executive Officer and the Senior Vice President and Chief Financial Officer have concluded that Washington Gas' disclosure controls and procedures were effective as of September 30, 2017.

Management's Report on Internal Control Over Financial Reporting

Management of Washington Gas is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Washington Gas' internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

Because of the inherent limitations of internal control over financial reporting, including the possibility of human error and the circumvention or overriding of controls, material misstatements may not be prevented or detected on a timely basis. Accordingly, even internal controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Furthermore, projections of any evaluation of the effectiveness to future periods are subject to the risk that such controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of Washington Gas' internal control over financial reporting as of September 30, 2017 based upon the criteria set forth in the *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, management has concluded that Washington Gas maintained effective internal control over financial reporting as of September 30, 2017.

This annual report on Form 10-K does not include an attestation report of Washington Gas' registered public accounting firm regarding internal control over financial reporting pursuant to rules of the Securities and Exchange Commission that permit Washington Gas to provide only this management's report in this annual report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There have been no changes in the internal control over financial reporting of Washington Gas during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting of Washington Gas.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of WGL Holdings, Inc.

Washington, DC

We have audited the internal control over financial reporting of WGL Holdings. Inc. and subsidiaries ("WGL") as of September 30, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. WGL's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on WGL's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, WGL maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and consolidated financial statement schedule as of and for the year ended September 30, 2017 of WGL and our report dated November 21, 2017 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE

Mclean, Virginia
November 21, 2017

ITEM 9B Other Information

None.

PART III

Part III of our Annual Report on Form 10-K has been intentionally omitted from this Corporate Financial Report.

The disclosures responsive to Items 10-14 of SEC Form 10-K are available in our full Annual Report on Form 10-K, beginning at page 174, available at
https://wglholdingsinc.gcs-web.com/node/18541/html

PART IV

ITEM 15 Exhibits and Financial Statement Schedules

Financial Statement Schedules

(a)(1)

All of the financial statements and financial statement schedules filed as a part of the annual report on Form 10-K are included in Item 8.

(a)(2)

Schedule II should be read in conjunction with the financial statements in this report. Schedules not included herein have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Schedule/ Exhibit	Description
II	Valuation and Qualifying Accounts and Reserves for the years ended September 30, 2017, 2016 and 2015—WGL Holdings, Inc.
	Valuation and Qualifying Accounts and Reserves for the years ended September 30, 2017, 2016 and 2015—Washington Gas Light Company.
(a)(3)	**Exhibits**
	Exhibits Filed Herewith:
10.1	WGL Holdings, Inc. and Washington Gas Light Company Deferred Compensation Plan for Outside Directors.*
12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends—WGL Holdings, Inc.
12.2	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends—Washington Gas Light Company.
21	Subsidiaries of WGL Holdings, Inc.
23	Consent of Deloitte & Touche LLP.
24	Power of Attorney
31.1	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer of WGL Holdings, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Vincent L. Ammann, Jr., the Senior Vice President and Chief Financial Officer of WGL Holdings, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer of Washington Gas Light Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.4	Certification of Vincent L. Ammann, Jr., the Senior Vice President and Chief Financial Officer of Washington Gas Light Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer, and Vincent L. Ammann, Jr., the Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

Schedule/ Exhibit	Description
	Exhibits Incorporated by Reference:
2	*Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession*
2.1	Agreement and Plan of Merger, dated as of January 25, 2017, among WGL Holdings, Inc., Wrangler Inc. and AltaGas, Ltd. (incorporated by reference to Exhibit 2.1 to WGL Holdings, Inc.'s Form 8-K filed January 27, 2017).
2.2	Subscription Agreement for Series A Non-Voting Non-Convertible Perpetual Preferred Stock, dated as of January 25, 2017, by and between WGL Holdings, Inc. and AltaGas Ltd. (incorporated by reference to Exhibit 2.2 to WGL Holdings, Inc.'s Form 8-K filed January 27, 2017).
3	*Articles of Incorporation & Bylaws:*
3.1	Washington Gas Light Company Charter (incorporated by reference to Exhibit 4 to Registration Statement on Washington Gas Light Company's Form S-3 filed July 21, 1995).
3.2	Articles of Incorporation of WGL Holdings, Inc. (incorporated by reference to Appendix B to Registration Statement on WGL Holdings, Inc.'s Form S-4 filed February 2, 2000).
3.3	Bylaws of WGL Holdings, Inc. as amended effective April 1, 2013 (incorporated by reference to Exhibit 3.1 to WGL Holdings, Inc.'s Form 8-K filed March 13, 2013).
3.4	Bylaws of Washington Gas Light Company, as amended on September 2, 2016 (incorporated by reference to Exhibit 3.1 to Washington Gas Light Company's Form 10-K for the fiscal year ended September 30, 2016 filed on November 22, 2016).
4	*Instruments Defining the Rights of Security Holders including Indentures:*
4.1	Indenture Agreement dated August 28, 2014, entered into by and between WGL Holdings, Inc. and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to WGL Holdings, Inc.'s Form 8-K filed October 15, 2014).
4.2	First Supplemental Indenture relating to 2.25% Senior Notes due 2019, dated October 24, 2014, by and between WGL Holdings, Inc. and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.2 to WGL Holdings, Inc.'s Form 8-K filed October 24, 2014).
4.3	Second Supplemental Indenture relating to 4.60% Senior Notes due 2044, dated October 24, 2014, by and between WGL Holdings, Inc. and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.3 to WGL Holdings, Inc.'s Form 8-K filed October 24, 2014).
4.4	Indenture, dated September 1, 1991 between Washington Gas Light Company and The Bank of New York, as Trustee, regarding issuance of unsecured notes (incorporated by reference to an exhibit to Washington Gas Light Company's Form 8-K filed September 19, 1991).
4.5	Supplemental Indenture, dated September 1, 1993 between Washington Gas Light Company and The Bank of New York, as Trustee, regarding the addition of a new section to the Indenture dated September 1, 1991 (incorporated by reference to an exhibit to Washington Gas Light Company's Form 8-K filed September 10, 1993).
4.6	Terms Agreement, dated September 13, 2016, between Washington Gas Light Company, MUFG Securities Americas Inc., Wells Fargo Securities, LLC, BB&T Securities, LLC, TD Securities (USA) LLC and The Williams Capital Group, L.P. (incorporated by reference to Exhibit 1.1 to Washington Gas Light Company's Form 8-K filed September 19, 2016).
4.7	Terms Agreement, dated September 13, 2017, between Washington Gas Light Company, MUFG Securities Americas Inc. and RBC Capital Markets, LLC (incorporated by reference to Exhibit 1.1 to Washington Gas Light Company's Form 8-K filed September 19, 2017).
10	*Material Contracts*
10.2	Limited Liability Company Agreement of Meade Pipeline Co. LLC entered into on February 14, 2014, by and between WGL Midstream, Inc., COG Holdings LLC, Vega Midstream MPC LLC, River Road Interests LLC, and VED NPI I, LLC (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended March 31, 2014 filed May 8, 2014).
10.3	Construction and Ownership Agreement entered into on February 14, 2014, by and between Transcontinental Gas Pipe Line Company, LLC and Meade Pipeline Co. LLC (incorporated by reference to Exhibit 10.2 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended March 31, 2014 filed May 8, 2014).
10.4	Lease Agreement between Transcontinental Gas Pipe Line Company, LLC and Meade Pipeline Co. LLC (incorporated by reference to Exhibit 10.3 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended March 31, 2014 filed May 8, 2014).
	Other Services Contracts
10.5	Master Services Agreement, effective June 19, 2007, with Accenture LLP, related to business process outsourcing, and service technology enhancements (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended June 30, 2007 filed August 9, 2007). Portions of this exhibit were omitted pursuant to a request for confidential treatment submitted to the Securities and Exchange Commission.
	Gas transportation and storage contracts
10.6	Amended Service Agreement, effective October 31, 2008, with Columbia Gas Transmission, LLC related to Firm Storage Service Transportation (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2009 filed November 25, 2009) (consolidated into Agreement 100303).
10.7	Service Agreement, effective October 31, 2008, with Columbia Gas Transmission, LLC related to Firm Storage Service Transportation (incorporated by reference to Exhibit 10.3 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended June 30, 2009 filed August 7, 2009) (consolidated into Agreement 100303).
10.8	Service Agreement, effective November 1, 2005, with Columbia Gas Transmission, LLC related to Firm Storage Service Transportation (Agreement 85038) (incorporated by reference to Exhibit 10.3 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2005 filed December 14, 2005) (consolidated into Agreement 100303).
10.9	Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission, LLC related to Storage Service (incorporated by reference to Exhibit 10.8 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2004 filed December 14, 2004) (Agreement 78839) (consolidated into Agreement 100303).
10.10	Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission, LLC related to Storage Service (incorporated by reference to Exhibit 10.8 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2004 filed December 14, 2004) (Agreement 78840) (consolidated into Agreement 100303).

Schedule/ Exhibit	Description
10.11	Service Agreement, effective October 31, 2008, with Columbia Gas Transmission, LLC related to Firm Storage Service (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended June 30, 2009 filed August 7, 2009) (consolidated into Agreement 4409).
10.12	Service Agreement, effective November 1, 2005, with Columbia Gas Transmission, LLC related to Firm Storage Service (Agreement 85037) (incorporated by reference to Exhibit 10.2 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2005 filed December 14, 2005) (consolidated into Agreement 4409).
10.13	Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission, LLC related to Firm Storage Service (incorporated by reference to Exhibit 10.7 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2004 filed December 14, 2004) (Agreement 78844) (consolidated into Agreement 4409).
10.14	Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission, LLC related to Firm Storage Service (incorporated by reference to Exhibit 10.7 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2004 filed December 14, 2004) (Agreement 78845) (consolidated into Agreement 4409).
10.15	Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission, LLC related to Firm Storage Service (incorporated by reference to Exhibit 10.7 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2004 filed December 14, 2004) (Agreement 78846) (consolidated into Agreement 4409).
10.16	Service Agreement, effective November 1, 2008, with Columbia Gas Transmission, LLC related to Firm Transportation Service (incorporated by reference to Exhibit 10.2 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended June 30, 2009 filed August 7, 2009) (consolidated into Agreement 4484).
10.17	Service Agreement, effective November 1, 2005, with Columbia Gas Transmission, LLC related to Firm Transportation Service (Agreement 85036) (incorporated by reference to Exhibit 10.4 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2005 filed December 14, 2005) (consolidated into Agreement 4484).
10.18	Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission, LLC related to Firm Transportation Service (incorporated by reference to Exhibit 10.9 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2004 filed December 14, 2004) (Agreement 78834) (consolidated into Agreement 4484).
10.19	Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission, LLC related to Firm Transportation Service (incorporated by reference to Exhibit 10.9 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2004 filed December 14, 2004) (Agreement 78835) (consolidated into Agreement 4484).
10.20	Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission, LLC related to Firm Transportation Service (incorporated by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended September 30, 2004 filed December 14, 2004) (Agreement 78836) (consolidated into Agreement 4484).
	Management Contracts, Compensatory Plans or Arrangements with Executive Officers and Directors
10.21	Form of Performance Share Award Agreement, as amended on October 21, 2014 (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2014 filed November 21, 2014).*
10.22	Form of Performance Units Award Agreement, as amended on October 21, 2014 (incorporated by reference to Exhibit 10.2 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2014 filed November 21, 2014).*
10.23	Form of Performance Unit Award Agreement (Total Shareholder Return) (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended December 31, 2015 filed February 5, 2016).*
10.24	Form of Performance Unit Award Agreement (Return on Equity) (incorporated by reference to Exhibit 10.2 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended December 31, 2015 filed February 5, 2016).*
10.25	Form of Performance Share Award Agreement (Total Shareholder Return) (incorporated by reference to Exhibit 10.3 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended December 31, 2015 filed February 5, 2016).*
10.26	Form of Performance Share Award Agreement (Dividend Coverage) (incorporated by reference to Exhibit 10.4 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended December 31, 2015 filed February 5, 2016).*
10.27	Washington Gas Light Company Defined Contribution Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.1 to Washington Gas Light Company's Form 10-Q for the quarter ended December 31, 2009 filed February 5, 2010).*
10.28	Washington Gas Light Company Defined Contribution Restoration Plan (incorporated by reference to Exhibit 10.2 to Washington Gas Light Company's Form 10-Q for the quarter ended December 31, 2009 filed February 5, 2010).*
10.29	Washington Gas Light Company Defined Benefit Restoration Plan (incorporated by reference to Exhibit 10.3 to Washington Gas Light Company's Form 10-Q for the quarter ended December 31, 2009 filed February 5, 2010).*
10.30	WGL Holdings, Inc. and Washington Gas Light Company Change in Control Severance Plan for Certain Executives, as amended on September 24, 2008 (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2008 filed December 1, 2008).*
10.31	Amendment 2015-1 to the WGL Holdings, Inc. and Washington Gas Light Company Change in Control Severance Plan for Certain Executives, dated November 12, 2015 (incorporated by reference to Exhibit 99.1 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended December 31, 2015 filed February 5, 2016).*
10.32	WGL Holdings, Inc. and Washington Gas Light Company Change in Control Policy, dated December 15, 2006, as amended September 22, 2015 (incorporated by reference to Exhibit 99.1 to WGL Holdings, Inc.'s Form 8-K filed on January 20, 2016).*
10.33	Washington Gas Light Company Supplemental Executive Retirement Plan, amended and restated effective January 1, 2005, as further amended on September 24, 2008 (incorporated by reference to Exhibit 10.3 to Washington Gas Light Company's Form 10-K for the fiscal year ended September 30, 2008 filed December 1, 2008).*
10.34	WGL Holdings, Inc. 2016 Omnibus Incentive Compensation Plan (incorporated by reference to Appendix B of WGL Holdings, Inc.'s Definitive Proxy Statement on Schedule 14A filed January 20, 2016).*
10.35	WGL Holdings, Inc. Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.2 to WGL Holdings, Inc.'s Form 8-K filed December 21, 2006).*

Schedule/ Exhibit	Description
10.36	WGL Holdings, Inc. and Washington Gas Light Company Deferred Compensation Plan for Outside Directors, adopted December 18, 1985, and amended as of November 1, 2000 (incorporated by reference to Exhibit 10.2 to WGL Holdings, Inc.'s Form 10-K for the fiscal year ended September 30, 2001 filed December 20, 2001).*
10.37	Form of ROE Performance Units (FY 2018 Series) Award under WGL Holdings, Inc. 2016 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 8-K filed September 29, 2017).*
10.38	Form of Dividend Coverage Performance Shares (FY 2018 Series) Award under WGL Holdings, Inc. 2016 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.2 to WGL Holdings, Inc.'s Form 8-K filed September 29, 2017).*
10.39	Form of ROE Performance Shares (FY 2018 Series) Award under WGL Holdings, Inc. 2016 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.3 to WGL Holdings, Inc.'s Form 8-K filed September 29, 2017).*
	Securities Distribution Agreements
10.40	Equity Distribution Agreement, dated November 24, 2015, by and among WGL Holdings, Inc., Wells Fargo Securities, LLC, BB&T Capital Markets, a division of BB&T Securities, LLC and RBC Capital Markets, LLC (incorporated by reference to Exhibit 1.1 to WGL Holdings, Inc.'s Form 8-K filed November 24, 2015).
10.41	Distribution Agreement, dated September 10, 2015, by and among Washington Gas Light Company and BB&T Capital Markets, a division of BB&T Securities, LLC, Mitsubishi UFJ Securities (USA), Inc., TD Securities (USA) LLC, The Williams Capital Group, L.P., U.S. Bancorp Investments, Inc., Wells Fargo Securities, LLC and RBC Capital Markets, LLC, relating to the issuance and sale by Washington Gas Light Company of up to $600,000,000 aggregate principal amount of Medium-Term Notes, Series K (incorporated by reference to Exhibit 99.1 to Washington Gas Light Company's Form 8-K filed September 16, 2015).
	Debt and Credit Agreements
10.42	Note Purchase Agreement, dated December 15, 2014, between the Washington Gas Light Company, New York Life Insurance and Annuity Corporation and New York Life Insurance Company (incorporated by reference to Exhibit 10.1 to Washington Gas Light Company's Form 8-K filed December 17, 2014).
10.43	Note Purchase Agreement dated November 2, 2009, entered into by and among Washington Gas Light Company and certain purchasers, for the issuance and sale by Washington Gas Light Company of $50 million of 4.76% notes due November 1, 2019 (incorporated by reference to Exhibit 4.1 to Washington Gas Light Company's Form 8-K filed November 6, 2009).
10.44	Form of Note issued in connection with the Note Purchase Agreement dated November 2, 2009, by and among Washington Gas Light Company and certain purchasers, regarding the issuance and sale by Washington Gas Light Company of $50 million of 4.76% notes due November 1, 2019 (incorporated by reference to Exhibit 4.2 to Washington Gas Light Company's Form 8-K filed November 6, 2009).
10.45	First Amendment to Credit Agreement, dated December 19, 2014, between WGL Holdings, Inc. the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent for the Lenders (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 8-K filed December 19, 2014).
10.46	First Amendment to Credit Agreement, dated December 19, 2014, between Washington Gas Light Company, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent for the Lenders (incorporated by reference to Exhibit 10.2 to Washington Gas Light Company's Form 8-K filed December 19, 2014).
10.47	Credit Agreement dated as of April 3, 2012 among WGL Holdings, Inc., the lenders parties thereto, Wells Fargo Bank, National Association, as administrative agent; The Bank of Tokyo-Mitsubishi UFJ, Ltd. as syndication agent; Branch Banking and Trust Company and TD Bank, N.A., as documentation agents; and Wells Fargo Securities, LLC, The Bank of Tokyo-Mitsubishi UFJ, Ltd., BB&T Capital Markets and TD Bank, N.A. as joint lead arrangers and joint book runners (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended March 31, 2012 filed May 3, 2012).
10.48	Credit Agreement dated as of April 3, 2012 among Washington Gas Light Company, the lenders parties thereto, Wells Fargo Bank, National Association, as administrative agent; The Bank of Tokyo-Mitsubishi UFJ, Ltd. as syndication agent; Branch Banking and Trust Company and TD Bank, N.A., as documentation agents; and Wells Fargo Securities, LLC, The Bank of Tokyo-Mitsubishi UFJ, Ltd., BB&T Capital Markets and TD Bank, N.A. as joint lead arrangers and joint book runners (incorporated by reference to Exhibit 10.2 to WGL Holdings, Inc.'s Form 10-Q for the quarter ended March 31, 2012 filed May 3, 2012).
10.49	Credit Agreement, dated as of February 18, 2016, among WGL Holdings, Inc., the lender parties thereto, U.S. Bank National Association, as Administrative Agent, TD Bank, N.A., as Syndication Agent, Branch Banking and Trust Company, as Documentation Agent, and U.S. Bank National Association and TD Bank, N.A., as joint lead arrangers and joint book runners (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 8-K filed February 19, 2016).
10.50	Second Amendment to Credit Agreement and Commitment Increase, dated as of June 23, 2017, among WGL Holdings, Inc., the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent for the Lenders (incorporated by reference to Exhibit 10.1 to WGL Holdings, Inc.'s Form 8-K filed June 29, 2017).
10.51	Second Amendment to Credit Agreement, dated as of June 23, 2017, among Washington Light Company, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent for the Lenders (incorporated by reference to Exhibit 10.2 to Washington Gas Light Company's Form 8-K filed June 29, 2017).

** Designates a compensatory plan or arrangement.*

WGL HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
YEARS ENDED SEPTEMBER 30, 2017, 2016 AND 2015

(In thousands)	Balance at Beginning of Period	Additions Charged To: Costs and Expenses	Additions Charged To: Other Accounts[a]	Deductions[b]	Balance at End of Period
2017					
Valuation and Qualifying Accounts Deducted from Assets in the Balance Sheet: Allowance for Doubtful Accounts	**$ 27,339**	**$ 17,205**	**$ 1,841**	**$ 14,360**	**$ 32,025**
2016					
Valuation and Qualifying Accounts Deducted from Assets in the Balance Sheet: Allowance for Doubtful Accounts	$ 26,224	$ 13,051	$ 3,856	$ 15,792	$ 27,339
2015					
Valuation and Qualifying Accounts Deducted from Assets in the Balance Sheet: Allowance for Doubtful Accounts	$ 23,341	$ 18,250	$ 4,789	$ 20,156	$ 26,224

[a] *Recoveries on receivables previously written off as uncollectible and unclaimed customer deposits, overpayments, etc., not refundable.*
[b] *Includes deductions for purposes for which reserves were provided or revisions made of estimated exposure.*

WASHINGTON GAS LIGHT COMPANY
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
YEARS ENDED SEPTEMBER 30, 2017, 2016 AND 2015

(In thousands)	Balance at Beginning of Period	Additions Charged To: Costs and Expenses	Additions Charged To: Other Accounts[a]	Deductions[b]	Balance at End of Period
2017					
Valuation and Qualifying Accounts Deducted from Assets in the Balance Sheet: Allowance for Doubtful Accounts	**$ 20,220**	**$ 14,320**	**$ 1,821**	**$ 12,620**	**$ 23,741**
2016					
Valuation and Qualifying Accounts Deducted from Assets in the Balance Sheet: Allowance for Doubtful Accounts	$ 19,254	$ 10,946	$ 3,806	$ 13,786	$ 20,220
2015					
Valuation and Qualifying Accounts Deducted from Assets in the Balance Sheet: Allowance for Doubtful Accounts	$ 19,209	$ 12,800	$ 4,686	$ 17,441	$ 19,254

[a] *Recoveries on receivables previously written off as uncollectible and unclaimed customer deposits, overpayments, etc., not refundable.*
[b] *Includes deductions for purposes for which reserves were provided or revisions made of estimated exposure.*

ITEM 16 Form 10-K Summary

Not Applicable.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

WGL HOLDINGS, INC.
and
WASHINGTON GAS LIGHT COMPANY
(Co-registrants)

/s/ VINCENT L. AMMANN, JR.
Vincent L. Ammann, Jr.
Senior Vice President and
Chief Financial Officer

Date: November 20, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrants and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Terry D. McCallister (Terry D. McCallister)	Chairman of the Board and Chief Executive Officer	November 20, 2017
/s/ Adrian P. Chapman (Adrian P. Chapman)	President and Chief Operating Officer	November 20, 2017
/s/ Vincent L. Ammann, Jr. (Vincent L. Ammann, Jr.)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	November 20, 2017
/s/ William R. Ford (William R. Ford)	Vice President and Chief Accounting Officer (Principal Accounting Officer)	November 20, 2017
* (Michael D. Barnes)	Director	November 20, 2017
* (George P. Clancy, Jr.)	Director	November 20, 2017
* (James W. Dyke, Jr.)	Director	November 20, 2017
* (Nancy C. Floyd)	Director	November 20, 2017
* (Linda R. Gooden)	Director	November 20, 2017
* (James F. Lafond)	Director	November 20, 2017
* (Debra L. Lee)	Director	November 20, 2017
* (Dale S. Rosenthal)	Director	November 20, 2017
/s/ Vincent L. Ammann, Jr. (Vincent L. Ammann, Jr.) Attorney-in-Fact		November 20, 2017

WGL HOLDINGS, INC. AND WASHINGTON GAS LIGHT COMPANY 2017 FORM 10-K EXHIBIT INDEX

Exhibit	Description
10.1	WGL Holdings, Inc. and Washington Gas Light Company Deferred Compensation Plan for Outside Directors.
12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends—WGL Holdings, Inc.
12.2	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends—Washington Gas Light Company.
21	Subsidiaries of WGL Holdings, Inc.
23	Consent of Deloitte & Touche LLP.
24	Power of Attorney
31.1	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer of WGL Holdings, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Vincent L. Ammann, Jr., the Senior Vice President and Chief Financial Officer of WGL Holdings, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer of Washington Gas Light Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.4	Certification of Vincent L. Ammann, Jr., the Senior Vice President and Chief Financial Officer of Washington Gas Light Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer, and Vincent L. Ammann, Jr., the Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 10.1 WGL Holdings, Inc. and Washington Gas Light Company Deferred Compensation Plan for Outside Directors

[Exhibit 10.1 has been intentionally omitted from this printed document. Exhibit 10.1 is filed as an exhibit to the combined Annual Report on Form 10-K for the fiscal year ended September 30, 2017 of WGL Holdings, Inc. and Washington Gas Light Company filed with the Securities and Exchange Commission on November 22, 2017.]

EXHIBIT 12.1 Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends

WGL HOLDINGS, INC. AND SUBSIDIARIES

	Twelve Months Ended September 30,				
($ in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
EARNINGS:					
Pre-Tax Net Income[(a)]	**$ 268,806**	$ 252,632	$ 210,915	$ 161,320	$ 132,355
Add:					
Distributed Income (Loss) of Equity Investees	**20,161**	13,806	5,468	3,194	1,510
Total Fixed Charges	**79,856**	55,225	53,471	39,484	37,893
Less: Capitalized Interest[(b)]	**(2,909)**	-	-	-	-
TOTAL EARNINGS	**$ 365,914**	$ 321,663	$ 269,854	$ 203,998	$ 171,758
FIXED CHARGES:					
Interest expensed and capitalized	**$ 74,739**	$ 51,809	$ 50,450	$ 36,383	$ 34,512
Other Interest (excluding AFUDC)	**1,250**	298	658	918	905
Amortization of Debt Premium, Discount and Expense	**974**	303	373	345	337
One-third of Rental Expense[(c)]	**2,893**	2,815	1,990	1,838	2,139
TOTAL FIXED CHARGES	**$ 79,856**	$ 55,225	$ 53,471	$ 39,484	$ 37,893
Ratio of Earnings to Fixed Charges	**4.6**	5.8	5.0	5.2	4.5
FIXED CHARGES AND PRE-TAX PREFERRED STOCK DIVIDENDS:					
Pre-Tax Preferred Dividend Requirement	**$ 1,320**	$ 1,320	$ 1,320	$ 1,320	$ 1,320
Effective Income Tax Rate	**0.3846**	0.3681	0.3871	0.3480	0.3906
Complement of Effective Income Tax Rate (1-Tax Rate)	**0.6154**	0.6319	0.6129	0.6520	0.6094
Preferred Dividend Requirement	**$ 2,145**	$ 2,089	$ 2,154	$ 2,025	$ 2,166
COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS	**$ 82,001**	$ 57,314	$ 55,625	$ 41,509	$ 40,059
Ratio of Earnings to Fixed Charges and Preferred Dividends	**4.5**	5.6	4.9	4.9	4.3

(a) *Excludes amounts attributable to income or loss from equity investees and non-controlling interests.*

(b) *Capitalized interest amounts attributable to 2016 and 2015 were $2.1 million and $1.1 million respectively. There was no capitalized interest for 2014 and 2013.*

(c) *Management believes one-third of the total rental expense gives a reasonable estimate of total interest on rentals.*

EXHIBIT 12.2 Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends

WASHINGTON GAS LIGHT COMPANY

	Twelve Months Ended September 30,				
($ in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
EARNINGS:					
Pre-Tax Net Income[(a)]	**$ 211,632**	$ 184,780	$ 180,069	$ 145,858	$ 116,519
Add:					
Total Fixed Charges	**53,990**	42,916	43,202	38,415	37,081
TOTAL EARNINGS	**$ 265,622**	$ 227,696	$ 223,271	$ 184,273	$ 153,600
FIXED CHARGES:					
Interest expensed and capitalized	**$ 51,450**	$ 40,129	$ 41,102	$ 36,233	$ 34,512
Other Interest (excluding AFUDC)	**391**	674	295	458	525
Amortization of Debt Premium, Discount and Expense	**395**	303	412	345	337
One-third of Rental Expense[(b)]	**1,754**	1,810	1,393	1,379	1,707
TOTAL FIXED CHARGES	**$ 53,990**	$ 42,916	$ 43,202	$ 38,415	$ 37,081
Ratio of Earnings to Fixed Charges	**4.9**	5.3	5.2	4.8	4.1
FIXED CHARGES AND PRE-TAX PREFERRED STOCK DIVIDENDS:					
Pre-Tax Preferred Dividend Requirement	**$ 1,320**	$ 1,320	$ 1,320	$ 1,320	$ 1,320
Effective Income Tax Rate	**0.3773**	0.3879	0.3965	0.3258	0.3793
Complement of Effective Income Tax Rate (1-Tax Rate)	**0.6227**	0.6121	0.6035	0.6742	0.6207
Preferred Dividend Requirement	**$ 2,120**	$ 2,157	$ 2,187	$ 1,958	$ 2,127
COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS	**$ 56,110**	$ 45,073	$ 45,389	$ 40,373	$ 39,208
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends	**4.7**	5.1	4.9	4.6	3.9

[(a)] *Excludes amounts attributable to income or loss from equity investees.*

[(b)] *Management believes one-third of the total rental expense gives a reasonable estimate of total interest on rentals.*

EXHIBIT 21 WGL Holdings, Inc.
Subsidiaries of the above registrant as of September 30, 2017

Subsidiary Relationship Denoted by Indentation	Percent of Voting Securities Owned	State of Incorporation
WGL Holdings, Inc. (Parent)		Virginia
Washington Gas Light Company	99.4%	Virginia and the District of Columbia
Hampshire Gas Company	100%	West Virginia
Washington Gas Resources Corp.	100%	Delaware
WGL Midstream, Inc.	100%	Delaware
WGL Energy Services, Inc.	100%	Delaware
WGL Energy Systems, Inc.	100%	Delaware
WGSW, Inc.	100%	Delaware

EXHIBIT 23 Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement Nos. 333-192731, 333-198218, 333-208190, 333-215004, and 333-224079 on Forms S-3 and Registration Statement Nos. 333-104571, 333-104572, 333-142983, 333-171160, 333-210243, and 333-213148 on Forms S-8 of our reports dated November 20, 2017, relating to the consolidated financial statements and consolidated financial statement schedule of WGL Holdings, Inc. and subsidiaries and the effectiveness of WGL Holdings, Inc. and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of WGL Holdings, Inc. and Washington Gas Light Company for the year ended September 30, 2017.

We consent to the incorporation by reference in Registration Statement No. 333-206576 on Form S-3 of our report dated November 21, 2017, relating to the financial statements and financial statement schedule of Washington Gas Light Company, appearing in this Annual Report on Form 10-K of WGL Holdings, Inc. and Washington Gas Light Company for the year ended September 30, 2017.

/s/ DELOITTE & TOUCHE LLP

McLean, Virginia

November 21, 2017

EXHIBIT 24 Power of Attorney

Each person whose signature appears below does hereby constitute and appoint Terry D. McCallister, Adrian P. Chapman, Leslie T. Thornton, Vincent L. Ammann, Jr. and William R. Ford, or any of them singly, as such person's true and lawful attorney-in-fact and agent, with full power of substitution, resubstitution and revocation to execute, deliver and file with the Securities and Exchange Commission, for and on such person's behalf, and in any and all capacities, Form 10-K for the fiscal year ended September 30, 2017, of WGL Holdings, Inc. and Washington Gas Light Company any and all amendments thereto, under the Securities Exchange Act of 1934, with all exhibits thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or such person's substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Name	Title	Date
/s/ Michael D. Barnes (Michael D. Barnes)	Director	November 15, 2017
/s/ George P. Clancy, Jr. (George P. Clancy, Jr.)	Director	November 15, 2017
/s/ James W. Dyke, Jr. (James W. Dyke, Jr.)	Director	November 15, 2017
/s/ Nancy C. Floyd (Nancy C. Floyd)	Director	November 15, 2017
/s/ Linda R. Gooden (Linda R. Gooden)	Director	November 15, 2017
/s/ James F. Lafond (James F. Lafond)	Director	November 15, 2017
/s/ Debra L. Lee (Debra L. Lee)	Director	November 15, 2017
/s/ Dale S. Rosenthal (Dale S. Rosenthal)	Director	November 15, 2017

EXHIBIT 31.1 Certification of WGL Holdings, Inc.

I, Terry D. McCallister, certify that:

1. I have reviewed this annual report on Form 10-K of WGL Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2017

/s/ TERRY D. McCALLISTER

Terry D. McCallister

Chairman and Chief Executive Officer

EXHIBIT 31.2 Certification of WGL Holdings, Inc.

I, Vincent L. Ammann, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of WGL Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2017

/s/ VINCENT L. AMMANN, Jr.

Vincent L. Ammann, Jr.

Senior Vice President and Chief Financial Officer

EXHIBIT 31.3 Certification of Washington Gas Light Company

I, Terry D. McCallister, certify that:

1. I have reviewed this annual report on Form 10-K of Washington Gas Light Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2017

/s/ TERRY D. McCALLISTER

Terry D. McCallister

Chairman and Chief Executive Officer

EXHIBIT 31.4 Certification of Washington Gas Light Company

I, Vincent L. Ammann, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Washington Gas Light Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2017

/s/ VINCENT L. AMMANN, Jr.

Vincent L. Ammann, Jr.
Senior Vice President and Chief Financial Officer

EXHIBIT 32 Certification of the Chairman and Chief Executive Officer and the Senior Vice President and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the combined Annual Report of WGL Holdings, Inc. and Washington Gas Light Company (the "Companies") on Form 10-K for the annual period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Terry D. McCallister, Chairman and Chief Executive Officer of the Companies, and Vincent L. Ammann, Jr., Senior Vice President and Chief Financial Officer of the Companies, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of their knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Companies.

This certification is being made for the exclusive purpose of compliance by the Chairman and Chief Executive Officer and the Senior Vice President and Chief Financial Officer of the Companies with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be disclosed, distributed, or used by any person for any reason other than as specifically required by law.

/s/ TERRY D. McCALLISTER

Terry D. McCallister
Chairman and Chief Executive Officer

/s/ VINCENT L. AMMANN, Jr.

Vincent L. Ammann, Jr.
Senior Vice President and Chief Financial Officer

November 20, 2017

End of Annual Report on Form 10-K

This page intentionally left blank.

2017 FINANCIAL AND OPERATING STATISTICS AND SHAREHOLDER INFORMATION

WGL Holdings, Inc.
Consolidated Balance Sheets

	September 30,				
(In thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
ASSETS					
Property, Plant and Equipment					
At original cost	**$ 6,143,841**	$ 5,542,916	$ 5,003,910	$ 4,582,764	$ 4,118,149
Accumulated depreciation and amortization	**(1,513,790)**	(1,415,679)	(1,331,182)	(1,268,319)	(1,210,686)
Net property, plant and equipment	**4,630,051**	4,127,237	3,672,728	3,314,445	2,907,463
Current Assets					
Cash and cash equivalents	**8,524**	5,573	6,733	8,811	3,478
Receivables					
Accounts receivable	**398,149**	329,989	276,358	222,253	229,544
Gas costs and other regulatory assets	**21,705**	15,294	5,797	3,752	10,825
Unbilled revenues	**165,483**	173,076	102,560	96,314	98,598
Allowance for doubtful accounts	**(32,025)**	(27,339)	(26,224)	(23,341)	(20,433)
Net receivables	**553,312**	491,020	358,491	298,978	318,534
Materials and supplies—principally at average cost	**20,172**	18,414	21,402	23,647	24,904
Storage gas	**243,984**	207,132	211,443	333,602	347,291
Prepaid taxes	**31,549**	33,397	48,726	66,578	24,450
Other prepayments	**86,465**	42,626	32,850	34,269	29,922
Derivatives	**15,327**	18,510	22,933	18,331	35,315
Assets held for sale	**-**	-	22,906	-	-
Other	**26,556**	26,802	23,057	24,635	11,595
Total current assets	**985,889**	843,474	748,541	808,851	795,489
Deferred Charges and Other Assets					
Regulatory assets					
Gas costs	**90,136**	179,856	190,676	191,346	93,963
Pension and other post-retirement benefits	**139,499**	223,242	212,041	192,981	240,634
Other	**104,596**	98,592	80,018	71,638	66,010
Prepaid post-retirement benefits	**231,577**	180,686	138,629	96,385	-
Derivatives	**38,389**	55,020	32,132	18,739	26,306
Investments in direct financing leases, capital leases	**-**	29,780	35,234	18,159	23,390
Investments in unconsolidated affiliates	**394,201**	303,491	136,884	100,528	67,522
Other	**11,671**	8,072	7,376	12,630	11,888
Total deferred charges and other assets	**1,010,069**	1,078,739	832,990	702,406	529,713
TOTAL ASSETS	**$ 6,626,009**	$ 6,049,450	$ 5,254,259	$ 4,825,702	$ 4,232,665
CAPITALIZATION AND LIABILITIES					
Capitalization					
WGL Holdings common shareholders' equity	**$ 1,502,690**	$ 1,375,561	$ 1,243,247	$ 1,246,576	$ 1,274,545
Non-controlling interest	**6,851**	409	-	-	-
Washington Gas Light Company preferred stock	**28,173**	28,173	28,173	28,173	28,173
Total equity	**1,537,714**	1,404,143	1,271,420	1,274,749	1,302,718
Long-term debt	**1,430,861**	1,435,045	937,101	675,095	521,194
Total capitalization	**2,968,575**	2,839,188	2,208,521	1,949,844	1,823,912
CURRENT LIABILITIES					
Current maturities of long-term debt	**250,000**	-	25,000	20,000	67,000
Notes payable and project financing	**559,844**	331,385	332,000	453,500	373,100
Accounts payable and other accrued liabilities	**423,824**	405,351	325,146	313,221	270,658
Wages payable	**18,096**	17,908	21,091	19,995	18,645
Accrued interest	**7,806**	7,645	7,835	3,488	3,399
Dividends declared	**26,452**	25,283	23,377	22,449	22,075
Customer deposits and advance payments	**65,841**	86,384	88,897	68,318	67,154
Gas costs and other regulatory liabilities	**22,814**	12,973	34,551	22,563	27,013
Accrued taxes	**17,657**	15,672	13,867	14,133	16,056
Derivatives	**43,990**	82,334	63,504	48,555	48,413
Liabilities held for sale	**-**	-	1,621	-	-
Other	**52,664**	41,991	46,025	34,063	36,564
Total current liabilities	**1,488,988**	1,026,926	982,914	1,020,285	950,077
Deferred Credits					
Unamortized investment tax credits	**155,007**	163,493	135,673	99,351	46,378
Deferred income taxes	**868,067**	726,763	672,963	634,244	605,285
Accrued pensions and benefits	**181,552**	228,377	176,128	120,446	148,890
Asset retirement obligations	**296,810**	203,105	200,732	175,203	101,321
Regulatory liabilities					
Accrued asset removal costs	**292,173**	310,788	325,496	327,388	321,266
Other post-retirement benefits	**135,035**	113,875	104,382	86,428	-
Other	**9,403**	14,450	17,067	17,588	13,459
Derivatives	**122,607**	304,198	322,259	294,745	141,334
Other	**107,792**	118,287	108,124	100,180	80,743
Total deferred credits	**2,168,446**	2,183,336	2,062,824	1,855,573	1,458,676
TOTAL CAPITALIZATION AND LIABILITIES	**$ 6,626,009**	$ 6,049,450	$ 5,254,259	$ 4,825,702	$ 4,232,665

WGL Holdings, Inc.
Consolidated Statements of Income

	Years Ended September 30,				
(In thousands, except per share data)	**2017**	**2016**	**2015**	**2014**	**2013**
OPERATING REVENUES					
Utility	**$ 1,143,337**	$ 1,044,117	$ 1,303,044	$ 1,416,951	$ 1,174,724
Non-utility	**1,211,387**	1,305,442	1,356,786	1,363,996	1,291,414
Total Operating Revenues	**2,354,724**	2,349,559	2,659,830	2,780,947	2,466,138
OPERATING EXPENSES					
Utility cost of gas	**274,247**	245,189	510,900	700,305	496,487
Non-utility cost of energy-related sales	**1,002,908**	1,123,077	1,218,331	1,255,279	1,187,844
Operation and maintenance	**429,890**	401,776	395,770	365,873	366,889
Depreciation and amortization	**154,138**	132,566	121,892	110,772	103,284
General taxes and other assessments	**152,528**	146,655	152,164	151,196	145,816
Total Operating Expenses	**2,013,711**	2,049,263	2,399,057	2,583,425	2,300,320
OPERATING INCOME	**341,013**	300,296	260,773	197,522	165,818
Equity in earnings of unconsolidated affiliates	**20,216**	13,806	5,468	3,194	1,510
Other income—net	**1,819**	4,646	653	1,536	2,548
Interest expense	**74,026**	52,310	50,511	37,738	36,011
INCOME BEFORE INCOME TAXES	**289,022**	266,438	216,383	164,514	133,865
INCOME TAX EXPENSE	**111,159**	98,074	83,804	57,254	52,292
NET INCOME	**$ 177,863**	$ 168,364	$ 132,579	$ 107,260	$ 81,573
Non-controlling interest	**(16,077)**	(550)	-	-	-
Dividends on Washington Gas Light Company preferred stock	**1,320**	1,320	1,320	1,320	1,320
NET INCOME APPLICABLE TO COMMON STOCK	**$ 192,620**	$ 167,594	$ 131,259	$ 105,940	$ 80,253
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING					
Basic	**51,205**	50,369	49,794	51,759	51,697
Diluted	**51,475**	50,564	50,060	51,770	51,808
EARNINGS PER AVERAGE COMMON SHARE					
Basic	**$ 3.76**	$ 3.33	$ 2.64	$ 2.05	$ 1.55
Diluted	**$ 3.74**	$ 3.31	$ 2.62	$ 2.05	$ 1.55

Common Stock Data

	Years Ended September 30,				
(In thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Shares outstanding—year-end (In thousands)	**51,219**	51,081	49,729	50,657	51,774
Annualized dividends per share	**2.04**	$ 1.95	$ 1.85	$ 1.76	$ 1.68
Dividends declared per common share	**2.0175**	1.9250	1.8275	1.7400	1.6600
Dividend payout ratio	**53.7%**	57.8%	69.3%	84.9%	107.1%
Dividend yield on book value—year-end	**7.0%**	7.2%	7.4%	7.2%	6.8%
Market price on NYSE:					
High	**$ 86.89**	$ 74.10	$ 59.08	$ 45.65	$ 46.96
Low	**$ 58.66**	$ 56.90	$ 42.04	$ 35.35	$ 35.96
Average	**$ 79.00**	$ 65.52	$ 53.58	$ 40.59	$ 42.11
Close	**$ 84.20**	$ 62.70	$ 57.67	$ 42.12	$ 42.71
Price earnings ratio—year-end	**22.4**	18.8	21.8	20.5	27.6
Dividend yield on market price—year-end	**2.4%**	3.1%	3.2%	4.2%	3.9%
Book value per share—year-end	**$ 29.34**	$ 26.93	$ 25.00	$ 24.61	$ 24.62
Return on average common equity	**13.4%**	12.8%	10.5%	8.4%	6.3%
Market-to-book ratio—average	**280.8%**	252.3%	216.0%	164.9%	171.1%
Number of common shareholders of record—year-end	**8,719**	9,156	9,582	10,026	10,546
Shares traded—average daily volume	**330,330**	262,583	294,589	301,777	241,587

WGL Holdings, Inc.
Consolidated Summary of Cash Flow Activity

	Years Ended September 30,				
(In Thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
OPERATING ACTIVITIES					
Net income	**$ 177,863**	$ 168,364	$ 132,579	$ 107,260	$ 81,573
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Depreciation and amortization	**154,138**	132,566	121,892	110,772	103,284
Amortization of:					
Other regulatory assets and liabilities—net	**6,422**	1,909	1,305	610	574
Debt related costs	**2,027**	1,284	1,187	886	873
Deferred income taxes—net	**114,966**	163,879	104,405	25,795	1,431
Dividends received from equity method investments	**16,738**	-	-	-	-
Unrealized (gain) loss on derivative contracts	**(85,591)**	(24,774)	19,441	82,673	70,377
Other non-cash charges (credits)—net	**46,816**	41,562	57,030	50,425	52,676
CHANGES IN ASSETS AND LIABILITIES					
Accounts receivable and unbilled revenues—net	**(108,236)**	(105,720)	(71,514)	(1,769)	12,105
Gas costs and other regulatory assets/liabilities—net	**3,430**	(31,075)	9,943	2,623	36,359
Storage gas	**(36,852)**	4,311	122,159	13,689	(64,283)
Accounts payable and other accrued liabilities	**51,307**	31,792	25,670	18,281	4,534
Deferred gas costs—net	**2,467**	(5,104)	(2,054)	8,009	(3,753)
Other—net	**(114,870)**	(151,228)	(17,984)	(37,087)	22,274
Net Cash Provided by Operating Activities	**230,625**	227,766	504,059	382,167	318,024
FINANCING ACTIVITIES					
Common stock issued	**293**	78,287	-	714	-
Long-term debt issued	**245,556**	498,125	298,227	175,253	4,157
Long-term debt retired	**-**	(25,000)	(20,000)	(67,000)	(2,295)
Debt issuance costs	**(665)**	(445)	(3,497)	(1,543)	-
Notes payable issued (retired)—net	**236,000**	(63,000)	(121,500)	80,400	125,400
Contributions from non-controlling interest	**22,336**	959	-	-	-
Proceeds from non controlling interest	**(300)**	-	-	-	-
Project financing	**20,386**	38,468	-	-	-
Dividends on common stock and preferred stock	**(102,123)**	(92,841)	(91,316)	(85,901)	(86,078)
Repurchase of common stock	**-**	-	(41,485)	(56,136)	-
Other financing activities—net	**1,550**	1,986	(1,457)	(560)	5,156
Net Cash Provided By Financing Activities	**423,033**	436,539	18,972	45,227	46,340
INVESTING ACTIVITIES					
Capital expenditures (excluding AFUDC)	**(516,534)**	(530,385)	(464,291)	(394,762)	(312,345)
Investments in non-utility interests	**(147,294)**	(158,052)	(67,447)	(31,415)	(62,894)
Distributions from non-utility interests	**4,126**	8,254	10,780	4,116	4,090
Net proceeds from sale of assets	**9,858**	19,749	-	-	-
Loans to external parties	**(863)**	(5,031)	(4,151)	-	-
Net Cash Used in Investing Activities	**(650,707)**	(665,465)	(525,109)	(422,061)	(371,149)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,951**	(1,160)	(2,078)	5,333	(6,785)
Cash and Cash Equivalents at Beginning of Year	**5,573**	6,733	8,811	3,478	10,263
Cash and Cash Equivalents at End of Year	**$ 8,524**	$ 5,573	$ 6,733	$ 8,811	$ 3,478

WGL Holdings, Inc.
Consolidated Statements of Capitalization

	Years ended September 30,									
(In thousands)	**2017**	**%**	**2016**	**%**	**2015**	**%**	**2014**	**%**	**2013**	**%**
Common Shareholders' Equity										
Common Stock issued	**$ 582,716**		$ 574,496		$ 485,456		$ 525,932		$ 574,461	
Paid-in capital	**10,149**		12,519		14,934		11,847		10,710	
Retained earnings	**915,822**		827,085		757,093		716,758		700,422	
Accumulated other comprehensive loss, net of taxes	**(5,997)**		(38,539)		(14,236)		(7,961)		(11,048)	
WGL Holdings common shareholders' equity	**$ 1,502,690**	**50.6**	$ 1,375,561	48.5	$ 1,243,247	56.3	$ 1,246,576	64.0	$ 1,274,545	69.9
Non-controlling interest	**6,851**	**0.2**	409	-	-	-	-	-	-	-
Preferred Stock	**28,173**	**0.9**	28,173	1.0	28,173	1.3	28,173	1.4	28,173	1.5
Total Equity	**$ 1,537,714**	**51.7**	$ 1,404,143	49.5	$ 1,271,420	57.6	$ 1,274,749	65.4	$ 1,302,718	71.4
Long-Term Debt										
Unsecured medium-term notes (including unamortized discount)	**$ 1,696,000**		$ 1,446,000		$ 971,000		$ 691,000		$ 583,000	
Unamortized discount	**(4,541)**		(1,700)		(1,799)		(122)		(30)	
Unamortized debt expense	**(10,598)**		(9,255)		(7,100)		(4,133)		(2,873)	
Other long-term debt	**-**		-		-		8,350		8,097	
Less—current maturities	**250,000**		-		25,000		20,000		67,000	
Total Long-Term Debt	**$ 1,430,861**	**48.3**	$ 1,435,045	50.5	$ 937,101	42.4	$ 675,095	34.6	$ 521,194	28.6
TOTAL CAPITALIZATION	**$ 2,968,575**	**100.0**	$ 2,839,188	100.0	$ 2,208,521	100.0	$ 1,949,844	100.0	$ 1,823,912	100.0

Property, Plant and Equipment at Original Cost

	September 30,				
(In thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Regulated Utility Segment					
Distributions	**$ 3,912,290**	$ 3,591,743	$ 3,348,957	$ 3,126,367	$ 2,913,614
Transmission and storage	**632,400**	618,810	578,257	506,132	442,499
Other	**813,272**	708,264	635,177	654,959	581,400
Unregulated Segments	**785,879**	624,099	441,519	295,306	180,636
TOTAL	**$ 6,143,841**	$ 5,542,916	$ 5,003,910	$ 4,582,764	$ 4,118,149

Capital Expenditures

	Years Ended September 30,				
(In thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
New business	**$ 129,353**	$ 106,596	$ 84,763	$ 97,038	$ 71,302
Replacements	**199,028**	206,982	169,123	121,749	103,908
Other	**158,229**	254,563	200,872	192,556	140,482
Total—accrual basis[a]	**$ 486,610**	$ 568,141	$ 454,758	$ 411,343	$ 315,692
Cash basis adjustments	**29,924**	(37,756)	9,533	(16,581)	(3,347)
TOTAL—CASH BASIS	**$ 516,534**	$ 530,385	$ 464,291	$ 394,762	$ 312,345

[a] *Excludes Allowance for Funds Used During Construction. Additionally, excludes adjustments for capital expenditures accrued and other cash-basis adjustments.*

WGL Holdings, Inc.
Security Ratings

	September 30,				
	2017	**2016**	**2015**	**2014**	**2013**
WGL HOLDINGS					
Unsecured Medium-Term Notes (Indicative)[(a)]					
Fitch Ratings[(c)]	**A-**	A	A	A+	A+
Moody's Investors Service[(d)]	**A3**	A3	A3	[(b)]	[(b)]
Standard & Poor's Rating Services[(e)]	**A-**	A	A	A+	A+
Commercial Paper					
Fitch Ratings[(c)]	**F2**	F1	F1	F1	F1
Moody's Investors Service[(d)]	**P-2**	P-2	P-2	P-2	P-2
Standard & Poor's Rating Services[(e)]	**A-1**	A-1	A-1	A-1	A-1
WASHINGTON GAS					
Unsecured Medium-Term Notes					
Fitch Ratings[(c)]	**A+**	AA-	AA-	AA-	AA-
Moody's Investors Service[(d)]	**A1**	A1	A1	A1	A2
Standard & Poor's Rating Services[(e)]	**A**	A+	A+	A+	A+
Preferred Stock					
Fitch Ratings[(c)]	**A-**	A	A	A	A
Moody's Investors Service[(d)]	**A3**	A3	A3	A3	Baa1
Standard & Poor's Rating Services[(e)]	**BBB+**	A-	A-	A-	A-
Commercial Paper					
Fitch Ratings[(c)]	**F1**	F1	F1	F1	F1
Moody's Investors Service[(d)]	**P-1**	P-1	P-1	P-1	P-1
Standard & Poor's Rating Services[(e)]	**A-1**	A-1	A-1	A-1	A-1

(a) *Indicates the rating may be applied if WGL were to issue unsecured medium term notes.*

(b) *Not rated.*

(c) *The long-term debt ratings outlook issued by Fitch Ratings for WGL and Washington Gas was adjusted to negative on October 13, 2016.*

(d) *The long-term debt ratings outlook issued by Moody's Investors Service for WGL and Washington Gas was adjusted to negative on February 1, 2017.*

(e) *The long-term debt ratings outlook issued by Standard & Poor's Rating Services for WGL and Washington Gas was adjusted to negative on January 26, 2017.*

Financial and Operating Statistics

	Years Ended September 30,				
($ in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Weighted average cost of long-term debt	**4.2%**	4.2%	5.1%	5.7%	5.9%
Embedded cost of preferred stock	**4.8%**	4.8%	4.8%	4.8%	4.8%
Long-term debt/total capitalization, including current maturities	**52.2%**	50.5%	43.1%	35.3%	30.8%
Return on capitalization	**9.0%**	7.8%	8.3%	7.4%	6.4%
Return on average common equity	**13.4%**	12.8%	10.5%	8.4%	6.3%
Effective income tax rate	**38.5%**	36.8%	38.7%	34.8%	39.1%
Coverage (times) before income taxes					
Fixed charges and preferred dividends	**4.5**	5.6	4.9	4.9	4.3
Long-term debt interest coverage	**5.1**	6.1	5.2	5.4	4.8
Total interest expense coverage	**4.6**	5.8	5.0	5.2	4.5
Labor					
Total employees—year end	**1,586**	1,554	1,529	1,444	1,416
Utility employees—year end	**1,461**	1,438	1,420	1,332	1,297

WGL Holdings Inc.
Utility Gas Statistics

	Years Ended September 30,									
	2017	**%**	**2016**	**%**	**2015**	**%**	**2014**	**%**	**2013**	**%**
Operating Revenues *(In thousands)*										
Gas sold and delivered										
Residential —firm	**$ 685,206**	59.9	$ 615,170	58.9	$ 816,666	62.8	$ 891,079	62.9	$ 740,233	63.0
Commercial and industrial —firm	**156,088**	13.7	136,646	13.0	187,938	14.4	213,787	15.1	174,314	14.8
Commercial and industrial—interruptible	**2,239**	0.2	2,181	0.2	2,577	0.2	2,267	0.2	2,722	0.2
TOTAL GAS SOLD AND DELIVERED	**843,533**	73.8	753,997	72.1	1,007,181	77.4	1,107,133	78.2	917,269	78.0
Gas delivered for others										
Firm	**208,988**	18.3	206,709	19.8	205,204	15.7	199,079	14.0	177,602	15.1
Interruptible	**49,731**	4.3	46,300	4.4	52,477	4.0	59,329	4.2	51,122	4.4
Electric generation	**1,331**	0.1	1,954	0.3	1,653	0.1	1,616	0.1	1,655	0.1
TOTAL GAS DELIVERED FOR OTHERS	**260,050**	22.7	254,963	24.5	259,334	19.8	260,024	18.3	230,379	19.6
Other	**39,754**	3.5	35,157	3.4	36,529	2.8	49,794	3.5	27,076	2.4
TOTAL	**$ 1,143,337**	100.0	$ 1,044,117	100.0	$ 1,303,044	100.0	$ 1,416,951	100.0	$ 1,174,724	100.0
Therms Delivered by Area *(In thousands of therms)*										
Maryland	**742,811**	46.3	939,359	52.4	930,741	48.2	891,666	47.2	865,682	48.6
Virginia	**589,033**	36.8	583,013	32.5	684,919	35.4	679,462	36.0	614,777	34.5
District of Columbia	**270,612**	16.9	270,151	15.1	316,279	16.4	317,792	16.8	300,404	16.9
TOTAL	**1,602,456**	100.0	1,792,523	100.0	1,931,939	100.0	1,888,920	100.0	1,780,863	100.0
Gas Sales and Deliveries *(In thousands of therms)*										
Gas sold and delivered										
Residential —firm	**600,279**	37.4	590,625	32.9	734,874	38.0	738,963	39.1	660,424	37.1
Commercial and industrial—firm	**174,436**	10.9	167,832	9.4	197,543	10.2	200,153	10.6	180,942	10.2
Commercial and industrial—interruptible	**2,554**	0.2	2,771	0.2	2,072	0.2	2,193	0.1	2,897	0.2
TOTAL GAS SOLD AND DELIVERED	**777,269**	48.5	761,228	42.5	934,489	48.4	941,309	49.8	844,263	47.5
Gas delivered for others										
Firm	**495,031**	30.9	501,030	28.0	558,125	28.9	535,503	28.3	488,182	27.4
Interruptible	**242,545**	15.1	239,013	13.3	260,264	13.5	267,705	14.2	270,884	15.1
Electric generation	**87,611**	5.5	291,252	16.2	179,061	9.2	144,403	7.7	177,533	10.0
TOTAL GAS DELIVERED FOR OTHERS	**825,187**	51.5	1,031,295	57.5	997,450	51.6	947,611	50.2	936,599	52.5
TOTAL UTILITY GAS SALES AND DELIVERIES	**1,602,456**	100.0	1,792,523	100.0	1,931,939	100.0	1,888,920	100.0	1,780,862	100.0
Active Customer Meters *(year-end)*										
Residential—firm	**1,089,770**	93.7	1,073,991	93.9	1,057,722	93.6	1,045,293	93.5	1,033,862	93.5
Commercial and industrial —firm	**73,379**	6.3	69,600	6.1	71,547	6.3	71,105	6.4	70,626	6.4
Commercial and industrial—interruptible	**504**	-	567	-	594	0.1	643	0.1	635	0.1
Electric generation	**2**	-	2	-	2	-	2	-	-	-
TOTAL	**1,163,655**	100.0	1,144,160	100.0	1,129,865	100.0	1,117,043	100.0	1,105,123	100.0
Active Customer Meters by Area *(year-end)*										
Maryland	**478,004**	41.1	468,793	41.0	460,745	40.8	454,273	40.7	448,916	40.6
Virginia	**523,661**	45.0	517,197	45.2	512,110	45.3	506,777	45.3	501,225	45.4
District of Columbia	**161,990**	13.9	158,170	13.8	157,010	13.9	155,993	14.0	154,982	14.0
TOTAL	**1,163,655**	100.0	1,144,160	100.0	1,129,865	100.0	1,117,043	100.0	1,105,123	100.0
New Customer Meters Added	**12,488**		12,221		12,099		13,327		12,468	
Load Factor										
Ratio of average daily send out/peak day sendout	**25.30%**		26.56%		29.66%		31.34%		28.79%	
Degree Days in Heating Season										
Normal	**3,127**		3,730		3,758		4,111		3,769	
Actual	**3,717**		3,341		3,929		3,751		3,775	
Percent colder (warmer) than normal	**(15.9)%**		(10.4)%		4.6%		9.6%		(0.2)%	
Average Annual Residential Bill (weather normalized)	**$ 745**		$ 684		$ 975		$ 1,057		$ 889	

WGL Holdings, Inc.
Design Day by Source

(Dekatherms)	**Fiscal Year 2017[a]**		**Fiscal Year 2018[a]**	
Columbia Gas Transmission Company (Columbia)				
Transportation storage	**533,123**		533,123	
Firm transportation	**248,201**		248,201	
TOTAL COLUMBIA	**781,324**	**37.2%**	781,324	37.4%
Transcontinental Gas Pipe Line Corporation (Transco)				
Transportation storage	**53,303**		53,303	
Firm transportation	**362,288**		362,288	
TOTAL TRANSCO	**415,591**	**19.8%**	415,591	19.9%
Dominion Transmission Incorporated (DTI)				
Transportation storage	**186,776**		186,776	
Firm transportation	**85,224**		85,224	
TOTAL DTI	**272,000**	**12.9%**	272,000	13.0%
Other—transportation storage	**79,742**	**3.8**	79,742	3.8
Delivery service volumes	**16,528**	**0.8**	19,288	0.9
Peaking and company-owned storage	**537,750**	**25.5**	521,000	25.0
TOTAL	**2,102,935**	**100.0%**	2,088,945	100.0%

[a] *Forecasted, excluding reserve margin*

Retail Energy-Marketing Statistics

	Years Ended September 30,				
	2017	**2016**	**2015**	**2014**	**2013**
Natural Gas Sales					
Therm sales *(In thousands of therms)*	**693,300**	750,700	713,000	718,090	702,471
Number of Customers *(year-end)*	**116,200**	133,000	143,800	156,600	167,900
Electricity Sales					
Electricity sales *(In thousands of kWhs)*	**12,248,400**	13,090,700	12,057,000	11,692,366	12,133,019
Number of accounts *(year-end)*	**113,700**	127,400	138,000	162,100	179,900

SHAREHOLDER AND INVESTOR INFORMATION

SHAREHOLDER INQUIRIES

Computershare serves as the Transfer Agent and shareholder recordkeeper for WGL Holdings, Inc. (WGL Holdings) common stock and for Washington Gas Light Company (Washington Gas) preferred stock. All shareholder inquiries, such as name and address changes, lost certificates, dividend checks and payments, transfer matters, Form 1099-DIV, etc., should be directed to:

WGL Holdings, Inc.
c/o Computershare
PO Box 43006
Providence, RI 02940-3006
www.computershare.com/investor
1-800-330-5682
1-201-680-6578 (International)

STOCK AND DIVIDEND INFORMATION

WGL Holdings' common stock is listed on the New York Stock Exchange. The ticker symbol is "WGL." Washington Gas preferred stock is traded on the OTC Pink market. Normally, dividends on WGL Holdings common stock and Washington Gas preferred stock will be payable on: February 1, May 1, August 1 and November 1.

Dividends paid by WGL Holdings and Washington Gas are 100 percent taxable. Both companies are required to perform back-up withholding of federal income taxes if they have not received a certified Tax Identification Number. In most cases, this is the shareholder's social security number. Both companies also must report to the Internal Revenue Service the total amount of dividends paid to individual shareholders during the calendar year. Copies of the report, Form 1099-DIV, will be mailed to shareholders by January 31 of the year following the one in which the dividends were paid.

DIVIDEND REINVESTMENT PLAN

WGL Holdings offers a Dividend Reinvestment and Common Stock Purchase Plan to its shareholders. The plan provides a convenient, economical way to purchase additional shares of WGL Holdings' common stock.

Participants may invest all or part of their dividends and make cash purchases, between $25.00 and $10,000 per transaction.

To obtain a prospectus and enrollment card for the WGL Holdings plan, please contact Computershare at 1-800-330-5682.

REQUEST FOR PUBLICATIONS

The following publications, as well as other filings made with the Securities and Exchange Commission, are available on WGL Holdings' website at www.wglholdings.com.

- Forms 10-K
- Forms 10-Q
- Investor Fact Sheet
- Quarterly earnings press releases

For a copy of the 2017 WGL Holdings Corporate Performance Report, please call Washington Gas Corporate Communications at 202-624-6092.

FINANCIAL COMMUNITY INQUIRIES

Members of the financial community should direct inquiries to Investor Relations at 202-624-6129.

CORPORATE GOVERNANCE

The following information is available via the Investor Relations section of the company's Web site, www.wglholdings.com:

- Director and officer stock transactions
- Committee charters and membership
- Corporate governance guidelines, bylaws and code of conduct
- Proxy statement

The board of directors also has established a hotline as a means for individuals to inform the Audit Committee of concerns regarding accounting, internal accounting controls or auditing matters. This hotline also may be used for communicating directly with non-management directors, including the Lead Director.

Concerned parties may dial 1-800-249-5360 to leave a confidential, anonymous message that will be transcribed and forwarded to the Chair of the Audit Committee.

INFORMATION ON THE INTERNET

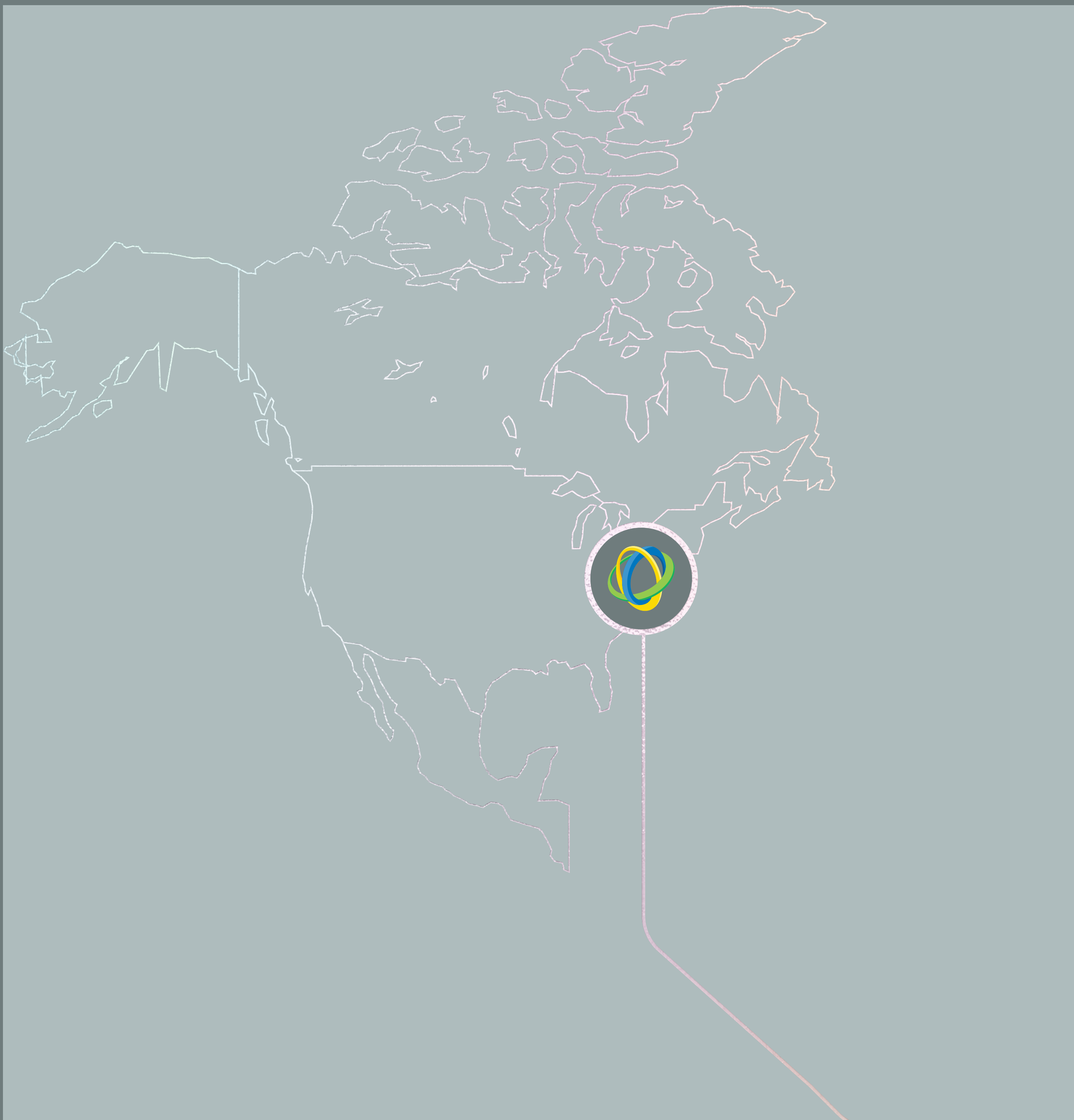
Financial information, press releases and other information about WGL Holdings may be obtained on the Internet at www.wglholdings.com. Computershare also maintains a site on the Internet at www.computershare.com/investor.

This Corporate Financial Report contains forward-looking statements with respect to the outlook for our earnings, revenues and other future financial business performance or strategies and expectations. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected. These forward-looking statements speak only as of the date of this report, and we assume no duty to update them. For a detailed discussion of these risks and uncertainties, please refer to the sections entitled, "Safe Harbor for Forward-Looking Statements" and "Risk Factors," included in Part I of our Annual Report on Form 10-K, which is included in this document.

Cover printed on Green Seal-certified paper

WGL Energy has retired 71 Green-e® Climate certified carbon offsets to counterbalance the greenhouse gas emissions resulting from the production, printing and distribution of this Financial Report.

Designed by Curran & Connors, Inc. / www.curran-connors.com



101 Constitution Avenue, NW
Washington, D.C. 20080
wgl.com

WASHINGTON GAS
WGL ENERGY
WGL MIDSTREAM
HAMPSHIRE GAS