

WGL HOLDINGS INC
 Form 10-K
 November 22, 2016

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, 2016

Commission File Number	Exact name of registrant as specified in its charter and principal office address and telephone number	State 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 (as of September 30, 2016):

Title of each class	Name of each exchange on which registered
WGL Holdings, Inc. common stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act (as of September 30, 2016):

Title of each class	Name of each exchange on which registered
Washington Gas Light Company preferred stock, cumulative, without par value:	
\$4.25 Series	Over-the-Counter Bulletin Board
\$4.80 Series	Over-the-Counter Bulletin Board
\$5.00 Series	Over-the-Counter Bulletin Board

Indicate by check mark if each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

WGL Holdings, Inc. Yes No
 Washington Gas Light Company Yes No

Indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark 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. Yes No

Indicate by check mark 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). Yes No

Indicate by check mark 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.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

WGL Holdings, Inc.:

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

Washington Gas Light Company:

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

Indicate by check mark whether each registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes No

The aggregate market value of the voting common equity held by non-affiliates of the registrant, WGL Holdings, Inc., amounted to \$3,611,520,637 as of March 31, 2016.

WGL Holdings, Inc. common stock, no par value outstanding as of October 31, 2016: 51,187,031 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, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of WGL Holdings, Inc.’s definitive Proxy Statement and Washington Gas Light Company’s definitive Information Statement in connection with the 2017 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A and 14C not later than 120 days after September 30, 2016, are incorporated in Part III of this report.

WGL Holdings, Inc.
 Washington Gas Light Company
 For the Fiscal Year Ended September 30, 2016

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WGL Holdings, Inc.
Washington Gas Light Company

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 for WGL and 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 today, 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 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, a dispute relating to an index price used in a gas supply contract, 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;

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• 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, including the transition of certain processes to new third party vendors;

• 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.

WGL Holdings, Inc.
Washington Gas Light Company
Part I

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.

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.

Crab Run: Crab Run Gas Company was the limited partner in the Western/Crab Run Limited Partnership which was formed to manage oil and gas properties. WGL owns all of the shares of common stock of Crab Run Gas Company but sold its interest in the limited partnership to the managing partner on February 5, 2015.

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.

WGL Holdings, Inc.
Washington Gas Light Company
Part I

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 were 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.

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.

Regulated Utility Segment: Includes the operations of Washington Gas 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

WGL Holdings, Inc.
Washington Gas Light Company
Part I

Columbia, and the surrounding metropolitan areas in Maryland and Virginia.

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.

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.

WGL Holdings, Inc.
 Washington Gas Light Company
 Part I
 Item 1. Business

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, Hampshire and Crab Run. Washington Gas Resources owns four unregulated subsidiaries that include WGL Energy Services, WGL Energy Systems, WGL Midstream and WGSW. WGSW is the primary beneficiary of SFGF whose results of operation are consolidated into WGL's financial statements. Additionally, several subsidiaries of WGL own interests in other entities, which are not included in the table below as they are either disregarded for tax purposes or not consolidated by WGL.

WGL⁽¹⁾

Washington Gas Regulated Utility	Hampshire Regulated Utility	Washington Gas Resources ⁽¹⁾
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WGL Energy Systems Commercial Energy Marketing Systems	WGSW Commercial Energy Systems	WGL Midstream Midstream Energy Services
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SFGF

⁽¹⁾Holding company whose stand alone results are reported in "other activities".

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

Washington Gas Light Company

The regulated utility segment consists of Washington Gas and Hampshire and represents approximately 77% of WGL's total assets. 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

WGL Holdings, Inc.
 Washington Gas Light Company
 Part I
 Item 1. Business (continued)

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, 2016, Washington Gas’ service area had a population estimated at 5.7 million and included approximately 2.1 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, 2016 and 2015, respectively.

Active Customer Meters and Therms Delivered by Jurisdiction

Jurisdiction	Active Customer Meters as of September 30, 2016	Millions of Therms Delivered	
		Fiscal Year Ended September 30, 2016	Fiscal Year Ended September 30, 2015
District of Columbia	158,170	270.1	316.3
Maryland	468,793	939.4	930.7
Virginia	517,197	583.0	684.9
Total	1,144,160	1,792.5	1,931.9

For additional information about gas deliveries and meter statistics, refer to the section entitled “Results of Operations” in Management’s Discussion and Analysis 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 and Analysis for Washington Gas.

WGL Holdings, Inc.
Washington Gas Light Company
Part I
Item 1. Business (continued)

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, in fiscal year 2016 and 2015, approximately 73% and 80%, respectively, of the total therms delivered in Washington Gas' service area occurred during its first and second fiscal quarters. 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 in response to: (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.

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Item 1. Business (continued)

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, decrease in customer usage that occurs subsequent to 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, 2016 and 2015, 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 2017 to 2034. Additionally, Washington Gas has contracted with various interstate pipeline and storage companies to add to its storage and transportation capacity in fiscal years 2017-2019 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, 2016, 2015 and 2014 were net gains of \$43.8 million and \$27.9 million, and a net loss of \$35.4 million, respectively.

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

Annual Sendout

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 Item 1. Business (continued)

As reflected in the table below, Washington Gas received natural gas from multiple sources in fiscal year 2016 and expects to use those same sources to satisfy customer demand in fiscal year 2017. 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 2016 and those projected for pipeline year 2017 are shown in the following table.

Sources of Delivery for Annual Sendout

(In millions of therms)	Fiscal Year		
	Actual 2015	Actual 2016	Projected 2017 ^(a)
Sources of Delivery			
Firm Transportation	683	509	607
Transportation Storage	314	312	289
Hampshire Storage, Company-Owned Propane-Air Plants, and other Peak-Shaving Resources	26	15	21
Unregulated Third Party Marketers	841	976	857
Total	1,864	1,812	1,774

^(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 2016-2017 winter season is 19.7 million therms and Washington Gas' projected sources of delivery for design day sendout is 20.2 million therms. This provides a reserve margin of approximately 6.1%. 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 2017.

Projected Sources of Delivery for Design Day Sendout

(In millions of therms)	Fiscal Year 2017		
	Volume	Percent	
Sources of Delivery			
Firm Transportation	6.1	30	%
Transportation Storage	8.5	42	%

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Hampshire Storage, Company-Owned Propane-Air Plants and other Peak-Shaving Resources	5.4	27	%
Unregulated Third Party Marketers	0.2	1	%
Total	20.2	100	%
Natural Gas Unbundling			

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 Item 1. Business (continued)

At September 30, 2016, 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' 1.1 million active customers at September 30, 2016, approximately 180,000 customers purchased their natural gas commodity from unregulated third party marketers.

The following table provides the percentage of customer participating in customer choice programs in Washington Gas' jurisdictions at September 30, 2016.

Participation in Customer Choice Programs
 At September 30, 2016

Jurisdiction	Customer Class	Eligible Customers		
		Total	% Participating	
District of Columbia	Firm:			
	Residential	145,486	11	%
	Commercial	12,524	34	%
Maryland	Interruptible	160	92	%
	Firm:			
	Residential	439,696	21	%
	Commercial	28,906	41	%
	Interruptible	189	96	%
Virginia	Electric Generation ²		100	%
	Firm:			
	Residential	488,809	9	%
	Commercial	28,170	32	%
	Interruptible	218	81	%
Total		1,144,160		

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 the system. Operational issues that affect public safety and the reliability of Washington Gas' distribution system that are not addressed within a timely and adequate manner could adversely affect our future earnings and cash flows, as well as result in a loss of customer confidence.

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 \$4.9 billion as of

September 30, 2016, 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.

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 Item 1. Business (continued)

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, 2016.

New Customer Meters by Area

	Residential	Commercial and Interruptible	Group Metered Apartments	Total
Maryland	6,147	346	13	6,506
Virginia	4,613	380	7	5,000
District of Columbia	524	150	41	715
Total	11,284	876	61	12,221

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.

The regulated utility segment reported total operating revenues related to gas sales and deliveries to external customers of approximately \$1.1 billion, \$1.3 billion, and \$1.4 billion in fiscal years ended September 30, 2016, 2015 and 2014, respectively.

RETAIL ENERGY-MARKETING SEGMENT

Description

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.

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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, 2016, WGL Energy Services served approximately 133,000 residential, commercial and industrial natural gas customer accounts and approximately 127,400 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 \$1.2 billion for fiscal year 2016 and \$1.3 billion for each of the fiscal years ended September 30, 2015 and 2014.

Seasonality of Business Operations

The operations of WGL Energy Services are seasonal, with larger amounts of electricity being sold in the summer 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. Marketers of natural gas 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 contract portfolio by attempting to closely match the commitments for gas deliveries from wholesale suppliers with requirements to serve retail sales customers.

Electricity. WGL Energy Services competes with regulated electric utilities and other third party marketers to sell electricity to customers. Marketers of electric supply compete largely on price; therefore, gross margins are relatively small. To

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Washington Gas Light Company
Part I
Item 1. Business (continued)

provide competitive pricing to its retail customers and in adherence to its risk management policies and procedures, WGL Energy Services manages its electricity contract portfolio by attempting to closely match the commitment for 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 and Analysis.

Critical Factors

Factors critical to managing the retail energy-marketing segment include:

- 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;
- managing credit risks associated with customers and suppliers;
- 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;
- access to sources of financial liquidity;
- controlling the level of selling, general and administrative expenses, including customer acquisition expenses and
- access to markets through customer choice programs or other forms of deregulation.

COMMERCIAL ENERGY SYSTEMS SEGMENT

Description

The commercial energy systems segment consists of the operations of WGL Energy Systems, WGSW and the results of operations of affiliate owned commercial distributed energy projects. Additionally, WGSW is the primary beneficiary of SFGF and therefore the partnership is consolidated in WGSW's financial statements.

This segment focuses on clean and energy efficient solutions for its customers, driving earnings through (i) owning and operating 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, 2016, this segment owned \$547.2 million of operating distributed generation assets, generating a total of 211,495 megawatt hours in fiscal year 2016. Additionally, as of September 30, 2016, there was \$157.3 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, 2016, we have \$158.6 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.

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Item 1. Business (continued)

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

Description

WGL Midstream specializes in the investment, management, development and optimization of natural gas storage and transportation midstream infrastructure projects. At September 30, 2016, WGL Midstream had pipeline investments totaling \$237.3 million. For a discussion of WGL Midstream's pipeline investments, refer to the section entitled "Liquidity and Capital Resources--Pipeline Investments" in Management's Discussion and Analysis.

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.

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.

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Item 1. Business (continued)

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 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 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 thirteen potential environmental cleanup sites. 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. However, it is likely that Washington Gas will be assessed a portion of the study costs, which the District of Columbia projects to be between \$15 million and \$20 million. An allocation methodology has not yet been established, and, therefore, Washington Gas' portion of the study costs is not yet estimable. Washington Gas is currently conducting a separate remedial investigation and feasibility study of potential contamination in the Anacostia River associated with and adjacent to this former MGP site under a 2012 consent decree with the District of

Columbia and federal governments.

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, 2016, we had 1,554 employees comprising 1,438 utility and 116 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 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 our Web site. Copies 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 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.

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Our Chairman and Chief Executive Officer certified to the New York Stock Exchange (NYSE) on March 17, 2016 that, as of those dates, he was unaware of any violation by WGL of the NYSE's corporate governance listing standards.

Our research and development costs during fiscal years 2016, 2015 and 2014 were not material.

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Part I
Item 1A. Risk Factors

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.”

All of the risk factors discussed below affect the consolidated entity of WGL Holdings and all of its subsidiaries. The risk factors affecting Washington Gas are included under both the subheadings “Risks Relating to WGL and All of Its Subsidiaries” (to the extent that such factors describe risks related to the subsidiaries of WGL) and “Risks Affecting Washington Gas,” below.

RISKS RELATING TO WGL AND ALL OF ITS SUBSIDIARIES

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, 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

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Part I
Item 1A. Risk Factors (continued)

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 arbitration proceedings with Antero Resources (Antero) relating to a dispute over the contract index price used under natural gas purchase contracts. WGL Midstream incurred approximately \$15.2 million in losses associated with Antero's use of the disputed index price for the year ended September 30, 2016. If we are not successful in these proceedings, we will continue to incur losses under this agreement, which would negatively affect our results of operations.

WGL Holdings, Inc.
Washington Gas Light Company
Part I
Item 1A. Risk Factors (continued)

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. WGL Energy Services primarily seeks to manage these risks by matching its natural gas and electricity purchase obligations with their sales commitments in terms of volume and pricing. In addition, all of our subsidiaries attempt to mitigate these 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 option, 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

WGL Holdings, Inc.
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Part I
Item 1A. Risk Factors (continued)

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. Furthermore, we are in the process of transferring some of these services to new vendors. The transition of service providers could lead to a loss of institutional knowledge, service disruptions and decreased customer satisfaction. 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. 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.

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Item 1A. Risk Factors (continued)

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 77% of our assets are attributable to our regulated utility businesses, and the dividends paid by Washington Gas to WGL constituted approximately 90% of the amount of WGL Holdings' dividends paid for fiscal year 2016. 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

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Part I
Item 1A. Risk Factors (continued)

ability to serve customer demand and may reduce our earnings. Additionally, we may face increased supply risk due to the weakened market conditions experienced by exploration and production companies.

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 Federal Energy Regulatory Commission (FERC) and state agency regulation and approval. These construction projects are also subject to environmental, political and legal uncertainties that are beyond our control. In April 2016, the New York State Department of Energy and Conservation declined to grant a Water Quality Certification required in connection with the construction of one of these investments, the Constitution Pipeline (Constitution). Our investee, Constitution Pipeline Company, LLC, is pursuing litigation to overturn this ruling. If this litigation is unsuccessful, and/or if other agencies deny or delay approval for this project or other midstream projects, or enact additional legislation or regulations related to these activities, the value of these investments may decrease and could be impaired. WGL Midstream held a \$38.6 million equity method investment in Constitution at September 30, 2016. In addition, these developments may reduce some opportunities to grow our midstream business.

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 solar renewable energy credits (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 benefit from the ITC is based on certain assumptions about the level of our income taxes. Congress extended the ITC for renewable energy projects in December, 2015 through 2021, while it also extended bonus

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Item 1A. Risk Factors (continued)

depreciation provisions for all energy and utility capital assets through 2019. The extension of the bonus depreciation provision may reduce WGL's ability to monetize ITCs on a timely basis, thus diminishing WGL Energy Systems' competitiveness in securing future assets to continue its growth.

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, the implementation of the federal Clean Power Plan that was announced in 2015 could affect the businesses of all of our non-utility businesses in ways that we do not yet anticipate. Finally, 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 Energy Savings Performance Contracting (ESPC) and other utilities providing services under Utility Energy Saving Contracts (UESC) 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.

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 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.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At September 30, 2016, 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, 2016, Washington Gas had approximately 577 miles of transmission mains, 12,990 miles of distribution mains and 12,572 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. During the year ended September 30, 2016, the property at 6805 Industrial Road (Springfield Operations Center) was sold. Refer to Note 1 - Accounting Policies of the Notes to the Consolidated Financial Statements for a discussion of the sale of the building.

Washington Gas also has peak shaving facilities in Springfield, Virginia (Ravenworth Plant) and Rockville, Maryland (Rockville Plant). At September 30, 2016, 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 of which 12,200 acres may be subject to exploration in addition to its storage function. Hampshire also operates a compressor station utilized to increase line pressure for injection of gas into storage. Washington Gas owns a 11-acre parcel of land located in Southeast Washington, D.C. that is intended to be a mixed-use commercial redevelopment project that will be implemented in five phases. Washington Gas entered into an agreement with a national developer to develop the first two phases, as Maritime Plaza, with Washington Gas retaining a 99-year ground lease on each phase.

In addition, WGL Energy Systems owns 145 megawatts of installed solar capacity across the United States at September 30, 2016.

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, 2016 and 2015, there was no debt outstanding under the Mortgage.

ITEM 3. LEGAL PROCEEDINGS

On November 2, 2016, two civil actions were filed in the District of Columbia Superior Court against WGL Holdings and Washington Gas (as well as a property management company that is not affiliated with WGL Holdings or Washington Gas), by residents of an apartment complex on Arliss Street in Silver Spring Maryland, relating to the August 10, 2016 incident that occurred at the apartment complex. In one lawsuit, twenty-nine plaintiffs seek unspecified damages for, among others, wrongful death and personal injury. The other action is 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 allege causes of action for negligence, product liability, and declaratory relief. We also understand from press reports that additional civil actions relating to this incident have

been filed on behalf of individual residents of the apartment complex, but we have yet to be served for any such additional actions. 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. 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

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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.nts.gov/legal/Documents/NTSB_Investigation_Party_Form.pdf), and 49 CFR 831.13.

In addition, 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 for further discussion.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANTS

The names, ages and positions of the executive officers of the registrants at October 31, 2016, are listed below along with their business experience during the past five years. The age of each officer listed is as of the date of filing of this report. There is no family relationship among the officers.

Unless otherwise indicated, all officers have served continuously since the dates indicated, and all positions are executive officers listed with Washington Gas Light Company.

Executive Officers

Name, Age and Position with the registrants	Date Elected or Appointed
Vincent L. Ammann, Jr., Age 57 ⁽¹⁾ Senior Vice President and Chief Financial Officer Vice President and Chief Financial Officer	October 1, 2013 September 30, 2006
Gautam Chandra, Age 50 ⁽¹⁾ Senior Vice President—Strategy, Business Development and Non-Utility Operations Vice President—Business Development, Strategy and Non-Utility Operations Vice President—Business Development, Strategy and Business Process Outsourcing and Non-Utility Operations	October 1, 2014 October 1, 2011 October 1, 2009
Adrian P. Chapman, Age 59 ⁽¹⁾ President and Chief Operating Officer	October 1, 2009
William R. Ford, Age 61 ⁽¹⁾ Vice President and Chief Accounting Officer Controller	October 1, 2013 October 1, 2010
Marcellous P. Frye, Jr., Age 48 Vice President—Business Services and Public Policy	March 21, 2008
Luanne S. Gutermuth, Age 54 ⁽¹⁾ Senior Vice President—Shared Services and Chief Human Resource Officer Vice President—Human Resources and Organization Development	October 1, 2014 October 1, 2010
Louis J. Hutchinson, III, Age 51 ⁽¹⁾⁽²⁾ Vice President and Chief Revenue Officer	October 1, 2014
Mark A. Lowe, Age 53 Vice President—Gas Supply and Engineering Division Head—Gas Supply	October 1, 2014 March 10, 2008
Terry D. McCallister, Age 60 ⁽¹⁾ Chairman of the Board and Chief Executive Officer	October 1, 2009

Richard H. Moore, Age 48 ⁽¹⁾ Vice President—Corporate Development Division Head and Chief Operating Officer, Washington Gas Energy Services Division Head—Strategy and Business Development	October 1, 2015 May 25, 2014 November 30, 2009
Anthony M. Nee, Age 60 ⁽¹⁾ Vice President and Treasurer Treasurer	October 1, 2013 February 14, 2009
Roberta W. Sims, Age 62 Vice President—Rates and Regulatory Affairs Vice President—Regulatory Affairs and Energy Acquisition	October 1, 2014 October 1, 2009
Douglas A. Staebler, Age 56 Senior Vice President—Utility Operations Vice President—Operations, Engineering, Construction and Safety	October 1, 2014 October 31, 2006
Leslie T. Thornton, Age 58 ⁽¹⁾⁽³⁾ Senior Vice President—General Counsel and Corporate Secretary Vice President and General Counsel Counsel to the Chairman	October 1, 2014 January 1, 2012 November 28, 2011
Tracy L. Townsend, Age 50 Vice President—Construction, Compliance and Safety Division Head—Safety, Compliance, Construction Operations Support and Technology	October 1, 2014 October 1, 2010

⁽¹⁾ At September 30, 2016, Executive Officer of both WGL Holdings, Inc. and Washington Gas Light Company.

⁽²⁾ Mr. Hutchinson was previously a Senior Vice President at Constellation Energy where he led sales and marketing for the public sector and energy efficiency business lines.

⁽³⁾ Ms. Thornton was previously a partner at Dickstein Shapiro, LLP where she managed sensitive internal corporate, federal government and state attorney general investigations.

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Part II

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

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

At October 31, 2016, WGL had 9,136 common shareholders of record. During fiscal years 2016 and 2015, 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 2016 or 2015.

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.

The table below shows quarterly price ranges and quarterly dividends paid for the fiscal years ended September 30, 2016 and 2015.

Common Stock Price Range and Dividends Paid

	High	Low	Dividends Paid Per Share	Dividend Payment Date
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
Fiscal Year 2015				
Fourth quarter	\$58.55	\$51.86	\$ 0.4625	8/1/2015
Third quarter	58.14	52.95	0.4625	5/1/2015
Second quarter	59.08	50.89	0.4400	2/1/2015
First quarter	56.79	42.04	0.4400	11/1/2014

The graph below summarizes the cumulative return experienced by WGL's shareholders over the fiscal years ended September 30, 2011 through 2016, compared to the S&P 500 Index and the Dow Jones Utility Average.

*Assumes daily reinvestment of dividends.

This calculation is based on \$100 invested on September 30, 2011

Growth of \$100 Investment

	'11	'12	'13	'14	'15	'16
WGL	\$100.00	\$107.02	\$117.93	\$121.42	\$171.91	\$192.28
S&P 500	\$100.00	\$130.20	\$155.39	\$186.05	\$184.91	\$213.44
DJUA	\$100.00	\$114.37	\$120.78	\$143.39	\$155.38	\$186.42

(a) Calculated by WGL

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

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Item 6. Selected Financial Data

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,	2016	2015	2014	2013	2012
SUMMARY OF EARNINGS					
Operating Revenues					
Utility	\$1,044,117	\$1,303,044	\$1,416,951	\$1,174,724	\$1,109,355
Non-utility	1,305,442	1,356,786	1,363,996	1,291,414	1,315,955
Total operating revenues	\$2,349,559	\$2,659,830	\$2,780,947	\$2,466,138	\$2,425,310
Net income applicable to common stock	\$167,594	\$131,259	\$105,940	\$80,253	\$139,818
COMMON STOCK DATA					
Earnings per average share:					
Basic	\$3.33	\$2.64	\$2.05	\$1.55	\$2.71
Diluted	\$3.31	\$2.62	\$2.05	\$1.55	\$2.71
Dividends declared per share	\$1.9250	\$1.8275	\$1.7400	\$1.6600	\$1.5875
Shares outstanding—year end (thousands)	51,081	49,729	50,657	51,774	51,612
CAPITALIZATION-YEAR END					
WGL Holdings Common shareholders’ equity	\$1,375,561	\$1,243,247	\$1,246,576	\$1,274,545	\$1,269,556
Non-controlling interest	409	—	—	—	—
Washington Gas Light Company preferred stock	28,173	28,173	28,173	28,173	28,173
Total equity	1,404,143	1,271,420	1,274,749	1,302,718	1,297,729
Long-term debt, excluding current maturities	1,444,300	944,201	679,228	524,067	589,202
Total capitalization	\$2,848,443	\$2,215,621	\$1,953,977	\$1,826,785	\$1,886,931
OTHER FINANCIAL DATA					
Property, plant and equipment-net—year-end	\$4,127,237	\$3,672,728	\$3,314,445	\$2,907,463	\$2,667,413
Total assets—year-end	\$6,058,705	\$5,261,359 ^(a)	\$4,829,835 ^(a)	\$4,235,538 ^(a)	\$4,098,543 ^(a)

^(a)During the year ended September 30, 2016, WGL retrospectively adopted ASU 2015-17, Income Taxes (Topic 740): Balance sheet Classification of Deferred Taxes resulting in a balance sheet reclassification of deferred taxes. Accordingly, these amounts have been recast to conform to current presentation.

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Washington Gas Light Company
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Item 6. Selected Financial Data

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,	2016	2015	2014	2013	2012	
SUMMARY OF EARNINGS						
Total operating revenues	\$1,070,904	\$1,328,191	\$1,443,800	\$1,200,357	\$1,137,666	
Income from continuing operations	\$111,794	\$107,358	\$97,004	\$71,002	\$108,726	
CAPITALIZATION-YEAR END						
Common shareholder’s equity	\$1,113,446	\$1,081,292	\$1,050,166	\$1,024,583	\$1,025,743	
Preferred stock	28,173	28,173	28,173	28,173	28,173	
Long-term debt, excluding current maturities	945,891	695,885	679,228	524,067	589,202	
Total capitalization	\$2,087,510	\$1,805,350	\$1,757,567	\$1,576,823	\$1,643,118	
OTHER FINANCIAL DATA						
Property, plant and equipment-net—year-end	\$3,526,732	\$3,243,446	\$3,022,064	\$2,724,882	\$2,574,396	
Total assets—year-end	\$4,616,431	4,204,132 ^(a)	3,942,162 ^(a)	3,447,389 ^(a)	3,488,849 ^(a)	
UTILITY GAS SALES AND DELIVERIES						
(thousands of therms)						
Gas sold and delivered						
Residential firm	590,625	734,874	738,963	660,424	540,206	
Commercial and industrial						
Firm	167,832	197,543	200,153	180,942	149,515	
Interruptible	2,771	2,072	2,193	2,897	2,042	
Total gas sold and delivered	761,228	934,489	941,309	844,263	691,763	
Gas delivered for others						
Firm	501,030	558,125	535,503	488,182	436,698	
Interruptible	239,013	260,264	267,705	270,884	243,031	
Electric generation	291,252	179,061	144,403	177,533	343,315	
Total gas delivered for others	1,031,295	997,450	947,611	936,599	1,023,044	
Total utility gas sales and deliveries	1,792,523	1,931,939	1,888,920	1,780,862	1,714,807	
OTHER STATISTICS						
Active customer meters—year-end	1,144,160	1,129,865	1,117,043	1,105,123	1,094,109	
New customer meters added	12,221	12,099	13,327	12,468	11,250	
Heating degree days—actual	3,341	3,929	4,111	3,769	3,036	
Weather percent colder (warmer) than normal	(10.4)% 4.6	% 9.6	% (0.2)% (20.1)%

^(a)During the year ended September 30, 2016, Washington Gas retrospectively adopted ASU 2015-17, Income Taxes (Topic 740): Balance sheet Classification of Deferred Taxes resulting in a balance sheet reclassification of deferred taxes. Accordingly, these amounts have been recast to conform to current presentation.

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

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. 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 2015 by \$4.2 million. Our utility customer base continued to grow as average active customer meters increased by over 12,500 when compared to the prior fiscal year. Moreover, we saw positive earnings impacts in the segment from our asset optimization program, as well as from the accelerated pipe replacement plans that are in

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place in all three of our jurisdictions. Partially offsetting these favorable effects were unfavorable changes in natural gas consumption patterns in the District of Columbia, a decrease in the recovery of carrying costs due to lower average storage gas inventory balances, higher depreciation expense related to the growth in our utility plant and higher operations 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 exceeded fiscal year 2015 by \$18.4 million primarily due to increased unrealized mark-to-market valuation gains. These gains were partially offset by lower realized natural gas margins due to a decrease in portfolio optimization activity and higher commercial broker fees. Realized electric margins were relatively unchanged when compared to the prior fiscal year.

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 Photovoltaic (Solar PV) systems and upgrading energy related systems of large government and commercial facilities. During the fiscal year, this segment delivered improved results. Our EBIT for this segment exceeded fiscal year 2015 by \$12.3 million. We continue to see earnings growth driven by the distributed assets that we own across the country, more activity locally in our energy-efficiency contracting business and higher equity earnings from alternative energy investments. These improvements were partially offset by higher expenses reflecting an impairment related to our investment in thermal solar projects and other operating expenses.

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 2015 by \$10.5 million. During the fiscal year, this segment delivered strong results due to favorable storage spreads, an increase in valuations on our derivative contracts associated with our long-term transportation strategies, lower development expenses and higher income related to our pipeline investments. These favorable impacts were partially offset by lower realized margins related to storage inventory and the associated economic hedging transactions and lower realized margins for our transportation strategies, primarily resulting from losses associated with the index price used in certain gas purchases from Antero Resources Corporation (Antero), which is the subject of arbitration. While these losses may continue in the near term, we do anticipate that they will reverse in future periods upon completion of the arbitration proceeding. Refer to Note 13 — Commitments and Contingencies of the Notes to Consolidated Financial Statements for further discussion.

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 2015 include an impairment of our investment in American Solar Direct Holdings Inc. (ASDHI).

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

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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 adjusted for estimated gas losses during transmission and distribution to customers. In connection with this accrual, Washington Gas must estimate the amount of gas that has not been accounted for on its delivery system and must estimate the amount of the unbilled revenue by jurisdiction and customer class. A similar computation is made for WGL Energy Services to accrue unbilled revenues for both gas and electricity.

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, 2016 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. 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 amortize investment tax credits 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.

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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. 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, Derivatives and Hedging. 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 it is probable that a forecasted transaction will not occur, 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.

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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 Hypothetical Liquidation at Book Value (HLBV) methodology for certain equity method investments when the capital structure of the equity investment results in different liquidation rights and priorities than what is reflected by the underlying percentage ownership interests as defined by an equity investment agreement. 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.

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 Holding'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, trustee, 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.

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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 2016 and 2017 and a 3.0% increase thereafter 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)

Actuarial Assumptions	Percentage-Point Change in Assumption	Pension Benefits		Health and Life Benefits	
		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	\$(6.8) / \$6.8	n/a	\$(4.2) / \$4.2
Discount rate	+/- 0.25 pt.	\$(36.1) / \$38.3	\$(2.5) / \$2.6	\$(11.0) / \$11.6	\$(0.8) / \$0.7
Rate of compensation increase	+/- 0.25 pt.	\$6.6 / \$(6.4)	\$1.1 / \$(1.0)	n/a	n/a
Healthcare cost trend rate	+/- 1.00 pt.	n/a	n/a	\$5.9 / \$(5.3)	\$1.0 / \$(1.0)
Projected increases to the HRA plan stipend	+/- 1.00 pt.	n/a	n/a	\$33.6 / \$(26.8)	\$4.4 / \$(2.0)

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, 2016 and 2015. On October 8, 2015 the SOA published an updated improvement scale (MP-2015) 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

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September 30, 2016, the discount rate for the pension, DB SERP and DB Restoration plans decreased to 3.7%, 3.4% and 3.4%, from 4.5%, 4.1% and 4.1%, respectively, for the comparable period in the prior year. The health and post-retirement plans discount rate also decreased to 3.7% from 4.5% during the same period. The lower 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 losses increasing our pension and other post-retirement obligations by \$108.2 million and \$33.0, respectively, for the year ended September 30, 2016. 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.

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 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 \$167.6 million, \$131.3 million and \$105.9 million for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. We earned a return on average common equity of 12.8%, 10.5% and 8.4%, respectively, during each of these three fiscal years.

The following table summarizes our EBIT by operating segment for fiscal years ended September 30, 2016, 2015 and 2014.

Analysis of Consolidated Results

(In millions)	Years Ended September 30, Increase (Decrease)				
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
EBIT:					
Regulated utility	\$228.2	\$224.0	\$184.7	\$ 4.2	\$ 39.3
Retail energy-marketing	65.0	46.6	14.0	18.4	32.6
Commercial energy systems	22.0	9.7	6.9	12.3	2.8
Midstream energy services	7.8	(2.7)	8.4	10.5	(11.1)
Other activities	(3.2)	(9.7)	(11.6)	6.5	1.9
Intersegment eliminations	(0.5)	(1.0)	(0.2)	0.5	(0.8)
Total	\$319.3	\$266.9	\$202.2	\$ 52.4	\$ 64.7
Interest expense	52.3	50.5	37.7	1.8	12.8
Income tax expense	98.1	83.8	57.3	14.3	26.5
Dividends on Washington Gas preferred stock	1.3	1.3	1.3	—	—
Net income applicable to common stock	\$167.6	\$131.3	\$105.9	\$ 36.3	\$ 25.4
EARNINGS PER AVERAGE COMMON SHARE					
Basic	\$3.33	\$2.64	\$2.05	\$ 0.69	\$ 0.59
Diluted	\$3.31	\$2.62	\$2.05	\$ 0.69	\$ 0.57

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Regulated Utility Operating Results

The following table summarizes the regulated utility segment's financial data for fiscal years ended September 30, 2016, 2015 and 2014.

Regulated Utility Financial Data

(In millions)	Years Ended September 30,			Increase (Decrease)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Utility net revenues ⁽¹⁾ :					
Operating revenues	\$1,070.9	\$1,328.2	\$1,443.8	\$(257.3)	\$(115.6)
Less: Cost of gas	272.0	536.0	726.9	(264.0)	(190.9)
Revenue taxes	73.0	83.5	84.3	(10.5)	(0.8)
Total utility net revenues	725.9	708.7	632.6	17.2	76.1
Operation and maintenance	322.0	320.1	291.4	1.9	28.7
Depreciation and amortization	116.1	110.4	104.1	5.7	6.3
General taxes and other assessments	57.4	53.7	53.4	3.7	0.3
Other income (expenses)-net	(2.2)	(0.5)	1.0	(1.7)	(1.5)
EBIT	\$228.2	\$224.0	\$184.7	\$4.2	\$39.3

⁽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 and revenue taxes are generally 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 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.

Fiscal Year 2015 vs. Fiscal Year 2014

The increase in EBIT primarily reflects the following:

higher utility net revenue related to growth of more than 12,700 average active customer meters;
higher revenues due to new base rates in Maryland;

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higher realized margins and unrealized mark-to-market valuations associated with our asset optimization program;
rate recovery related to the accelerated pipeline replacement programs and
favorable effects of changes in natural gas consumption patterns in the District of Columbia.

Partially offsetting these favorable variances were:

higher operation and maintenance expenses and
higher depreciation due to the growth in our utility plant.

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

(In millions)	Increase (Decrease)	
	2016 vs. 2015	2015 vs. 2014
Customer growth	\$ 7.0	\$ 5.1
Estimated effects of weather and consumption patterns	(15.6)	3.3
Impact of rate cases	—	2.6
Accelerated pipe replacement programs	12.9	9.7
Asset optimization:		
Realized margins	(3.7)	4.5
Unrealized mark-to-market valuations	18.3	59.9
Lower-of-cost or market adjustment	1.3	(1.1)
Storage carrying costs	(2.6)	(1.4)
Other	(0.4)	(6.5)
Total	\$ 17.2	\$ 76.1

Customer growth — Average active customer meters increased by more than 12,500 from fiscal year 2015 to 2016. Average active customer meters increased by more than 12,700 from fiscal year 2014 to 2015.

Estimated effects of weather and consumption patterns— Weather, when measured by HDDs, was 10.4% warmer than normal during the year ended September 30, 2016, compared to 4.6% and 9.6% colder than normal during the years ended September 30, 2015 and 2014. 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 for the year ended September 30, 2016, resulted in a negative variance to net revenues. Net revenues were also negatively impacted by changes in natural gas consumption patterns in the District of Columbia. 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 year over year variance for 2015 and 2014 reflects base rates that were approved in Maryland, effective November 23, 2013.

Accelerated pipe replacement programs — The positive effect on revenues is 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 \$12.0 million for the year ended September 30, 2016, compared to unrealized mark-to-market losses of \$6.3 million and \$66.2 million for the fiscal years ended September 30, 2015 and 2014, respectively. When these derivatives settle, any unrealized

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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.

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

(In millions)	Increase/(Decrease)	
	2016 vs. 2015	2015 vs. 2014
Employee incentives and direct labor costs	\$ 2.6	\$ 15.9
Employee benefits	(2.0)	(6.7)
Business development	(3.9)	6.7
System safety and integrity	0.8	2.2
Environment costs, net	(1.7)	1.9
Support services	5.9	3.1
Liability insurance	0.9	1.7
Uncollectible accounts	(1.3)	0.8
Other	0.6	3.1
Total	\$ 1.9	\$ 28.7

Employee incentives and direct labor costs — Washington Gas incurred increased employee incentives and labor costs, net, for the year ended September 30, 2016 over the previous fiscal year, as a result of an increase in the number of employees and merit increases. The increase in expense for fiscal year 2015 compared to fiscal year 2014 is primarily due to an increase in the valuation of our share-based long-term incentive plan as well as increases in the number of employees and merit increases.

Employee benefits — The decrease in employee benefits expense in both the current and prior period comparisons was primarily due to separate amendments to the post-retirement benefit plans, which lowered expense in fiscal year 2015 and further lowered expense in fiscal year 2016.

Business development — The year-over-year variances for both periods reflects the costs incurred in 2015 related to the potential investment in Virginia gas reserves as well as other growth initiatives. Refer to the section entitled "Rates and Regulatory Matters" for a further discussion of Virginia gas reserves.

System safety and integrity — The year-over-year increase in both periods reflects increased safety and reliability activities.

Environment costs, net — 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 in the current year. The year-over-year

comparison for the prior period, primarily reflects proceeds received from an environmental policy in fiscal year 2014.

Support services — Washington Gas incurred additional costs for both year-over-year comparisons due to increased project related costs including the implementation of a new customer information system as well as infrastructure support costs.

Liability insurance — The increase in liability insurance for both periods is due to higher excess liability premiums.

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Uncollectible accounts — Both year-over-year comparisons in uncollectible accounts reflect 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. 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

(In millions)	Increase (Decrease)	
	2016 vs. 2015	2015 vs. 2014
Accelerated pipe replacement programs	\$ 2.2	\$ 1.6
Other capital expenditures, net	3.5	4.7
Total	\$ 5.7	\$ 6.3

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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)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Operating Results (In millions)					
Gross margins ⁽¹⁾ :					
Operating revenues	\$1,238.5	\$1,306.8	\$1,310.3	\$(68.3)	\$(3.5)
Less: Cost of energy	1,110.4	1,201.1	1,239.0	(90.7)	(37.9)
Revenue taxes	11.0	9.3	8.3	1.7	1.0
Total gross margins	117.1	96.4	63.0	20.7	33.4
Operation expenses	46.5	44.7	43.8	1.8	0.9
Depreciation and amortization	1.2	0.7	0.7	0.5	—
General taxes and other assessments—other	4.5	4.5	4.6	—	(0.1)
Other income - net	0.1	0.1	0.1	—	—
EBIT	\$65.0	\$46.6	\$14.0	\$18.4	\$32.6
Analysis of gross margins (In millions)					
Natural gas					
Realized margins	\$49.1	\$61.0	\$59.0	\$(11.9)	\$2.0
Unrealized mark-to-market valuations	8.1	(12.7)	5.2	20.8	(17.9)
Other	—	(1.1)	—	1.1	(1.1)
Total gross margins—natural gas	57.2	47.2	64.2	10.0	(17.0)
Electricity					
Realized margins	\$57.2	\$57.2	\$0.7	\$—	\$56.5
Unrealized mark-to-market gains valuations	2.7	(8.0)	(1.9)	10.7	(6.1)
Total gross margins—electricity	59.9	49.2	(1.2)	10.7	50.4
Total gross margins	\$117.1	\$96.4	\$63.0	\$20.7	\$33.4
Other Retail-Energy Marketing Statistics					
Natural gas					
Therm sales (millions of therms)	750.7	713.0	718.1	37.7	(5.1)
Number of customers (end of period)	133,000	143,800	156,600	(10,800)	(12,800)
Electricity					
Electricity sales (millions of kWhs)	13,090.7	12,057.0	11,692.0	1,033.7	365.0
Number of accounts (end of period)	127,400	138,000	162,100	(10,600)	(24,100)

⁽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 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.

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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.

Fiscal Year 2015 vs. Fiscal Year 2014. The increase in EBIT primarily reflects improved realized margins for electricity in fiscal year 2015, reflecting lower PJM capacity and ancillary service charges. Additionally, fiscal year 2014 electricity margins were much lower, reflecting extreme price movements during the colder than normal weather that occurred between January and March of 2014. Gross margins were also affected by lower unrealized mark-to-market valuations for both natural gas and electricity due to fluctuating market prices.

Commercial Energy Systems

The tables below represent the financial results of the commercial energy systems segment for the fiscal years ended September 30, 2016, 2015, and 2014.

Commercial Energy Systems Segment Financial Information

(In millions)	Years Ended September 30,			Increase (Decrease)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Operating revenues	\$ 89.1	\$ 51.8	\$ 40.7	\$ 37.3	\$ 11.1
Operating expenses:					
Cost of sales	40.9	21.5	20.3	19.4	1.2
Operations	25.1	17.1	10.4	8.0	6.7
Depreciation and amortization	15.2	10.7	6.2	4.5	4.5
General taxes and other assessments	0.5	0.4	0.3	0.1	0.1
Operating expenses	\$ 81.7	\$ 49.7	\$ 37.2	\$ 32.0	\$ 12.5
Equity earnings	7.6	2.2	2.0	5.4	0.2
Other income	6.4	5.4	1.4	1.0	4.0
Less: Non-controlling interest	(0.6)	—	—	(0.6)	—
EBIT	\$ 22.0	\$ 9.7	\$ 6.9	\$ 12.3	\$ 2.8

EBIT by division:

Energy-efficiency contracting	\$ 6.6	\$ (2.4)	\$ (2.9)	\$ 9.0	\$ 0.5
Commercial distributed generation	13.4	10.0	7.4	3.4	2.6
Investment in distributed generation	2.0	2.1	2.4	(0.1)	(0.3)
Total	\$ 22.0	\$ 9.7	\$ 6.9	\$ 12.3	\$ 2.8

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 year ended September 30, 2016 and 2015, respectively.

Fiscal Year 2015 vs. Fiscal Year 2014. The increase in EBIT primarily reflects higher revenues attributed to additional distributed generation assets placed in service in the current year compared to prior year, higher contract margins on new federal contracts and higher income from state rebate programs for certain distributed generation projects. These favorable variances are partially offset by higher operating expenses due to increased in-service distributed generation assets as well as

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\$3.0 million of unrecovered government contracting costs recorded in fiscal year 2015 related to contracting under the Small Business Administration's Business Development 8(a) Program. The amortization of investment tax credits related to our distributed generation assets, not included in EBIT, was \$2.8 million for fiscal year 2014.

Midstream Energy Services

The table below represents the financial results of the midstream energy services segment for the year ended September 30, 2016, 2015 and 2014.

Midstream Energy Services Segment Financial Information

(In millions)	Years Ended September 30, Increase (Decrease)				
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Operating revenues ^(a)	\$ 6.6	\$ 3.2	\$ 16.6	\$ 3.4	\$ (13.4)
Operating expenses:					
Operations	4.8	7.7	8.5	(2.9)	(0.8)
Depreciation and amortization	0.1	0.1	0.1	—	—
General taxes and other assessments	0.3	0.8	0.3	(0.5)	0.5
Operating expenses	\$ 5.2	\$ 8.6	\$ 8.9	\$ (3.4)	\$ (0.3)
Equity earnings	6.2	2.6	0.7	3.6	1.9
Other income	0.2	0.1	—	0.1	0.1
EBIT	\$ 7.8	\$ (2.7)	\$ 8.4	\$ 10.5	\$ (11.1)

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

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 a gas purchase contract with Antero, which is the subject of arbitration. These losses may continue to accumulate in the near term, but we anticipate they will reverse in future periods upon the completion of the arbitration proceedings. Refer to Note 13 — Commitments and Contingencies of the Notes to Consolidated Financial Statements for further discussion of this matter.

Fiscal Year 2015 vs. Fiscal Year 2014. The decrease in EBIT for fiscal year 2015, compared to fiscal year 2014, was driven by a reduction to income due to lower-of-cost or market adjustments on storage gas inventory and lower total annual storage and transportation spreads in fiscal year 2015 which affected our realized margins. Mostly offsetting the decrease in EBIT were the higher mark-to-market valuations on our derivative instruments, as well as lower investment development expenses and higher income related to our pipeline investments.

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 \$(3.2) million, \$(9.7) million and \$(11.6) million for the year ended September 30, 2016, 2015 and 2014, respectively. The comparison of EBIT between fiscal

year 2016 and fiscal year 2015 primarily reflects a \$5.6 million impairment charge of our investment in ASDHI in the prior year period. The comparison of EBIT for fiscal years 2015 and 2014 reflects lower branding initiatives and business development costs.

Intersegment Eliminations

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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, 2016, 2015 and 2014. The increase in interest on long-term debt year over year primarily reflects the issuance of additional unsecured MTNs and private placement notes issued by Washington Gas in fiscal years 2016, 2015 and 2014, as well as senior notes issued by WGL in fiscal years 2016 and 2015.

Composition of Consolidated Interest Expense

(In millions)	Years Ended September 30,			Increase (Decrease)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Interest on long-term debt	\$ 52.5	\$ 51.2	\$ 37.1	\$ 1.3	\$ 14.1
Other net, including allowance for funds used during construction	(0.2)	(0.7)	0.6	0.5	(1.3)
Total	\$ 52.3	\$ 50.5	\$ 37.7	\$ 1.8	\$ 12.8

Consolidated Income Taxes

The following table shows WGL's consolidated income tax expense and effective income tax rate for the years ended September 30, 2016, 2015 and 2014.

Consolidated Income Taxes

(In millions)	Years Ended September 30,			Increase (Decrease)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Income before income taxes	\$266.4	\$216.4	\$164.5	\$50.0	\$51.9
Income tax expense	98.1	83.8	57.3	14.3	26.5
Effective income tax rate	36.8 %	38.7 %	34.8 %	(1.9)%	3.9 %

The decrease in the effective income tax rate for the year ended September 30, 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). The lower fiscal year 2014 effective income tax rate, when comparing to fiscal years 2016 and 2015, is primarily a result of the tax benefit recorded during the first quarter of fiscal year 2014 for the reinstatement of regulatory assets related to the tax effect of Med D, causing the rate to be lower during that year. 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 access long-term capital markets primarily to fund capital expenditures, investment activities and to pay long-term debt.

During the fiscal year ended September 30, 2016, WGL met its liquidity and capital needs through retained earnings, reduced cash outflows resulting from deferred income taxes and the issuance of commercial paper, long-term debt and common stock. Washington Gas met its liquidity and capital needs through retained earnings, reduced cash outflows resulting from deferred income taxes and the issuance of commercial paper and long-term debt.

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Our ability to access capital markets depends on our credit ratings, general market liquidity, and investor demand for our securities. 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, 2016, total consolidated capitalization, including current maturities of long-term debt and notes payable, comprised 43.3% common equity, 0.9% preferred stock and 55.8% 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, 2016, 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.

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, 2016 and 2015, Washington Gas had balances in gas storage of \$82.5 million and \$94.5 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 our 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 our 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, 2016 and 2015, Washington Gas had \$3.3 million and \$15.9 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, 2016 and 2015, Washington Gas had a net regulatory asset of \$5.7 million and net regulatory liability of \$28.8 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, 2016 and 2015, WGL Energy Services had balances in gas storage of \$31.5 million and \$36.1 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, 2016 and 2015, WGL Midstream had balances in gas storage of \$93.1 million and \$80.8 million, respectively. As market opportunities arise, WGL Midstream collects revenues in excess of its commodity costs through its wholesale counterparty 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, 2016 and 2015, WGL Midstream had investments of \$237.4 million and \$73.4 million related to these investments, respectively. WGL Midstream initially funds capital calls related to these investments from short-term debt issued by WGL, generally with the intent of securing replacement long-term financing arrangements in the form of long-term debt or equity 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,

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generally with the intent of securing replacement long-term financing arrangements in the form of long-term debt or equity 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 \$450.0 million, and further permits, with the banks' approval, additional borrowings of \$100 million for a maximum potential total of \$550 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. The credit facility for WGL defines its applicable fee level as one level higher than the fee level applicable to 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 \$223.0 million and \$308.0 million at September 30, 2016 and \$207.0 million and \$261.0 million at September 30, 2015, 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, 2016 and 2015, "Customer deposits and advance payments" totaled \$80.9 million and \$88.5 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 "at-the-market" (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 obtains 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. As the financing entity funds the energy management services project, Washington Gas establishes a payable to the

financing entity. 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 could 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 financing entity in satisfaction of the obligation to the financing entity and removes both the receivable and the obligation related to the financing from its financial statements.

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As of September 30, 2016, Washington Gas recorded a \$73.3 million "Unbilled revenues" on the balance sheet and a \$62.4 million corresponding short-term obligation to the lender in "Notes payable", for energy management services projects that were not complete. Because these projects are financed for government agencies which have minimal credit risk, and with which we have previous collection experience, Washington Gas did not record a corresponding reserve for bad debts related to these receivables at 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 pipeline 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 and borrowed \$250 million under the agreement. The credit agreement provides for a maturity date of February 18, 2018, 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 \$100 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 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.

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. As WGL increases capital expenditures pursuant to its announced investment commitments and its other growth strategies, it plans to continue raising capital by issuing additional shares of common stock. There can be no assurance, however, that we will be able to continue raising capital, or whether any such transactions will be on favorable terms.

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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.

Rating Service	WGL		Washington Gas	
	Senior Unsecured	Commercial Paper	Senior Unsecured	Commercial Paper
Fitch Ratings ^(a)	A	F1	AA-	F1
Moody's Investors Service ^(b)	A3	P-2	A1	P-1
Standard & Poor's Ratings Service ^(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 is stable.

^(c) The long-term debt ratings outlook issued by Standard & Poor's Rating Services for WGL and Washington Gas is stable.

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, 2016, WGL's and Washington Gas' ratios of consolidated financial indebtedness to consolidated total capitalization were 56% and 48%, 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, 2016, we believe 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, 2016, 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, 2016, WGL Energy Services would not be required to provide additional credit support for these arrangements. WGL Midstream would be required to provide \$50,000 of additional credit support for these

arrangements due to counterparties being over-collateralized.

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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, 2016, 2015 and 2014:

(In millions)	Fiscal Years Ended September 30,			Increase / (Decrease)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Cash provided by (used in):					
Operating activities	\$ 227.8	\$ 504.1	\$ 382.2	\$ (276.3)	\$ 121.9
Financing activities	\$ 436.5	\$ 19.0	\$ 45.2	\$ 417.5	\$ (26.2)
Investing activities	\$ (665.5)	\$ (525.1)	\$ (422.1)	\$ (140.4)	\$ (103.0)

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, 2016 was \$227.8 million compared to net cash flows provided by operating activities of \$504.1 million for the fiscal year ended September 30, 2015. The decrease in net cash flows 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 \$436.5 million in fiscal year ended September 30, 2016 an increase of \$417.5 million from the prior year. This increase primarily reflects: (i) increased issuances of long-term debt to support both utility and non-utility investments and capital expenditures; (ii) issuances of common stock under our ATM program and (iii) the prior fiscal year included repurchases of common stock which did not recur in the current period. Cash flows provided by financing activities decreased \$26.2 million in fiscal year 2015 as compared to fiscal year 2014. This comparison primarily reflects a decrease in net funds received from long-term and short-term financing arrangements.

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The following table reflects the issuances and retirements of long-term debt that occurred during the fiscal years 2016, 2015 and 2014 (also refer to Note 5 —Long Term Debt of Notes to Consolidated Financial Statements).

Long-Term Debt Activity

(\$ In millions)	2016		2015		2014	
	Interest Rate	Face value	Interest Rate	Face value	Interest Rate	Face value
Long Term Debt ^(a)						
Issued	1.34-3.80%	\$ 500.0	2.25 – 4.60%	\$ 300.0	4.22 – 5.00%	\$ 175.0
Retired	5.17%	(25.0)	4.83%	(20.0)	4.88 – 5.17%	(67.0)
Other financing						
Issued ^(b)	n/a	—	n/a	—	2.52%	0.3
Retired ^(c)	n/a	—	2.52 – 4.10%	(8.3)	n/a	—
Other activity						
Total		\$475.0		\$271.7		\$108.3

(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.

(b) Includes the non-cash issuances of project debt financing of \$0.3 million for fiscal year 2014.

(c) Includes the non-cash extinguishments of project debt financing of \$8.3 million for fiscal year 2015.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities totaled \$665.5 million, \$525.1 million and \$422.1 million during fiscal years 2016, 2015 and 2014, respectively, which primarily consists of utility capital expenditures made by Washington Gas and non-utility investments in pipeline and distributed generation. The increase in cash used is primarily due to our additional expenditures for Washington Gas' accelerated pipe replacement programs, an increase in capital expenditures related to non-utility commercial distributed generation assets and a \$89.4 million investment in the Stonewall Gas Gathering System (Stonewall System) during the year ended September 30, 2016. The increase in current year expenditures were partially offset by the receipt of \$19.7 million related to the sale of Washington Gas' Springfield Operations Center.

Capital Investments

Total WGL expenditures for capital investments for the year ended September 30, 2016 are shown in the chart below:

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The following table depicts our actual capital investments for fiscal years 2014, 2015 and 2016, and projected capital investments for fiscal years 2017 through 2021. 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.

(In millions)	Actual Projected								
	2014	2015	2016	2017	2018	2019	2020	2021	Total
New business ^(a)	\$ 97.0	\$ 84.8	\$ 106.6	\$ 130.9	\$ 148.9	\$ 153.8	\$ 166.6	\$ 189.5	\$ 789.7
Replacements:									
Regulatory plans ^(b)	51.7	113.1	132.2	130.7	139.0	149.8	167.1	173.1	759.7
Other	70.0	56.0	74.8	58.3	53.7	54.1	55.7	57.3	279.1
Customer information system	9.9	24.6	39.4	23.0	—	—	—	—	23.0
Other utility	82.2	42.5	43.0	49.6	74.1	53.4	57.5	71.3	305.9
Cash basis-utility	(24.5	) 6.4	(2.5) —	—	—	—	—	—
Total utility ^(c)	286.3	327.4	393.5	392.5	415.7	411.1	446.9	491.2	2,157.4
Pipeline investments	20.8	42.7	158.1	80.2	532.4	82.9	0.1	—	695.6
Distributed generation	108.2	158.3	163.8	100.1	100.1	100.1	100.1	100.1	500.5
Other non-utility	0.2	0.2	8.3	1.5	0.2	0.1	0.1	0.1	2.0
Cash basis-non-utility	—	3.1	(35.3) —	—	—	—	—	—
Total investments	\$ 415.5	\$ 531.7	\$ 688.4	\$ 574.3	\$ 1,048.4	\$ 594.2	\$ 547.2	\$ 591.4	\$ 3,355.5

(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.

Regulatory 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. The following table presents the expenditures made and revenues recognized for the accelerated pipe replacement programs in fiscal year 2016.

Accelerated Pipe Replacement Programs

Fiscal Year 2016 Activity

(in millions)	District of Columbia	Maryland	Virginia	Total
Capital expenditures, excluding cost of removal	\$17.1	\$54.1	\$61.0	\$132.2
Revenues recognized	\$5.9	\$7.6	\$17.8	\$31.3

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 that are expected to be complete in calendar year 2016, with related restoration and paving continuing

into calendar year 2017. In 2013, Washington Gas filed a Revised Accelerated Pipe Replacement Plan (PROJECTpipes) 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 Public Service Commission of the District of Columbia 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. PROJECTpipes is in addition to the program which targets vintage mechanically coupled pipe.

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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 Virginia State Corporation Commission approved, 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.

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, 2016, 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. The courts have granted Constitution's motions to expedite the schedules for these legal actions. WGL Midstream held a \$38.6 million equity method investment in Constitution at September 30, 2016. Refer to Note 17, Other Investments of the Notes to the Consolidated Financial Statements for further discussion of this matter.

Constitution has a target in-service date in the second half of 2018 which is reflected in our capital expenditure projections for fiscal year 2017 and beyond.

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.

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.

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Additionally, in February 2014, 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.

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 West Virginia to Transco's Station 165 in Pittsylvania County, Virginia. The pipeline is scheduled to be in service by December 2018.

The total project investment is anticipated to be approximately \$3.3 billion. WGL Midstream will 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 \$326.4 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 Gas Gathering System

In February 2016, WGL Midstream acquired a 35% 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. In May 2016, another party to the deal exercised its option to invest in the Stonewall System. As a result, WGL Midstream's ownership decreased to 30%.

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.

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The total estimated purchase obligations for WGL as of September 30, 2016 for future fiscal years are shown below.

Estimated Contractual Obligations and Commercial Commitments

(In millions)	Years Ended September 30,						Total
	2017	2018	2019	2020	2021	Thereafter	
Pipeline and storage contracts ^(a)	\$247.0	\$238.8	\$296.2	\$298.6	\$288.6	\$2,233.8	\$3,603.0
Long-term debt ^(b)	—	250.0	50.0	150.0	—	996.0	1,446.0
Interest expense ^(c)	60.9	58.8	54.5	49.6	49.2	831.8	1,104.8
Gas purchase commitments ^(d)							
—Washington Gas	467.8	404.5	357.7	359.2	385.3	3,897.9	5,872.4
—WGL Energy Services	148.8	40.1	16.7	7.5	0.4	—	213.5
—WGL Midstream ^(h)	464.5	1,077.6	1,512.2	1,641.2	1,622.4	27,780.0	34,097.9
Electric purchase commitments ^(f)	413.1	179.6	78.2	30.2	1.7	0.9	703.7
Operating leases	7.5	7.5	3.9	3.7	3.4	27.8	53.8
Business process outsourcing ^(g)	28.0	23.9	23.3	23.0	17.5	5.3	121.0
Other long-term commitments ^(h)	6.8	3.0	1.2	1.1	—	0.4	12.5
Total	\$1,844.4	\$2,283.8	\$2,393.9	\$2,564.1	\$2,368.5	\$35,773.9	\$47,228.6

(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.

Includes known and reasonably likely commitments to purchase fixed volumes of natural gas. Cost estimates are

(d) based on forward market prices as of September 30, 2016. 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 \$18.3 million related to renewable energy credits.

(g) Represents fixed costs to service providers related to various contracts for business process outsourcing. For one of the business process outsourcing

contracts, these payments do not reflect potential inflationary adjustments of \$1.7 million over the remaining term of the contract.

(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.

Washington Gas outsources certain of its business processes related to human resources, information technology, consumer services, construction, integrated supplier and finance operations. While Washington Gas expects to continue agreements for the benefit of customers and shareholders, the continued management of service levels provided is critical to the success of these outsourcing arrangements. Washington Gas has divided its BPO governance

between 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 2016, Washington Gas did not contribute to its qualified pension plan but did contribute \$1.8 million to its non-funded DB SERP. In addition, Washington Gas contributed \$14.9 million to its health and life insurance benefit plans during fiscal year 2016. During fiscal year 2016, Washington Gas does not expect to make a contribution to its qualified pension plan but does expect to make a payment totaling \$6.3 million to its non-funded DB SERP. Washington Gas expects to make a contribution of \$8.3 million to its health and life insurance benefit plans during fiscal year 2017. 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.

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Financial Guarantees

WGL has guaranteed payments primarily for certain commitments on behalf of certain subsidiaries. At September 30, 2016, these guarantees totaled \$30.7 million, \$212.6 million, \$31.9 million and \$321.1 million for Washington Gas, WGL Energy Services, WGL Energy Systems and WGL Midstream, respectively. At September 30, 2016, WGL also had guarantees on behalf of other subsidiaries totaling \$2.0 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, 2016, these guarantees totaled \$18.9 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.

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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, 2016, Washington Gas, WGL Energy Services and WGL Midstream provided \$4.3 million, \$14.6 million and \$30.7 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, 2016 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	\$ 56.8	\$ 7.8	\$ 49.0	2	\$ 36.6
Non-Investment Grade	—	—	—	—	—
No External Ratings	4.2	—	4.2	—	—
WGL Energy Services					
Investment Grade	\$ 1.4	\$ 0.1	\$ 1.3	3	\$ 1.0
Non-Investment Grade	—	—	—	—	—
No External Ratings	0.3	—	0.3	—	—
WGL Midstream					
Investment Grade	\$ 51.1	\$ 3.0	\$ 48.1	1	\$ 26.9
Non-Investment Grade	5.2	5.0	0.2	—	—
No External Ratings	9.9	—	9.9	—	—

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 its 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

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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.

WGSW is indirectly subject to retail credit risk associated with non-payment by customers who lease distributed energy equipment or maintain energy service agreements through ASD Solar LP, Nextility and SunEdison. 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.

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, 2016.

Regulated Utility Segment

Changes in Fair Value of Energy-Related Derivatives

(In millions)

Net assets (liabilities) at September 30, 2015	\$(285.8)
Net fair value of contracts entered into during the period	5.6
Other changes in net fair value	21.2
Realized net settlement of derivatives	1.6
Net assets (liabilities) at September 30, 2016	\$(257.4)

Regulated Utility Segment

Roll Forward of Energy-Related Derivatives

(In millions)

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Net assets (liabilities) at September 30, 2015	\$(285.8)
Recorded to income	12.1
Recorded to regulatory assets/liabilities	13.9
Net option premium payments	0.8
Realized net settlement of derivatives	1.6
Net assets (liabilities) at September 30, 2016	\$(257.4)

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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, 2016, 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)	2017	2018	2019	2020	2021	Thereafter	Total
Level 1 — Quoted prices in active markets	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Level 2 — Significant other observable inputs	(4.4)	(1.7)	0.3	—	—	—	(5.8)
Level 3 — Significant unobservable inputs	(46.8)	(32.2)	(24.3)	(19.8)	(16.6)	(111.9)	(251.6)
Total net assets (liabilities) associated with our energy-related derivatives	\$(51.2)	\$(33.9)	\$(24.0)	\$(19.8)	\$(16.6)	\$(111.9)	\$(257.4)

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

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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, 2016.

Retail Energy-Marketing Segment

Changes in Fair Value of Energy-Related Derivatives

(In millions)

Net assets (liabilities) at September 30, 2015	\$(30.0)
Net fair value of contracts entered into during the period	0.8
Other changes in net fair value	0.3
Realized net settlement of derivatives	11.9
Net assets (liabilities) at September 30, 2016	\$(17.0)

Retail Energy-Marketing Segment

Roll Forward of Energy-Related Derivatives

(In millions)

Net assets (liabilities) at September 30, 2015	\$(30.0)
Recorded to income	(0.7)
Recorded to accounts payable	1.8
Realized net settlement of derivatives	11.9
Net assets (liabilities) at September 30, 2016	\$(17.0)

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, 2016 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)

	2017	2018	2019	2020	2021	Thereafter	Total
Level 1 — Quoted prices in active markets	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Level 2 — Significant other observable inputs	(2.5)	(2.3)	(1.5)	(0.4)	—	—	(6.7)
Level 3 — Significant unobservable inputs	(5.7)	(4.7)	(0.2)	0.3	—	—	(10.3)
Total net assets (liabilities) associated with our energy-related derivatives	\$(8.2)	\$(7.0)	\$(1.7)	\$(0.1)	\$—	\$—	\$(17.0)

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

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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 lease back those assets to counterparties, with a 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, 2016.

Midstream Energy Services Segment

Changes in Fair Value of Energy-Related Derivatives (In millions)

Net assets (liabilities) at September 30, 2015	\$(21.8)
Net fair value of contracts entered into during the period	(36.5)
Other changes in net fair value	76.5
Realized net settlement of derivatives	(38.1)
Net assets (liabilities) at September 30, 2016	\$(19.9)

Midstream Energy Services Segment

Roll Forward of Energy-Related Derivatives (In millions)

Net assets (liabilities) at September 30, 2015	\$(21.8)
Recorded to income	40.0
Realized net settlement of derivatives	(38.1)
Net assets (liabilities) at September 30, 2016	\$(19.9)

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, 2016 is summarized in the following table based on the level of the fair value calculation under ASC Topic 820:

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Midstream Energy Services Segment

Maturity of Net Assets (Liabilities) Associated with our Energy-Related Derivatives

(In millions)	2017	2018	2019	2020	2021	Thereafter	Total
Level 1 — Quoted prices in active markets	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Level 2 — Significant other observable inputs	(8.7)	0.1	—	—	—	—	(8.6)
Level 3 — Significant unobservable inputs	(8.6)	(6.9)	(2.8)	(0.6)	1.0	6.6	(11.3)
Total net assets associated with our energy-related derivatives	\$(17.3)	\$(6.8)	\$(2.8)	\$(0.6)	\$1.0	\$ 6.6	\$(19.9)

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, 2016 was approximately \$28,500 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, 2015 and September 30, 2016, are noted in the table below.

WGL Energy Services

Value-at-Risk at September 30, 2016

(In thousands)	High	Low	Average
Natural Gas Portfolio	\$292.9	\$7.6	\$ 29.1
Electric Portfolio	116.0	15.8	45.0
Total	\$408.9	\$23.4	\$ 74.1

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.

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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 Revenue Normalization Adjustment (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 Weather Normalization Adjustment (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 Conservation and Ratemaking Efficiency (CARE) plan, Washington Gas has a CARE Ratemaking Adjustment (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 heating degree day (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, 2016 and 2015, WGL and its subsidiaries had outstanding notes payable of \$331.4 million and \$332.0 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 of approximately \$2.1 million.

Long-Term Debt. At September 30, 2016 and 2015, WGL had outstanding fixed-rate and variable-rate MTNs and other long-term debt of \$1,444.3 million and \$944.2 million, 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, 2016, the fair value of WGL's debt was \$1,641.9 million. Our sensitivity analysis indicates that fair value would increase by approximately \$61.5 million or decrease by approximately \$57.0 million if interest rates were to decline or increase by 10%, respectively, from current market levels. At September 30, 2016 and 2015, Washington Gas had outstanding fixed-rate MTNs and other long-term debt of \$945.9 million and \$695.9 million, excluding current maturities and unamortized discounts. As of September 30, 2016, the fair value of Washington Gas' fixed-rate debt was \$1,126.4 million. Our sensitivity analysis indicates that fair value would increase by approximately \$49.2 million or decrease by approximately \$45.8 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 \$1,302.5 million, or approximately 90.1%, 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 \$802.5 million, or approximately 84.8%, 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

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Derivative Instruments. WGL expects 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. The effective portion of changes in fair value is reported as a component of other comprehensive income (loss), and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of these derivatives will be recognized directly through earnings as interest expense. There has been no ineffectiveness recorded to income associated with these hedges.

In September 2016, Washington Gas issued 30-year medium-term notes with a notional amount of \$250.0 million. During May 2016, Washington Gas entered into a forward starting interest rate swap, with a notional amount of \$125.0 million. The change in the fair value of the interest rate swap is reported as a regulatory asset. In September 2016, this forward starting interest rate swap agreement was terminated. Refer to Note 14-Derivative and Weather-Related Instruments for further discussion of our interest-rate risk management activity.

OTHER MATTERS

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 Holdings and Washington Gas (as well as a property management company that is not affiliated with WGL Holdings or Washington Gas), by residents of the apartment complex. In one lawsuit, twenty-nine plaintiffs seek unspecified damages for, among others, wrongful death and personal injury. The other action is 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 allege causes of action for negligence, product liability, and declaratory relief. We also understand from press reports that additional civil actions relating to this incident have been filed on behalf of individual residents of the apartment complex, but we have yet to be served for any such additional actions. 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.nts.gov/legal/Documents/NTSB_Investigation_Party_Form.pdf), and 49 CFR 831.13.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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, 2016, 2015 and 2014.

Gas Deliveries, Weather and Meter Statistics

	Years Ended September 30,			Increase (decrease)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Gas Sales and Deliveries (millions of therms)					
Firm					
Gas sold and delivered	758.4	932.3	939.1	(173.9)	(6.8)
Gas delivered for others	501.0	558.1	535.5	(57.1)	22.6
Total firm	1,259.4	1,490.4	1,474.6	(231.0)	15.8
Interruptible					
Gas sold and delivered	2.8	2.1	2.2	0.7	(0.1)
Gas delivered for others	239.0	260.3	267.7	(21.3)	(7.4)
Total interruptible	241.8	262.4	269.9	(20.6)	(7.5)
Electric generation—delivered for others	291.3	179.1	144.4	112.2	34.7
Total deliveries	1,792.5	1,931.9	1,888.9	(139.4)	43.0
Degree Days					
Actual	3,341	3,929	4,111	(588)	(182)
Normal	3,730	3,758	3,751	(28)	7
Percent colder (warmer) than normal	(10.4)%	4.6 %	9.6 %	n/a	n/a
Average active customer meters	1,141,763	1,129,240	1,116,527	12,523	12,713
New customer meters added	12,221	12,099	13,327	122	(1,228)

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 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.

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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 39.8% of total firm therms delivered during fiscal year 2016, compared to 37.4% of therms delivered during fiscal year 2015. 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 2015 vs. Fiscal Year 2014. During the fiscal year ended 2015, total gas deliveries to firm customers were 1,490.4 million therms, an increase of 15.8 million therms from 1,474.6 million therms in fiscal year 2014. This comparison in natural gas deliveries to firm customers primarily reflects an increase in average active customer meters of 12,713.

Weather, when measured by HDDs for fiscal year 2015 was 4.6% colder than normal, compared to 9.6% colder than normal for fiscal year 2014.

Natural gas delivered to firm customers but purchased from unregulated third party marketers represented 37.4% of total firm therms delivered during fiscal year 2015, compared to 36.3% of therms delivered during fiscal year 2014.

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 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. Therm deliveries to interruptible customers decreased by 7.5 million therms in fiscal year 2015 compared to fiscal year 2014, reflecting warmer weather during fiscal year 2015, 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 2016, deliveries to these customers increased by 112.2 million therms from fiscal year 2015. During fiscal year 2015, deliveries to these customers increased by 34.7 million therms from fiscal year 2014. 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

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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 \$0.21, \$0.42, and \$0.56 per therm for fiscal years 2016, 2015 and 2014, respectively.

Interest Expense

The following table shows the components of Washington Gas' interest expense for the years ended September 30, 2016, 2015 and 2014.

Composition of Interest Expense

(In millions)	Years Ended September 30, Increase (Decrease)				
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Interest on long-term debt	\$ 40.8	\$ 41.9	\$ 36.9	\$ (1.1)	\$ 5.0
Other-net including allowance for funds used during construction	0.6	(0.1)	0.2	0.7	(0.3)
Total	\$ 41.4	\$ 41.8	\$ 37.1	\$ (0.4)	\$ 4.7

Income Taxes

The following table shows Washington Gas' income tax expense and effective income tax rate for the years ended September 30, 2016, 2015 and 2014.

Income Taxes

(In millions)	Years Ended September 30,			Increase (Decrease)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Income before income taxes	\$ 184.8	\$ 180.1	\$ 145.9	\$ 4.7	\$ 34.2
Income tax expense	71.7	71.4	47.5	0.3	23.9
Effective income tax rate	38.8 %	39.6 %	32.6 %	(0.8)%	7.0 %

The lower fiscal year 2014 effective income tax rate, when comparing to fiscal years 2016 and 2015, is a result of the tax benefit recorded during the first quarter of fiscal year 2014 for the reinstatement of regulatory assets related to the tax effect of Med D, causing the rate to be lower during that year. 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.

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Summary of Major Rate Increase Applications and Results

Jurisdiction	Application Filed	Effective Date	Test Year 12 Months Ended	Increase in Annual Revenues (Millions)			Allowed Rate of Return						
				Requested	Granted		Overall Equity						
District of Columbia	2/26/2016		9/30/2015	\$ 17.3	7.60	%			8.23	%	10.25	%	
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		9/30/2015	\$ 45.6	9.30	%				8.21	%	10.25	%
Virginia	1/31/2011	10/1/2011	9/30/2010	\$ 28.5	5.75	%	\$ 20.0	4.04	%	8.26	%	9.75	%

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 Public Service Commission of the District of Columbia (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 Actual Cost Adjustment ("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, clarifying Washington Gas' refunding and reporting requirements.

District of Columbia Rate Case. On February 26, 2016, Washington Gas filed an application with the PSC of DC. The application, as amended, requests an increase of \$17.3 million to base rates for natural gas delivery service. This request includes \$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 addresses rate relief necessary for Washington Gas to recover its costs and earn its allowed rate of return. The filing also satisfies 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.

The application for a rate increase also: (i) provides for a revenue normalization adjustment (RNA) in the proposed rate structure to reduce fluctuations in customers' bills resulting from extreme weather patterns; (ii) proposes a commercial framework for the delivery of natural gas for Combined Heat and Power (CHP) systems, which efficiently capture vented heat during the power generation process and use this heat for space heating and cooling and (iii)

proposes an 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. The application requests authority to earn an 8.23% overall rate of return, including a return on equity of 10.25%. Washington Gas anticipates that the new rates will become effective in March 2017.

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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.

We anticipate that the new rates will become effective, subject to refund, for usage in the December 2016 billing cycle. The procedural schedule provides the following due dates for testimony: intervenors by January 31, 2017, Staff of the SCC of VA by February 28, 2017 and Washington Gas' rebuttal testimony by March 28, 2017. The public and evidentiary hearing is scheduled for April 18, 2017.

Virginia Gas Reserves. In the 2014 Session, the General Assembly of the Commonwealth of Virginia amended Title 56 of the Virginia Code. The legislative provisions are intended to encourage regulated utilities to invest in natural gas reserves, upstream pipelines and facilities that are reasonably expected to benefit customers by lowering costs, reducing volatility or lowering the utility's supply risk. A regulated utility company can obtain recovery through its rates charged to customers for the entire incurred cost, including the return of and a return on the investment in reserves, as well as all operating costs.

Washington Gas filed an application and supporting testimony with the SCC of VA on May 12, 2015, for approval of the gas reserves purchase agreement with ECA as part of a Natural Gas Supply Investment Plan. On November 6, 2015, the SCC of VA issued an order denying Washington Gas' May 12, 2015, application for approval of a proposed Natural Gas Supply Investment Plan.

Over the past several months, Washington Gas has continued to investigate opportunities for long-term investments in natural gas reserves. We continue to believe that a long-term reserve investment that will benefit customers and address the issues that were raised by the SCC of VA in our previous filing is achievable.

Affiliate Transactions. On April 1, 2016, Washington Gas transferred the WSS and ESS storage assets to WGL Midstream. Washington Gas held a base gas option associated with the WSS storage facility which gave Washington Gas the right to purchase 723,706 dth of base gas at either: (i) the end of its service with WSS, or (ii) permanent release of its WSS storage capacity for \$0.594 per dekatherm. The \$0.9 million option value will be credited to ratepayers through gas costs.

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 508 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 23 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 106 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, 2014, 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, 2017. 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.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WGL Holdings, Inc.
Consolidated Balance Sheets

(In thousands)	September 30,	
	2016	2015
ASSETS		
Property, Plant and Equipment		
At original cost	\$5,542,916	\$5,003,910
Accumulated depreciation and amortization	(1,415,679)	(1,331,182)
Net property, plant and equipment ^(a)	4,127,237	3,672,728
Current Assets		
Cash and cash equivalents	5,573	6,733
Receivables		
Accounts receivable	329,989	276,358
Gas costs and other regulatory assets	15,294	5,797
Unbilled revenues	173,076	102,560
Allowance for doubtful accounts	(27,339)	(26,224)
Net receivables	491,020	358,491
Materials and supplies—principally at average cost	18,414	21,402
Storage gas	207,132	211,443
Prepaid taxes	33,397	48,726
Other prepayments	42,626	32,850
Derivatives	18,510	22,933
Assets held for sale	—	22,906
Other	26,802	23,057
Total current assets	843,474	748,541
Deferred Charges and Other Assets		
Regulatory assets		
Gas costs	179,856	190,676
Pension and other post-retirement benefits	223,242	212,041
Other	98,592	80,018
Prepaid post-retirement benefits	180,686	138,629
Derivatives	55,020	32,132
Investments in direct financing leases, capital leases	29,780	35,234
Investments in unconsolidated affiliates	303,491	136,884
Other	17,327	14,476
Total deferred charges and other assets	1,087,994	840,090
Total Assets	\$6,058,705	\$5,261,359
CAPITALIZATION AND LIABILITIES		
Capitalization		
WGL Holdings common shareholders' equity	\$1,375,561	\$1,243,247
Non-controlling interest	409	—
Washington Gas Light Company preferred stock	28,173	28,173
Total equity	1,404,143	1,271,420
Long-term debt	1,444,300	944,201
Total capitalization	2,848,443	2,215,621

Current Liabilities		
Current maturities of long-term debt	—	25,000
Notes payable and project financing	331,385	332,000
Accounts payable and other accrued liabilities	405,351	325,146
Wages payable	17,908	21,091
Accrued interest	7,645	7,835
Dividends declared	25,283	23,377
Customer deposits and advance payments	86,384	88,897
Gas costs and other regulatory liabilities	12,973	34,551
Accrued taxes	15,672	13,867
Derivatives	82,334	63,504
Liabilities held for sale	—	1,621
Other	41,991	46,025
Total current liabilities	1,026,926	982,914
Deferred Credits		
Unamortized investment tax credits	163,493	135,673
Deferred income taxes	726,763	672,963
Accrued pensions and benefits	228,377	176,128
Asset retirement obligations	203,105	200,732
Regulatory liabilities		
Accrued asset removal costs	310,788	325,496
Other post-retirement benefits	113,875	104,382
Other	14,450	17,067
Derivatives	304,198	322,259
Other	118,287	108,124
Total deferred credits	2,183,336	2,062,824
Commitments and Contingencies (Note 13)		
Total Capitalization and Liabilities	\$6,058,705	\$5,261,359

(a) Property, plant and equipment include \$13.2 million related to SFGF.

See Note 17—Other investments of the Notes to Consolidated Financial Statements.

The accompanying notes are an integral part of these statements.

WGL Holdings, Inc.

Consolidated Statements of Income

Part II

Item 8. Financial Statements and Supplementary Data (continued)

(In thousands, except per share data)	Years Ended September 30,		
	2016	2015	2014
OPERATING REVENUES			
Utility	\$1,044,117	\$1,303,044	\$1,416,951
Non-utility	1,305,442	1,356,786	1,363,996
Total Operating Revenues	2,349,559	2,659,830	2,780,947
OPERATING EXPENSES			
Utility cost of gas	245,189	510,900	700,305
Non-utility cost of energy-related sales	1,123,077	1,218,331	1,255,279
Operation and maintenance	401,776	395,770	365,873
Depreciation and amortization	132,566	121,892	110,772
General taxes and other assessments	146,655	152,164	151,196
Total Operating Expenses	2,049,263	2,399,057	2,583,425
OPERATING INCOME	300,296	260,773	197,522
Equity in earnings of unconsolidated affiliates	13,806	5,468	3,194
Other income — net	4,646	653	1,536
Interest expense	52,310	50,511	37,738
INCOME BEFORE INCOME TAXES	266,438	216,383	164,514
INCOME TAX EXPENSE	98,074	83,804	57,254
NET INCOME	\$168,364	\$132,579	\$107,260
Non-controlling interest	(550)	—	—
Dividends on Washington Gas Light Company preferred stock	1,320	1,320	1,320
NET INCOME APPLICABLE TO COMMON STOCK	\$167,594	\$131,259	\$105,940
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	50,369	49,794	51,759
Diluted	50,564	50,060	51,770
EARNINGS PER AVERAGE COMMON SHARE			
Basic	\$3.33	\$2.64	\$2.05
Diluted	\$3.31	\$2.62	\$2.05
DIVIDENDS DECLARED PER COMMON SHARE	\$1.9250	\$1.8275	\$1.7400

The accompanying notes are an integral part of these statements.

WGL Holdings, Inc.

Consolidated Statements of Comprehensive Income

Part II

Item 8. Financial Statements and Supplementary Data (continued)

(In thousands)	Years Ended September 30,		
	2016	2015	2014
NET INCOME	\$168,364	\$132,579	\$107,260
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE INCOME TAXES:			
Qualified cash flow hedging instruments	(39,289)	(11,309)	(1,548)
Pension and other post-retirement benefit plans			
Change in prior service (cost) credit	(891)	696	6,095
Change in actuarial net gain (loss)	(936)	(1,195)	1,594
TOTAL OTHER COMPREHENSIVE INCOME (LOSS) BEFORE TAXES	\$(41,116)	\$(11,808)	\$6,141
INCOME TAX EXPENSE (BENEFIT) RELATED TO OTHER COMPREHENSIVE INCOME (LOSS)	(16,813)	(5,533)	3,054
OTHER COMPREHENSIVE INCOME (LOSS)	\$(24,303)	\$(6,275)	\$3,087
COMPREHENSIVE INCOME	\$144,061	\$126,304	\$110,347
Non-controlling interest	(550)	—	—
Dividends on Washington Gas Light Company preferred stock	1,320	1,320	1,320
COMPREHENSIVE INCOME ATTRIBUTABLE TO WGL HOLDINGS	\$143,291	\$124,984	\$109,027

The accompanying notes are an integral part of these statements.

WGL Holdings, Inc.

Consolidated Statements of Cash Flows

Part II

Item 8. Financial Statements and Supplementary Data (continued)

(In thousands)	Years Ended September 30,		
	2016	2015	2014
OPERATING ACTIVITIES			
Net income	\$ 168,364	\$ 132,579	\$ 107,260
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Depreciation and amortization	132,566	121,892	110,772
Amortization of:			
Other regulatory assets and liabilities—net	1,909	1,305	610
Debt related costs	1,284	1,187	886
Deferred income taxes—net	163,879	104,405	25,795
Accrued/deferred pension and other post-retirement benefit cost	19,548	25,572	33,384
Earnings in equity interests	(13,806)	(5,066)	(3,194)
Compensation expense related to stock-based awards	12,308	16,478	4,105
Provision for doubtful accounts	13,036	18,197	14,252
Impairment loss	4,110	5,625	2,639
Other non-cash charges (credits)—net	(1,308)	(3,903)	(3,079)
CHANGES IN ASSETS AND LIABILITIES			
Accounts receivable and unbilled revenues—net	(105,720)	(71,514)	(1,769)
Gas costs and other regulatory assets/liabilities—net	(31,075)	9,943	2,623
Storage gas	4,311	122,159	13,689
Prepaid Taxes	(76,779)	(38,630)	(42,128)
Accounts payable and other accrued liabilities	33,470	21,841	21,326
Customer deposits and advance payments	(2,513)	20,579	1,164
Accrued taxes	1,805	(266)	(1,923)
Unamortized investment tax credits	27,820	36,322	56,639
Other current assets	(10,533)	5,583	(16,130)
Other current liabilities	(8,774)	13,583	(1,062)
Deferred gas costs—net	10,820	670	(97,383)
Deferred assets—other	(22,312)	(10,153)	(7,525)
Deferred liabilities—other	(31,236)	(34,902)	64
Derivatives	(56,985)	24,468	178,104
Pension and other post-retirement benefits	(10,244)	(14,546)	(16,602)
Other—net	3,821	651	(350)
Net Cash Provided by Operating Activities	227,766	504,059	382,167
FINANCING ACTIVITIES			
Common stock issued	78,287	—	714
Long-term debt issued	498,125	298,227	175,253
Long-term debt retired	(25,000)	(20,000)	(67,000)
Debt issuance costs	(445)	(3,497)	(1,543)
Notes payable issued (retired)—net	(63,000)	(121,500)	80,400
Contributions from non-controlling interest	959	—	—
Project financing	38,468	—	—
Dividends on common stock and preferred stock	(92,841)	(91,316)	(85,901)

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Repurchase of common stock	—	(41,485)	(56,136)
Other financing activities—net	1,986	(1,457)	(560)
Net Cash Provided By Financing Activities	436,539	18,972	45,227
INVESTING ACTIVITIES			
Capital expenditures (excluding AFUDC)	(530,385)	(464,291)	(394,762)
Investments in non-utility interests	(158,052)	(67,447)	(31,415)
Distributions and receipts from non-utility interests	8,254	10,780	4,116
Net proceeds from sale of assets	19,749	—	—
Loans to external parties	(5,031)	(4,151)	—
Net Cash Used in Investing Activities	(665,465)	(525,109)	(422,061)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and Cash Equivalents at Beginning of Year	6,733	8,811	3,478
Cash and Cash Equivalents at End of Year	\$5,573	\$6,733	\$8,811
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Income taxes paid (refunded)—net	\$(10,723)	\$6,935	\$20,110
Interest paid	\$51,838	\$45,654	\$36,991
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Project debt financing activities—net	\$—	\$(8,350)	\$253
Capital expenditure accruals included in accounts payable and other accrued liabilities	\$84,132	\$45,780	\$55,164
Dividends paid in common stock	\$4,011	\$—	\$5,312
Stock based compensation	\$6,742	\$1,009	\$2,244
The accompanying notes are an integral part of these statements.			

WGL Holdings, Inc.

Consolidated Statements of Capitalization

Part II

Item 8. Financial Statements and Supplementary Data (continued)

	September 30,			
(\$ In thousands, except shares)	2016		2015	
WGL Holdings Common Shareholders' Equity				
Common stock, no par value, 120,000,000 shares authorized, 51,080,612 and 49,728,662 shares issued, respectively	\$574,496		\$485,456	
Paid-in capital	12,519		14,934	
Retained earnings	827,085		757,093	
Accumulated other comprehensive loss, net of taxes	(38,539)		(14,236)	
WGL Holdings common shareholders' equity	1,375,561	48.2 %	1,243,247	56.1 %
Non-controlling Interest	409	0.1 %	—	—
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	1.0 %	28,173	1.3 %
Total Equity	1,404,143	49.3 %	1,271,420	57.4 %
Long-Term Debt				
Due fiscal year 2016, 5.17%	—		25,000	
Due fiscal year 2018, 1.34%	250,000		—	
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%	250,000		—	
Total Long-Term Debt	1,446,000		971,000	
Other long-term debt	—		—	
Unamortized discount	(1,700)		(1,799)	
Less—current maturities	—		25,000	
Total Long-Term Debt	1,444,300	50.7 %	944,201	42.6 %
Total Capitalization	\$2,848,443	100.0 %	\$2,215,621	100.0 %

The accompanying notes are an integral part of these statements.

WGL Holdings, Inc.

Consolidated Statements of Changes in Equity

Part II

Item 8. Financial Statements and Supplementary Data (continued)

(In thousands, except shares)	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	WGL Holdings Common Shareholders' Equity	Non-controlling Interest	Washington Gas Lighting Company Preferred Stock	Total Equity
	Shares	Amount							
Balance, September 30, 2013	51,774,204	\$574,461	\$10,710	\$700,422	\$(11,048)	1,274,545	—	28,173	\$1,302,718
Net income	—	—	—	105,940	—	105,940	—	1,320	107,260
Other comprehensive income	—	—	—	—	3,087	3,087	—	—	3,087
Dividend reinvestment	114,883	4,649	—	—	—	4,649	—	—	4,649
Repurchase of common stock	(1,304,504)	(56,136)	—	—	—	(56,136)	—	—	(56,136)
Stock-based compensation	71,970	2,958	1,137	—	—	4,095	—	—	4,095
Dividends declared:									
Common stock (\$1.7400 per share)	—	—	—	(89,604)	—	(89,604)	—	—	(89,604)
Preferred stock	—	—	—	—	—	—	—	(1,320)	(1,320)
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)
	49,728,662	485,456	14,934	757,093	(14,236)	1,243,247	—	28,173	1,271,420

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Balance, September 30, 2015										
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	

(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. The accompanying notes are an integral part of these statements.

Washington Gas Light Company

Balance Sheets

Part II

Item 8. Financial Statements and Supplementary Data (continued)

(In thousands)	September 30,	
	2016	2015
ASSETS		
Property, Plant and Equipment		
At original cost	\$4,874,905	\$4,521,535
Accumulated depreciation and amortization	(1,348,173)	(1,278,089)
Net property, plant and equipment	3,526,732	3,243,446
Current Assets		
Cash and cash equivalents	1	1
Receivables		
Accounts receivable	140,457	126,356
Gas costs and other regulatory assets	15,294	5,797
Unbilled revenues	89,945	21,027
Allowance for doubtful accounts	(20,220)	(19,254)
Net receivables	225,476	133,926
Materials and supplies—principally at average cost	18,368	21,356
Storage gas	82,473	94,489
Prepaid taxes	16,826	30,365
Other prepayments	10,924	11,899
Receivables from associated companies	13,799	3,176
Derivatives	7,285	4,588
Assets held for sale	—	22,906
Other	51	—
Total current assets	375,203	322,706
Deferred Charges and Other Assets		
Regulatory assets		
Gas costs	179,856	190,676
Pension and other post-retirement benefits	221,971	210,811
Other	98,527	79,946
Prepaid post-retirement benefits	179,675	137,754
Derivatives	25,590	13,155
Other	8,877	5,638
Total deferred charges and other assets	714,496	637,980
Total Assets	\$4,616,431	\$4,204,132
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shareholder's equity	\$1,113,446	\$1,081,292
Preferred stock	28,173	28,173
Long-term debt	945,891	695,885
Total capitalization	2,087,510	1,805,350
Current Liabilities		
Current maturities of long-term debt	—	25,000
Notes payable and project financing	104,385	89,000
Accounts payable and other accrued liabilities	204,980	159,280

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Wages payable	16,235	19,456
Accrued interest	3,758	4,023
Dividends declared	21,453	20,269
Customer deposits and advance payments	80,936	88,450
Gas costs and other regulatory liabilities	12,973	34,551
Accrued taxes	17,639	11,659
Payables to associated companies	65,770	68,623
Derivatives	58,295	33,856
Liabilities held for sale	—	1,621
Other	7,193	7,013
Total current liabilities	593,617	562,801
Deferred Credits		
Unamortized investment tax credits	4,851	5,646
Deferred income taxes	763,720	668,764
Accrued pensions and benefits	226,339	174,318
Asset retirement obligations	199,377	198,938
Regulatory liabilities		
Accrued asset removal costs	310,788	325,496
Other post-retirement benefits	113,169	103,683
Other	14,450	17,067
Derivatives	232,040	269,661
Other	70,570	72,408
Total deferred credits	1,935,304	1,835,981
Commitments and Contingencies (Note 13)		
Total Capitalization and Liabilities	\$4,616,431	\$4,204,132

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Statements of Income

Part II

Item 8. Financial Statements and Supplementary Data (continued)

(In thousands)	Years Ended September 30,		
	2016	2015	2014
OPERATING REVENUES	\$ 1,070,904	\$ 1,328,191	\$ 1,443,800
OPERATING EXPENSES			
Utility cost of gas	271,975	536,027	726,879
Operation and maintenance	325,726	323,967	294,613
Depreciation and amortization	114,605	108,902	102,713
General taxes and other assessments	130,231	136,911	137,472
Total Operating Expenses	842,537	1,105,807	1,261,677
OPERATING INCOME	228,367	222,384	182,123
Other income (expense) —net	(2,143	) (487	) 862
Interest expense	41,444	41,828	37,127
INCOME BEFORE INCOME TAXES	184,780	180,069	145,858
INCOME TAX EXPENSE	71,666	71,391	47,534
NET INCOME	\$ 113,114	\$ 108,678	\$ 98,324
Dividends on preferred stock	1,320	1,320	1,320
NET INCOME APPLICABLE TO COMMON STOCK	\$ 111,794	\$ 107,358	\$ 97,004

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
 Consolidated Statements of Comprehensive Income

Part II

Item 8. Financial Statements and Supplementary Data (continued)

(In thousands)	Years Ended September 30,		
	2016	2015	2014
NET INCOME	\$113,114	\$108,678	\$98,324
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE INCOME TAXES:			
Pension and other post-retirement benefit plans			
Change in prior service (cost) credit	(891	) 696	6,095
Change in actuarial net gain (loss)	(936	) (1,195	) 1,594
Total pension and other post-retirement benefit plans	\$(1,827	) \$(499	) \$7,689
INCOME TAX EXPENSE (BENEFIT) RELATED TO OTHER COMPREHENSIVE INCOME (LOSS)	(709	) (200	) 3,054
OTHER COMPREHENSIVE INCOME (LOSS)	\$(1,118	) \$(299	) \$4,635
COMPREHENSIVE INCOME	\$111,996	\$108,379	\$102,959

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Statements of Cash Flows

Part II

Item 8. Financial Statements and Supplementary Data (continued)

(In thousands)	Years Ended September 30,		
	2016	2015	2014
OPERATING ACTIVITIES			
Net income	\$113,114	\$108,678	\$98,324
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Depreciation and amortization	114,605	108,902	102,713
Amortization of:			
Other regulatory assets and liabilities—net	1,909	1,305	610
Debt related costs	1,191	1,275	886
Deferred income taxes—net	123,482	76,621	7,050
Accrued/deferred pension and other post-retirement benefit cost	19,497	24,757	33,670
Compensation expense related to stock-based awards	11,452	14,958	3,185
Provision for doubtful accounts	10,945	12,734	11,839
Impairment loss	—	—	2,639
Other non-cash charges (credits)—net	(197)	1,679	8,838
CHANGES IN ASSETS AND LIABILITIES			
Accounts receivable, unbilled revenues and receivables from associated companies—net	(78,304)	(16,127)	(39,253)
Gas costs and other regulatory assets/liabilities—net	(31,075)	9,943	2,623
Storage gas	12,016	61,594	(23,857)
Prepaid Taxes	13,539	(14,228)	(1,269)
Accounts payable and other accrued liabilities, including payables to associated companies	31,408	(1,007)	49,429
Customer deposits and advance payments	(7,514)	20,132	1,164
Accrued taxes	5,980	(12,951)	(770)
Other current assets	3,912	4,958	(5,089)
Other current liabilities	(4,486)	1,435	(526)
Deferred gas costs—net	10,820	670	(97,383)
Deferred assets—other	(22,057)	(10,036)	(10,073)
Deferred liabilities—other	(56,822)	(13,912)	(3,007)
Derivatives	(28,314)	4,466	170,744
Pension and other post-retirement benefits	(10,251)	(13,750)	(16,973)
Other—net	2,107	258	(359)
Net Cash Provided by Operating Activities	236,957	372,354	295,155
FINANCING ACTIVITIES			
Long-term debt issued	248,125	50,000	175,253
Long-term debt retired	(25,000)	(20,000)	(67,000)
Debt issuance costs	(333)	(741)	(1,543)
Notes payable issued (retired)—net	(47,000)	—	(35,500)
Project financing	38,468	—	—
Dividends on common stock and preferred stock	(83,116)	(79,763)	(79,665)
Other financing activities—net	2,891	—	(1,749)
Net Cash Provided by (Used in) Financing Activities	134,035	(50,504)	(10,204)

INVESTING ACTIVITIES

Net proceeds from sale of assets	19,749	—	—
Capital expenditures (excluding AFUDC)	(390,741)	(322,909)	(283,891)
Net Cash Used in Investing Activities	(370,992)	(322,909)	(283,891)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and Cash Equivalents at Beginning of Year	1	1,060	—
Cash and Cash Equivalents at End of Year	\$1	\$1	\$1,060

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Income taxes paid (refunded)—net	\$(19,004)	\$8,902	\$19,007
Interest paid	\$40,972	\$36,971	\$36,380

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Project debt financing activities—net	\$—	\$(8,350)	\$253
Capital expenditure accruals included in accounts payable and other accrued liabilities	\$43,687	\$40,926	\$46,331

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Statements of Capitalization

Part II

Item 8. Financial Statements and Supplementary Data (continued)

	September 30,			
(\$ In thousands, except shares)	2016		2015	
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	488,135		483,677	
Retained earnings	586,662		557,848	
Accumulated other comprehensive loss, net of taxes	(7,830)		(6,712)	
Total Common Shareholder's Equity	1,113,446	53.3 %	1,081,292	59.9 %
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	1.4 %	28,173	1.6 %
Long-Term Debt				
Due fiscal year 2016, 5.17%	—		25,000	
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%	250,000		—	
Total Long-Term Debt	946,000		721,000	
Other long-term debt	—		—	
Unamortized discount	(109)		(115)	
Less—current maturities	—		25,000	
Total Long-Term Debt	945,891	45.3 %	695,885	38.5 %
Total Capitalization	\$2,087,510	100.0 %	\$1,805,350	100.0 %

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Statements of Common Shareholder's Equity

Part II

Item 8. Financial Statements and Supplementary Data (continued)

(In thousands, except shares)	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Comprehensive Loss, Net of Taxes	Other	Total
	Shares	Amount					
Balance, September 30, 2013	46,479,536	\$ 46,479	\$ 477,968	\$ 511,184	\$ (11,048	)	\$ 1,024,583
Net income	—	—	—	98,324	—		98,324
Other comprehensive income	—	—	—	—	4,635		4,635
Stock-based compensation ^(a)	—	—	2,652	—	—		2,652
Dividends declared:							
Common stock	—	—	—	(78,708	)	—	(78,708)
Preferred stock	—	—	—	(1,320	)	—	(1,320)
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

^(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.

WGL Holdings, Inc.

Washington Gas Light Company

Part II

Item 8. Financial Statements and Supplementary Data (continued)

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 70% of the total therms delivered to customers by Washington Gas in the fiscal year ended September 30, 2016. Deliveries to interruptible customers accounted for 13% and deliveries to customers who use natural gas to generate electricity accounted for 16%. 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, 2016, 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, 2016, WGL Energy Services served approximately 133,000 natural gas customers and approximately 127,400 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) passive 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.

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Notes to Consolidated Financial Statements

CONSOLIDATION OF FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of WGL and its subsidiaries during the fiscal years reported. Certain prior period amounts have been recast to conform to current period presentation. Refer to Note 9—Income Taxes, for a further discussion of prior year amounts reclassified as a result of the implementation of Income Taxes (Topic 740): Balance sheet Classification of Deferred Taxes, which was implemented retrospectively in the first quarter of fiscal year 2016. 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, 2016, WGL and its subsidiaries are not the primary beneficiary for four of the five VIEs; therefore, we have not consolidated those VIE entities. WGSW is the primary beneficiary for one of the VIEs, SFGF, LLC (SFGF) and accordingly, it has been consolidated. 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.

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, 2016, 2015 and 2014 were 5.51%, 4.12% and 3.36%, 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 2.70%, 2.73% and 2.77% during fiscal years 2016, 2015 and 2014, 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, 2016 and 2015, 88.7% and 91.2%, 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

(\$ In millions)

September 30,	2016		2015	
Regulated utility segment				
Distribution, transmission and storage	\$4,210.6	75.9 %	\$3,927.2	78.5 %
General, miscellaneous and intangibles	435.2	7.9	424.8	8.5

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Construction work in progress (CWIP)	273.1	4.9	210.4	4.2
Total regulated utility segment	4,918.9	88.7	4,562.4	91.2
Unregulated segments	624.1	11.3	441.5	8.8
Total	\$5,543.0	100.0%	\$5,003.9	100.0%

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Notes to Consolidated Financial Statements

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, an additional minimal loss was recorded to "Other expense-net" in the accompanying Consolidated Statements of Income.

At September 30, 2015, the assets and liabilities associated with the Springfield Operations Center were reported at their expected selling price, less selling expenses, as "Assets held for sale" and "Liabilities held for sale" on WGL's and Washington Gas' balance sheets.

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 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. During the fiscal year ended September 30, 2014, Washington Gas recorded an impairment charges of \$0.8 million in operation and maintenance expense related to its Springfield Operations Center asset and an impairment loss of \$1.9 million for the unrecoverable portion of the costs incurred associated with an abandoned LNG storage project.

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, 2016 and 2015.

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.

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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 September 30, 2016, 2015 and 2014 \$73.0 million and \$83.5 million, and \$84.3 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 or, in the case of amounts to be shared with rate payers, regulatory assets/liabilities.

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

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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 sale leaseback 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 equity method investments.

STORAGE GAS VALUATION METHODS

For Washington Gas and WGL Energy Services, storage gas inventories are stated at the lower-of-cost or market as determined using the first-in, first-out method. For WGL Midstream, storage gas inventory is stated at the lower-of-cost or market using the weighted average cost method. There were no lower-of-cost or market adjustment recorded to net income for Washington Gas the fiscal year ended September 30, 2016. WGL Midstream recorded quarterly adjustments that netted to zero for the fiscal year ended September 30, 2016. The following table shows the lower-of-cost or market adjustments recorded to net income for the years ended September 30, 2015 and 2014.

Lower-of-Cost or Market Adjustments Pre-Tax

Increase (Decrease) to Net Income

(In millions)

September 30,	2015	2014
WGL ^(a)		
Operating revenues - non-utility	\$(21.5)	\$(3.0)
Washington Gas		
Utility cost of gas	\$(1.3)	\$(0.2)
Total Consolidated	\$(22.8)	\$(3.2)

^(a) WGL includes WGL Midstream.

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".

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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 to customers at September 30, 2016 and 2015. 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.

During the year ended September 30, 2016, 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 noncurrent amounts on a classified balance sheet and requires all deferred income tax liabilities and assets to be offset by taxing jurisdiction and classified as noncurrent. WGL and Washington Gas are applying ASU 2015-17 retrospectively. As a result of the retrospective adoption, \$32.8 million and \$24.7 million for WGL and Washington Gas, respectively, 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. 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

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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.

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Changes in Asset Retirement Obligations

(In millions)

September 30,	2016	2015
Asset retirement obligations at beginning of year	\$207.7	\$181.2
Liabilities incurred in the period	12.1	8.4
Liabilities settled in the period ^(a)	(16.9)	(14.6)
Accretion expense	7.4	7.8
Revisions in estimated cash flows ^(b)	—	24.9
Asset retirement obligations at the end of the year ^(c)	\$210.3	\$207.7

Washington Gas Light Company

Changes in Asset Retirement Obligations

(In millions)

September 30,	2016	2015
Asset retirement obligations at beginning of year	\$205.9	\$179.8
Liabilities incurred in the period	10.4	8.1
Liabilities settled in the period ^(a)	(16.9)	(14.6)
Accretion expense	7.2	7.7
Revisions in estimated cash flows ^(b)	—	24.9
Asset retirement obligations at the end of the year ^(c)	\$206.6	\$205.9

^(a) Fiscal year 2015 includes asset retirement obligations of \$1.6 million related to the Springfield Operations Center that were reclassified to "Current Liabilities - Liabilities held for sale." The building was sold in 2016.

^(b) WGL revised its assumptions regarding the timing and amounts related to its obligation to cut, cap and purge pipeline. The revision is primarily driven by our accelerated pipeline replacement programs.

^(c) Includes short-term asset retirement obligations of \$7.2 million and \$7.0 million for fiscal year 2016 and 2015, respectively.

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ACCOUNTING STANDARDS ADOPTED IN FISCAL YEAR 2016

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes	The standard requires an entity to present deferred tax liabilities and assets as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset by taxing jurisdiction and presented as a single amount remains the same.	October 1, 2015	As a result of the standard, we have presented all deferred tax liabilities and assets, net, as non-current in "Deferred credits-Deferred income taxes" in the accompanying balance sheets, retrospectively for all periods presented. The adoption of this standard did not have a material effect on our financial statements. Refer to Note 9 — Income taxes, for further discussion of this standard.

OTHER NEWLY ISSUED ACCOUNTING STANDARDS

Standard	Description	Required date of adoption	Effect on the financial statements or other significant matters
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	<p>The standard requires an entity to present debt issuance costs in the balance sheet as a direct deduction of the debt liability in a manner consistent with its accounting treatment of debt discounts. The standard requires retrospective application.</p> <p>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.</p> <p>The new guidance does not change the recognition and measurement guidance for debt issuance costs.</p>	October 1, 2016	Implementation of these standards will result in a reduction of other deferred assets and long-term debt in our Consolidated Balance Sheets. The carrying amounts that would be reclassified at September 30, 2016 is \$9.3 million.

ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis	The standard changes 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.	October 1, 2016	This standard is not expected to have an impact to net income nor a material impact on the balance sheet.
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ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties that are Under Common Control	The standard modifies the guidance issued with ASU 2015-02 to amend the consolidation guidance on 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	ASU 2016-17 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Entities that have already adopted the amendments in ASU 2015-02 are required to apply the amendments in this ASU retrospectively beginning with the fiscal year in which ASU 2015-02 was applied. We do not expect that the adoption of this standard will have a material impact on our financial statements.
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	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.
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	We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.

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<p>ASU 2016-01, Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities</p>	<p>The new standard 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.</p> <p>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.</p>	<p>October 1, 2018</p>	<p>We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.</p>
<p>ASU 2016-02, Leases (Topic 842)</p>	<p>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.</p>	<p>October 1, 2019</p>	<p>We are in the process of evaluating the impact the adoption of this standard will have on our financial statements. We may elect early adoption.</p>
<p>ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</p>	<p>We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.</p>	<p>October 1, 2020</p>	<p>We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.</p>

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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 is 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.

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At September 30, 2016 and 2015, 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	
	2016	2015	2016	2015
September 30,				
Current:				
Gas costs due from/to customers ^(a)	\$4.1	\$1.7	\$12.1	\$22.6
Interruptible sharing ^(a)	0.9	3.3	0.6	2.6
Revenue normalization mechanisms for Maryland and Virginia ^(a)	6.6	—	—	8.4
Plant recovery mechanisms	3.7	0.8	0.3	1.0
Total current	\$15.3	\$5.8	\$13.0	\$34.6
Deferred:				
Accrued asset removal costs	\$—	\$—	\$310.8	\$325.5
Deferred gas costs ^{(a)(b)}	179.9	190.7	—	—
Pension and other post-retirement benefits				
Other post-retirement benefit costs—trackers ^(c)	—	0.1	—	—
Deferred pension costs—trackers ^(c)	29.8	38.0	—	—
ASC Topic 715 unrecognized costs/income ^{(a)(d)}				
Pensions	193.4	173.9	—	—
Other post-retirement benefits	—	—	113.9	104.4
Total pension and other post-retirement benefits	223.2	212.0	113.9	104.4
Other				
Income tax-related amounts due from/to customers ^(e)	33.6	31.7	3.6	4.2
Losses/gains on issuance and extinguishments of debt and interest-rate derivative instruments ^{(a)(f)}	17.5	11.1	1.5	1.6
Deferred gain on sale of assets ^(a)	—	—	1.0	1.4
Rights-of-way fees ^(a)	0.3	1.6	—	—
Business process outsourcing and related costs ^(a)	9.8	2.7	—	—
Non-retirement post-employment benefits ^{(a)(g)}	19.2	18.9	—	—
Deferred integrity management expenditures ^{(a)(h)}	8.5	5.1	—	—
Recoverable portion of abandoned LNG facility	4.3	5.0	—	—
Environmental response costs ^{(a)(i)}	1.3	1.8	—	—
Other regulatory expenses ^(a)	4.1	2.1	8.3	9.9
Total other	\$98.6	\$80.0	\$14.4	\$17.1
Total deferred	\$501.7	\$482.7	\$439.1	\$447.0
Total	\$517.0	\$488.5	\$452.1	\$481.6

^(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) Relates to the District of Columbia jurisdiction.

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

- (e) 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.
- (f) 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.
- (g) 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.
- (h) This balance represents amounts for deferred expenditures associated with Washington Gas' Distribution Integrity Management Program (DIMP) in Virginia.
- (i) 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.

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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, 2016 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)	2016	2015
Accounts payable—trade	\$353.0	\$277.3
Employee benefits and payroll accruals	34.4	31.4
Other accrued liabilities	18.0	16.4
Total	\$405.4	\$325.1

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	September 30,	
(In millions)	2016	2015
Accounts payable—trade	\$161.0	\$122.2
Employee benefits and payroll accruals	32.2	29.5
Other accrued liabilities	11.8	7.6
Total	\$205.0	\$159.3

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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, 2016 and 2015.

Committed Credit Available (In millions)

September 30, 2016	WGL ^(b)	Washington Gas	Total Consolidated
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 %
September 30, 2015			
Committed credit agreements			
Unsecured revolving credit facility, expires April 3, 2017 ^(a)	\$450.0	\$ 350.0	\$ 800.0
Less: Commercial Paper	(243.0)	(89.0)	(332.0)
Net committed credit available	\$207.0	\$ 261.0	\$ 468.0
Weighted average interest rate	0.30 %	0.16 %	0.26 %

^(a) Both WGL and Washington Gas have the right to request extensions with the banks' approval. WGL's revolving credit facility permits it to borrow an additional \$100 million, with the banks' approval, for a total of \$550 million. 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, 2016 and 2015, 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, 2016, WGL's and Washington Gas' ratios of consolidated financial indebtedness to consolidated total capitalization were 56% and 48%, 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, 2016, WGL and Washington Gas were in compliance with all of the covenants under their revolving credit facilities.

PROJECT FINANCING

Washington Gas obtains 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. As the financing entity funds the energy management services project, Washington Gas establishes a payable to the financing entity. 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 could 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

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the financing entity in satisfaction of the obligation to the financing entity and removes both the receivable and the obligation related to the financing from its financial statements.

As of September 30, 2016, Washington Gas recorded a \$73.3 million "Unbilled revenues" on the balance sheet and a \$62.4 million corresponding short-term obligation to the lender in "Notes payable", for energy management services projects that were not complete. Because these projects are financed for government agencies which have minimal credit risk, and with which we have previous collection experience, Washington Gas did not record a corresponding reserve for bad debts related to these receivables at 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, 2016 and 2015, 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, 2016 WGL had the capacity under a shelf registration to issue an unspecified amount of long-term debt securities and Washington Gas had the capacity under shelf registration statement to issue up to \$350.0 million of additional MTNs.

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, 2016 and 2015.

Long-Term Debt Outstanding

(\$ In millions)	WGL ^(a)	Washington Gas	Total Consolidated
September 30, 2016			
Long-term debt ^(b)	\$ 500.0	\$ 946.0	\$ 1,446.0
Unamortized discount	(1.6)	(0.1)	(1.7)
Total Long-Term Debt	\$ 498.4	\$ 945.9	\$ 1,444.3
Weighted average interest rate	2.50 %	5.12 %	4.21 %
September 30, 2015			
Long-term debt ^(b)	\$ 250.0	\$ 721.0	\$ 971.0
Unamortized discount	(1.7)	(0.1)	(1.8)
Less — Current maturities	—	25.0	25.0
Total Long-Term Debt	\$ 248.3	\$ 695.9	\$ 994.2
Weighted average interest rate	3.66 %	5.58 %	5.08 %

^(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.

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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 and borrowed \$250 million under the agreement. The credit agreement provides for a maturity date of February 18, 2018, 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 \$100 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 16, 2016, Washington Gas issued an aggregate principle amount of \$250 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.

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The following tables show long-term debt issuances and retirements for the years ended September 30, 2016 and 2015.

Long-Term Debt Issuances and Retirements

(\$ In millions)	Principal ^(b)	Interest Rate	Effective Cost	Nominal Maturity Date
Year Ended September 30, 2016				
WGL ^(a)				
Issuances:				
2/18/2016	\$ 250.0	1.34 %	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			
Year Ended September 30, 2015				
WGL ^(a)				
Issuances:				
10/24/2014	\$ 100.0	2.25 %	2.42 %	11/1/2019
10/24/2014	125.0	4.60 %	5.11 %	11/1/2044
12/16/2014	25.0	4.60 %	5.53 %	11/1/2044
Total	\$ 250.0			
Washington Gas				
Issuances:				
12/15/2014	\$ 50.0	4.24 %	4.41 %	12/15/2044
Total	50.0			
Total consolidated issuances	\$ 300.0			
Washington Gas				
Retirements:				
8/9/2015	\$ 20.0	4.83 %	n/a	8/9/2015
Total	\$ 20.0			

^(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.

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LONG-TERM DEBT MATURITIES

Maturities of long-term debt for each of the next five fiscal years and thereafter as of September 30, 2016 are summarized in the following table.

Long-Term Debt Maturities^(a)

(In millions)	WGL ^(b)	Washington Gas	Total
2017	\$ —	\$ —	\$ —
2018	250.0	—	250.0
2019	—	50.0	50.0
2020	100.0	50.0	150.0
2021	—	—	—
Thereafter	150.0	846.0	996.0
Total	\$ 500.0	\$ 946.0	\$ 1,446.0
Less: current maturities	—	—	—
Total non-current	\$ 500.0	\$ 946.0	\$ 1,446.0

^(a)Excludes unamortized discounts of \$1.6 million and \$0.1 million at September 30, 2016, 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 51,080,612 and 49,728,662 at September 30, 2016 and 2015, respectively.

COMMON STOCK RESERVES

At September 30, 2016, there were 8,252,975 authorized, but unissued, shares of common stock reserved under the following plans:

Common Stock Reserves

Reserve for:	Number of Shares
Omnibus incentive compensation plan ^(a)	2,790,712
Dividend reinvestment and common stock purchase plan	2,775,341
Employee savings plans	637,196
Directors' stock compensation plan	68,694
ATM program	1,981,032
Total common stock reserves	8,252,975

^(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 Stockholders 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. Following shareholder approval of the 2016 Omnibus Incentive Compensation Plan, WGL will no longer make 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

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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 has issued 1,162,305 shares of common stock under the ATM program for gross proceeds of \$78.2 million.

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

Preferred Series	Shares Outstanding	Liquidation Preference		Call Price Per Share
		Involuntary	Voluntary	
\$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, 2016, there were no outstanding stock options and 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 fiscal years ended September 30, 2015 and September 30, 2014, 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, 2016, 2015 and 2014.

Basic and Diluted EPS

(In thousands, except per share data)	Years Ended September 30,		
	2016	2015	2014
Basic earnings per average common share:			
Net income applicable to common stock	\$ 167,594	\$ 131,259	\$ 105,940
Average common shares outstanding—basic	50,369	49,794	51,759
Basic earnings per average common share	\$ 3.33	\$ 2.64	\$ 2.05
Diluted earnings per average common share:			

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Net income applicable to common stock	\$ 167,594	\$ 131,259	\$ 105,940
Average common shares outstanding—basic	50,369	49,794	51,759
Stock-based compensation plans	195	266	11
Total average common shares outstanding—diluted	50,564	50,060	51,770
Diluted earnings per average common share	\$3.31	\$2.62	\$2.05

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NOTE 9. INCOME TAXES

WGL files a consolidated federal tax return and various other state returns. We are no longer subject to income tax examinations by the Internal Revenue Service (IRS) for years ended prior to September 30, 2012 except for pending carryback refund claims. Substantially all state income tax years in major jurisdictions are closed for years ended prior to September 30, 2012.

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 of the parent, WGL, are allocated to the subsidiaries that have taxable income. In fiscal year 2016, Washington Gas shared \$1.1 million of tax benefits from the tax sharing agreement that was reflected as a tax increase on Washington Gas' statements of income. During fiscal years 2015 and 2014, Washington Gas realized \$0.5 million and \$2.9 million of tax savings as a result of this tax sharing agreement. The effect of this allocation of benefits to Washington Gas has no effect on our consolidated financial statements. 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 noncurrent amounts on a classified balance sheet, and requires all deferred income tax liabilities and assets to be offset by taxing jurisdiction and classified as noncurrent. 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.

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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, 2016 and 2015.

WGL Holdings, Inc.
Components of Income Tax Expense

(In thousands)	Years Ended September 30,		
	2016	2015	2014
INCOME TAX EXPENSE			
Current:			
Federal	\$(57,690)	\$(18,639)	\$29,976
State	(1,983)	2,977	5,149
Total current	(59,673)	(15,662)	35,125
Deferred:			
Federal			
Accelerated depreciation	93,175	71,529	35,747
Other	49,638	17,726	(18,014)
State			
Accelerated depreciation	12,993	13,739	9,822
Other	8,073	1,411	(1,760)
Total deferred	163,879	104,405	25,795
Amortization of investment tax credits	(6,132)	(4,939)	(3,666)
Total income tax expense	\$98,074	\$83,804	\$57,254

WGL Holdings, Inc.

Reconciliation Between the Statutory Federal Income Tax Rate and Effective Tax Rate

(\$ In thousands)	Years Ended September 30,					
	2016		2015		2014	
Income taxes at statutory federal income tax rate	\$93,253	35.00 %	\$75,760	35.00 %	\$57,580	35.00 %
Increase (decrease) in income taxes resulting from:						
Accelerated depreciation less amount deferred	908	0.34	1,187	0.55	1,875	1.14
Amortization of investment tax credits	(6,132)	(2.30)	(4,939)	(2.28)	(3,666)	(2.23)
Cost of removal	(3,722)	(1.40)	(2,721)	(1.26)	(4,902)	(2.98)
State income taxes-net of federal benefit	12,969	4.87	11,109	5.13	8,734	5.31
Medicare Part D adjustment	—	—	—	—	(3,621)	(2.20)
ASDHI impairment	—	—	1,969	0.91	—	—
Other items-net	798	0.30	1,439	0.66	1,254	0.76
Total income tax expense and effective tax rate	\$98,074	36.81 %	\$83,804	38.71 %	\$57,254	34.80 %

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WGL Holdings, Inc.
Components of Accumulated Deferred Income Tax Assets (Liabilities)

(In thousands)	2016	2015
Deferred income tax assets:		
Pensions	\$60,685	\$44,468
Uncollectible accounts	12,441	10,389
Inventory overheads	5,046	5,873
Employee compensation and benefits	49,443	57,230
Derivatives	58,203	43,891
Deferred gas costs	—	2,406
Solar grant/investment tax credit	64,149	53,067
Tax credit carry forward	118,980	55,040
Net operating loss	27,741	—
Other ^(a)	1,075	5,640
Total assets	397,763	278,004
Deferred income tax liabilities:		
Other post-retirement benefits	69,899	54,860
Accelerated depreciation and other plant related items	949,807	794,099
Losses/gains on reacquired debt	1,155	1,292
Income taxes recoverable through future rates	71,352	68,245
Deferred gas costs	1,696	815
Partnership basis differences	27,532	29,468
Valuation allowances	2,188	2,188
Total liabilities	1,123,629	950,967
Net accumulated deferred income tax assets (liabilities)	\$(725,866)	\$(672,963)

(a) Includes \$0.897 million 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

(In thousands)	Years Ended September 30,		
	2016	2015	2014
INCOME TAX EXPENSE			
Current:			
Federal	\$(48,064)	\$(5,305)	\$37,098
State	(2,957)	907	4,262
Total current	(51,021)	(4,398)	41,360
Deferred:			
Federal			
Accelerated depreciation	93,385	71,046	34,833
Other	13,826	(6,619)	(30,523)
State			
Accelerated depreciation	13,081	13,701	9,540
Other	3,190	(1,507)	(6,800)

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Total deferred	123,482	76,621	7,050
Amortization of investment tax credits	(795)	(832)	(876)
Total income tax expense	\$71,666	\$71,391	\$47,534

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Reconciliation Between the Statutory Federal Income Tax Rate and Effective Tax Rate

(\$ In thousands)	Years Ended September 30,					
	2016		2015		2014	
Income taxes at statutory federal income tax rate	\$64,673	35.00 %	\$63,024	35.00 %	\$51,050	35.00 %
Increase (decrease) in income taxes resulting from:						
Accelerated depreciation less amount deferred	1,936	1.05	2,108	1.17	1,875	1.29
Amortization of investment tax credits	(795)	(0.43)	(832)	(0.46)	(876)	(0.60)
Cost of removal	(3,722)	(2.01)	(2,721)	(1.51)	(4,902)	(3.36)
State income taxes-net of federal benefit	8,310	4.50	8,986	4.99	6,711	4.60
Consolidated tax sharing allocation	1,073	0.58	(533)	(0.30)	(2,862)	(1.96)
Medicare Part D adjustment	—	—	—	—	(3,621)	(2.48)
Other items-net	191	0.10	1,359	0.76	159	0.09
Total income tax expense and effective tax rate	\$71,666	38.79 %	\$71,391	39.65 %	\$47,534	32.58 %

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Components of Accumulated Deferred Income Tax Assets (Liabilities)

(In thousands)	2016	2015
Deferred income tax assets:		
Pensions	\$59,878	\$43,748
Uncollectible accounts	8,054	7,637
Inventory overheads	5,046	5,873
Employee compensation and benefits	43,755	38,857
Derivatives	27,394	38,887
Deferred gas costs	—	2,406
Net operating loss	24,588	—
Other	—	862
Total assets	168,715	138,270
Deferred income tax liabilities:		
Other post-retirement benefits	69,520	54,566
Accelerated depreciation and other plant related items	783,919	681,108
Losses/gains on reacquired debt	1,155	1,292
Income taxes recoverable through future rates	71,063	67,953
Deferred gas costs	1,696	815
Other	5,082	1,300
Total liabilities	932,435	807,034
Net accumulated deferred income tax assets (liabilities)	\$(763,720)	\$(668,764)

In June 2016, we filed our tax return for the year ended September 30, 2015.

The following table summarizes the change in unrecognized tax benefits during fiscal year 2016, 2015, 2014 and our total unrecognized tax benefits at September 30, under the provisions of ASC Topic 740, Income Taxes:

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Unrecognized Tax Benefits

(In thousands)	2016	2015	2014
Total unrecognized tax benefits, October 1,	\$38,627	\$32,613	\$25,051
Increases in tax positions relating to current year	10,645	12,848	10,512
Decreases in tax positions relating to prior year	(6,989)	(6,834)	(2,950)
Total unrecognized tax benefits, September 30,	\$42,283	\$38,627	\$32,613

During the year, the unrecognized tax benefits for WGL and Washington Gas increased by approximately \$3.7 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, 2016 there was no change in accrued interest associated with uncertain tax positions. During the fiscal years ended September 30, 2015 and 2014, interest expense on uncertain tax positions was minimal.

NOTE 10. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

Washington Gas maintains a qualified, trustee, 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, \$4.6 million and \$4.2 million during fiscal years 2016, 2015 and 2014, 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 \$2.6 million, \$2.1 million and \$1.6 million during fiscal years ended September 30, 2016, 2015 and 2014, 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-

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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 and applies to plan years beginning on or after January 1, 2018, 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."

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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) Year Ended September 30,	Pension Benefits ^(a)		Health and Life Benefits	
	2016	2015	2016	2015
Change in projected benefit obligation ^(b)				
Benefit obligation at beginning of year	\$ 947.5	\$ 917.1	\$ 299.9	\$ 343.2
Service cost	14.2	15.5	4.6	7.1
Interest cost	41.3	39.1	13.1	14.7
Change in plan benefits	0.5	0.6	—	(26.1)
Actuarial loss (gain)	110.5	19.2	19.5	(23.7)
Retiree contributions	—	—	2.3	2.0
Employer group waiver plan rebates	—	—	1.2	2.4
Benefits paid	(44.7)	(44.0)	(16.3)	(19.7)
Projected benefit obligation at end of year ^(b)	\$ 1,069.3	\$ 947.5	\$ 324.3	\$ 299.9
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 780.2	\$ 804.7	\$ 438.5	\$ 439.6
Actual return on plan assets	115.0	19.9	65.1	(0.3)
Company contributions	1.8	1.8	14.9	16.0
Retiree contributions and employer group waiver plan rebates	—	—	3.5	3.6
Expenses	(2.3)	(2.2)	(0.7)	(0.7)
Benefits paid	(44.7)	(44.0)	(16.3)	(19.7)
Fair value of plan assets at end of year	\$ 850.0	\$ 780.2	\$ 505.0	\$ 438.5
Funded status at end of year	\$ (219.3)	\$ (167.3)	\$ 180.7	\$ 138.6
Total amounts recognized on balance sheet				
Non-current asset	\$ —	\$ —	\$ 180.7	\$ 138.6
Current liability	(6.3)	(4.8)	—	—
Non-current liability	(213.0)	(162.5)	—	—
Total recognized	\$ (219.3)	\$ (167.3)	\$ 180.7	\$ 138.6

^(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, 2016 and 2015.

Projected and accumulated benefit obligation

(In millions)	Qualified Pension Plan		DB SERP		DB Restoration	
	2016	2015	2016	2015	2016	2015
September 30,						
Projected benefit obligation	\$ 1,005.0	\$ 892.2	\$ 60.4	\$ 53.0	\$ 3.9	\$ 2.3
Accumulated benefit obligation	\$ 922.3	\$ 822.8	\$ 56.5	\$ 48.7	\$ 2.3	\$ 1.2

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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, 2016 and 2015:

Unrecognized Costs/Income Recorded on the Balance Sheet

(In millions)	Pension Benefits		Health and Life Benefits	
	2016	2015	2016	2015
September 30,				
Actuarial net loss	\$ 211.9	\$ 190.1	\$ 18.1	\$ 43.8
Prior service cost (credit)	1.5	1.5	(142.5)	(160.2)
Total	\$ 213.4	\$ 191.6	\$ (124.4)	\$ (116.4)
Regulatory asset (liability) ^(a)	\$ 193.4	\$ 173.9	\$ (118.0)	\$ (110.5)
Pre-tax accumulated other comprehensive loss (gain) ^(b)	20.0	17.7	(6.4)	(5.9)
Total	\$ 213.4	\$ 191.6	\$ (124.4)	\$ (116.4)

^(a) The regulatory liability recorded on our balance sheets at September 30, 2016 and 2015 is net of a deferred income tax benefit of \$4.1 million and \$6.1 million, respectively.

^(b) The total amount of accumulated other comprehensive loss recorded on our balance sheets at September 30, 2016 and 2015 is net of an income tax benefit of \$5.8 million and \$5.1 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 2016.

Amounts Recognized During Fiscal Year 2016

(In millions)	Regulatory assets/liabilities		Accumulated other comprehensive loss	
	Pension Benefits	Health and Life Benefits	Pension Benefits	Health and Life Benefits
Actuarial net loss (income)	\$ 15.3	\$ 1.2	\$ 1.5	\$ 0.1
Prior service cost (credit)	0.2	(16.8)	0.1	(0.9)
Total	\$ 15.5	\$ (15.6)	\$ 1.6	\$ (0.8)

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 2017.

Amounts to be Recognized During Fiscal Year 2017

(In millions)	Regulatory assets/liabilities		Accumulated other comprehensive loss	
	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)

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Total \$ 20.1 \$ (16.0) \$ 2.2 \$ (0.9)

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

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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, 2016, 2015 and 2014 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		
	2016	2015	2014	2016	2015	2014
Year Ended September 30,						
Service cost	\$14.2	\$15.5	\$14.0	\$4.6	\$7.1	\$7.6
Interest cost	41.3	39.1	40.4	13.1	14.7	18.7
Expected return on plan assets	(40.9)	(44.6)	(41.0)	(20.4)	(20.8)	(19.3)
Recognized prior service cost (credit)	0.3	0.3	0.3	(17.7)	(15.3)	(9.6)
Recognized actuarial loss	16.9	18.7	16.8	1.2	4.4	5.0
Net periodic benefit cost	31.8	29.0	30.5	(19.2)	(9.9)	2.4
Amount allocated to construction projects	(5.6)	(4.6)	(4.3)	4.1	1.9	(0.4)
Amount deferred as regulatory asset (liability)-net	7.1	7.1	7.0	(0.2)	(0.2)	(2.3)
Amount charged (credited) to expense	\$33.3	\$31.5	\$33.2	\$(15.3)	\$(8.2)	\$(0.3)

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. These balances are being amortized over a five year period.

ASSUMPTIONS

The weighted average assumptions used to determine net periodic benefit obligations and net periodic benefit costs were as follows:

Benefit Obligations Assumptions

September 30,	Pension Benefits		Health and Life Benefits	
	2016	2015	2016	2015
Discount rate ^(a)	3.40%-3.70%	4.10%-4.50%	3.70 %	4.50 %
Rate of compensation increase	3.50%-4.10%	3.50%-4.10%	4.10 %	4.10 %

^(a)The decrease in the discount rate in fiscal year 2016 compared to prior years primarily reflects the decrease in long-term interest rates.

Net Periodic Benefit Cost Assumptions

Years Ended September 30,	Pension Benefits			Health and Life Benefits		
	2016	2015	2014	2016	2015	2014
Discount rate ^(a)	4.10%-4.50%	4.00%-4.40%	4.50%-5.00%	4.50 %	4.40 %	4.60%-5.10%
Expected long-term return on plan assets ^(b)	6.00	% 6.75	% 6.50	% 5.75	% 6.25	% 6.25

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Rate of compensation increase^(c) 3.50%-4.10% 3.50%-4.10% 3.85%-5.15% 4.10% 4.10% 3.85 %

(a) The changes in the discount rates over the last three fiscal years primarily reflect the changes in long-term interest rates.

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(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 45.3%.

(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 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.

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

In fiscal year 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, 2016 there was no change 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, 2016, for non-Medicare eligible retirees, to be 6.3% for fiscal year 2017. Washington Gas expects the trend rate to decrease to 3.2% in fiscal year 2018 and 2.2% in fiscal year 2019, 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, 2015 was 6.7% for fiscal year 2016. This rate was expected to decrease to 6.3% in fiscal year 2017, 3.2% in fiscal year 2018 and to 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	\$ 5.9	\$ (5.3)

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 2016 and 2017 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").

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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 32.5% U.S. Large-Cap Equities, 4.5% U.S. Small/Mid-Cap Equities, 8% International Equities, 5% Real Estate and 50% 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 will increase by 5% for each 5% improvement in the plan's funded ratio, as measured by an investment consultant. This strategy resulted in portfolio de-risking during October 2012 including increased fixed income exposure and reduced U.S. large-cap equity exposure. The most recent pension plan ALM study was completed during November 2014. The study did not result in any changes to investment strategy.

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 the various Plans' assets are managed by the same financial institution. In addition, the Plans have 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.

Investment vehicles used to manage qualified pension plan trust and management trust assets include commingled funds and separately managed portfolios. A publicly offerable mutual fund is also employed to manage a portion of qualified pension plan trust assets. Commingled funds are used in the management of union-eligible trust assets.

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.

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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, 2016 and 2015:

Pension Plan Assets

(\$ In millions)	Level 1	Level 2	Level 3	Total	% of Total
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	—	1.5	—	1.5	0.3
Municipalities	—	13.7	—	13.7	1.6
Non-U.S. Corporate Debt	—	45.5	—	45.5	5.4
Other ^(a)	—	6.8	—	6.8	0.8
Mutual Funds ^(b)	34.0	—	—	34.0	4.0
Commingled Funds and Pooled Separate Accounts ^(c)	—	302.3	22.4	324.7	38.2
Private Equity/Limited Partnerships ^(d)	—	31.8	—	31.8	3.7
Derivatives ^(e)	—	1.2	—	1.2	0.2
Total fair value of plan investments	\$ 70.8	\$ 758.1	\$ 22.4	\$851.3	100.2 %
Net payable ^(f)				(1.3)	(0.2)
Total plan assets at fair value				\$850.0	100.0 %

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Pension Plan Assets

(\$ In millions)	Level 1	Level 2	Level 3	Total	% of Total
At September 30, 2015					
Cash and cash equivalents	\$ 0.8	\$ —	\$ —	\$0.8	0.1 %
Equity securities					
U.S. Small Cap	28.7	—	—	28.7	3.7
Preferred Securities	—	0.1	—	0.1	—
Fixed income securities					
U.S. Treasuries	—	101.3	—	101.3	13.0
U.S. Corporate Debt	—	204.6	—	204.6	26.2
U.S. Agency Obligations and Government Sponsored Entities	—	23.9	—	23.9	3.1
Asset-Backed Securities and Collateralized Mortgage Obligations	—	1.7	—	1.7	0.2
Municipalities	—	14.0	—	14.0	1.8
Non-U.S. Corporate Debt	—	37.1	—	37.1	4.8
Repurchase Agreements ^(g)	—	5.3	—	5.3	0.7
Other ^(a)	—	4.7	—	4.7	0.6
Mutual Funds ^(b)	—	29.3	—	29.3	3.7
Commingled Funds and Pooled Separate Accounts ^(c)	—	274.8	27.7	302.5	38.7
Private Equity/Limited Partnerships ^(d)	—	28.0	—	28.0	3.6
Derivatives ^(e)	—	(0.1)	—	(0.1)	—
Total fair value of plan investments	\$ 29.5	\$ 724.7	\$ 27.7	\$781.9	100.2 %
Net payable ^(f)				(1.7)	(0.2)
Total plan assets at fair value				\$780.2	100.0 %

^(a) This category primarily includes non-U.S. government bonds as of September 30, 2016 and Yankee bonds and non-U.S. government bonds as of September 30, 2015.

^(b) At September 30, 2016 and September 30, 2015 the investment in a mutual fund consisted primarily of common stock of non-U.S. based companies.

^(c) At September 30, 2016, investments in commingled funds and a pooled separate account 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. As of September 30, 2015, investments in commingled funds and a pooled separate accounts consisted primarily of 80% common stock of large-cap U.S companies; 18% income producing properties located in the United States; and 2% short-term money market investments.

^(d) At September 30, 2016 and 2015, an investments in a private equity/limited partnership consisted of common stock of international companies.

^(e) At September 30, 2016 and 2015, this category included a combination of long-term U.S. Treasury interest rate future contracts, currency forwards, a currency option interest rate swaps, and put and call options on both interest rate swaps and credit default swap index products.

^(f) At September 30, 2016 and September 30, 2015 this net payable primarily represents pending trades for investments purchased net of pending trades for investments sold and interest receivable.

^(g) 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.

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Healthcare and Life Insurance Plan Assets

(\$ In millions)	Level 1	Level 2	Level 3	Total	% of Total	
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	
Commingled Funds ^(b)	—	415.6	—	415.6	82.3	
Total fair value of plan investments	\$ 2.2	\$ 502.1	\$	\$504.3	99.9	%
Net receivable ^(d)				0.7	0.1	
Total plan assets at fair value				\$505.0	100.0	%

At September 30, 2015

Cash and Cash Equivalents	\$ —	\$—	\$	\$—	—	%
Mutual Funds ^(c)	1.9	—	—	1.9	0.4	
Fixed Income Securities						
U.S. Agency Obligations	—	1.8	—	1.8	0.4	
U.S. Treasuries	—	27.7	—	27.7	6.3	
U.S. Corporate Debt	—	33.5	—	33.5	7.7	
Municipalities	—	4.0	—	4.0	0.9	
Non-U.S. Corporate Debt	—	4.9	—	4.9	1.1	
Other ^(a)	—	4.3	—	4.3	1.0	
Commingled Funds ^(b)	—	359.7	—	359.7	82.0	
Total fair value of plan investments	\$ 1.9	\$ 435.9	\$	\$437.8	99.8	%
Net receivable ^(d)				0.7	0.2	

Total plan assets at fair value \$438.5 100.0%

^(a) At September 30, 2016, this category consisted primarily of non-U.S. government bonds. At September 30, 2015, this category consisted primarily of non-U.S. government bonds and Yankee bonds.

^(b) 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. At September 30, 2015, investments held by commingled funds in which the plan invests consisted primarily of 68% of common stock of large-cap U.S. companies, 16% of U.S. Government fixed income securities and 16% of corporate bonds.

^(c) At September 30, 2015, investment in mutual funds consisted of a short-term money market fund valued at \$1.00 per share.

^(d) At September 30, 2016 and September 30, 2015 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

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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.

The following table summarizes the changes in the fair value of the Level 3 assets for the fiscal years ended 2016 and 2015:

(In millions)

Years Ended September 30,	2016	2015
Balance, beginning of year	\$27.7	\$23.8
Actual return on plan assets:		
Assets still held at year end	0.2	3.9
Assets sold during the year	1.9	—
Purchase, sales and settlements	\$(7.4)	\$—
Balance, end of year	\$22.4	\$27.7

Benefit Contribution

During fiscal year 2016, Washington Gas did not contribute to its qualified pension but did contribute \$1.8 million to its non-funded DB SERP plan. During fiscal year 2017, Washington Gas does not expect to make a contribution to its qualified pension plan and expects to make a payment of \$6.3 million to its non-funded DB SERP. During fiscal year 2016, Washington Gas contributed \$14.9 million to its health and life insurance benefit plans. Washington Gas expects to make a contribution of \$8.3 million to its health and life insurance benefit plans during fiscal year 2017.

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:

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Expected Benefit Payments

(In millions)	Pension Benefits	Health and Life Benefits
2017	\$ 51.8	\$ 17.0
2018	52.6	16.5
2019	54.2	16.8
2020	55.3	16.8
2021	58.1	16.8
2022—2026	287.6	84.1

MEDICARE SUBSIDY RECEIPTS / EMPLOYER GROUP WAIVER PLAN

Prior to 2013 Washington Gas sponsored a post-65 retiree prescription drug plan that was at least actuarially equivalent to Medicare (Medicare Part D), and as a result was eligible to receive a federal subsidy under the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Effective January 1, 2013 Washington Gas implemented an Employer Group Waiver Plan with a wraparound supplemental plan (“EGWP/wrap”). Accordingly, the Washington Gas retiree medical plan began receiving direct reimbursements and discounts from Medicare and the large pharmaceutical companies. During the year ended September 30, 2015, Washington Gas received \$0.8 million in reimbursements related to the EGWP/wrap, respectively. Effective January 1, 2015, Washington Gas ceased to participate in the EGWP/wrap because participants age 65 and older transitioned into the new WGL Retiree HRA Plan, where such participants will receive an annual stipend that could be used to purchase health and prescription drug insurance.

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. The PSC of DC granted the recovery of post-retirement medical and life insurance benefit costs determined in accordance with GAAP through a five-year phase-in plan that ended September 30, 1998. Washington Gas deferred the difference generated during the phase-in period as a regulatory asset. Effective October 1, 1998, the PSC of DC granted Washington Gas full recovery of costs determined under GAAP, plus a fifteen-year amortization of the regulatory asset established during the phase-in period that ended in fiscal year 2014. 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 November 30, 2012. The order allowed a five-year amortization period.

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.

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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—WGL 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. Stock options, stock appreciation rights, restricted stock, deferred stock and stock as a bonus in lieu of other awards, dividend equivalents, other stock-based awards and cash awards may be granted under the 2007 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, 2016, we granted performance shares and performance units under the 2007 Plan. We have not issued stock options under either the 2007 Plan or the 2016 Plan.

For the fiscal years ended September 30, 2016, 2015 and 2014, we recognized stock-based compensation expense of \$11.5 million, \$15.5 million and \$3.4 million, and related income tax benefits of \$4.6 million, \$6.2 million and \$1.3 million, respectively. As of September 30, 2016, total unrecognized compensation expense related to stock-based awards granted was \$11.7 million. Performance shares and performance units comprised \$5.1 million and \$6.6 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 year 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.

During fiscal 2016 the Company 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 2016, the actual award that vests 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. The remaining half of the performance shares granted in fiscal year 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 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 the Company 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.

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Performance Shares

The following table summarizes information regarding performance share activity during the fiscal year ended September 30, 2016.

Performance Share Activity

	Year Ended September 30, 2016	
	Number of Shares ^(a)	Weighted Average Grant- Date Fair Value
Non-vested and outstanding, beginning of year	304,089	\$ 44.49
Granted	89,328	62.49
Vested	(95,871)	43.29
Cancelled/forfeited	(5,367)	50.63
Non-vested and outstanding, end of year	292,179	\$ 50.28

^(a)The number of common shares issued related to 248,394 non-vested performance shares outstanding at year-end may range from zero to 200 percent of this number based on our satisfaction of the market condition for total shareholder return relative to a selected peer group of companies. For 43,785 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 fair value of the performance shares outstanding at September 30, 2016 for the shares expected to vest in the future was \$14.2 million. The total intrinsic value of performance shares vested during the year ended September 30, 2016 was \$9.2 million. There were no performance shares vested during the year ended September 30, 2015. The total intrinsic value of performance shares vested during the year ended September 30, 2014 was \$2.2 million.

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 \$57.67 for performance shares granted in fiscal 2016. 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,	2016	2015	2014
Expected stock-price volatility ^(a)	19.10 %	18.30 %	19.10 %
Dividend yield ^(b)	—	4.18 %	3.93 %
Weighted average grant-date fair value	\$67.30	\$44.44	\$42.88

^(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 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, 2016.

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Performance Unit Activity

	Year Ended September 30, 2016 Number of Units ^(a)
Non-vested and outstanding, beginning of year	12,685,633
Granted	5,152,000
Vested	(3,858,799)
Cancelled/forfeited	(254,116)
Non-vested and outstanding, end of year	13,724,718

^(a)The number of performance units vested related to 11,199,395 non-vested performance units outstanding at year-end may range from zero to 200 percent of this number based on our satisfaction of the market condition for total shareholder return relative to a selected peer group of companies. For 2,525,323 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, 2016 for the units expected to vest in the future was \$20.2 million. As of September 30, 2016 and 2015, we recorded a current and deferred liability of \$13.6 million and \$13.3 million, respectively, related to our performance units. The current liability was recorded in "Accounts payable and other accrued liabilities—other" in the amounts of \$6.9 million and \$6.4 million at September 30, 2016 and 2015, respectively. The deferred liability was recorded in "Deferred Credits—other" in the amounts of \$6.7 million and \$6.9 million, at September 30, 2016 and 2015, respectively. During the fiscal year ended September 30, 2016, we paid \$6.4 million in cash to settle performance unit awards. During the fiscal year ended September 30, 2015, we did not make any cash payments 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, 2016
 10/1/2015 ~~10/1/2014~~ Grant

Expected stock-price volatility^(a) 20.80 % 20.90 %

(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 Options

All remaining 5,318 stock options were exercised during fiscal year 2015; therefore, no remaining stock options were outstanding at September 30, 2016 or 2015. We received \$0.2 million and \$0.7 million from the exercise of stock options during the years ended September 30, 2015 and 2014. The related tax benefits realized for the fiscal years ended September 30, 2015 and 2014 were minimal and \$0.1 million, respectively.

STOCK GRANTS TO DIRECTORS

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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 13,000, 15,100 and 17,000 for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. For those years, the weighted average fair value of the stock on the grant dates was \$62.99, \$54.05, and \$40.06, 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 both fiscal years ended September 30, 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. For the year ended September 30, 2014, WGL recognized stock-based compensation expense related to stock grants of \$0.7 million, net of related income tax benefits of \$0.3 million.

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, 2016 and 2015, Washington Gas reported a liability of \$8.2 million and \$6.6 million, respectively, on an undiscounted basis related to future environmental response costs, which included the estimated costs for four MGP sites. These estimates principally include the minimum liabilities associated with a range of environmental response costs expected to be incurred at the sites identified. At September 30, 2016 and 2015, Washington Gas estimated the maximum liability associated with all of its sites to be approximately \$18.6 million and \$17.2 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 at each site and the extent of remediation that may be required.

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 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 thirteen potential environmental cleanup sites. 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. However, it is likely that Washington Gas will be assessed a portion of the study costs, which the District of Columbia projects to be between \$15 million and \$20 million. An allocation methodology has not yet been established, and, therefore, Washington Gas' portion of the study costs is not yet estimable. Washington Gas is currently conducting a separate remedial investigation and feasibility study of potential

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contamination in the Anacostia River associated with and adjacent to this former MGP site under a 2012 consent decree with the District of Columbia and federal governments.

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, 2016 and 2015, Washington Gas reported a regulatory asset of \$1.3 million and \$1.8 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)

2017 \$7.5

2018 7.5

2019 3.9

2020 3.7

2021 3.4

Thereafter 27.8

Total \$53.8

Rent expense totaled \$8.4 million, \$6.0 million and \$5.5 million in fiscal years ended September 30, 2016, 2015 and 2014, respectively.

REGULATED UTILITY OPERATIONS

Natural Gas Contracts—Minimum Commitments

At September 30, 2016, 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 2017 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 2017 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.

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Washington Gas Contract Minimums

(In millions)	Pipeline Contracts ^(a)	Gas Purchase Commitments ^(b)
2017	\$ 218.8	\$ 467.8
2018	217.8	404.5
2019	232.3	357.7
2020	231.4	359.2
2021	222.7	385.3
Thereafter	1,261.0	3,897.9
Total	\$ 2,384.0	\$ 5,872.4

^(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, 2016.

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 Holdings and Washington Gas (as well as a property management company that is not affiliated with WGL Holdings or Washington Gas), by residents of the apartment complex. In one lawsuit, twenty-nine plaintiffs seek unspecified damages for, among others, wrongful death and personal injury. The other action is 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 allege causes of action for negligence, product liability, and declaratory relief. We also understand from press reports that additional civil actions relating to this incident have been filed on behalf of individual residents of the apartment complex, but we have yet to be served for any such additional actions. 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

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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 DC Commission issued an order requiring Washington Gas to refund approximately \$2.4 million through the Actual Cost Adjustment ("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, clarifying Washington Gas' refunding and reporting requirements.

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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 2016 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

(In millions)	WGL Energy Services			WGL Midstream		Total
	Gas Purchase Commitments ^(a)	Pipeline Contracts ^(b)	Electric Purchase Commitments ^(c)	Gas Purchase Commitments ^(d)	Pipeline Contracts ^(b)	
2017	\$148.8	\$ 3.2	\$ 413.1	\$464.5	\$ 25.0	\$1,054.6
2018	40.1	1.5	179.6	1,077.6	19.5	1,318.3
2019	16.7	0.8	78.2	1,512.2	63.1	1,671.0
2020	7.5	0.5	30.2	1,641.2	66.7	1,746.1
2021	0.4	0.4	1.7	1,622.4	65.5	1,690.4
Thereafter	—	0.8	0.9	27,780.0	972.0	28,753.7
Total	\$213.5	\$ 7.2	\$ 703.7	\$34,097.9	\$ 1,211.8	\$36,234.1

^(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 \$18.3 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, 2016. 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, 2016, these guarantees totaled \$30.7 million, \$212.6 million, \$31.9 million and \$321.1 million for Washington Gas, WGL Energy Services, WGL Energy Systems and WGL Midstream, respectively. At September 30, 2016, WGL also had guarantees on behalf of other subsidiaries totaling \$2.0 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, 2016, these guarantees totaled \$18.9 million and the fair value of these guarantees was insignificant.

Antero Contract

Washington Gas and WGL Midstream began purchasing natural gas on January 1, 2016, from Antero Resources Corporation (Antero) pursuant to certain natural gas purchase contracts. We purchase gas from Antero at invoiced prices based on an index specified in the contracts; however, contractual provisions allow either party to notify the

other party if it believes the index price is no longer appropriate for the delivery point of the gas, and to trigger the negotiation of a new index price. If negotiations are unsuccessful, then the contract requires binding arbitration proceedings. When a new index price is determined under the contract, a "true up" of prior period invoices is required back to the date of initial notification.

On November 16, 2015, due to significant changes to natural gas markets in and around the delivery point specified in the contracts, we provided notice to Antero invoking the provision requiring the negotiation of a new contractual index price. To date, negotiations have been unsuccessful and we are currently involved in arbitration proceedings to resolve this pricing

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dispute. Our Consolidated Financial Statements do not reflect the favorable effects of a change in the contractual index price. For the year ended September 30, 2016, WGL Midstream has incurred approximately \$15.2 million in losses associated with Antero's use of the disputed index price.

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 forward, 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, 2016 was 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. During the fiscal year ended September 30, 2014 we recorded a net loss of \$35.4 million including an unrealized loss of \$66.2 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.

In May 2016, Washington Gas entered into a forward starting interest rate swap, with a notional amount of \$125.0 million related to the expected issuance of 30-year debt in late 2016. The change in the fair value of the interest rate swap was reported as a regulatory asset. In September 2016, this forward starting interest rate swap agreement was

terminated.

Non-Utility Operations

Asset 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

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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, 2016, WGL had \$250 million of forward starting interest rate swaps, which hedge the variability in future interest payments associated with WGL's expected issuance of 30-year debt in January 2018. WGL designated these interest rate swaps as cash flow hedges. The effective portion of changes in fair value is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of these derivatives will be recognized directly through earnings as interest expense. There has been no ineffectiveness recorded to income associated with these hedges.

WGL had also elected cash flow hedge accounting for interest rate swaps, that settled with the issuance of the related debt issuance in the first quarter of fiscal 2015. The effective portion of the gains and losses on the hedge were recorded within other comprehensive income (loss) and are amortized over the life of the debt (through 2044). The amortization was minimal for the fiscal years ended September 30, 2016 and 2015.

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Reflected in the tables below is information for WGL as well as Washington Gas. The information for WGL includes derivative instruments for both utility and non-utility operations.

At September 30, 2016 and 2015, respectively, the absolute notional amounts of our derivatives are as follows:

Absolute Notional Amounts

of Open Positions on Derivative Instruments

Derivative transactions	WGL Holdings	Washington Gas
September 30, 2016	Notional Amounts	
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	\$ —
September 30, 2015		
Natural Gas (In millions of therms)		
Asset optimization & trading	20,829.2	13,316.7
Retail sales	52.2	—
Other risk-management activities	1,811.7	1,381.8
Electricity (In millions of kWhs)		
Retail sales	4,292.7	—
Other risk-management activities ^(a)	19,965.7	—
Interest Rate Swaps (In millions of dollars)	\$ 125.0	\$ —

^(a) Comprised primarily of financial swaps, financial transmission rights and physical forward purchases.

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The following tables present the balance sheet classification for all derivative instruments as of September 30, 2016 and 2015.

WGL Holdings, Inc.
Balance Sheet Classification of Derivative Instruments

(In millions)	Derivative Instruments Not Designated as Hedging Instruments		Derivative Instruments Designated as Hedging Instruments		Netting Collateral	Total ^(a)
	Gross Assets	Gross Liabilities	Gross Assets	Gross Liabilities		
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)
As of September 30, 2015						
Current Assets—Derivatives	\$29.7	\$(6.8)	\$—	\$—	\$—	\$22.9
Deferred Charges and Other Assets—Derivatives	32.3	(0.2)	—	—	—	32.1
Current Liabilities—Derivatives	9.8	(76.2)	—	—	2.9	(63.5)
Deferred Credits—Derivatives	2.7	(328.9)	—	(3.4)	7.3	(322.3)
Total	\$74.5	\$(412.1)	\$—	\$(3.4)	\$10.2	\$(330.8)

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Balance Sheet Classification of Derivative Instruments^(b)

(In millions)

As of September 30, 2016	Gross Derivative Assets	Gross Derivative Liabilities	Netting of Collateral	Total ^(a)
Current Assets—Derivatives	\$ 11.7	\$ (4.4)	\$ —	—\$7.3
Deferred Charges and Other Assets—Derivatives	36.2	(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)
As of September 30, 2015				
Current Assets—Derivatives	\$ 5.2	\$ (0.6)	\$ —	—\$4.6
Deferred Charges and Other Assets—Derivatives	3.3	(0.1)	—	13.2
Current Liabilities—Derivatives	1.9	(35.8)	—	(33.9)
Deferred Credits—Derivatives	—	(269.7)	—	(269.7)
Total	\$ 20.4	\$ (306.2)	\$ —	—\$(285.8)

^(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.

^(b) Washington Gas did not have any derivative instruments outstanding that were designated as hedging instruments at September 30, 2016 or 2015.

The following tables present all gains and losses associated with derivative instruments for the years ended September 30, 2016, 2015 and 2014.

Gains and Losses on Derivative Instruments

(In millions)

Fiscal Year Ended September 30, Recorded to income	WGL Holdings, Inc.			Washington Gas		
	2016	2015	2014	2016	2015	2014
Operating revenues—non-utility	\$5.8	\$71.3	\$(47.9)	\$—	\$—	\$—
Utility cost of gas	12.1	(14.5)	(87.3)	12.1	(14.5)	(87.3)
Non-utility cost of energy-related sales	33.5	(43.7)	36.2	—	—	—
Other income-net	—	—	(1.1)	—	—	—
Interest expense	(0.2)	(0.6)	(0.2)	—	—	—
Recorded to regulatory assets						
Gas costs	13.9	(18.4)	(143.3)	13.9	(18.4)	(143.3)
Other ^(a)	(7.3)	—	0.2	(7.3)	—	0.2
Recorded to other comprehensive income ^(b)	(39.3)	(11.3)	(1.5)	—	—	—
Total	\$18.5	\$(17.2)	\$(244.9)	\$18.7	\$(32.9)	\$(230.4)

^(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.

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.

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The table below presents collateral positions at September 30, 2016 and 2015, respectively.

Collateral Not Offset Against Derivative Assets and Liabilities (In millions)

	Collateral deposits posted with counterparties	Cash collateral held representing an obligation
September 30, 2016		
Washington Gas	\$ 4.3	\$ 0.1
WGL Energy Services	9.1	—
WGL Midstream	18.5	5.4
September 30, 2015		
Washington Gas	\$ 3.5	\$ 3.8
WGL Energy Services	12.4	—
WGL Midstream	3.5	0.4

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, 2016, WGL Energy Services posted \$5.5 million of collateral related to its derivative liabilities that contained credit-related contingent features. At September 30, 2015, WGL Energy Services posted \$10.3 million of collateral related to these aforementioned derivative liabilities. At September 30, 2016, WGL was required to post \$6.5 million of collateral related to a derivative liability that contained a credit-related contingent feature. At September 30, 2015, WGL was not required to post any collateral related to its derivative liabilities that contained credit-related contingent features. At both September 30, 2016 and 2015, 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, 2016 and 2015, respectively.

Potential Collateral Requirements for Derivative Liabilities with Credit-Risk-Contingent Features

(In millions)	WGL Holdings, Inc.	Washington Gas
September 30, 2016		
Derivative liabilities with credit-risk-contingent features	\$ 53.9	\$ 11.3
Maximum potential collateral requirements	41.4	11.3
September 30, 2015		
Derivative liabilities with credit-risk-contingent features	\$ 61.7	\$ 18.9
Maximum potential collateral requirements	54.6	18.8

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, 2016, two counterparties each represented over 10% of Washington Gas' credit exposure to wholesale derivative counterparties for a total credit risk of \$36.6 million; three counterparties each represented over 10% of WGL Energy Services' credit exposure to wholesale derivative counterparties for a total credit risk of \$1.0 million; and one counterparty represented over 10% of WGL Midstream's credit exposure to wholesale counterparties for a total credit risk of \$26.9 million.

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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, 2016, 2015 and 2014, WGL Energy Services recorded pre-tax gains of \$1.7 million, \$0.6 million and \$3.4 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, 2016 and 2015.

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, 2016 and 2015, 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.

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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, 2016 and 2015, 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, 2016 and 2015, 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, 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)
At September 30, 2015				
Assets				
Natural gas related derivatives	\$ —	—\$22.7	\$28.5	\$51.2
Electricity related derivatives	—	2.0	21.3	23.3
Total Assets	\$ —	—\$24.7	\$49.8	\$74.5
Liabilities				
Natural gas related derivatives	\$ —	—\$(33.9)	\$(338.2)	\$(372.1)
Electricity related derivatives	—	(2.7)	(37.3)	(40.0)
Interest rate derivatives	—	(3.4)	—	(3.4)
Total Liabilities	\$ —	—\$(40.0)	\$(375.5)	\$(415.5)

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Fair Value Measurements Under the Fair Value Hierarchy

(In millions)

Level 1 Level 2 Level 3 Total

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)

At September 30, 2015

Assets

Natural gas related derivatives \$ —\$6.9 \$13.5 \$20.4

Total Assets \$ —\$6.9 \$13.5 \$20.4

Liabilities

Natural gas related derivatives \$ —\$(11.6) \$(294.6) \$(306.2)

Total Liabilities \$ —\$(11.6) \$(294.6) \$(306.2)

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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, 2016 and 2015.

Quantitative Information about Level 3 Fair Value Measurements

(In millions)	Net Fair Value September 30, 2016	Valuation Techniques	Unobservable Inputs	Range
WGL Holdings, Inc. Natural gas related derivatives	(\$264.1)	Discounted Cash Flow	Natural Gas Basis Price (per dekatherm)	(\$2.021) - \$3.290
		Option Model	Natural Gas Basis Price (per dekatherm)	(\$2.105) - \$3.310
	(\$0.1)		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
	Net Fair Value September 30, 2015			
WGL Holdings, Inc. Natural gas related derivatives	(\$309.7)	Discounted Cash Flow	Natural Gas Basis Price (per dekatherm)	(\$1.441) - \$3.580
		Option Model	Natural Gas Basis Price (per dekatherm)	(\$1.283) - \$2.950
			Annualized Volatility of Spot Market Natural Gas	22.5% - 867.0%
Electricity related derivatives	(\$16.0)	Discounted Cash Flow	Electricity Congestion Price (per megawatt hour)	(\$5.75) - \$73.35
Washington Gas Light Company Natural gas related derivatives	(\$281.1)	Discounted Cash Flow	Natural Gas Basis Price (per dekatherm)	(\$1.441) - \$3.500

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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, 2016 and 2015, respectively.

Reconciliation of Fair Value Measurements Using Significant Level 3 Inputs

(In millions)	WGL Holdings Inc.			Total	Washington
	Natural Gas Related Derivatives	Electricity Related Derivatives	Warrants		Gas Light Company Total - Natural Gas Related Derivatives
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)
Fiscal Year Ended September 30, 2015					
Balance at October 1, 2014	\$(294.7)	\$ (5.0)	\$	—\$(299.7)	\$ (270.6)
Realized and unrealized gains (losses)					
Recorded to income	(30.7)	(32.3)	—	(63.0)	(25.0)
Recorded to regulatory assets—gas costs	(30.9)	—	—	(30.9)	(30.9)
Transfers into Level 3	5.4	—	—	5.4	5.4
Transfers out of Level 3	3.6	—	—	3.6	2.5
Purchases	—	10.5	—	10.5	—
Settlements	37.6	10.8	—	48.4	37.5
Balance at September 30, 2015	\$(309.7)	\$ (16.0)	\$	—\$(325.7)	\$ (281.1)

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, 2016 and 2015 were due to an increase in valuations using observable market inputs. Transfers into Level 3 during the fiscal year ended September 30, 2016 were due to an increase in unobservable market inputs used in valuations.

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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, 2016, 2015 and 2014, respectively, related to fair value measurements using significant Level 3 inputs.

Realized and Unrealized Gains (Losses) Recorded to Income for Level 3 Measurements

(In millions)	WGL Holdings, Inc.				Washington
	Natural Gas Related Derivatives	Electricity Related Derivatives	Warrants	Total	Gas Light Company Total - Natural Gas Related Derivatives
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)
Fiscal Year Ended September 30, 2014					
Operating revenues—non-utility	\$(2.3)	\$ (22.1)	\$ —	\$(24.4)	\$ —
Utility cost of gas	(69.4)	—	—	(69.4)	(69.4)
Other income-net	—	—	(1.1)	(1.1)	—
Non-utility cost of energy-related sales	(0.9)	16.4	—	15.5	—
Total	\$(72.6)	\$ (5.7)	\$ (1.1)	\$(79.4)	\$ (69.4)

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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, 2016, 2015 and 2014, respectively:

Unrealized Gains (Losses) Recorded for Level 3 Measurements

(In millions)	WGL Holdings, Inc.				Washington Gas Light Company Total - Natural Gas Related Derivatives
	Natural Gas Related Derivatives	Electricity Related Derivatives	Warrants	Total	
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)
Fiscal Year Ended September 30, 2014					
Recorded to income					
Operating revenues—non-utility	\$(5.0)	\$ (33.8)	\$ —	\$(38.8)	\$ —
Utility cost of gas	(60.6)	—	—	(60.6)	(60.6)
Non-utility cost of energy-related sales	3.7	30.0	—	33.7	—
Other income-net	—	—	(1.1)	(1.1)	—
Recorded to regulatory assets—gas costs	(109.9)	—	—	(109.9)	(109.9)
Total	\$(171.8)	\$ (3.8)	\$ (1.1)	\$(176.7)	\$ (170.5)

The following table presents the carrying amounts and estimated fair values of our financial instruments at September 30, 2016 and 2015.

WGL Holdings, Inc.

Fair Value of Financial Instruments

(In millions)	September 30, 2016		September 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Money market funds ^(a)	\$10.6	\$ 10.6	\$11.0	\$ 11.0
Other short-term investments ^(a)	\$1.4	\$ 1.4	\$0.4	\$ 0.4
Commercial paper ^(b)	\$269.0	\$ 269.0	\$332.0	\$ 332.0

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Project financing ^(b)	\$62.4	\$ 62.4	\$—	\$—
Long-term debt ^(c)	\$1,444.3	\$ 1,641.9	\$944.2	\$ 1,057.9

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Washington Gas Light Company Fair Value of Financial Instruments

(In millions)	September 30, 2016		September 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Money market funds ^(a)	\$5.0	\$5.0	\$4.3	\$4.3
Other short-term investments ^(a)	\$1.4	\$1.4	\$0.4	\$0.4
Commercial paper ^(b)	\$42.0	\$42.0	\$89.0	\$89.0
Project financing ^(b)	\$62.4	\$62.4	\$—	\$—
Long-term debt ^(c)	\$945.9	\$1,126.4	\$695.9	\$811.9

^(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, 2016 and 2015 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 investment in direct financing leases is currently valued at \$0.9 million, net of unamortized tax credits. We measured the impairment as the amount by which the carrying value exceeded the estimated fair value of the related collateral. The fair value was calculated based on the discounted cash flows estimated over the remaining asset life. The fair value of this investment was a Level 3 measurement.

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.

During the fiscal year ended September 30, 2014, Washington Gas recorded an impairment of its previous operations center by reducing the carrying amount of \$22.3 million down to its fair value of \$21.5 million, resulting in an impairment charge of \$0.8 million based on the progress made towards selling the facility. The fair value of this investment is a Level 3 measurement.

During the fiscal year ended September 30, 2014, the SCC of VA disallowed full recovery of carrying costs related to an abandoned LNG storage facility. As a result, Washington Gas recorded an impairment charge of \$1.9 million. 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. During the first quarter of 2015, our chief operating decision maker began evaluating segment performance based on Earnings Before Interest and Taxes (EBIT). EBIT is defined as earnings before interest and taxes, less 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 Federal Energy Regulatory Commission (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.

The following tables present operating segment information for the fiscal years ended September 30, 2016, 2015 and 2014.

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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, 2016							
Regulated utility	\$ 1,070,904	\$ 116,129	\$ —	\$ 228,219	\$ 4,643,830	\$ 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)	276,117	—	—
Eliminations ^(c)	(55,516)	(25)	—	(504)	(718,853)	—	—
Total consolidated	\$ 2,349,559	\$ 132,566	\$ 13,806	\$ 319,298	\$ 6,058,705	\$ 530,385	\$ 303,491
Fiscal Year Ended September 30, 2015							
Regulated utility	\$ 1,328,191	\$ 110,416	\$ —	\$ 223,977	\$ 4,228,813	\$ 327,429	\$ —
Retail energy-marketing	1,306,758	671	—	46,629	463,141	28	—
Commercial energy systems	51,813	10,733	2,095	9,688	689,910	136,749	63,521
Midstream energy services	3,191	129	2,623	(2,720)	237,839	85	73,363
Other activities	—	—	750	(9,667)	199,061	—	—
Eliminations ^(c)	(30,123)	(57)	—	(1,013)	(557,405)	—	—
Total consolidated	\$ 2,659,830	\$ 121,892	\$ 5,468	\$ 266,894	\$ 5,261,359	\$ 464,291	\$ 136,884
Fiscal Year Ended September 30, 2014							
Regulated utility	\$ 1,443,800	\$ 104,064	\$ —	\$ 184,668	\$ 3,956,571	\$ 286,323	\$ —
Retail energy-marketing	1,310,279	756	1	14,015	388,651	76	—
Commercial energy systems	40,679	6,178	1,953	6,863	521,049	108,363	66,810
Midstream energy services	16,555	124	771	8,412	209,682	—	28,076
Other activities	—	—	469	(11,539)	369,816	—	16
Eliminations ^(c)	(30,366)	(350)	—	(167)	(615,934)	—	—
Total consolidated	\$ 2,780,947	\$ 110,772	\$ 3,194	\$ 202,252	\$ 4,829,835	\$ 394,762	\$ 94,902

^(a) Operating revenues are reported gross of revenue taxes. Revenue taxes of both the regulated utility and the retail energy-marketing segments include gross receipt taxes. Revenue taxes of the regulated utility segment also include public service commission fees, franchise fees and energy taxes. 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)	2016	2015	2014
Total consolidated EBIT	\$319,298	\$266,894	\$202,252
Interest expense	52,310	50,511	37,738
Income tax expense	98,074	83,804	57,254
Dividends on Washington Gas Light Company preferred stock	1,320	1,320	1,320
Net income applicable to common stock	\$167,594	\$131,259	\$105,940

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NOTE 17. OTHER INVESTMENTS

When determining how to account for our interests in other legal entities, WGL first evaluates if we are required to apply the variable interest entity (VIE) model of accounting to the entity. If the VIE model is not applicable, the entity is evaluated under the voting interest model.

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.

Unconsolidated affiliates are unconsolidated VIEs and other entities evaluated under the voting interest method in which we do not have a controlling financial interest, but over which we have varying degrees of influence. Where we have significant influence, the affiliates are accounted for as equity method investments. 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 when the capital structure of the equity investment results in different liquidation rights and priorities than what is reflected by the underlying percentage ownership interests as defined by an equity investment agreement. 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 equity investment agreements for ASD Solar, LP (ASD), Meade Pipeline Co LLC (Meade), Mountain Valley Pipeline, LLC (Mountain Valley) Stonewall Gas Gathering System (Stonewall System) have liquidation rights and priorities that are sufficiently different from the ownership percentages that the HLBV method was deemed appropriate. WGL also uses the HLBV methodology to allocate the earnings between the partners for its investment in SFGF. The calculation may vary in its complexity depending on the capital structure and the tax considerations for the investments.

WGL applies HLBV using a balance sheet approach. 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.

Variable Interest Entities

WGL has a variable interest in five investments that qualify as VIEs:

Meade,

SunEdison,

Nextility,

ASD and

SFGF.

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WGL previously had a variable interest in a partnership partially owned by Crab Run; however, this partnership interest was sold during the fiscal year ended September 30, 2015. During the fiscal year ended September 30, 2015, WGL recognized a gain of \$0.7 million, which was recorded in "Equity in earnings of unconsolidated affiliates" on WGL's statements of income, related to the sale of this interest.

At September 30, 2016, WGL and its subsidiaries are not the primary beneficiary for four of the five VIEs (Meade, SunEdison, Nextility, and ASD); therefore, we have not consolidated those VIE entities. The nature of WGL's involvement with these investments lacks the characteristics of a controlling financial interest. WGL either does not have control over any of the VIEs' 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. WGL's subsidiary, WGSW, Inc. is the primary beneficiary for SFGF and accordingly, we have consolidated that VIE entity.

Meade

In 2014, WGL through its subsidiary WGL Midstream, entered into a limited liability company agreement and formed 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, 2016 and 2015, WGL Midstream held a \$80.8 million and \$30.5 million, respectively, equity method investment in Meade.

WGL Midstream's maximum financial exposure is limited to its contributions made to the partnership, which were \$80.1 million at September 30, 2016.

SunEdison and Nextility

WGSW is party to two agreements to fund residential and commercial retail solar energy installations with two separate companies. WGSW has a master purchase agreement and master lease agreement with SunEdison, Inc. (SunEdison) and Nextility, Inc. (Nextility) for sale/leaseback arrangements for residential and commercial solar systems.

Our agreements with SunEdison and Nextility are accounted for as direct financing leases. WGSW records associated interest in the financing leases in "Other income (expenses)-net" line in the accompanying Consolidated Statement of Income. WGSW held a \$30.9 million and \$37.2 million combined investment in direct financing leases at September 30, 2016 and 2015, respectively, of which \$1.1 million and \$2.0 million are current receivables recorded in "Accounts Receivable" in the accompanying Consolidated Balance Sheets at September 30, 2016 and 2015, respectively. Additionally, we had balances of \$13.3 million and \$14.7 million of unamortized tax credits related to these investments in "Unamortized investment tax credits" on the accompanying Consolidated Balance Sheets at September 30, 2016 and 2015, respectively.

Minimum future lease payments receivable under direct financing leases over the next five fiscal years and thereafter are as follows:

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Minimum
 Payments
 Receivable for
 Direct Financing
 Leases

(In millions)

2017	\$2.2
2018	2.2
2019	2.1
2020	2.2
2021	2.2
Thereafter	28.5
Total	\$39.4

Minimum payments receivable exclude \$9.7 million of residual values and \$4.5 million in tax related items. Associated with these investments, WGSW holds \$18.6 million of unearned income on its balance sheet. The initial direct costs (incurred in FY 2012) associated with these investments was \$0.7 million.

In April 2016, Nextility requested a restructuring of its direct financing lease arrangement with WGSW because Nextility was not collecting sufficient revenues related to the underlying thermal solar projects covered by the amended master lease agreement. During the year ended September 30, 2016, WGSW impaired its investment in Nextility by \$4.1 million.

Our maximum financial exposure from solar agreements is limited to WGSW's lease payment receivables and investment contributions made to these companies. On a quarterly basis, we review our direct financing leases for credit losses. Our review is based on multiple factors including historical losses, if any, economic factors currently impacting our counterparties' repayment ability, and other factors relevant to the business such as changes to regulatory and tax incentives. Our exposure is offset by the owned physical assets received as part of the transaction and the quick economic return for the investment through the investment tax credit/treasury grant proceeds and accelerated depreciation.

On April 21, 2016, SunEdison filed a voluntary petition with the United States Bankruptcy Court for relief under Title 11 of the United States Code. EchoFirst Finance Company LLC, the subsidiary of SunEdison that is the party to our master purchase and lease agreements, is not a debtor in this bankruptcy proceeding. We will continue to monitor the impact of this development on our investment.

ASD

WGSW is also a limited partner in 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 provided funding to the partnership but does 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 expired for the partnership. WGSW's maximum financial exposure is limited to its contributions made to the partnership, which were \$72.6 million at September 30, 2016.

Our investment in ASD is accounted for under the HLBV 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 WGSW's investment balance. At September 30, 2016 and 2015, WGSW held a \$66.1 million and \$63.5 million, respectively, equity method investment in ASD.

ASD is consolidated by the general partner, Solar Direct LLC. Solar Direct LLC is a wholly owned subsidiary of American Solar Direct Inc. (ASDI). At September 30, 2016, the carrying amount of WGSW's investment in ASD exceeded the amount of the underlying equity in net assets by \$35.8 million due to WGSW recording additions to its investment in ASD's net assets at fair value of contributions in accordance with GAAP. This basis difference is being amortized over the life of the assets.

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 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, 2016 WGSW has contributed \$1.7 million into the tax equity partnership and held a \$2.3 million interest in SFGF.

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SFGF is consolidated into WGL's results of operations because under the VIE method of accounting, WGSW is the primary beneficiary as a result of its ability to direct the activities most significant to the economic performance of SFGF. WGL is the manager member of SFGF, 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 statement of income and is recorded to "Non-controlling interest" on the consolidated balance sheets.

Non-VIE Investments

Constitution

In 2013, WGL Midstream invested in Constitution Pipeline Company, LLC (Constitution). At September 30, 2016, 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. 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 Water Quality Certification (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 the U.S. Circuit Court of Appeals for the Second Circuit and the U.S. District Court for the Northern District of New York, respectively, appealing the decision and a seeking declaratory judgment that the State of New York's permitting authority is preempted by federal law. The courts have granted Constitution's motions to expedite the schedules for these legal actions.

In light of the forgoing matters, Constitution has revised its target in-service date to the second half of 2018, which assumes that the legal challenge process is satisfactorily and promptly concluded. We can give no assurance, however, that Constitution's efforts to obtain the Section 401 Certification will be successful. At September 30, 2016 and 2015, WGL Midstream held a \$38.6 million and \$33.1 million, respectively, equity method investment in Constitution. We have evaluated our investment in Constitution for other than temporary impairment as of September 30, 2016. 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.

At September 30, 2016, the maximum financial exposure is equivalent to total capital contributions made in Constitution on behalf of WGL Midstream, which was \$35.2 million.

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. Prior to its acquisition of Vega Energy's interest, WGL Midstream was obligated under an agreement to finance all future capital commitments of Vega Energy. WGL Midstream had provided funding of \$11.7 million as of September 30, 2016 related to this agreement. This amount was assumed by WGL Midstream as a part of the acquisition and WGL's obligation to fund Mountain Valley capital contributions on behalf of Vega Energy was terminated.

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Notes to Consolidated Financial Statements

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 \$326.4 million. Prior to the acquisition of Vega Energy's interest, WGL Midstream held a \$22.5 million and \$9.8 million equity method investment in Mountain Valley at September 30, 2016 and 2015, 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 investment in MVP is accounted for under the HLBV 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.

Stonewall System

In February 2016, WGL Midstream acquired a 35% 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. 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 \$95.5 million equity method investment in the Stonewall System at September 30, 2016. The equity method is considered appropriate because the Stonewall Gas Gathering 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. In May 2016, another party to the deal exercised its option and invested in the Stonewall System. As a result, WGL Midstream's ownership decreased to 30%.

The carrying amount of WGL Midstream's investment in the Stonewall System exceeded the amount of the underlying equity in net assets by \$9.1 million that is being amortized over the life of the assets. The investment in Stonewall System is accounted for under the HLBV 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.

ASDHI

At September 30, 2014, Washington Gas Resources held a \$5.6 million investment in American Solar Direct Holdings Inc. (ASDHI) consisting of warrants and preferred stock. During the fiscal year ended September 30, 2015, Washington Gas Resources 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.

WGL Holdings, Inc.
Washington Gas Light Company
Part II
Item 8. Financial Statements and Supplementary Data (continued)
Notes to Consolidated Financial Statements

The balance sheet location of the investments discussed in this footnote at September 30, 2016 and 2015 are as follows:

(in millions)	Solar Investments		Pipelines		Total
	Non-consolidated VIE's	Consolidated VIE's	Non-consolidated VIE's	Non-consolidated Non VIE's	
As of September 30, 2016					
Assets					
Investments in unconsolidated affiliates	\$ 66.1	\$ —	\$ 80.8	\$ 156.6	\$303.5
Property, plant and equipment	—	6.5	—	—	6.5
Construction in progress	—	6.7	—	—	6.7
Investments in direct financing leases, capital leases	29.8	—	—	—	29.8
Accounts receivable	1.1	—	—	9.2	(a) 10.3
Total assets	\$ 97.0	\$ 13.2	\$ 80.8	\$ 165.8	\$356.8
As of September 30, 2015					
Assets					
Investments in unconsolidated affiliates	\$ 63.5	\$ —	\$ 30.5	\$ 42.9	\$136.9
Investments in direct financing leases, capital leases	35.2	—	—	—	35.2
Accounts receivable	2.0	—	—	4.2	(a) 6.2
Total assets	\$ 100.7	\$ —	\$ 30.5	\$ 47.1	\$178.3

(a) Represents the financing provided to another partner in Mountain Valley to fund its capital commitment. Acquired ownership interest represents the collateral for repayment of the financing.

WGL Holdings, Inc.
Washington Gas Light Company
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Item 8. Financial Statements and Supplementary Data (continued)
Notes to Consolidated Financial Statements

The income statement location of the investments discussed in this footnote for the fiscal year September 30, 2016, 2015 and 2014 are as follows:

WGL Holdings, Inc.

Income Statement Location of Other Investments

(In millions)	Solar Investments		Pipelines		Other		Total
	Non-consolidated VIE's	Consolidated VIE's	Non-consolidated VIE's	Non-consolidated Non VIE's	Non-consolidated VIE's	Consolidated Non VIE's	
Fiscal Year Ended September 30, 2016							
Equity in earnings of unconsolidated affiliates	\$ 7.6	\$ —	\$ (0.1)	\$ 6.3	\$ —	\$ —	\$ 13.8
Depreciation and amortization	0.3	—	—	—	—	—	0.3
Operations and maintenance	4.1	—	—	—	—	—	4.1
Other income (expenses) - net	3.1	—	—	(0.1)	—	—	3.0
Non-controlling interest	—	(0.6)	—	—	—	—	(0.6)
Fiscal Year Ended September 30, 2015							
Equity in earnings of unconsolidated affiliates	\$ 2.1	\$ —	\$ 0.1	\$ 2.6	\$ 0.7	\$ —	\$ 5.5
Depreciation and amortization	0.3	—	—	—	—	—	0.3
Other income - net	3.2	—	—	—	—	(5.6)	(2.4)
Fiscal Year Ended September 30, 2014							
Equity in earnings of unconsolidated affiliates	\$ 2.0	\$ —	\$ 0.3	\$ 1.0	\$ (0.1)	\$ —	\$ 3.2
Depreciation and amortization	0.2	—	—	—	—	—	0.2
Other income - net	2.6	—	—	—	—	—	2.6

NOTE 18. RELATED PARTY TRANSACTIONS

WGL and its subsidiaries engage in 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 obtains 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 amount is recorded in "Payables to associated companies" for work performed by WGL Energy Systems for which cash has not been transferred. 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, 2016 and September 30, 2015.

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WGL Holdings, Inc.

Washington Gas Light Company

Part II

Item 8. Financial Statements and Supplementary Data (continued)

Notes to Consolidated Financial Statements

Washington Gas Light Company

Receivables / Payables from Associated Companies

(In millions)	September 30, 2016	September 30, 2015
Receivables from Associated Companies	\$ 13.8	\$ 3.2
Payables to Associated Companies	\$ 65.8	\$ 68.6

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

(In millions)

Years Ended September 30,	2016	2015	2014
Gas balancing service charge	\$26.8	\$25.1	\$26.6

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 accounts payable to Washington Gas of \$0.8 million and \$0.5 million at September 30, 2016 and 2015, 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 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, 2016 and 2015, Washington Gas had balances of \$4.2 million and \$6.6 million, respectively, of purchased receivables from WGL Energy Services.

On April 1, 2016 Washington Gas transferred WSS and ESS storage assets to WGL Midstream through a permanent release. Washington Gas held a base gas option associated with the WSS storage facility which gave Washington Gas the right to purchase 723,706 dekatherms of base gas at either: (i) the end of its service with WSS or (ii) the permanent release of its WSS storage capacity, for \$0.594 per dekatherm. The option was transferred from Washington Gas to WGL Midstream in an equity transfer through WGL, concurrent with the transfer of storage assets. Washington Gas received cash of \$0.9 million from WGL representing the value of the right to purchase base gas. This amount will be refunded to ratepayers through a credit to cost of gas. The effect of this equity transfer has been eliminated in the accompanying financial statements for WGL.

WGL Holdings, Inc.
 Washington Gas Light Company
 Part II
 Item 8. Financial Statements and Supplementary Data (continued)
 Notes to Consolidated Financial Statements

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, 2016 and 2015.

WGL Holdings, Inc.

Changes in Accumulated Other Comprehensive Loss by Component

(In thousands)	September 30,	
	2016	2015
Beginning Balance	\$(14,236)	\$(7,961)
Qualified cash flow hedging instruments ^(a)	(39,289)	(11,309)
Change in prior service cost ^(b)	(891)	696
Amortization of actuarial loss ^(b)	(936)	(1,195)
Current-period other comprehensive loss	(41,116)	(11,808)
Income tax benefit related to other comprehensive loss	(16,813)	(5,533)
Ending Balance	\$(38,539)	\$(14,236)

^(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

(In thousands)	September 30,	
	2016	2015
Beginning Balance	\$(6,712)	\$(6,413)
Change in prior service cost ^(a)	(891)	696
Amortization of actuarial loss ^(a)	(936)	(1,195)
Current-period other comprehensive income loss	(1,827)	(499)
Income tax expense benefit related to other comprehensive loss	(709)	(200)
Ending Balance	\$(7,830)	\$(6,712)

^(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.

WGL Holdings, Inc.
Washington Gas Light Company
Part II

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, 2016 and 2015, and the related consolidated statements of income, comprehensive income, common shareholders' equity, and cash flows for each of the three years in the period ended September 30, 2016. 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 the WGL's management. Our responsibility is to express an opinion on these 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, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2016, 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, 2016, 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 18, 2016 expressed an unqualified opinion on WGL's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

McLean, Virginia
November 18, 2016

WGL Holdings, Inc.
Washington Gas Light Company
Part II

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, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2016, 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 LLP

McLean, Virginia
November 18, 2016

WGL Holdings, Inc.
Washington Gas Light Company
Part II
Item 8. Financial Statements and Supplementary Data (concluded)

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.

(In thousands, except per share data)	Quarter Ended			
	December 31	March 31	June 30 ^(b)	September 30 ^(c)
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)
Fiscal Year 2015				
WGL Holdings, Inc.				
Operating revenues	\$749,237	\$1,001,733	\$441,173	\$467,687
Operating income (loss)	\$121,842	\$142,886	\$(17,567)	\$13,612
Net income (loss)	\$64,218	\$81,785	\$(15,360)	\$1,936
Net income (loss) applicable to common stock	\$63,888	\$81,455	\$(15,690)	\$1,606
Earnings (loss) per average share of common stock:				
Basic	\$1.28	\$1.64	\$(0.32)	\$0.03
Diluted	\$1.28	\$1.63	\$(0.32)	\$0.03
Washington Gas Light Company				
Operating revenues	\$387,193	\$615,694	\$190,345	\$134,959
Operating income (loss)	\$114,623	\$129,944	\$(6,729)	\$ (15,454)
Net income (loss)	\$64,951	\$74,694	\$(11,424)	\$ (19,543)
Net income (loss) applicable to common stock	\$64,621	\$74,364	\$(11,754)	\$ (19,873)

^(a) During the first quarter of fiscal year 2016, there were no substantial variations in operations. During the first quarter of fiscal year 2015, WGL recorded an impairment charge of \$5.6 million related to its investment in ASDHI.

^(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. During the third quarter of fiscal year 2015, WGL recorded a \$3.0 million liability for unrecovered government contracting costs under the Small Business Administration Development 8(a) Program and Washington Gas recorded approximately \$0.5 million in transaction fees related to the sale of its Springfield Operations Center. Refer to Note 1—Accounting Policies of the Notes to Consolidated Financial Statements for further discussion of the impairments and to Note 13—Commitments and Contingencies for further discussion of the Antero Contract.

(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. During the fourth quarter of fiscal year 2015, Washington Gas recorded a one-time adjustment of \$2.4 million as a result of charges associated with a regulatory proceeding. Refer to Note 1—Accounting Policies of the Notes to Consolidated Financial Statements for further discussion of the impairments, to Note 13— Commitments and Contingencies for further discussion of the Antero Contract and WGL Holdings, Inc Results of Operations for further discussion of the net proceeds related to the environmental insurance policy.

WGL Holdings, Inc.
Washington Gas Light Company
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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, 2016. 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, 2016.

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, 2016 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, 2016.

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, 2016. 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, 2016 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting of WGL.

WGL Holdings, Inc.
Washington Gas Light Company
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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, 2016. 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, 2016.

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, 2016 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, 2016.

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, 2016 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting of Washington Gas.

WGL Holdings, Inc.
Washington Gas Light Company
Part II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of WGL Holdings, Inc.
Washington, D.C.

We have audited the internal control over financial reporting of WGL Holdings, Inc. and subsidiaries ("WGL") as of September 30, 2016, 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, 2016, 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, 2016 of WGL and our report dated November 18, 2016 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

McLean, Virginia
November 18, 2016

WGL Holdings, Inc.
Washington Gas Light Company
Part II

ITEM 9B. OTHER INFORMATION

None.

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WGL Holdings, Inc.
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Part III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANTS

Information concerning WGL's and Washington Gas' Board of Directors and the audit committee financial expert contained in WGL's definitive Proxy Statement and Washington Gas' definitive Information Statement for the February 1, 2017 Annual Meeting of Shareholders is hereby incorporated by reference. Information related to Executive Officers is reflected in Part I hereof.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning Executive Compensation contained in WGL's definitive Proxy Statement and Washington Gas' definitive Information Statement for the February 1, 2017 Annual Meeting of Shareholders is hereby incorporated by reference. Information related to Executive Officers as of September 30, 2016 is reflected in Part I hereof.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information captioned Security Ownership of Management and Certain Beneficial Owners and the information captioned Equity Compensation Plan Information in WGL's definitive Proxy Statement and Washington Gas' definitive Information Statement for the February 1, 2017 Annual Meeting of Shareholders is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information captioned Related Person Transactions During Fiscal Year 2016 in WGL's definitive Proxy Statement and Washington Gas' definitive Information Statement for the February 1, 2017 Annual Meeting of Shareholders is hereby incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information captioned Fiscal Years 2016 and 2015 Audit Firm Fee Summary in WGL's definitive Proxy Statement and Washington Gas' definitive Information Statement for the February 1, 2017 Annual Meeting of Shareholders is hereby incorporated by reference.

WGL Holdings, Inc.
 Washington Gas Light Company
 Part IV
 Item 15. Exhibits and Financial Statement Schedules

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
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II	Valuation and Qualifying Accounts and Reserves for the years ended September 30, 2015, 2014 and 2013—WGL Holdings, Inc.
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	Valuation and Qualifying Accounts and Reserves for the years ended September 30, 2015, 2014 and 2013—Washington Gas Light Company.
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(a)(3) Exhibits

Exhibits Filed Herewith:

3.1	Bylaws of Washington Gas Light Company, as amended on September 2, 2016.
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12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends—WGL Holdings, Inc.
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12.2	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends—Washington Gas Light Company.
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14.1	Code of Conduct of WGL Holdings and Subsidiaries, as amended on March 1, 2016.
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21	Subsidiaries of WGL Holdings, Inc.
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23	Consent of Deloitte & Touche LLP.
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24	Power of Attorney
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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.
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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.
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- 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

WGL Holdings, Inc.
 Washington Gas Light Company
 Part IV
 Item 15. Exhibits and Financial Statement Schedules (continued)

Schedule/ Exhibit	Description
	Exhibits Incorporated by Reference:
3	Articles of Incorporation & Bylaws: Washington Gas Light Company Charter, filed on Form S-3 dated July 21, 1995. WGL Holdings, Inc. Charter, filed on Form S-4 dated February 2, 2000. Bylaws of WGL Holdings, Inc. as amended on March 7, 2013, filed as Exhibit 3.1 to Form 8-K on March 13, 2013.
4	Instruments Defining the Rights of Security Holders including Indentures: Indenture Agreement dated August 28, 2014, entered into by and between WGL Holdings, Inc. and The Bank of New York Mellon, as Trustee. Filed as Exhibit 4.1 to Form 8-K dated October 15, 2014. 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. Filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated October 24, 2014. 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. Filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated October 24, 2014. Indenture, dated September 1, 1991 between Washington Gas Light Company and The Bank of New York, as Trustee, regarding issuance of unsecured notes, filed as an exhibit to Form 8-K on September 19, 1991. 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, filed as an exhibit to Form 8-K on September 10, 1993. 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., filed as Exhibit 1.1 to Form 8-K filed on September 19, 2016.
10	Material Contracts

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, filed as Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2014.

Construction and Ownership Agreement entered into on February 14, 2014, by and between Transcontinental Gas Pipe Line Company, LLC and Meade Pipeline Co. LLC, filed as Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2014.

Lease Agreement between Transcontinental Gas Pipe Line Company, LLC and Meade Pipeline Co. LLC, filed as Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2014.

Other Services Contracts

Master Services Agreement, effective June 19, 2007, with Accenture LLP, related to business process outsourcing, and service technology enhancements, filed as Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 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

Amended Service Agreement, effective October 31, 2008, with Columbia Gas Transmission Company related to Firm Storage Service Transportation, filed as Exhibit 10.1 to Form 10-K for the year ended September 30, 2009 (consolidated into Agreement 100303).

WGL Holdings, Inc.

Washington Gas Light Company

Part IV

Item 15. Exhibits and Financial Statement Schedules (continued)

Service Agreement, effective October 31, 2008, with Columbia Gas Transmission Company related to Firm Storage Service Transportation, filed as Exhibit 10.3 to Form 10-Q for the quarter ended June 30, 2009 (consolidated into Agreement 100303).

Service Agreement, effective November 1, 2005, with Columbia Gas Transmission Corporation related to Firm Storage Service Transportation (Agreement 85038), filed as Exhibit 10.3 to Form 10-K for the fiscal year ended September 30, 2005 (consolidated into Agreement 100303).

Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission Corporation related to Storage Service filed as Exhibit 10.8 to Form 10-K for the fiscal year ended September 30, 2004. (Agreement 78839) (consolidated into Agreement 100303).

Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission Corporation related to Storage Service filed as Exhibit 10.8 to Form 10-K for the fiscal year ended September 30, 2004. (Agreement 78840) (consolidated into Agreement 100303).

Service Agreement, effective October 31, 2008, with Columbia Gas Transmission Company related to Firm Storage Service, filed as Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2009 (consolidated into Agreement 4409).

Service Agreement, effective November 1, 2005, with Columbia Gas Transmission Corporation related to Firm Storage Service (Agreement 85037), filed as Exhibit 10.2 to Form 10-K for the fiscal year ended September 30, 2005 (consolidated into Agreement 4409).

Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission Corporation related to Firm Storage Service, filed as Exhibit 10.7 to Form 10-K for the fiscal year ended September 30, 2004. (Agreement 78844) (consolidated into Agreement 4409).

Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission Corporation related to Firm Storage Service, filed as Exhibit 10.7 to Form 10-K for the fiscal year ended September 30, 2004. (Agreement 78845) (consolidated into Agreement 4409).

Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission Corporation related to Firm Storage Service, filed as Exhibit 10.7 to Form 10-K for the fiscal year ended September 30, 2004. (Agreement 78846) (consolidated into Agreement 4409).

Service Agreement, effective October 31, 2008, with Columbia Gas Transmission Company related to Firm Transportation Service, filed as Exhibit 10.2 to Form 10-Q for the quarter ended June 30, 2009 (consolidated into Agreement 4484).

Service Agreement, effective November 1, 2005, with Columbia Gas Transmission Corporation related to Firm Transportation Service (Agreement 85036), filed as Exhibit 10.4 to Form 10-K for the fiscal year ended September 30, 2005 (consolidated into Agreement 4484).

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Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission Corporation related to Firm Transportation Service, filed as Exhibit 10.9 to Form 10-K for the fiscal year ended September 30, 2004. (Agreement 78834) (consolidated into Agreement 4484).

Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission Corporation related to Firm Transportation Service, filed as Exhibit 10.9 to Form 10-K for the fiscal year ended September 30, 2004. (Agreement 78835) (consolidated into Agreement 4484).

Service Agreement, renegotiated and effective June 1, 2004, as amended, with Columbia Gas Transmission Corporation related to Firm Transportation Service, filed as Exhibit 10.9 to Form 10-K for the fiscal year ended September 30, 2004. (Agreement 78836) (consolidated into Agreement 4484).

Management Contracts, Compensatory Plans or Arrangements with Executive Officers and Directors

Form of Performance Share Award Agreement, as amended on October 21, 2014, filed as Exhibit 10.1 to Form 10-K for the fiscal year ended September 30, 2014.*

Form of Performance Units Award Agreement, as amended on October 21, 2014, filed as Exhibit 10.2 to Form 10-K for the fiscal year ended September 30, 2014.*

Form of Performance Unit Award Agreement (Total Shareholder Return), filed as Exhibit 10.1 to Form 10-Q dated February 5, 2016.*

WGL Holdings, Inc.
Washington Gas Light Company

Part IV

Item 15. Exhibits and Financial Statement Schedules (continued)

Form of Performance Unit Award Agreement (Return on Equity), filed as Exhibit 10.2 to Form 10-Q dated February 5, 2016.*

Form of Performance Share Award Agreement (Total Shareholder Return), filed as Exhibit 10.3 to Form 10-Q dated February 5, 2016.*

Form of Performance Share Award Agreement (Dividend Coverage), filed as Exhibit 10.4 to Form 10-Q dated February 5, 2016.*

Washington Gas Light Company Form of Defined Contribution Supplemental Executive Retirement Plan filed as Exhibit 10.1 to Form 10-Q for the quarter ended December 31, 2009.*

Washington Gas Light Company Form of Defined Contribution Restoration Plan filed as Exhibit 10.2 to Form 10-Q for the quarter ended December 31, 2009.*

Washington Gas Light Company Form of Defined Benefit Restoration Plan filed as Exhibit 10.3 to Form 10-Q for the quarter ended December 31, 2009.*

WGL Holdings, Inc. and Washington Gas Light Company Change in Control Severance Plan for Certain Executives, as amended on September 24, 2008, filed as Exhibit 10.1 to Form 10-K for the fiscal year ended September 30, 2008.*

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, filed as Exhibit 99.1 to Form 10-Q filed on February 5, 2016.*

WGL Holdings, Inc. and Washington Gas Light Company Change in Control Policy, dated December 15, 2006, as amended September 22, 2015, filed as Exhibit 99.1 to the Form 8-K filed on January 20, 2016.*

WGL Holdings, Inc. and Washington Gas Light Company Deferred Compensation Plan for Outside Directors, amended and restated effective January 1, 2005, as further amended on September 24, 2008, filed as Exhibit 10.1 to Form 10-K for the fiscal year ended September 30, 2008.*

Washington Gas Light Company Supplemental Executive Retirement Plan, amended and restated effective January 1, 2005, as further amended on September 24, 2008, filed as Exhibit 10.1 to Form 10-K for the fiscal year ended September 30, 2008.*

WGL Holdings, Inc. 2016 Omnibus Incentive Compensation Plan filed as Appendix B of the Company's Definitive Proxy Statement on Schedule 14A, filed on January 20, 2016.*

WGL Holdings, Inc. Omnibus Incentive Compensation Plan, filed as Exhibit 10.2 to Form 8-K dated December 21, 2006.*

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, filed as Exhibit 10.2 to Form 10-K in the fiscal year ended September 30, 2001.*

Securities Distribution Agreements

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, filed as Exhibit 1.1 to Form 8-K filed November 24, 2015.

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, filed as Exhibit 99.1 to Form 8-K dated September 10, 2015.

Debt and Credit Agreements

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. Filed as Exhibit 10.1 to Form 8-K dated December 17, 2014.

WGL Holdings, Inc.

Washington Gas Light Company

Part IV

Item 15. Exhibits and Financial Statement Schedules (continued)

Form of 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 unsecured fixed rate notes due November 1, 2019. Filed as Exhibit 4.1 to Form 8-K dated November 5, 2009.

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 unsecured fixed rate notes due November 1, 2019. Filed as Exhibit 4.2 to Form 8-K dated November 5, 2009.

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, filed as Exhibit 10.1 to Form 8-K dated December 19, 2014.

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, filed as Exhibit 10.2 to Form 8-K dated December 19, 2014.

Credit Agreement dated as of April 3, 2012 among WGL Holdings, Inc., the lenders party 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, filed as Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2012.

Credit Agreement dated as of April 3, 2012 among Washington Gas Light Company, the lenders party 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, filed as Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2012.

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, filed as Exhibit 10.1 to Form 8-K dated February 19, 2016.

* Designates a compensatory plan or arrangement.

WGL Holdings, Inc. and Subsidiaries
 Schedule II—Valuation and Qualifying Accounts and Reserves
 Years Ended September 30, 2016, 2015 and 2014

(In thousands)	Balance at Beginning of Period	Additions Charged Costs and Expense Accounts ^(a)	Deductions ^(b)	Balance at End of Period
2016				
Valuation and Qualifying Accounts				
Deducted from Assets in the Balance Sheet:	\$ 26,224	\$ 13,051	\$ 3,856	\$ 15,792
Allowance for Doubtful Accounts				\$ 27,339
2015				
Valuation and Qualifying Accounts				
Deducted from Assets in the Balance Sheet:	\$ 23,341	\$ 18,250	\$ 4,789	\$ 20,156
Allowance for Doubtful Accounts				\$ 26,224
2014				
Valuation and Qualifying Accounts				
Deducted from Assets in the Balance Sheet:	\$ 20,433	\$ 15,874	\$ 4,341	\$ 17,307
Allowance for Doubtful Accounts				\$ 23,341

^(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, 2016, 2015 and 2014

(In thousands)	Balance at Beginning of Period	Additions Charged Costs and Expense Accounts ^(a)	Deductions ^(b)	Balance at End of Period
2016				
Valuation and Qualifying Accounts				
Deducted from Assets in the Balance Sheet:	\$ 19,254	\$ 10,946	\$ 3,806	\$ 13,786
Allowance for Doubtful Accounts				\$ 20,220
2015				
Valuation and Qualifying Accounts				
Deducted from Assets in the Balance Sheet:	\$ 19,209	\$ 12,800	\$ 4,686	\$ 17,441
Allowance for Doubtful Accounts				\$ 19,254
2014				
Valuation and Qualifying Accounts				
Deducted from Assets in the Balance Sheet:	\$ 17,498	\$ 12,004	\$ 4,198	\$ 14,491
Allowance for Doubtful Accounts				\$ 19,209

^(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.

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 21, 2016

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 21, 2016
/s/ Adrian P. Chapman (Adrian P. Chapman)	President and Chief Operating Officer	November 21, 2016
/s/ Vincent L. Ammann, Jr. (Vincent L. Ammann, Jr.)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	November 21, 2016
/s/ William R. Ford (William R. Ford)	Vice President and Chief Accounting Officer (Principal Accounting Officer)	November 21, 2016
* (Michael D. Barnes)	Director	November 21, 2016
* (George P. Clancy, Jr.)	Director	November 21, 2016
* (James W. Dyke, Jr.)	Director	November 21, 2016
* (Nancy C. Floyd)	Director	November 21, 2016

*
(Linda R. Gooden) Director November 21, 2016

*
(James F. Lafond) Director November 21, 2016

*
(Debra L. Lee) Director November 21, 2016

*
(Dale S. Rosenthal) Director November 21, 2016

/s/ Vincent L. Ammann, Jr. November 21, 2016
(Vincent L. Ammann, Jr.)
Attorney-in-Fact