WGL HOLDINGS INC
Form 10-Q
August 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016
OR

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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

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 þ No ¨
Indicate by check mark whether each 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether each 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 þ 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 þ 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 Exchange Act). Yes ¨ No þ
Indicate the number of shares outstanding of each of the issuers’ classes of common stock, as of the latest practicable date.
WGL Holdings, Inc. common stock, no par value, outstanding as of July 31, 2016: 51,059,773 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 July 31, 2016.

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Washington Gas Light Company

For the Quarter Ended June 30, 2016
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INTRODUCTION

FILING FORMAT

This Quarterly Report on Form 10-Q 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 WGL and all of its subsidiaries, including Washington Gas, which is a wholly owned subsidiary of WGL.

Part I—Financial information in this Quarterly Report on Form 10-Q includes separate financial statements (i.e. balance sheets, statements of income and comprehensive income and statements of cash flows) for WGL and Washington Gas. The Notes to Consolidated Financial Statements are presented on a combined basis for both WGL and Washington Gas. The Management's Discussion and Analysis of Financial Condition and Results of Operations (Management's Discussion) included under Item 2 is divided into two major sections for 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, dividends, revenues and other future financial business performance or strategies, contractual matters affecting our midstream energy services segment, legal developments relating to the Constitution Pipeline and other 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 terms such as "will," "should," "w and "could." 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 in the combined Annual Report on Form 10-K for WGL and Washington Gas for the fiscal year ended September 30, 2015, in Part II, Item 1A, Risk Factors in this quarterly update on Form 10-Q and in our other filings with the Securities and Exchange Commission, 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;
- 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;
- changes and developments in economic, competitive, political and regulatory conditions;
- unusual weather conditions and changes in natural gas consumption patterns;
- changes in energy commodity market conditions, including the relative prices of alternative forms of energy such as electricity, fuel oil and propane;
- changes in the value of derivative contracts and the availability of suitable derivative counterparties;
- changes in our credit ratings, disruptions in credit market and equity capital market conditions or other factors that may affect our access to and cost of capital;
- factors affecting the timing of construction and the effective operation of pipelines in which we have invested;
- the credit worthiness of customers; suppliers and derivatives counterparties;
- changes in laws and regulations, including tax, environmental, pipeline integrity and employment laws and regulations;
- 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;

(ii)

WGL Holdings, Inc.
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- 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 our business as described in this Quarterly Report on Form 10-Q.

WGL Holdings, Inc.
Condensed Consolidated Balance Sheets (Unaudited)
Part I—Financial Information
Item 1—Financial Statements

(In thousands)	June 30, 2016	September 30, 2015
ASSETS		
Property, Plant and Equipment		
At original cost	$5,335,684	$5,003,910
Accumulated depreciation and amortization	(1,385,486)	(1,331,182)
Net property, plant and equipment	3,950,198	3,672,728
Current Assets		
Cash and cash equivalents	16,534	6,733
Receivables		
Accounts receivable	310,094	276,358
Gas costs and other regulatory assets	17,106	5,797
Unbilled revenues	154,986	102,560
Allowance for doubtful accounts	(24,798)	(26,224)
Net receivables	457,388	358,491
Materials and supplies—principally at average cost	18,655	21,402
Storage gas	172,718	211,443
Prepaid taxes	63,388	48,726
Other prepayments	44,279	32,850
Derivatives	16,521	22,933
Assets held for sale	—	22,906
Other	31,071	23,057
Total current assets	820,554	748,541
Deferred Charges and Other Assets		
Regulatory assets		
Gas costs	153,075	190,676
Pension and other post-retirement benefits	194,282	212,041
Other	99,785	80,018
Prepaid post-retirement benefits	152,914	138,629
Derivatives	42,969	32,132
Investments in direct financing leases, capital leases	31,262	35,234
Investments in unconsolidated affiliates	282,780	136,884
Other	14,994	14,476
Total deferred charges and other assets	972,061	840,090
Total Assets	$5,742,813	$5,261,359
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shareholders' equity	$1,411,081	$1,243,247
Washington Gas Light Company preferred stock	28,173	28,173
Long-term debt	1,194,275	944,201
Total capitalization	2,633,529	2,215,621
Current Liabilities		
Current maturities of long-term debt	—	25,000
Notes payable	358,342	332,000
Accounts payable and other accrued liabilities	333,160	325,146

Wages payable	21,014	21,091
Accrued interest	13,118	7,835
Dividends declared	25,221	23,377
Customer deposits and advance payments	80,772	88,897
Gas costs and other regulatory liabilities	14,751	34,551
Accrued taxes	33,694	13,867
Derivatives	79,558	63,504
Liabilities held for sale	—	1,621
Other	35,293	46,025
Total current liabilities	994,923	982,914
Deferred Credits		
Unamortized investment tax credits	157,200	135,673
Deferred income taxes	743,677	672,963
Accrued pensions and benefits	186,696	176,128
Asset retirement obligations	209,451	200,732
Regulatory liabilities		
Accrued asset removal costs	311,469	325,496
Other post-retirement benefits	94,194	104,382
Other	15,976	17,067
Derivatives	274,097	322,259
Other	121,601	108,124
Total deferred credits	2,114,361	2,062,824
Commitments and Contingencies (Note 13)		
Total Capitalization and Liabilities	$5,742,813	$5,261,359

The accompanying notes are an integral part of these statements.

WGL Holdings, Inc.
Condensed Consolidated Statements of Income (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands, except per share data)	2016	2015	2016	2015
OPERATING REVENUES				
Utility	$181,622	$185,179	$912,612	$1,173,396
Non-utility	258,965	255,994	977,048	1,018,747
Total Operating Revenues	440,587	441,173	1,889,660	2,192,143
OPERATING EXPENSES				
Utility cost of gas	65,739	59,286	236,819	499,128
Non-utility cost of energy-related sales	197,880	240,808	832,087	933,911
Operation and maintenance	97,461	98,642	296,813	295,309
Depreciation and amortization	33,786	30,696	98,368	90,159
General taxes and other assessments	32,038	29,308	119,970	126,475
Total Operating Expenses	426,904	458,740	1,584,057	1,944,982
OPERATING INCOME (LOSS)	13,683	(17,567)	305,603	247,161
Equity in earnings of unconsolidated affiliates	4,527	1,262	10,558	4,238
Other income (expenses)—net	1,915	2,329	3,689	(1,688)
Interest expense	12,998	13,140	38,757	38,704
INCOME (LOSS) BEFORE INCOME TAXES	7,127	(27,116)	281,093	211,007
INCOME TAX EXPENSE (BENEFIT)	4,772	(11,756)	103,619	80,364
NET INCOME (LOSS)	$2,355	$(15,360)	$177,474	$130,643
Dividends on Washington Gas Light Company preferred stock	330	330	990	990
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	$2,025	$(15,690)	$176,484	$129,653
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	50,622	49,729	50,158	49,814
Diluted	50,905	49,729	50,418	50,056
EARNINGS (LOSS) PER AVERAGE COMMON SHARE				
Basic	$0.04	$(0.32)	$3.52	$2.60
Diluted	$0.04	$(0.32)	$3.50	$2.59
DIVIDENDS DECLARED PER COMMON SHARE	$0.4875	$0.4625	$1.4375	$1.3650

The accompanying notes are an integral part of these statements.

WGL Holdings, Inc.
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
NET INCOME (LOSS)	$2,355	$(15,360)	$177,474	$130,643
OTHER COMPREHENSIVE INCOME, BEFORE INCOME TAXES:				
Qualified cash flow hedging instruments	(16,995)	49	(34,545)	(7,994)
Pension and other post-retirement benefit plans				
Change in net prior service credit	(216)	(170)	(644)	(511)
Change in actuarial net loss	420	529	1,258	1,503
Total pension and other post-retirement benefit plans	$204	$359	$614	$992
INCOME TAX EXPENSE (BENEFIT) RELATED TO OTHER COMPREHENSIVE INCOME	(6,969)	163	(14,087)	(3,565)
OTHER COMPREHENSIVE INCOME (LOSS)	$(9,822)	$245	$(19,844)	$(3,437)
COMPREHENSIVE INCOME (LOSS)	$(7,467)	$(15,115)	$157,630	$127,206

The accompanying notes are an integral part of these statements.

WGL Holdings, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

	Nine Months Ended June 30,	
(In thousands)	2016	2015
OPERATING ACTIVITIES		
Net income	$177,474	$130,643
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	98,368	90,159
Amortization of:		
Other regulatory assets and liabilities—net	1,113	981
Debt related costs	967	911
Deferred income taxes—net	131,494	36,156
Accrued/deferred pension and other post-retirement benefit cost	14,832	20,091
Earnings in equity interest	(11,491)	(3,610)
Compensation expense related to stock-based awards	9,745	11,051
Provision for doubtful accounts	8,752	15,411
Impairment loss	3,000	5,625
Other non-cash credits—net	(1,449)	(617)
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable and unbilled revenues—net	(68,380)	(83,076)
Gas costs and other regulatory assets/liabilities—net	(31,109)	5,025
Storage gas	38,725	186,096
Prepaid taxes	(63,795)	56,818
Other prepayments	(11,429)	(3,879)
Accounts payable and other accrued liabilities	(19)	(18,966)
Customer deposits and advance payments	(8,125)	5,013
Unamortized investment tax credits	21,527	17,162
Accrued taxes	19,827	23,240
Accrued interest	5,283	10,166
Other current assets	(6,032)	3,609
Other current liabilities	(15,472)	10,354
Deferred gas costs—net	37,601	11,954
Deferred assets—other	(34,010)	(17,953)
Deferred liabilities—other	(12,721)	(61,791)
Derivatives	(71,078)	62,784
Other—net	1,838	(360)
Net Cash Provided by Operating Activities	235,436	512,997
FINANCING ACTIVITIES		
Common stock issued	78,050	—
Long-term debt issued	250,000	296,481
Long-term debt retired	(25,000)	—
Debt issuance costs	(284)	(2,744)
Notes payable retired —net	(26,000)	(297,500)
Project financing	28,425	—
Dividends on common stock and preferred stock	(68,970)	(67,986)
Repurchase of common stock	—	(41,485)

Other financing activities—net	1,998	—
Net Cash Provided by (Used in) Financing Activities	238,219	(113,234)
INVESTING ACTIVITIES		
Capital expenditures (excluding AFUDC)	(348,594)	(317,043)
Investments in non-utility interests	(137,105)	(29,618)
Distributions and receipts from non-utility interests	4,739	4,138
Net proceeds from sale of assets	19,749	—
Loans to external parties	(2,643)	—
Net Cash Used in Investing Activities	(463,854)	(342,523)
INCREASE IN CASH AND CASH EQUIVALENTS	9,801	57,240
Cash and Cash Equivalents at Beginning of Year	6,733	8,811
Cash and Cash Equivalents at End of Period	$16,534	$66,051
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid—net	$3,032	$4,604
Interest paid	$33,080	$27,822
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Project financing activities	$—	$(2,032)
Capital expenditure accruals included in accounts payable and other accrued liabilities	$51,814	$30,489
Dividends paid in common stock	$2,661	$—
Stock issued related to compensation	$6,742	$—

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Condensed Balance Sheets (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

(In thousands)	June 30, 2016	September 30, 2015
ASSETS		
Property, Plant and Equipment		
At original cost	$4,757,194	$ 4,521,535
Accumulated depreciation and amortization	(1,322,709)	(1,278,089)
Net property, plant and equipment	3,434,485	3,243,446
Current Assets		
Cash and cash equivalents	1	1
Receivables		
Accounts receivable	155,288	126,356
Gas costs and other regulatory assets	17,106	5,797
Unbilled revenues	75,939	21,027
Allowance for doubtful accounts	(17,760)	(19,254)
Net receivables	230,573	133,926
Materials and supplies—principally at average cost	18,608	21,356
Storage gas	55,943	94,489
Prepaid taxes	40,118	30,365
Other prepayments	21,654	11,899
Receivables from associated companies	11,488	3,176
Derivatives	4,131	4,588
Assets held for sale	—	22,906
Other	52	—
Total current assets	382,568	322,706
Deferred Charges and Other Assets		
Regulatory assets		
Gas costs	153,075	190,676
Pension and other post-retirement benefits	193,134	210,811
Other	99,718	79,946
Prepaid post-retirement benefits	152,032	137,754
Derivatives	20,378	13,155
Other	6,875	5,638
Total deferred charges and other assets	625,212	637,980
Total Assets	$4,442,265	$ 4,204,132
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shareholder’s equity	$1,152,403	$ 1,081,292
Preferred stock	28,173	28,173
Long-term debt	695,890	695,885
Total capitalization	1,876,466	1,805,350
Current Liabilities		
Current maturities of long-term debt	—	25,000
Notes payable	202,342	89,000
Accounts payable and other accrued liabilities	175,500	159,280
Wages payable	19,141	19,456

Accrued interest	11,507	4,023
Dividends declared	21,446	20,269
Customer deposits and advance payments	78,325	88,450
Gas costs and other regulatory liabilities	14,751	34,551
Accrued taxes	23,706	11,659
Payables to associated companies	73,106	68,623
Derivatives	59,723	33,856
Liabilities held for sale	—	1,621
Other	7,023	7,013
Total current liabilities	686,570	562,801
Deferred Credits		
Unamortized investment tax credits	5,042	5,646
Deferred income taxes	764,029	668,764
Accrued pensions and benefits	184,828	174,318
Asset retirement obligations	205,882	198,938
Regulatory liabilities		
Accrued asset removal costs	311,469	325,496
Other post-retirement benefits	93,582	103,683
Other	15,976	17,067
Derivatives	225,763	269,661
Other	72,658	72,408
Total deferred credits	1,879,229	1,835,981
Commitments and Contingencies (Note 13)		
Total Capitalization and Liabilities	$4,442,265	$ 4,204,132

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Condensed Statements of Income (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
OPERATING REVENUES	$187,077	$190,345	$934,347	$1,193,232
OPERATING EXPENSES				
Utility cost of gas	71,194	64,452	258,554	518,945
Operation and maintenance	79,178	80,077	239,696	240,714
Depreciation and amortization	29,232	27,348	85,194	80,832
General taxes and other assessments	28,001	25,197	108,228	114,903
Total Operating Expenses	207,605	197,074	691,672	955,394
OPERATING INCOME (LOSS)	(20,528)	(6,729)	242,675	237,838
Other expense—net	(358)	(129)	(1,079)	(748)
Interest expense	10,067	10,637	30,785	31,465
INCOME (LOSS) BEFORE INCOME TAXES	(30,953)	(17,495)	210,811	205,625
INCOME TAX EXPENSE (BENEFIT)	(12,434)	(6,071)	80,285	77,404
NET INCOME (LOSS)	$(18,519)	$(11,424)	$130,526	$128,221
Dividends on Washington Gas preferred stock	330	330	990	990
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	$(18,849)	$(11,754)	$129,536	$127,231

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Condensed Statements of Comprehensive Income (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
NET INCOME (LOSS)	$(18,519)	$(11,424)	$130,526	$128,221
OTHER COMPREHENSIVE INCOME, BEFORE INCOME TAXES:				
Pension and other post-retirement benefit plans				
Change in net prior service credit	(216)	(170)	(644)	(511)
Change in actuarial net loss	420	529	1,258	1,503
Total pension and other post-retirement benefit plans	$204	$359	$614	$992
INCOME TAX EXPENSE RELATED TO OTHER COMPREHENSIVE INCOME	82	143	244	394
OTHER COMPREHENSIVE INCOME	$122	$216	$370	$598
COMPREHENSIVE INCOME (LOSS)	$(18,397)	$(11,208)	$130,896	$128,819

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Condensed Statements of Cash Flows (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

	Nine Months Ended June 30,	
(In thousands)	2016	2015
OPERATING ACTIVITIES		
Net income	$130,526	$128,221
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	85,194	80,832
Amortization of:		
Other regulatory assets and liabilities—net	1,113	981
Debt related costs	898	967
Deferred income taxes—net	90,032	28,568
Accrued/deferred pension and other post-retirement benefit cost	3,221	19,610
Compensation expense related to stock-based awards	8,431	12,518
Provision for doubtful accounts	7,094	10,520
Other non-cash charges—net	318	2,344
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable, unbilled revenues and receivables from associated companies—net	(75,427)	(50,035)
Gas costs and other regulatory assets/liabilities—net	(31,109)	5,025
Storage gas	38,546	95,735
Prepaid taxes	(9,753)	—
Other prepayments	(9,755)	12,513
Accounts payable and other accrued liabilities, including payables to associated companies	18,288	(19,746)
Customer deposits and advance payments	(10,125)	4,766
Accrued taxes	12,047	32,999
Accrued interest	7,484	8,641
Other current assets	2,696	3,980
Other current liabilities	(4,656)	452
Deferred gas costs—net	37,601	11,954
Deferred assets—other	(22,216)	(17,430)
Deferred liabilities—other	(14,436)	(9,013)
Derivatives	(24,797)	29,104
Other—net	(399)	(835)
Net Cash Provided by Operating Activities	240,816	392,671
FINANCING ACTIVITIES		
Long-term debt issued	—	50,000
Long-term debt retired	(25,000)	—
Debt issuance costs	(171)	(722)
Notes payable retired —net	61,000	(89,000)
Project financing	28,425	—
Dividends on common stock and preferred stock	(61,669)	(59,542)
Other financing activities—net	2,891	—
Net Cash Provided by (Used in) Financing Activities	5,476	(99,264)
INVESTING ACTIVITIES		
Capital expenditures (excluding AFUDC)	(266,041)	(232,697)

Net proceeds from sale of assets	19,749	—
Net Cash Used In Investing Activities	(246,292)	(232,697)
INCREASE IN CASH AND CASH EQUIVALENTS	—	60,710
Cash and Cash Equivalents at Beginning of Year	1	1,060
Cash and Cash Equivalents at End of Period	$1	$61,770
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid — net	$21	$3,711
Interest paid	$25,108	$20,583
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Project financing activities	$—	$(2,032)
Capital expenditure accruals included in accounts payable and other accrued liabilities	$41,264	$25,367

The accompanying notes are an integral part of these statements.

WGL Holdings, Inc.
Washington Gas Light Company
Part I—Financial Information
Item 1—Financial Statements (continued)
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1. ACCOUNTING POLICIES

Basis of Presentation

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.

The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Therefore, certain financial information and note disclosures accompanying annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) are omitted in this interim report. The interim consolidated financial statements and accompanying notes should be read in conjunction with the combined Annual Report on Form 10-K for WGL and Washington Gas for the fiscal year ended September 30, 2015 and the current report on Form 8-K filed on March 16, 2016, which amended the Annual Report on Form 10-K to recast the balance sheet for the October 1, 2015 adoption of ASU 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes. Due to the seasonal nature of our businesses, the results of operations for the periods presented in this report are not necessarily indicative of actual results for the full fiscal years ending September 30, 2016 and 2015, of either WGL or Washington Gas.

The accompanying unaudited financial statements for WGL and Washington Gas reflect all normal recurring adjustments that are necessary, in our opinion, to present fairly the results of operations in accordance with GAAP. Prior period amounts related to deferred income tax assets and liabilities in the accompanying condensed balance sheets have been reclassified to conform to the current period presentation. Refer to Note 7 — Income Taxes of the Notes to Condensed Consolidated Financial Statements.

For a complete description of our accounting policies, refer to Note 1 of the Notes to Consolidated Financial Statements of the combined Annual Report on Form 10-K for WGL and Washington Gas for the fiscal year ended September 30, 2015.

Asset Sale - Building

On June 1, 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. Washington Gas recorded multiple impairment charges in prior years, related to the asset and selling costs. 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.

Impairments

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 and cost method investments, an impairment is recorded when the investment has experienced a 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 nine months ended June 30, 2016, WGL recorded a $3.0 million impairment for the Nextility investment in direct financing leases. During the nine months ended June 30, 2015, WGL impaired its entire investment in ASDHI by its carrying value of $5.6 million based on management's assumption of the current valuation and expected return from the investment. Refer to Note 9 — Fair Value Measurements and Note 11 — Other Investments of the Notes to Condensed Consolidated Financial Statements for further discussion.

Storage Gas Valuation

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

The following table shows the lower-of-cost or market adjustments recorded to net income for the three and nine months ended June 30, 2016 and 2015.

Lower-of-Cost or Market Adjustments Pre-Tax Increase (Decrease) to Net Income

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In millions)	2016	2015	2016	2015
WGL[a]				
Operating revenues - non-utility	$0.7	$0.9	$(0.4)	$(19.6)
Washington Gas				
Utility cost of gas	—	—	$—	$(1.0)
Total Consolidated	$0.7	$0.9	$(0.4)	$(20.6)

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

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 7 — Income taxes, for further discussion of this standard.

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OTHER NEWLY ISSUED ACCOUNTING STANDARDS

Standard	Description	Required date of adoption	Effect on the financial statements or other significant matters
ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	For credit losses on financial instruments, this standard changes the current incurred loss impairment methodology to an expected loss methodology and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates.	October 1, 2020	We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.
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 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.
ASU 2016-02, Leases (Topic 842)	This standard requires recognition of a right-to-use asset and lease liability on the statement of financial position and disclosure of key information about	October 1, 2019	We are in the process of evaluating

	leasing arrangements. The standard requires application using a modified retrospective approach.		the impact the adoption of this standard will have on our financial statements. We may elect early adoption.
ASU 2016-01, Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	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.	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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ASU 2015-03 and ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost and Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements	The standard requires an entity to present debt issuance costs in the balance sheet as a direct deduction of the debt liability in a manner consistent with its accounting treatment of debt discounts. The standard requires retrospective application. An entity can defer and present debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.	October 1, 2016	We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.
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	We are in the process of evaluating the impact the adoption of this standard will have on our financial statements.

NOTE 2. 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.

(In millions)	June 30, 2016	September 30, 2015
Accounts payable—trade	$290.1	$ 277.3
Employee benefits and payroll accruals	27.7	31.4
Other accrued liabilities	15.4	16.4
Total	$333.2	$ 325.1

Washington Gas Light Company

(In millions)	June 30, 2016	September 30, 2015
Accounts payable—trade	$ 141.3	$ 122.2
Employee benefits and payroll accruals	25.8	29.5

Other accrued liabilities	8.4	7.6
Total	$ 175.5	$ 159.3

NOTE 3. SHORT-TERM DEBT

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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 June 30, 2016 and September 30, 2015.

Committed Credit Available ($ In millions)

June 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	(156.0)	(150.0)	(306.0)
Net committed credit available	$294.0	$ 200.0	$ 494.0
Weighted average interest rate	0.68 %	0.48 %	0.58 %
September 30, 2015			
Committed credit agreements			
Unsecured revolving credit facility, expires December 19, 2019[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 June 30, 2016 and September 30, 2015, there were no outstanding bank loans from WGL's or Washington Gas' 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 lender funds the energy management services project, Washington Gas establishes a payable to the lender. 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 lender in satisfaction of the obligation to the lender and removes both the receivable and the obligation related to the financing from its financial statements.

As of June 30, 2016, Washington Gas recorded a $56.6 million "Accounts receivable" on the balance sheet and a $52.3 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 June 30, 2016.

NOTE 4. LONG-TERM DEBT

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.

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At June 30, 2016 and September 30, 2015, WGL had the capacity under a shelf registration to issue an unspecified amount of long-term debt securities. At June 30, 2016 and September 30, 2015 Washington Gas had the capacity under a shelf registration statement to issue up to $600.0 million of additional Medium-Term Notes (MTNs).
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.
The following tables show the outstanding notes as of June 30, 2016 and September 30, 2015.

Long-Term Debt Outstanding

($ In millions)	WGL[(a)]		Washington Gas		Total Consolidated	
June 30, 2016						
Long-term debt [(b)]	$500.0		$ 696.0		$ 1,196.0	
Unamortized discount	(1.6	)	(0.1	)	(1.7	)
Total Long-Term Debt	$498.4		$ 695.9		$ 1,194.3	
Weighted average interest rate	2.45	%	5.59	%	4.28	%
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		$ 944.2	
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.

The following tables show long-term debt issuances and retirements for the nine months ended June 30, 2016 and 2015. There were no retirements for WGL or Washington Gas for the nine months ended June 30, 2015.

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Long-Term Debt Issuances and Retirements

($ In millions)	Principal[b]	Interest Rate	Effective Cost[d]	Nominal Maturity Date
Nine Months Ended June 30, 2016				
WGL[a]				
Issuances:				
2/18/2016	$ 250.0	1.25 % [c]	1.25 %	2/18/2018
Total consolidated issuances	$ 250.0			
Washington Gas				
Retirements:				
1/18/2016	$ 25.0	5.17 %	n/a	1/18/2016
Total consolidated retirements	$ 25.0			
Nine Months Ended June 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			

(a) WGL includes WGL Holdings and all subsidiaries other than Washington Gas.
(b) Represents face amount of senior notes and term loans for WGL and both MTNs and private placement notes for Washington Gas.
(c) Floating rate per annum that will be determined from time to time based on parameters set forth in the credit agreement.
(d) The estimated effective cost of the issued notes.

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NOTE 5. COMMON SHAREHOLDERS' EQUITY

The tables below reflect the components of "Common shareholders' equity" for WGL and "Common shareholder's equity" for Washington Gas for the nine months ended June 30, 2016.

WGL Holdings, Inc.
Components of Common Shareholders' Equity

(In thousands, except shares)	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance at September 30, 2015	49,728,662	$485,456	$14,934	$757,093	$ (14,236)	$1,243,247
Net income	—	—	—	177,474	—	177,474
Other comprehensive loss	—	—	—	—	(19,844)	(19,844)
Stock-based compensation[(a)]	115,974	6,742	(3,652)	(122)	—	2,968
Issuance of common stock[(b)]	1,213,373	80,711	—	—	—	80,711
Dividends declared:						
Common stock	—	—	—	(72,485)	—	(72,485)
Preferred stock	—	—	—	(990)	—	(990)
Balance at June 30, 2016	51,058,009	$572,909	$11,282	$860,970	$ (34,080)	$1,411,081

(a) Includes dividend equivalents related to our performance shares.
(b) Includes shares issued under the ATM program (discussed below) and the dividend reinvestment and common stock purchase plans.

Washington Gas Light Company
Components of Common Shareholder's Equity

(In thousands, except shares)	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance at September 30, 2015	46,479,536	$46,479	$483,677	$557,848	$ (6,712)	$1,081,292
Net income	—	—	—	130,526	—	130,526
Other comprehensive income	—	—	—	—	370	370
Stock-based compensation	—	—	2,119	—	—	2,119
Dividends declared:						
Common stock	—	—	—	(61,856)	—	(61,856)
Preferred stock	—	—	—	(990)	—	(990)
Other[(a)]			942			942
Balance at June 30, 2016	46,479,536	$46,479	$486,738	$625,528	$ (6,342)	$1,152,403

(a) Represents a WGL contribution related to the transfer of a storage contract to an affiliate.

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 nine months ended June 30, 2016, WGL has issued 1,162,305 shares of common stock under the ATM program for gross proceeds of $78.2 million.

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NOTE 6. 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. The following table reflects the computation of our basic and diluted EPS for the three and nine months ended June 30, 2016 and 2015.

Basic and Diluted EPS

(In thousands, except per share data)	Net Income (Loss) Applicable to Common Stock	Shares	Per Share Amount
Three Months Ended June 30, 2016			
Basic EPS	$ 2,025	50,622	$ 0.04
Stock-based compensation plans	—	283	
Diluted EPS	$ 2,025	50,905	$ 0.04
Three Months Ended June 30, 2015			
Basic EPS	$ (15,690)	49,729	$ (0.32)
Stock-based compensation plans	—	—	
Diluted EPS	$ (15,690)	49,729	$ (0.32)
Nine Months Ended June 30, 2016			
Basic EPS	$ 176,484	50,158	$ 3.52
Stock-based compensation plans	—	260	
Diluted EPS	$ 176,484	50,418	$ 3.50
Nine Months Ended June 30, 2015			
Basic EPS	$ 129,653	49,814	$ 2.60
Stock-based compensation plans	—	242	
Diluted EPS	$ 129,653	50,056	$ 2.59

There were no anti-dilutive shares for the three and nine months ended June 30, 2016 or the nine months ended June 30, 2015. We incurred a net loss for the three months June 30, 2015; therefore, all common shares issuable pursuant to stock-based compensation plans, were not considered in the diluted loss per share calculation due to the anti-dilutive effect of such shares. These shares included 317,000 of performance shares for the three months ended June 30, 2015.

NOTE 7. INCOME TAXES
As of both June 30, 2016 and September 30, 2015, our uncertain tax positions were approximately $38.6 million, 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. At this time, however, an estimate of the range of reasonably possible outcomes cannot be determined.

Under ASC Topic 740, Income Taxes, Washington Gas recognizes 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. At June 30, 2016 and September 30, 2015, we did not have an accrual of interest expense related to uncertain tax positions.

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 for years ended prior to September 30, 2012. Substantially all state income tax years in major jurisdictions are closed for years ended prior to September 30, 2011.

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 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.

NOTE 8. DERIVATIVE AND WEATHER-RELATED INSTRUMENTS

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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 locking in 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 280.
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 locked-in 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 three months ended June 30, 2016 was a net loss of $19.0 million including an unrealized loss of $25.2 million. During the three months ended June 30, 2015 we recorded a net loss of $2.9 million including an unrealized loss of $10.4 million. Total net margins recorded for the nine months ended June 30, 2016 was a net gain of $30.3 million including an unrealized gain of $8.0 million. During the nine months ended June 30, 2015, we recorded a net gain of $14.2 million including an unrealized loss of $13.3 million.
Managing Price Risk. To manage price risk associated with acquiring natural gas supply for utility customers, Washington Gas enters into physical and financial derivative transactions in the form of forward, option and other contracts, as authorized by its regulators. Any gains and losses associated with these derivatives are recorded as regulatory liabilities or assets, respectively, to reflect the rate treatment for these economic hedging activities.
Managing Interest-Rate Risk. Washington Gas may utilize derivative instruments that are designed to minimize the risk of interest-rate volatility associated with planned issuances of debt securities. Any gains and losses associated with these types of derivatives are recorded as regulatory liabilities or assets, respectively, and amortized in accordance with regulatory requirements, typically over the life of the related debt.
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 is reported as a regulatory asset.
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 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

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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.

Through the nine months ended June 30, 2016, WGL entered into two forward starting interest rate swaps with a total notional amount outstanding of $75.0 million. In August 2015, WGL entered into two forward starting interest rate swap agreements with a total notional amount outstanding of $125.0 million. These derivatives 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.

Additionally, WGL elected cash flow hedge accounting for interest rate swaps, which 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 three and nine months ended June 30, 2016 and 2015.

Consolidated Operations

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

Absolute Notional Amounts
of Open Positions on Derivative Instruments

Derivative transactions	WGL Holdings, Inc.	Washington Gas
June 30, 2016	Notional Amounts	
Natural Gas (In millions of therms)		
Asset Optimization	22,365.5	13,180.0
Retail sales	54.3	—
Other risk-management activities	1,819.4	1,322.0
Electricity (In millions of kWhs)		
Retail sales	4,874.5	—
Other risk-management activities[(a)]	25,300.1	—
Interest Rate Swaps (In millions of dollars)	$ 325.0	$ 125.0
September 30, 2015		
Natural Gas (In millions of therms)		
Asset Optimization	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 electric swaps, financial transmission rights, physical forward purchases and slice of system, if any.

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

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WGL Holdings, Inc.
Balance Sheet Classification of Derivative Instruments

($ In millions)	Derivative Instruments Not Designated as Hedging Instruments		Derivative Instruments Designated as Hedging Instruments			
As of June 30, 2016	Gross Derivative Assets	Gross Derivative Liabilities	Gross Derivative Assets	Gross Derivative Liabilities	Netting of Collateral	Total[(a)]
Current Assets—Derivatives	$27.5	$(11.0)	$—	$—	$—	$16.5
Deferred Charges and Other Assets—Derivatives	43.2	(0.2)	—	—	—	43.0
Current Liabilities—Derivatives	39.5	(139.3)	—	—	20.2	(79.6)
Deferred Credits—Derivatives	21.0	(265.0)	—	(38.1)	8.0	(274.1)
Total	$131.2	$(415.5)	$—	$(38.1)	$28.2	$(294.2)
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)

Washington Gas Light Company
Balance Sheet Classification of Derivative Instruments[(b)]
($ In millions)

As of June 30, 2016	Gross Derivative Assets	Gross Derivative Liabilities	Netting of Collateral	Total[(a)]
Current Assets—Derivatives	$4.2	$(0.1)	$—	$4.1
Deferred Charges and Other Assets—Derivatives	20.4	—	—	20.4
Current Liabilities—Derivatives	7.8	(67.6)	0.1	(59.7)
Deferred Credits—Derivatives	2.5	(228.7)	0.4	(225.8)
Total	$34.9	$(296.4)	$0.5	$(261.0)
As of September 30, 2015				
Current Assets—Derivatives	$5.2	$(0.6)	$—	$4.6
Deferred Charges and Other Assets—Derivatives	13.3	(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 June 30, 2016 or September 30, 2015.

The following table presents all gains and losses associated with derivative instruments for the three and nine months ended June 30, 2016 and 2015.

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Gains and Losses on Derivative Instruments

($ In millions)	WGL Holdings, Inc.		Washington Gas	
Three Months Ended June 30,	2016	2015	2016	2015
Recorded to income				
Operating revenues—non-utility	$ (39.0)	$ (28.3)	$—	$—
Utility cost of gas	(24.9)	(10.4)	(24.9)	(10.4)
Non-utility cost of energy-related sales	48.4	3.2	—	—
Interest expense	(0.1)	—	—	—
Recorded to regulatory assets				
Gas costs	(29.4)	(12.1)	(29.4)	(12.1)
Other	(8.8)	—	(8.8)	—
Recorded to other comprehensive income[a]	(16.9)	—	—	—
Total	$ (70.7)	$ (47.6)	$(63.1)	$(22.5)
Nine Months Ended June 30,	2016	2015	2016	2015
Recorded to income				
Operating revenues—non-utility	$ 7.6	$ 46.0	$—	$—
Utility cost of gas	9.2	(20.4)	9.2	(20.4)
Non-utility cost of energy-related sales	50.6	(35.9)	—	—
Interest expense	(0.2)	(0.5)	—	—
Recorded to regulatory assets				
Gas costs	24.9	(36.0)	24.9	(36.0)
Other	(8.8)	—	(8.8)	—
Recorded to other comprehensive income[a]	(34.5)	(8.0)	—	—
Total	$ 48.8	$ (54.8)	$25.3	$(56.4)

(a) 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.

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

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

June 30, 2016	Collateral deposits posted with counterparties	Cash collateral held representing an obligation
Washington Gas	$ 15.5	$ 0.1
WGL Energy Services	7.8	—
WGL Midstream	8.1	2.4
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 June 30, 2016, WGL Energy Services posted $2.8 million of collateral related to its derivative

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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 June 30, 2016, WGL was required to post $4.8 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 June 30, 2016 and September 30, 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 June 30, 2016 and September 30, 2015, respectively.

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

(In millions)	WGL Holdings, Inc.	Washington Gas
June 30, 2016		
Derivative liabilities with credit-risk-contingent features	$ 46.3	$ 11.6
Maximum potential collateral requirements	30.7	11.0
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 June 30, 2016, two counterparties represented over 10% of Washington Gas' credit exposure to wholesale derivative counterparties for a total credit risk of $30.3 million; four counterparties represented over 10% of WGL Energy Services' credit exposure to wholesale counterparties for a total credit risk of $4.4 million; and two counterparties represented over 10% of WGL Midstream's credit exposure to wholesale counterparties for a total credit risk of $27.0 million.

WEATHER-RELATED INSTRUMENTS

WGL Energy Services utilizes weather-related instruments for managing the financial effects of weather risks. These instruments cover a portion of WGL Energy Services' estimated revenue or energy-related cost exposure to variations in heating or cooling degree days. These contracts provide for payment to WGL Energy Services of a fixed-dollar amount for every degree day over or under specific levels during the calculation period depending upon the type of contract executed. For the three months ended June 30, 2016 and 2015, WGL Energy Services recorded pre-tax losses of $0.5 million related to these contracts. For the nine months ended June 30, 2016 and 2015, WGL Energy Services recorded pre-tax gains of $3.8 million and $2.7 million, respectively, related to these contracts.

NOTE 9. 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 June 30, 2016 or September 30, 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 June 30, 2016 and September 30, 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.
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 June 30, 2016 and September 30, 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 June 30, 2016 and September 30, 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.

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WGL Holdings, Inc.
Fair Value Measurements Under the Fair Value Hierarchy

(In millions)	Level 1	Level 2	Level 3	Total
At June 30, 2016				
Assets				
Natural gas related derivatives	$ —	$51.4	$58.3	$109.7
Electricity related derivatives	—	2.0	19.5	21.5
Total Assets	$ —	$53.4	$77.8	$131.2
Liabilities				
Natural gas related derivatives	$ —	$(76.3)	$(298.8)	$(375.1)
Electricity related derivatives	—	(1.4)	(30.2)	(31.6)
Interest rate derivatives	—	(46.9)	—	(46.9)
Total Liabilities	$ —	$(124.6)	$(329.0)	$(453.6)
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)

Washington Gas Light Company
Fair Value Measurements Under the Fair Value Hierarchy

(In millions)	Level 1	Level 2	Level 3	Total
At June 30, 2016				
Assets				
Natural gas related derivatives	$ —	$15.7	$19.2	$34.9
Total Assets	$ —	$15.7	$19.2	$34.9
Liabilities				
Natural gas related derivatives	$ —	$(25.1)	$(262.5)	$(287.6)
Interest rate derivatives	—	(8.8)	—	(8.8)
Total Liabilities	$ —	$(33.9)	$(262.5)	$(296.4)
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)

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 June 30, 2016 and September 30, 2015.

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Quantitative Information about Level 3 Fair Value Measurements

	Net Fair Value June 30, 2016 ($ In millions)	Valuation Techniques	Unobservable Inputs	Range
WGL Holdings, Inc.				
Natural gas related derivatives	$(240.5)	Discounted Cash Flow	Natural Gas Basis Price (per dekatherm)	($1.060) - $3.815
		Option Model	Natural Gas Basis Price (per dekatherm)	($1.060) - $3.815
			Annualized Volatility of Spot Market Natural Gas	25.0% - 915.6%
Electricity related derivatives	$(10.7)	Discounted Cash Flow	Electricity Congestion Price (per megawatt hour)	($6.20) - $69.70
Washington Gas Light Company				
Natural gas related derivatives	$(243.3)	Discounted Cash Flow	Natural Gas Basis Price (per dekatherm)	($1.019) - $3.750
	Net Fair Value September 30, 2015 ($ In millions)			
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

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 three and nine months ended June 30, 2016 and 2015, respectively.

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WGL Holdings, Inc.
Reconciliation of Fair Value Measurements Using Significant Level 3 Inputs

(In millions)	Natural Gas Related Derivatives	Electricity Related Derivatives	Total
Three Months Ended June 30, 2016			
Balance at April 1, 2016	$ (204.3)	$ (30.5)	$(234.8)
Realized and unrealized gains (losses)			
Recorded to income	(8.9)	22.5	13.6
Recorded to regulatory assets—gas costs	(27.6)	—	(27.6)
Transfers into Level 3	0.1	—	0.1
Transfers out of Level 3	(0.2)	—	(0.2)
Purchases	—	(10.7)	(10.7)
Settlements	0.4	8.0	8.4
Balance at June 30, 2016	$ (240.5)	$ (10.7)	$(251.2)
Three Months Ended June 30, 2015			
Balance at April 1, 2015	$ (319.6)	$ (10.5)	$(330.1)
Realized and unrealized gains (losses)			
Recorded to income	(33.6)	(4.8)	(38.4)
Recorded to regulatory assets—gas costs	(7.7)	—	(7.7)
Transfers out of Level 3	3.9	—	3.9
Purchases	—	3.9	3.9
Settlements	6.0	2.6	8.6
Balance at June 30, 2015	$ (351.0)	$ (8.8)	$(359.8)
Nine Months Ended June 30, 2016			
Balance at October 1, 2015	$ (309.7)	$ (16.0)	$(325.7)
Realized and unrealized gains (losses)			
Recorded to income	34.6	(14.2)	20.4
Recorded to regulatory assets—gas costs	15.9	—	15.9
Transfers into Level 3	(0.8)	—	(0.8)
Transfers out of Level 3	8.7	—	8.7
Purchases	—	(4.4)	(4.4)
Settlements	10.8	23.9	34.7
Balance at June 30, 2016	$ (240.5)	$ (10.7)	$(251.2)
Nine Months Ended June 30, 2015			
Balance at October 1, 2014	$ (294.7)	$ (5.0)	$(299.7)
Realized and unrealized gains (losses)			
Recorded to income	(51.0)	(15.3)	(66.3)
Recorded to regulatory assets—gas costs	(48.0)	—	(48.0)
Transfers into Level 3	5.4	—	5.4
Transfers out of Level 3	3.6	—	3.6
Purchases	—	7.3	7.3
Settlements	33.7	4.2	37.9

Balance at June 30, 2015	$ (351.0)	$ (8.8)	$(359.8)

WGL Holdings, Inc.
Washington Gas Light Company
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Washington Gas Light Company
Reconciliation of Fair Value Measurements Using Significant Level 3 Inputs

(In millions)	Natural Gas Related Derivatives
Three Months Ended June 30, 2016	
Balance at April 1, 2016	$ (194.3)
Realized and unrealized gains (losses)	
Recorded to income	(21.6)
Recorded to regulatory assets—gas costs	(27.6)
Settlements	0.2
Balance at June 30, 2016	$ (243.3)
Three Months Ended June 30, 2015	
Balance at April 1, 2015	$ (299.8)
Realized and unrealized gains (losses)	
Recorded to income	(7.6)
Recorded to regulatory assets—gas costs	(7.7)
Transfers out of Level 3	2.8
Settlements	5.1
Balance at June 30, 2015	$ (307.2)
Nine Months Ended June 30, 2016	
Balance at October 1, 2015	$ (281.1)
Realized and unrealized gains (losses)	
Recorded to income	3.3
Recorded to regulatory assets—gas costs	15.9
Transfers into Level 3	(0.2)
Transfers out of Level 3	8.8
Settlements	10.0
Balance at June 30, 2016	$ (243.3)
Nine Months Ended June 30, 2015	
Balance at October 1, 2014	$ (270.6)
Realized and unrealized gains (losses)	
Recorded to income	(30.3)
Recorded to regulatory assets—gas costs	(48.0)
Transfers into Level 3	5.4
Transfers out of Level 3	2.5
Settlements	33.8
Balance at June 30, 2015	$ (307.2)

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. Washington Gas did not have any transfers into or out of Level 3 during the three months ended June 30, 2016. Transfers out of Level 3 during the three and nine months ended June 30, 2016 and 2015 were due to an

increase in valuations using observable market inputs. Transfers into Level 3 during the three and nine months ended June 30, 2016 and 2015 were due to an increase in unobservable market inputs used in valuations.
The table below sets forth the line items on the statements of income to which amounts are recorded for the three and nine months ended June 30, 2016 and 2015, respectively, related to fair value measurements using significant Level 3 inputs.

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WGL Holdings, Inc.
Realized and Unrealized Gains (Losses) Recorded to Income for Level 3 Measurements

(In millions)	Natural Gas Related Derivatives	Electricity Related Derivatives	Total
Three Months Ended June 30, 2016			
Operating revenues—non-utility	$ 6.5	$ (17.4)	$(10.9)
Utility cost of gas	(21.6)	—	(21.6)
Non-utility cost of energy-related sales	6.2	39.9	46.1
Total	$ (8.9)	$ 22.5	$13.6
Three Months Ended June 30, 2015			
Operating revenues—non-utility	$ (22.3)	$ (3.0)	$(25.3)
Utility cost of gas	(7.6)	—	(7.6)
Non-utility cost of energy-related sales	(3.7)	(1.8)	(5.5)
Total	$ (33.6)	$ (4.8)	$(38.4)
Nine Months Ended June 30, 2016			
Operating revenues—non-utility	$ 22.5	$ (25.9)	$(3.4)
Utility cost of gas	3.3	—	3.3
Non-utility cost of energy-related sales	8.8	11.7	20.5
Total	$ 34.6	$ (14.2)	$20.4
Nine Months Ended June 30, 2015			
Operating revenues—non-utility	$ (20.7)	$ 21.0	$0.3
Utility cost of gas	(30.3)	—	(30.3)
Non-utility cost of energy-related sales	—	(36.3)	(36.3)
Total	$ (51.0)	$ (15.3)	$(66.3)

Washington Gas Light Company
Realized and Unrealized Gains (Losses)
Recorded to Income for Level 3 Measurements

(In millions)	Natural Gas Related Derivatives
Three Months Ended June 30, 2016	
Utility cost of gas	$ (21.6)
Total	$ (21.6)
Three Months Ended June 30, 2015	
Utility cost of gas	$ (7.6)
Total	$ (7.6)
Nine Months Ended June 30, 2016	
Utility cost of gas	$ 3.3
Total	$ 3.3
Nine Months Ended June 30, 2015	
Utility cost of gas	$ (30.3)
Total	$ (30.3)

Unrealized gains (losses) attributable to derivative assets and liabilities measured using significant Level 3 inputs were recorded as follows, for the three and nine months ended June 30, 2016 and 2015, respectively.

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WGL Holdings, Inc.
Unrealized Gains (Losses) Recorded for Level 3 Measurements

(In millions)	Natural Gas Related Derivatives	Electricity Related Derivatives	Total
Three Months Ended June 30, 2016			
Recorded to income			
Operating revenues—non-utility	$ 6.7	$ (10.3)	$(3.6)
Utility cost of gas	(22.2)	—	(22.2)
Non-utility cost of energy-related sales	5.2	33.2	38.4
Recorded to regulatory assets—gas costs	(28.9)	—	(28.9)
Total	$ (39.2)	$ 22.9	$(16.3)
Three Months Ended June 30, 2015			
Recorded to income			
Operating revenues—non-utility	$ (21.3)	$ 0.8	$(20.5)
Utility cost of gas	(1.8)	—	(1.8)
Non-utility cost of energy-related sales	(5.6)	2.5	(3.1)
Recorded to regulatory assets—gas costs	(9.2)	—	(9.2)
Total	$ (37.9)	$ 3.3	$(34.6)
Nine Months Ended June 30, 2016			
Recorded to income			
Operating revenues—non-utility	$ 26.1	$ (6.7)	$19.4
Utility cost of gas	(0.2)	—	(0.2)
Non-utility cost of energy-related sales	2.6	15.1	17.7
Recorded to regulatory assets—gas costs	9.2	—	9.2
Total	$ 37.7	$ 8.4	$46.1
Nine Months Ended June 30, 2015			
Recorded to income			
Operating revenues—non-utility	$ (17.6)	$ 21.7	$4.1
Utility cost of gas	(23.1)	—	(23.1)
Non-utility cost of energy-related sales	(1.7)	(31.5)	(33.2)
Recorded to regulatory assets—gas costs	(38.1)	—	(38.1)
Total	$ (80.5)	$ (9.8)	$(90.3)

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Washington Gas Light Company
Unrealized Gains (Losses) Recorded for Level 3 Measurements

(In millions)	Natural Gas Related Derivatives
Three Months Ended June 30, 2016	
Recorded to income - utility cost of gas	$ (22.2)
Recorded to regulatory assets—gas costs	(28.9)
Total	$ (51.1)
Three Months Ended June 30, 2015	
Recorded to income - utility cost of gas	$ (1.8)
Recorded to regulatory assets—gas costs	(9.2)
Total	$ (11.0)
Nine Months Ended June 30, 2016	
Recorded to income - utility cost of gas	$ (0.2)
Recorded to regulatory assets—gas costs	9.2
Total	$ 9.0
Nine Months Ended June 30, 2015	
Recorded to income - utility cost of gas	$ (23.1)
Recorded to regulatory assets—gas costs	(38.1)
Total	$ (61.2)

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

WGL Holdings, Inc.
Fair Value of Financial Instruments

	June 30, 2016		September 30, 2015	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Money market funds[(a)]	$20.5	$ 20.5	$11.0	$ 11.0
Other short-term investments[(a)]	$0.1	$ 0.1	$0.4	$ 0.4
Commercial paper [(b)]	$306.0	$ 306.0	$332.0	$ 332.0
Project financing [(b)]	$52.3	$ 52.3	$—	$ —
Long-term debt[(c)]	$1,194.3	$ 1,373.1	$944.2	$ 1,057.9

Washington Gas Light Company Fair Value of Financial Instruments

	June 30, 2016		September 30, 2015	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Money market funds [(a)]	$4.0	$4.0	$4.3	$4.3
Other short-term investments [(a)]	$0.1	$0.1	$0.4	$0.4
Commercial paper [(b)]	$150.0	$150.0	$89.0	$89.0

Project financing [b]	$52.3	$52.3	$—	$—
Long-term debt [c]	$695.9	$868.2	$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.

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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 June 30, 2016 and September 30, 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 nine months ended June 30, 2016, WGSW recognized a loss of $3.0 million associated with the impairment of its investment in direct financing leases from Nextility. The investment in direct financing leases is currently valued at $2.2 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 nine months ended June 30, 2015, Washington Gas Resources recorded an impairment charge on its investment in ASDHI to its fair value using the income approach. The amount of the impairment was equivalent to the amount of the carrying value of $5.6 million and was due to management's assumption of the current valuation and expected return from the investment. The fair value of this investment was a Level 3 measurement.

NOTE 10. OPERATING SEGMENT REPORTING

We have four reportable operating segments: regulated utility, retail energy-marketing, commercial energy systems and midstream energy services. The division of these segments into separate revenue generating components is based upon regulation, products and services. Our chief operating decision maker is our Chief Executive Officer and we evaluate segment performance based on Earnings Before Interest and Taxes (EBIT). EBIT is defined as earnings before interest and taxes from continuing operations. 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 engages in acquiring, investing in, managing and optimizing natural gas storage and transportation assets.

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 three and nine months ended June 30, 2016 and 2015.

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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
Three Months Ended June 30, 2016							
Regulated utility	$187,077	$ 29,632	$ —	$(20,458)	$4,467,449	$ 106,773	$—
Retail energy-marketing	266,214	233	—	49,544	484,511	768	—
Commercial energy systems	20,842	3,900	2,162	8,286	787,248	34,125	65,289
Midstream energy services	(17,989)	26	2,365	(16,908)	433,395	—	217,491
Other activities	—	—	—	(517)	201,354	—	—
Eliminations[b]	(15,557)	(5)	—	178	(631,144)	—	—
Total consolidated	$440,587	$ 33,786	$ 4,527	$20,125	$5,742,813	$ 141,666	$ 282,780
Three Months Ended June 30, 2015							
Regulated utility	$190,345	$ 27,740	$ —	$(6,262)	$4,095,646	$ 75,413	$—
Retail energy-marketing	268,249	151	—	16,654	458,745	—	—
Commercial energy systems	14,674	2,787	544	3,750	611,380	27,271	64,323
Midstream energy services	(25,801)	31	718	(26,607)	196,770	85	56,967
Other activities	—	—	—	(970)	106,861	—	—
Eliminations[b]	(6,294)	(13)	—	(541)	(492,362)	—	—
Total consolidated	$441,173	$ 30,696	$ 1,262	$(13,976)	$4,977,040	$ 102,769	$ 121,290
Nine Months Ended June 30, 2016							
Regulated utility	$934,347	$ 86,318	$ —	$243,102	$4,467,449	$ 267,230	$—
Retail energy-marketing	925,180	872	—	52,055	484,511	7,595	—
Commercial energy systems	57,066	11,105	5,554	10,251	787,248	73,769	65,289
Midstream energy services	16,223	97	5,004	17,631	433,395	—	217,491
Other activities	—	—	—	(2,773)	201,354	—	—
Eliminations[b]	(43,156)	(24)	—	(416)	(631,144)	—	—
Total consolidated	$1,889,660	$ 98,368	$ 10,558	$319,850	$5,742,813	$ 348,594	$ 282,780
Nine Months Ended June 30, 2015							
Regulated utility	$1,193,232	$ 81,958	$ —	$238,645	$4,095,646	$ 235,707	$—
Retail energy-marketing	1,003,339	470	—	39,185	458,745	5	—
Commercial energy systems	35,745	7,693	1,623	4,731	611,380	81,246	64,323
Midstream energy services	(17,997)	93	1,865	(23,343)	196,770	85	56,967
Other activities	—	—	750	(8,915)	106,861	—	—
Eliminations[b]	(22,176)	(55)	—	(592)	(492,362)	—	—
Total consolidated	$2,192,143	$ 90,159	$ 4,238	$249,711	$4,977,040	$ 317,043	$ 121,290

(a) Operating revenues are reported gross of revenue 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) Eliminations include any trading activities, including mark-to market valuations, between WGL Midstream and WGL Energy Services, project financing 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.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
Total consolidated EBIT	$20,125	$(13,976)	$319,850	$249,711
Interest expense	12,998	13,140	38,757	38,704
Income (loss) before income taxes	7,127	(27,116)	281,093	211,007
Income tax expense (benefit)	4,772	(11,756)	103,619	80,364
Net income (loss)	2,355	(15,360)	177,474	130,643
Dividends on Washington Gas Light Company preferred stock	330	330	990	990
Net income (loss) applicable to common stock	$2,025	$(15,690)	$176,484	$129,653

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NOTE 11. 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 results 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) and 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. 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 four investments that qualify as VIEs:

- Meade,
- SunEdison,
- Nextility, and
- ASD.

At June 30, 2016, WGL and its subsidiaries are not the primary beneficiary for any of the above VIEs, therefore we have not consolidated any of the 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.

Meade

In 2014, WGL through its subsidiary WGL Midstream, entered into a limited liability company agreement and formed Meade, a Delaware limited liability company to partner with Transcontinental Gas Pipe Line Company, LLC (Williams) to invest in a regulated pipeline project called Central Penn Pipeline (Central Penn). Central Penn will be an approximately 185-

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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 $410.0 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 Statements of Income and are added to or subtracted from the carrying amount of WGL’s investment balance. At June 30, 2016 and September 30, 2015, WGL Midstream held a $68.1 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 $68.4 million at June 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 master purchase agreements and master lease agreements with SunEdison, Inc. (SunEdison) and with 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 interests in the financing leases in “Other income (expenses)-net” line in the accompanying Consolidated Statements of Income. WGSW held a $32.5 million and $37.2 million combined investment in direct financing leases at June 30, 2016 and September 30, 2015, respectively, of which $1.2 million and $2.0 million are current receivables recorded in “Accounts Receivable” in the accompanying Consolidated Balance Sheets at June 30, 2016 and September 30, 2015, respectively. Additionally, we had balances of $14.0 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 June 30, 2016 and September 30, 2015, respectively.

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

	Minimum Payments Receivable for Direct Financing Leases
(In millions)	
Remainder of 2016	$0.7
2017	2.2
2018	2.2
2019	2.1
2020	2.2
Thereafter	30.7
Total	$40.1

Minimum payments receivable exclude $9.7 million of residual values and $4.4 million in tax related items. Associated with these investments, WGSW holds $18.7 million of unearned income and $3.0 million of impairment charges for Nextility on its balance sheet. The initial direct costs (incurred in FY 2012) associated with these investments was $0.7 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.

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. Utilizing information available at March 31, 2016, WGSW determined that a $3.0 million impairment of the Nextility investment in direct financing leases was appropriate. Depending on the future performance of these projects, there could be an additional impairment of our remaining investment balance of $2.2 million, net of unamortized investment tax credits. As of June 30, 2016, WGSW is negotiating with Nextility for a resolution of this matter.

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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 June 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 Statements of Income and are added to or subtracted from the carrying amount of WGSW's investment balance. At June 30, 2016 and September 30, 2015, WGSW held a $65.3 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 June 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.

Non-VIE Investments

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 nine months ended June 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.

Constitution

In 2013, WGL Midstream invested in Constitution Pipeline Company, LLC (Constitution). At June 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 is designed to 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 Statements 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. We can give no assurance, however, that Constitution's efforts to obtain the Section 401 Certification will be successful. At June 30, 2016, we held a $39.9 million equity method investment in Constitution. We have evaluated our investment in Constitution for other than temporary impairment as of June 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. Further developments or indicators of

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an unfavorable resolution, however, may require a future impairment of this investment including, if Constitution is ultimately unable to obtain the Section 401 Certification, an impairment charge of substantially all of our investment in the capitalized project costs. It is also possible that Constitution could incur certain supplier-related costs in the event of a prolonged delay or termination of the project. We will continue to monitor and update our impairment analysis as required.

Mountain Valley

In March 2015, WGL Midstream acquired a 7% equity interest in Mountain Valley Pipeline, LLC (Mountain Valley). The proposed pipeline to be developed, constructed, owned and operated by Mountain Valley, will transport approximately 2.0 million dekatherms of natural gas per day from interconnects with EQT Corporation's Equitrans system, near the MarkWest Mobley plant in West Virginia to Transcontinental Gas Pipe Line Company LLC's Station 165 in Pittsylvania County, Virginia.

WGL Midstream expects to invest through scheduled capital contributions through the in-service date of the pipeline, its pro rata share (based on its 7% equity interest) of project costs, an estimated aggregate amount of approximately $228.0 million. WGL Midstream held a $16.7 million equity method investment in Mountain Valley at June 30, 2016. 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.

At June 30, 2016, WGL Midstream had a $14.0 million minimum funding requirement related to Mountain Valley and a $6.0 million guarantee on behalf of one of the other partners.

In addition, WGL Midstream entered into an agreement to finance capital commitments as they are made by one of the other partners in the venture for an estimated aggregate amount of approximately $97.9 million, which represents the estimated total funding requirements for that partner's 3% ownership interest in the joint venture, inclusive of the minimum funding requirement. WGL Midstream has provided funding of $6.8 million as of June 30, 2016 related to this agreement.

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 $92.8 million equity method investment in the Stonewall System at June 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.

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

WGL Holdings, Inc.
Balance Sheet Location of Other Investments

As of June 30, 2016 (In millions)	VIEs	Non-VIEs	Total

Assets				
Investments in unconsolidated affiliates	$ 133.4	$ 149.4		$ 282.8
Investments in direct financing leases, capital leases	31.3	—		31.3
Accounts receivable	1.2	6.8	(a)	8.0
Total assets	$ 165.9	$ 156.2		$ 322.1
As of September 30, 2015 (In millions)				
Assets				
Investments in unconsolidated affiliates	$ 94.0	$ 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	$ 131.2	$ 47.1		$ 178.3

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[(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.

The income statement location of the investments discussed in this footnote for the three and nine months ended June 30, 2016 and 2015 are as follows:

WGL Holdings, Inc.
Income Statement Location of Other Investments

	Three Months Ended June 30, 2016			Nine Months Ended June 30, 2016		
(In millions)	VIEs	Non-VIEs	Total	VIEs	Non-VIEs	Total
Equity in earnings of unconsolidated affiliates	$2.2	$ 2.4	$ 4.6	$5.5	$ 5.1	$ 10.6
Depreciation and amortization	—	—	—	0.2	—	0.2
Operations and maintenance	—	—	—	3.0	—	3.0
Other income (expense) —net	0.8	—	0.8	2.4	(0.1)	2.3
Net income	$3.0	$ 2.4	$ 5.4	$4.7	$ 5.0	$ 9.7
	Three Months Ended June 30, 2015			Nine Months Ended June 30, 2015		
Equity in earnings of unconsolidated affiliates	$0.8	$ 0.5	$ 1.3	$2.4	$ 1.8	$ 4.2
Depreciation and amortization	0.1	—	0.1	0.2	—	0.2
Other income (expenses)—net	1.0	—	1.0	2.4	(5.6)	(3.2)
Net income (loss)	$1.7	$ 0.5	$ 2.2	$4.6	$ (3.8)	$ 0.8

NOTE 12. 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 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 3—Short Term Debt for further discussion of the project financing.

The following table presents the receivables and payables from associated companies as of June 30, 2016 and September 30, 2015.

Washington Gas Receivables / Payables from Associated Companies

(In millions)	June 30, 2016	September 30, 2015
Receivables from Associated Companies	$ 11.5	$ 3.2
Payables to Associated Companies	$ 73.1	$ 68.6

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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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In millions)	2016	2015	2016	2015
Gas balancing service charge	$5.5	$5.3	$21.7	$19.8

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 $4.9 million and $0.5 million at June 30, 2016 and September 30, 2015, respectively, related to an imbalance in gas volumes. Due to regulatory treatment, these payables and receivables are not eliminated in the consolidated financial statements of WGL. Refer to Note 1—Accounting Policies of the Notes to Consolidated Financial Statements of the combined Annual Report on Form 10-K for the fiscal year ended September 30, 2015 for further discussion of these imbalance transactions.

Washington Gas participates in a Purchase of Receivables (POR) program as approved by the Public Service Commission of Maryland (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 June 30, 2016 and September 30, 2015, Washington Gas had balances of $12.7 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. At June 30, 2016, 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.

NOTE 13. COMMITMENTS AND CONTINGENCIES

REGULATORY CONTINGENCIES

Certain legal and administrative proceedings incidental to our business, including regulatory contingencies, involve WGL and/or its subsidiaries. In our opinion, we have recorded an adequate provision for probable losses or refunds to customers for regulatory contingencies related to these proceedings.

District of Columbia Jurisdiction

Investigation into Washington Gas’ Cash Reimbursement to Competitive Service Providers (CSPs). On August 5, 2014, the Office of the People’s Counsel’s (OPC) of DC filed a complaint with the PSC of DC requesting that the Commission open an investigation into Washington Gas’ payments to CSPs to cash-out over-deliveries of natural gas supplies during the 2008-2009 winter heating season. OPC asserted that Washington Gas made excess payments in the amount of $2.4 million to CSPs. On December 19, 2014, the PSC of DC granted the OPC of DC’s request and opened a formal investigation. On October 27, 2015, the PSC of DC issued an order finding that Washington Gas, in performing the cash-out, had violated D.C. Code 34-1101’s requirement that no service shall be provided without Commission approval. The PSC of DC directed Washington

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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.

FINANCIAL GUARANTEES

WGL has guaranteed payments primarily for certain commitments on behalf of certain subsidiaries. At June 30, 2016, these guarantees totaled $30.6 million, $238.1 million, $11.5 million and $327.4 million for Washington Gas, WGL Energy Services, WGL Energy Systems and WGL Midstream, respectively. At June 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 June 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 dispute. Our Consolidated Financial Statements do not reflect the favorable effects of a change in the contractual index price. Through June 30, 2016, WGL Midstream has incurred approximately $8.8 million in losses associated with Antero's use of the disputed index price.

NOTE 14. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The following table shows the components of net periodic benefit costs (income) recognized in our financial statements during the three and nine months ended June 30, 2016 and 2015.

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Components of Net Periodic Benefit Costs (Income)

	Three Months Ended June 30,			
	2016		2015	
(In millions)	Pension Benefits	Health and Life Benefits	Pension Benefits	Health and Life Benefits
Service cost	$3.6	$ 1.2	$3.9	$ 1.8
Interest cost	10.3	3.2	9.7	3.7
Expected return on plan assets	(10.2)	(5.1)	(11.2)	(5.2)
Amortization of prior service cost (credit)	—	(4.4)	0.1	(3.8)
Amortization of net actuarial loss	4.3	0.3	4.7	1.1
Net periodic benefit cost (income)	8.0	(4.8)	7.2	(2.4)
Amount allocated to construction projects	(1.5)	1.1	(1.2)	0.5
Amount deferred as regulatory asset/liability—net	1.8	(0.1)	1.8	(0.1)
Amount charged (credited) to expense	$8.3	$ (3.8)	$7.8	$ (2.0)
	Nine Months Ended June 30,			
	2016		2015	
Service cost	$10.7	$ 3.4	$11.6	$ 5.3
Interest cost	31.0	9.8	29.3	11.0
Expected return on plan assets	(30.7)	(15.3)	(33.5)	(15.6)
Amortization of prior service cost (credit)	0.2	(13.2)	0.2	(11.4)
Amortization of net actuarial loss	12.7	0.9	14.1	3.3
Net periodic benefit cost (income)	23.9	(14.4)	21.7	(7.4)
Amount allocated to construction projects	(4.1)	3.0	(3.4)	1.5
Amount deferred as regulatory asset/liability—net	5.3	(0.2)	5.3	(0.2)
Amount charged (credited) to expense	$25.1	$ (11.6)	$23.6	$ (6.1)

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.

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NOTE 15. 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 three and nine months ended June 30, 2016 and 2015.

WGL Holdings, Inc.
Changes in Accumulated Other Comprehensive Loss by Component

(In thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Beginning Balance	$(24,258)	$(11,643)	$(14,236)	$(7,961)
Qualified cash flow hedging instruments[(a)]	(16,995)	49	(34,545)	(7,994)
Amortization of net prior service credit[(b)]	(216)	(170)	(644)	(511)
Amortization of net actuarial loss[(b)]	420	529	1,258	1,503
Current-period other comprehensive income (loss)	(16,791)	408	(33,931)	(7,002)
Income tax expense (benefit) related to other comprehensive income (loss)	(6,969)	163	(14,087)	(3,565)
Ending Balance	$(34,080)	$(11,398)	$(34,080)	$(11,398)

(a) Cash flow hedging instruments represent interest rate swap agreements related to future debt issuances. Refer to Note 8- 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 14- Pension and other post-retirement benefit plans for additional details.

Washington Gas Light Company
Changes in Accumulated Other Comprehensive Loss by Component

(In thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Beginning Balance	$(6,464)	$(6,031)	$(6,712)	$(6,413)
Amortization of net prior service credit[(a)]	(216)	(170)	(644)	(511)
Amortization of net actuarial loss[(a)]	420	529	1,258	1,503
Current-period other comprehensive income	204	359	614	992
Income tax expense related to other comprehensive income	82	143	244	394
Ending Balance	$(6,342)	$(5,815)	$(6,342)	$(5,815)

(a) These accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit cost. Refer to Note 14-Pension and other post-retirement benefit plans for additional details.

NOTE 16. ENVIRONMENTAL MATTERS

Washington Gas has identified up to ten sites where it or its predecessors may have operated manufactured gas plants (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.

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 is conducting a remedial investigation and feasibility study of the river to determine cleanup requirements and is preparing a natural resource damage assessment. The sediment project draft report identifies one of Washington Gas' former MGP sites as a source of contaminants. Washington Gas is currently investigating potential contamination in the Anacostia River associated with this former MGP site under a consent decree with the District and federal governments. We are not able to estimate the amount of damages or timing associated with the government environmental investigation on the Anacostia River at this time.

ITEM 2. 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 Condensed Consolidated Financial Statements in this quarterly report as well as our combined Annual Report on Form 10-K for WGL and Washington Gas for the fiscal year ended September 30, 2015, as recast in the current report on Form 8-K filed on March 16, 2016 (together, the 2015 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. Our operations are seasonal and, accordingly, our operating results for the interim periods presented are not indicative of the results to be expected for the full fiscal year.

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.

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. During the third quarter, our utility customer base continued to grow as average customer meters increased by over 12,000 meters when compared to the same quarter in the prior fiscal year. We saw positive earnings impacts in the segment from the accelerated pipe replacement plans that are in place in all three of our jurisdictions, as well as lower operation and maintenance expenses. Partially offsetting these favorable impacts were lower unrealized mark-to-market valuations on our derivatives, lower realized margins associated with our asset optimization program, negative effects of changes in natural gas consumption patterns in the District of Columbia, as well as higher depreciation expense and general taxes.

Retail Energy-Marketing Operating Segment

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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. During the third quarter, our retail energy-marketing business had lower realized natural gas and electric gross margins when compared to the same quarter of last year. Lower natural gas margins were due to a decrease in portfolio optimization activity. Lower electric margins were primarily due to higher capacity charges from the regional power grid operator (PJM) associated with fixed-price retail contracts.

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 third quarter, this segment delivered improved results. We continue to see earnings growth driven by the distributed assets that we own across the country, as well as more activity locally in our energy-efficiency contracting business. We also saw improved results in our investment solar businesses. These improvements were partially offset by higher operating and depreciation expenses due to additional in-service distributed generation assets.

Midstream Energy Services Operating Segment

WGL Midstream engages in acquiring and optimizing natural gas storage and transportation assets. During the third quarter, 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 as a result of 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 Condensed Consolidated Financial Statements for further discussion.

Other Activities

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" and included as part of non-utility operations. Results for Other Activities for the quarter reflects lower operating expenses in the current period.

CRITICAL ACCOUNTING POLICIES

Preparation of financial statements and related disclosures in compliance with Generally Accepted Accounting Principles in the United States of America 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 that require our judgment and estimation, where the resulting estimates may have a material effect on the consolidated financial statements:

- accounting for unbilled revenue;
- accounting for regulatory operations — regulatory assets and liabilities;

- accounting for income taxes;
- accounting for contingencies;
- accounting for derivatives;
- accounting for fair value instruments;
- accounting for investments; and
- accounting for pension and other post-retirement benefit plans.

For a description of these critical accounting policies, refer to Management's Discussion within the 2015 Annual Report. There were no new critical accounting policies or changes to our critical accounting policies during the nine month period ended June 30, 2016.

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WGL HOLDINGS, INC.
RESULTS OF OPERATIONS—Three Months Ended June 30, 2016 vs. June 30, 2015
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) and earnings from unconsolidated affiliates. 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
For the three months ended June 30, 2016, WGL reported net income applicable to common stock of $2.0 million, or $0.04 per share, compared to a net loss of $(15.7) million, or $(0.32) per share, reported for the three months ended June 30, 2015. For the twelve month periods ended June 30, 2016 and 2015, we earned a return on average common equity of 13.3% and 13.1%, respectively.
The following table summarizes our EBIT by operating segment for the three months ended June 30, 2016 and 2015.
Analysis of Consolidated Results

	Three Months Ended June 30,		Increase/
(In millions)	2016	2015	(Decrease)
EBIT:			
Regulated utility	$(20.5)	$(6.3)	$ (14.2)
Retail energy-marketing	49.5	16.7	32.8
Commercial energy systems	8.3	3.8	4.5
Midstream energy services	(16.9)	(26.6)	9.7
Other activities	(0.5)	(1.0)	0.5
Intersegment eliminations	0.2	(0.6)	0.8
Total	$20.1	$(14.0)	$ 34.1
Interest expense	13.0	13.1	(0.1)
Income (loss) before income taxes	$7.1	$(27.1)	$ 34.2
Income tax expense (benefit)	4.8	(11.7)	16.5
Dividends on Washington Gas preferred stock	0.3	0.3	—
Net income (loss) applicable to common stock	$2.0	$(15.7)	$ 17.7
EARNINGS (LOSS) PER AVERAGE COMMON SHARE			
Basic	$0.04	$(0.32)	$ 0.36
Diluted	$0.04	$(0.32)	$ 0.36

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Regulated Utility Operating Results

The following table summarizes the regulated utility segment's financial data for the three months ended June 30, 2016 and 2015.

Regulated Utility Financial Data

(In millions)	Three Months Ended June 30, 2016	2015	Increase/ (Decrease)
Utility net revenues[1]:			
Operating revenues	$187.1	$190.3	$ (3.2)
Less: Cost of gas	71.3	64.5	6.8
Revenue taxes	14.2	12.4	1.8
Total utility net revenues	101.6	113.4	(11.8)
Operation and maintenance	78.3	79.0	(0.7)
Depreciation and amortization	29.6	27.7	1.9
General taxes and other assessments	13.8	12.9	0.9
Other expenses—net	0.4	0.1	0.3
EBIT	$(20.5)	$(6.3)	$ (14.2)

(1) We utilize utility net revenues, calculated as revenues less the associated cost of energy and applicable revenue taxes, to assist in the analysis of profitability for the regulated utility segment. The cost of the natural gas commodity 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.

The comparison in EBIT primarily reflects the following:

- lower realized and unrealized mark-to-market valuations associated with our asset optimization program;
- negative effects of certain natural gas consumption patterns in the District of Columbia;
- higher depreciation expense related to growth in our utility plant and
- an increase in general taxes.

Partially offsetting these unfavorable variances were:

- increased customer growth;
- higher rate recovery related to our accelerated pipe replacement programs and
- lower operation and maintenance expenses.

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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 the three months ended June 30, 2016 and 2015.

Composition of Changes in Utility Net Revenues

(In millions)	Increase/ (Decrease)
Customer growth	$ 2.7
Estimated effects of weather and consumption patterns	0.9
Accelerated pipe replacement programs	3.7
Asset optimization:	
Realized margins	(1.4)
Unrealized mark-to-market valuations	(14.8)
Other	(2.9)
Total	$ (11.8)

Customer growth — Average active customer meters increased over 12,000 for the three months ended June 30, 2016, compared to the same period of the prior fiscal year.

Estimated effects of weather and consumption patterns — Weather, when measured by HDDs, was 33.8% colder and 31.4% warmer than normal for the three months ended June 30, 2016 and 2015, respectively. In the District of Columbia, where Washington Gas does not have a billing mechanism or hedges to offset the effects of weather, the colder weather for the three months ended June 30, 2016, resulted in a positive variance to net revenues. The increase to net revenues was also due to the 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 day that occurs. 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.

Accelerated pipe replacement programs — The positive effect on revenues is primarily due to the continued growth of our accelerated pipe replacement programs in Maryland, Virginia and the District of Columbia.

Asset optimization — We recorded unrealized losses of $25.2 million associated with our energy-related derivatives for the three months ended June 30, 2016, compared to unrealized losses of $10.4 million reported for the same period of the prior fiscal year. When these derivatives settle, any unrealized amounts will ultimately reverse and Washington Gas will realize margins in combination with related transactions that these derivatives economically hedge. The change 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.

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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 for the three months ended June 30, 2016 and 2015.

Composition of Changes in Operation and Maintenance Expenses

(In millions)	Increase/ (Decrease)
Employee incentives and direct labor costs	$ (1.2)
System operations	(0.9)
Support services	2.5
Other	(1.1)
Total	$ (0.7)

Employee incentives and direct labor costs — Washington Gas incurred less employee incentives and labor costs, net, for the three months ended June 30, 2016, over the same period of the previous fiscal year, as a result of a decrease in the valuations of our share-based long-term incentive plan.

System operations — Washington Gas incurred lower maintenance costs for the three months ended June 30, 2016, than for the same period in the previous year due to decreases in costs pertaining to field services, safety and reliability activities.

Support services — Washington Gas incurred additional costs for the three months ended June 30, 2016, compared to the same period of the prior fiscal year due to increased project related costs including the implementation of a new customer information system as well as infrastructure support costs.

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Retail Energy-Marketing
The following table depicts the retail energy-marketing segment's financial data along with selected statistical data for the three months ended June 30, 2016 and 2015.
Retail Energy-Marketing Financial and Statistical Data

	Three Months Ended June 30,		Increase/
(In millions, other than statistics)	2016	2015	(Decrease)
Operating Results			
Gross margins[1]:			
Operating revenues	$266.2	$268.3	$ (2.1)
Less: Cost of energy	200.8	237.1	(36.3)
Revenue taxes	2.7	2.3	0.4
Total gross margins	62.7	28.9	33.8
Operation expenses	11.8	10.8	1.0
Depreciation and amortization	0.2	0.2	—
General taxes and other assessments	1.1	1.3	(0.2)
Other income (expenses) — net	(0.1)	0.1	(0.2)
EBIT	$49.5	$16.7	$ 32.8
Analysis of gross margins			
Natural gas			
Realized margins	$17.7	$17.9	$ (0.2)
Unrealized mark-to-market gains	21.5	0.3	21.2
Total gross margins—natural gas	$39.2	$18.2	$ 21.0
Electricity			
Realized margins	$11.8	$13.0	$ (1.2)
Unrealized mark-to-market gains (losses)	11.7	(2.3)	14.0
Total gross margins—electricity	$23.5	$10.7	$ 12.8
Total gross margins	$62.7	$28.9	$ 33.8
Other Retail Energy-Marketing Statistics			
Natural gas			
Therm sales (millions of therms)	144.3	112.4	31.9
Number of customers (end of period)	136,500	147,100	(10,600)
Electricity			
Electricity sales (millions of kWhs)	3,201.9	2,893.1	308.8
Number of accounts (end of period)	130,200	141,200	(11,000)

(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, 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.

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. Period-to-period comparisons of quarterly gross margins for this segment can vary significantly and are not necessarily representative of expected annualized results.

The comparison of realized gross margins from natural gas sales between the three months ended June 30, 2016 and 2015, reflects lower natural gas margins due to a decrease in portfolio optimization activity, partially offset by increased wholesale customer sales.

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The comparison of realized gross margins from electric sales between the three months ended June 30, 2016 and 2015, reflects lower realized electric margins due to higher capacity charges from the regional power grid operator (PJM) associated with fixed-price retail contracts, partially offset by increased large commercial and government customer growth.

Operating expenses between the three months ended June 30, 2016 and 2015, were higher due to increased broker fees and support service expenses.

Commercial Energy Systems

The table below represents the financial results of the commercial energy systems segment for the three months ended June 30, 2016 and 2015.

Commercial Energy Systems Segment Financial Information

	Three Months Ended June 30,		Increase/
(In millions)	2016	2015	(Decrease)
Operating revenues	$20.8	$14.7	$ 6.1
Operating expenses:			
Cost of sales	7.4	4.3	3.1
Operations	5.5	6.6	(1.1)
Depreciation and amortization	3.9	2.8	1.1
General taxes and other assessments	0.1	0.1	—
Operating expenses	$16.9	$13.8	$ 3.1
Equity earnings	2.2	0.5	1.7
Other income	2.2	2.4	(0.2)
EBIT	$8.3	$3.8	$ 4.5
EBIT by division:			
Energy-efficiency contracting	$—	$(2.2)	$ 2.2
Commercial distributed generation	6.5	5.4	1.1
Investments in distributed generation	1.8	0.6	1.2
Total	$8.3	$3.8	$ 4.5

The increase in EBIT reflects higher margins from the energy-efficiency contracting business, the growth in distributed generation assets in service, including higher income from solar renewable energy credit sales and improved results in our investment solar businesses. Additionally, the improvement in EBIT reflects prior period losses associated with unrecovered government contracting costs of $3.0 million.

Additionally, not reflected in EBIT are investment tax credits related to our distributed generation assets which were $1.4 million and $1.1 million for the three months ended June 30, 2016 and 2015, respectively.

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Midstream Energy Services

The table below represents the financial results of the midstream energy services segment for the three months ended June 30, 2016 and 2015.

Midstream Energy Services Segment Financial Information

	Three Months Ended June 30,		Increase/
(In millions)	2016	2015	(Decrease)
Operating revenues [a]	$(18.0)	$(25.8)	$ 7.8
Operating expenses:			
Operations	1.3	1.2	0.1
General taxes and other assessments	—	0.3	(0.3)
Operating expenses	$1.3	$1.5	$ (0.2)
Equity earnings	2.4	0.7	1.7
EBIT	$(16.9)	$(26.6)	$ 9.7

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

The increase in EBIT primarily reflects: (i) a $29.9 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) $17.6 million in lower valuations and realized margins related to storage inventory and the associated economic hedging transactions and (ii) a $4.5 million decrease primarily related to realized margins for our transportation strategies, primarily as a result of losses of approximately $5.0 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 increase 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 Condensed Consolidated Financial Statements for further discussion of this matter.

Other Non-Utility Activities

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” and included as part of non-utility operations. Our other non-utility activities reflect EBIT of $(0.5) million and $(1.0) million for the three months ended June 30, 2016 and 2015, respectively. The comparison reflects lower operating expenses in the current period.

Intersegment Eliminations

Intersegment eliminations include any mark-to-market valuations associated with trading activities between WGL Midstream and WGL Energy Services, project financing activities 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.

Consolidated Income Taxes

Please refer to the nine months ended June 30, 2016, for information about WGL's income tax expense and effective income tax rate.

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RESULTS OF OPERATIONS - Nine months ended June 30, 2016 vs. June 30, 2015

Summary Results

WGL reported net income applicable to common stock of $176.5 million, or $3.50 per share, for the nine months ended June 30, 2016, an increase of $46.8 million, over net income applicable to common stock of $129.7 million, or $2.59 per share, reported for the same period of the prior fiscal year.

The following table summarizes our EBIT by operating segment for the nine months ended June 30, 2016 and 2015.
Analysis of Consolidated Results

	Nine Months Ended June 30,		Increase/
(In millions)	2016	2015	(Decrease)
EBIT:			
Regulated utility	$243.1	$238.6	$ 4.5
Retail energy-marketing	52.1	39.2	12.9
Commercial energy systems	10.3	4.7	5.6
Midstream energy services	17.6	(23.3)	40.9
Other activities	(2.8)	(8.9)	6.1
Intersegment eliminations	(0.4)	(0.5)	0.1
Total	$319.9	$249.8	$ 70.1
Interest expense	38.8	38.7	0.1
Income before income taxes	$281.1	$211.1	$ 70.0
Income tax expense	103.6	80.4	23.2
Dividends on Washington Gas preferred stock	1.0	1.0	—
Net income applicable to common stock	$176.5	$129.7	$ 46.8
EARNINGS PER AVERAGE COMMON SHARE			
Basic	$3.52	$2.60	$ 0.92
Diluted	$3.50	$2.59	$ 0.91

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Regulated Utility Operating Results

The following table summarizes the regulated utility segment's financial data for the nine months ended June 30, 2016 and 2015.

Regulated Utility Financial Data

	Nine Months Ended June 30,		Increase/
(In millions)	2016	2015	(Decrease)
Utility net revenues[1]:			
Operating revenues	$934.3	$1,193.2	$ (258.9)
Less: Cost of gas	258.6	518.9	(260.3)
Revenue taxes	63.0	73.3	(10.3)
Total utility net revenues	612.7	601.0	11.7
Operation and maintenance	236.9	237.8	(0.9)
Depreciation and amortization	86.3	81.9	4.4
General taxes and other assessments	45.4	41.9	3.5
Other expenses—net	1.0	0.8	0.2
EBIT	$243.1	$238.6	$ 4.5

[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.

The increase in EBIT primarily reflects the following:

- higher utility net revenues related to the growth of over 12,000 average active customer meters;
- higher unrealized mark-to-market valuations associated with our asset optimization program;
- lower operation and maintenance expenses 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;
- a decrease in the recovery of carrying costs on lower average storage gas inventory balances;
- lower realized margins associated with our asset optimization program;
- higher depreciation due to the growth in our utility plant and
- higher general taxes.

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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 the nine months ended June 30, 2016 and 2015.
Composition of Changes in Utility Net Revenues

(In millions)	Increase/ (Decrease)
Customer growth	$ 6.4
Estimated effects of weather and consumption patterns	(15.5)
Accelerated pipe replacement programs	9.3
Storage carrying costs	(2.4)
Asset optimization:	
Realized margins	(5.2)
Unrealized mark-to-market valuations	21.3
Other	(2.2)
Total	$ 11.7

Customer growth — Average active customer meters increased over 12,000 for the nine months ended June 30, 2016, compared to the same period of the prior fiscal year.

Estimated effects of weather and consumption patterns — Weather, when measured by HDDs, was 10.2% warmer and 4.9% colder than normal for the nine months ended June 30, 2016 and 2015, respectively. In the District of Columbia, where Washington Gas does not have a billing mechanism or hedges to offset the effects of weather, the warmer weather for the nine months ended June 30, 2016, resulted in a negative variance to net revenues. The decrease to net revenues was also due to the 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 day that occurs. 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.
Accelerated replacement programs — The positive effect on revenues is the result of the continued growth of our accelerated pipeline replacement programs in the District of Columbia, Maryland and Virginia.

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 comparisons for the nine months reflects lower average storage gas inventory balances primarily due to significantly lower priced gas in inventory.

Asset optimization — We recorded unrealized gains associated with our energy-related derivatives of $8.0 million for the nine months ended June 30, 2016 compared to unrealized losses of $13.3 million for the same period of the prior fiscal year. When these derivatives settle, any unrealized amounts will ultimately reverse and Washington Gas will realize margins in combination with related transactions that these derivatives economically hedge. The change 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.

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Operation and Maintenance Expenses. The following table provides the key factors contributing to the changes in operation and maintenance expenses of the Regulated Utility for the nine months ended June 30, 2016 and 2015.

Composition of Changes in Operation and
Maintenance Expenses

(In millions)	Increase/ (Decrease)
Employee incentives and direct labor costs	$ (0.3)
Support services	4.7
Uncollectible gas accounts	(3.6)
Business development	(1.5)
Other	(0.2)
Total	$ (0.9)

Employee incentives and direct labor costs — Washington Gas incurred less employee incentives and labor costs, net, for the nine months ended June 30, 2016 over the same period of the previous fiscal year, as a result of a decrease in the valuations of our share-based long-term incentive plan.
Support services — Washington Gas incurred additional costs for the nine months ended June 30, 2016 compared to the same period of the prior fiscal year due to increased project related costs including the implementation of a new customer information system as well as infrastructure support costs.
Uncollectible gas accounts — The decrease in uncollectible accounts is due to lower gas costs and warmer weather.
Business development — The decrease primarily relates to a decrease in customer growth initiative costs for Washington Gas.

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Retail Energy-Marketing
The following table depicts the retail energy-marketing segment's financial data along with selected statistical data.
Retail Energy-Marketing Financial and Statistical Data

(In millions, other than statistics)	Nine Months Ended June 30, 2016	2015	Increase/ (Decrease)
Operating Results			
Gross margins[1]:			
Operating revenues	$925.2	$1,003.3	$ (78.1)
Less: Cost of energy	825.2	920.4	(95.2)
Revenue taxes	7.9	6.7	1.2
Total gross margins	92.1	76.2	15.9
Operation expenses	36.2	33.0	3.2
Depreciation and amortization	0.9	0.5	0.4
General taxes and other assessments	3.1	3.6	(0.5)
Other income — net	0.2	0.1	0.1
EBIT	$52.1	$39.2	$ 12.9
Analysis of gross margins			
Natural gas			
Realized margins	$37.0	$50.3	$ (13.3)
Unrealized mark-to-market gains (losses)	19.6	(10.6)	30.2
Total gross margins—natural gas	$56.6	$39.7	$ 16.9
Electricity			
Realized margins	$33.0	$41.3	$ (8.3)
Unrealized mark-to-market gains (losses)	2.5	(4.8)	7.3
Total gross margins—electricity	$35.5	$36.5	$ (1.0)
Total gross margins	$92.1	$76.2	$ 15.9
Other Retail Energy-Marketing Statistics			
Natural gas			
Therm sales (millions of therms)	649.8	628.0	21.8
Number of customers (end of period)	136,500	147,100	(10,600)
Electricity			
Electricity sales (millions of kWhs)	9,321.1	8,549.9	771.2
Number of accounts (end of period)	130,200	141,200	(11,000)

[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, 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.

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.

The comparison of realized gross margins from natural gas sales between the nine months ended June 30, 2016 and 2015, reflects lower natural gas margins due to a decrease in portfolio optimization activity, partially offset by increased wholesale customer sales.

The comparison of realized gross margins from electric sales between the nine months ended June 30, 2016 and 2015, reflects lower realized electric margins due to higher capacity charges from the regional power grid operator (PJM) associated with fixed-price retail contracts, partially offset by increased large commercial and government customer growth.

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Operating expenses between the nine months ended June 30, 2016 and 2015, were higher due to increased broker fees and support service expenses.

Commercial Energy Systems

The table below represents the financial results of the commercial energy systems segment for the nine months ended June 30, 2016 and 2015.

Commercial Energy Systems Segment Financial Information

(In millions)	Nine Months Ended June 30, 2016	2015	Increase/ (Decrease)
Operating revenues	$57.1	$35.7	$ 21.4
Operating expenses:			
Cost of sales	27.9	15.5	12.4
Operations	17.5	12.6	4.9
Depreciation and amortization	11.1	7.7	3.4
General taxes and other assessments	0.3	0.3	—
Operating expenses	$56.8	$36.1	$ 20.7
Equity earnings	5.6	1.6	4.0
Other income	4.4	3.5	0.9
EBIT	$10.3	$4.7	$ 5.6
EBIT by division:			
Energy-efficiency contracting	$1.7	$(1.8)	$ 3.5
Commercial distributed generation	6.5	5.0	1.5
Investments in distributed generation	2.1	1.5	0.6
Total	$10.3	$4.7	$ 5.6

The increase in EBIT reflects higher margins from the energy-efficiency contracting business and the growth in distributed generation assets in service, including higher income from state rebate programs and solar renewable energy credit sales. 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 $3.0 million impairment recorded in the current period, 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 are investment tax credits related to our distributed generation assets which were $3.9 million and $3.0 million for the nine months ended June 30, 2016 and 2015, respectively.

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Midstream Energy Services
The table below represents the financial results of the midstream energy services segment for the nine months ended June 30, 2016 and 2015.
Midstream Energy Services Segment Financial Information

	Nine Months Ended June 30,		Increase/
(In millions)	2016	2015	(Decrease)
Operating revenues [a]	$16.2	$(18.0)	$ 34.2
Operating expenses:			
Operations	3.4	6.5	(3.1)
Depreciation and amortization	0.1	0.1	—
General taxes and other assessments	0.2	0.6	(0.4)
Operating expenses	$3.7	$7.2	$ (3.5)
Equity earnings	5.0	1.9	3.1
Other income	0.1	—	0.1
EBIT	$17.6	$(23.3)	$ 40.9

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

The increase in EBIT primarily reflects: (i) a $51.4 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) $10.7 million in lower valuations and realized margins related to storage inventory and the associated economic hedging transactions and (ii) a decrease of $6.5 million related to margins on our transportation strategies, primarily as a result of losses of approximately $8.8 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 increase 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 Condensed Consolidated Financial Statements for further discussion of this matter.

Other Non-Utility Activities

Transactions that are not significant enough on a stand-alone basis to warrant treatment as an operating segment, and that do not fit into one of our four operating segments, are aggregated as "Other Activities" and included as part of non-utility operations. Our other non-utility activities reflect EBIT of $(2.8) million and $(8.9) million for the nine months ended June 30, 2016 and 2015, respectively. The change in EBIT reflects a $5.6 million impairment charge of our investment in ASDHI recorded in the prior year period.

Intersegment Eliminations

Intersegment eliminations include any mark-to-market valuations associated with trading activities between WGL Midstream and WGL Energy Services, project financing activities 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.

Consolidated Income Taxes

The following table shows WGL's consolidated income tax expense and effective income tax rate for the nine months ended June 30, 2016 and 2015.

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Consolidated Income Taxes

(In millions)	Nine Months Ended June 30, 2016	2015	Increase/ (Decrease)
Income before income taxes	$281.1	$211.0	$70.1
Income tax expense	103.6	80.4	23.2
Effective income tax rate	36.9 %	38.1 %	(1.2)%

The decrease in the effective income tax rate for the nine months ended June 30, 2016, compared to the same prior year period, is mainly due to a $5.6 million impairment charge of our investment in ASDHI recorded in the prior year period. Refer to Note 9—Income Taxes of the Notes to the Consolidated Financial Statements of our combined Annual Report on Form 10-K 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 nine months ended June 30, 2016, WGL met its liquidity and capital needs through retained earnings and the issuance of commercial paper, long-term debt and common stock, and expects to do so for the remainder of fiscal year 2016. Washington Gas met its liquidity and capital needs through retained earnings and the issuance of commercial paper.

Our ability to access capital markets depends on our credit ratings, general market liquidity, and investor demand for our securities. 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 common equity ratio in the 50% range of total consolidated capital over the long term. As of June 30, 2016, total consolidated capitalization, including current maturities of long-term debt and notes payable, comprised 47.2% common equity, 0.9% Washington Gas preferred stock and 51.9% 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 our 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 June 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 June 30, 2016 and September 30, 2015, Washington Gas had balances in gas storage of $55.9 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 June 30, 2016 and September 30, 2015, Washington Gas had $3.9 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 June 30, 2016 and September 30, 2015, Washington Gas had a net regulatory liability of $9.9 million and $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 June 30, 2016 and September 30, 2015, WGL Energy Services had balances in gas storage of $18.8 million and $36.1 million, respectively. WGL Energy Services collects revenues that are designed to reimburse commodity costs used to supply their retail customer and wholesale counterparty contracts. At June 30, 2016 and September 30, 2015, WGL Midstream had balances in gas storage of $98.0 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. Additionally, WGL Energy Services and WGL Midstream may be required to post cash collateral for certain purchases. 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 June 30, 2016 and September 30, 2015, WGL Midstream had investments of $217.5 million and $73.4 million related to these pipelines, respectively. WGL Midstream initially funds capital calls related to these investments from short-term debt issued by WGL, generally with the intent of securing potential 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, generally with the intent of securing potential 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 $100.0 million for a maximum potential total of $550.0 million. The credit facility for Washington Gas permits it to borrow up to $350.0 million, and further permits, with the banks' approval, additional borrowings of $100.0 million for a maximum potential total of $450.0 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 Washington Gas. In the event that the long-term debt of Washington Gas is 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 below the 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 for a right for WGL or Washington Gas, as applicable to request two additional one-year extensions, with the banks' approval. Credit facility balances available to WGL and Washington Gas, net of commercial paper balances, were $294.0 million and $200.0 million at June 30, 2016 and $207.0 million and $261.0 million at September 30, 2015 .

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 June 30, 2016 and September 30, 2015, "Customer deposits and advance payments" totaled $78.3 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.

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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 lender funds the energy management services project, Washington Gas establishes a notes payable to the lender. As work is performed, Washington Gas establishes a receivable representing the government's obligation to remit principal and interest. The notes 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 lender in satisfaction of the obligation to the lender and removes both the receivable and the obligation related to the financing from its financial statements.

As of June 30, 2016, Washington Gas recorded a $56.6 million "Accounts receivable" on the balance sheet and a $52.3 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 June 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.

Refer to the section entitled "Capital Investments" in our 2015 Annual Report for discussion of our capital expenditures forecast and for a discussion of our long-term debt maturities.

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.

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 it will be on favorable terms. 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 nine months ended June 30, 2016, WGL has issued 1.2 million shares of common stock for gross proceeds of $78.2 million.

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.

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Credit Ratings for Outstanding Debt Instruments

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

(a) The long-term debt ratings outlook issued by Fitch Ratings for WGL and Washington Gas is stable.
(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' 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 June 30, 2016, WGL's and Washington Gas' ratios of consolidated financial indebtedness to consolidated total capitalization were 52% and 43%, 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 June 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 to or 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 June 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, WGL Energy Systems 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, WGL Energy Systems and WGL Midstream may be required to provide additional credit support and credit enhancements for these purchase contracts. At June 30, 2016, WGL Energy Services and WGL Energy Systems 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.

Historical Cash Flows

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

(In millions)	Nine Months Ended June 30, 2016	2015	Increase/ (Decrease)
Cash provided by (used in):			
Operating activities	$235.4	$513.0	$ (277.6)
Financing activities	$238.2	$(113.2)	$ 351.4
Investing activities	$(463.9)	$(342.5)	$ (121.4)

Cash Flows Provided by Operating Activities

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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 asset optimization arrangements 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 utility’s rate plans.

Net cash flows provided by operating activities for the nine months ended June 30, 2016 was $235.4 million compared to net cash flows provided by operating activities of $513.0 million for the nine months ended June 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 (Used in) Financing Activities

Cash flows provided by financing activities totaled $238.2 million for the nine months ended June 30, 2016, compared to cash flows used in financing activities of $113.2 million for the same period of the prior year. This increase in cash flows primarily reflects a $271.5 million increase in notes payable-net during the current period, $78.1 million of common stock issued during the current period and a $41.5 million increase due to common stock repurchased during the prior year period.

Cash Flows Used in Investing Activities

During the nine months ended June 30, 2016, cash flows used in investing activities totaled $463.9 million compared to $342.5 million used in the nine months ended June 30, 2015. This increase in cash used is primarily due to our additional funding 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 current period. Refer to "Pipeline Investments" below.

Capital Investments

The following table depicts our projected capital investments for fiscal years 2016 through 2020. Our capital outlays include expenditures to extend service to new areas to improve service for our utility customers and to grow our non-utility investments.

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	Projected					
(In millions)	2016	2017	2018	2019	2020	Total
New business[(a)]	$106.5	$130.6	$151.1	$169.8	$184.1	$742.1
Replacements:						
Regulatory plans[(b)]	125.2	125.0	126.9	134.2	151.6	662.9
Other	70.8	47.6	44.2	43.2	43.5	249.3
Customer information system	40.9	15.5	—	—	—	56.4
Other utility	41.4	47.1	58.5	48.1	56.0	251.1
Total utility[(c)]	384.8	365.8	380.7	395.3	435.2	1,961.8
Pipeline investments	162.6	343.8	229.4	18.2	0.1	754.1
Distributed generation	165.1	100.1	100.1	100.1	100.1	565.5
Other non-utility	12.0	0.4	0.1	0.1	0.1	12.7
Total investments	$724.5	$810.1	$710.3	$513.7	$535.5	$3,294.1

(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.
(c) Excludes Allowance for Funds Used During Construction and cost of removal.

Pipeline Investments
Constitution Pipeline
In 2013, WGL Midstream invested in Constitution. At June 30, 2016, WGL Midstream's total estimated 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. 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.
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 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 $39.9 million equity method investment in Constitution at June 30, 2016. Refer to Note 11, Other Investments of the Notes to the Consolidated Financial Statements for further discussion of this matter.
In light of the foregoing matters, Constitution has revised its target in-service to the second half of 2018. As a result of the revised target in-service date, we have revised our capital expenditure projections for Constitution 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.

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Central Penn will be an integral part of Transco’s “Atlantic Sunrise” project. WGL Midstream will invest an estimated $410 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 December, 2017.

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 will acquire 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). 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 7% equity interest) of project costs, for an estimated aggregate amount of approximately $228 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.

Reference is made to the "Contractual Obligations, Off-Balance Sheet Arrangements and Other Commercial Commitments" section of Management's Discussion in our 2015 Annual Report. Note 5 to the Consolidated Financial Statements in our 2015 Annual Report includes a discussion of long-term debt, including debt maturities. Note 13 to the Consolidated Financial Statements in our 2015 Annual Report reflects information about the various contracts of Washington Gas, WGL Energy Services and WGL Midstream.

There have been no significant changes to contractual obligations during the three and nine months ended June 30, 2016.

Off-Balance Sheet Arrangements

WGL has provided contributions and guarantees to Meade on behalf of WGL Midstream. As of June 30, 2016, our maximum exposure to loss was $68.4 million. WGL has provided guarantees to Mountain Valley on behalf of WGL Midstream and another partner in the venture. WGL's maximum exposure to loss due to the provided guarantees was $20.0 million at June 30, 2016. Refer to Note 11 - Other Investments of the Notes to Condensed Consolidated Financial Statements for a further discussion of our Meade and Mountain Valley investments.

Financial Guarantees

WGL has guaranteed payments primarily for certain commitments on behalf of certain subsidiaries. At June 30, 2016, these guarantees totaled $30.6 million, $238.1 million, $11.5 million and $327.4 million for Washington Gas, WGL Energy Services,

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WGL Energy Systems and WGL Midstream, respectively. At June 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 June 30, 2016, these guarantees totaled $18.9 million.

CREDIT RISK

Wholesale Credit Risk

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

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

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

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

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

Washington Gas, WGL Energy Services and WGL Midstream are also subject to the collateral requirements of their counterparties. At June 30, 2016, WGL, Washington Gas, WGL Energy Services and WGL Midstream provided $4.8 million, $16.0 million, $10.6 million and $28.2 million in cash collateral to counterparties, respectively.

The following table provides information on our credit exposure, net of collateral, to wholesale counterparties as of June 30, 2016 for Washington Gas, WGL Energy Services and WGL Midstream, separately.

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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	$ 43.3	$ —	$ 43.3	2	$ 30.3
Non-investment grade	3.5	3.4	0.1	—	—
No external ratings	5.0	0.2	4.8	—	—
WGL Energy Services					
Investment grade	$ 4.7	$ —	$ 4.7	4	$ 4.4
Non-investment Grade	—	—	—	—	—
No external ratings	0.1	—	0.1	—	—
WGL Midstream					
Investment grade	$ 34.8	$ —	$ 34.8	2	$ 27.0
Non-investment grade	1.0	1.2	—	—	—
No external ratings	10.6	0.6	10.0	—	—

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

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

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

(d) Using a percentage of the net exposure.

Retail Credit Risk

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

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

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

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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 nine months ended June 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	(8.0)
Other changes in net fair value	41.3
Realized net settlement of derivatives	(0.2)
Net assets (liabilities) at June 30, 2016	$(252.7)

Regulated Utility Segment
Roll Forward of Energy-Related Derivatives

(In millions)	
Net assets (liabilities) at September 30, 2015	$(285.8)
Recorded to income	9.2
Recorded to regulatory assets/liabilities	24.9
Net option premium payments	(0.8)
Realized net settlement of derivatives	(0.2)
Net assets (liabilities) at June 30, 2016	$(252.7)

The maturity dates of our net assets (liabilities) associated with the regulated utility segment's energy-related derivatives recorded at fair value at June 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)	Remainder of 2016	2017	2018	2019	2020	Thereafter	Total

Level 1 — Quoted prices in active markets	$—	$—	$—	$—	$—	$—	$—
Level 2 — Significant other observable inputs	(0.9)	(6.1)	(2.3)	(0.1)	—	—	(9.4)
Level 3 — Significant unobservable inputs	(2.4)	(40.0)	(27.6)	(21.6)	(19.4)	(132.3)	(243.3)
Total net assets (liabilities) associated with our energy-related derivatives	$(3.3)	$(46.1)	$(29.9)	$(21.7)	$(19.4)	$(132.3)	$(252.7)

Refer to Note 8, Derivative and Weather-Related Instruments and Note 9, Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements for a further discussion of our derivative activities and fair value measurements.

Price Risk Related to the Non-Utility Segments

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

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

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

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

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

The following two tables summarize the changes in the fair value of our net assets (liabilities) associated with the Retail Energy-Marketing segment's energy-related derivatives during the nine months ended June 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	1.8
Other changes in net fair value	17.8
Realized net settlement of derivatives	6.6

Net assets (liabilities) at June 30, 2016	$(3.8)

Retail Energy-Marketing Segment
Roll Forward of Energy-Related Derivatives
(In millions)

Net assets (liabilities) at September 30, 2015	$(30.0)
Recorded to income	15.6
Recorded to accounts payable	4.0
Realized net settlement of derivatives	6.6
Net assets (liabilities) at June 30, 2016	$(3.8)

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The maturity dates of our net assets (liabilities) associated with the Retail Energy-Marketing segments' energy-related derivatives recorded at fair value at June 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)	Remainder of 2016	2017	2018	2019	2020	Thereafter	Total
Level 1 — Quoted prices in active markets	$—	$—	$—	$—	$—	$ —	$—
Level 2 — Significant other observable inputs	1.2	5.0	0.4	(0.1)	0.2	—	6.7
Level 3 — Significant unobservable inputs	(2.6)	(4.3)	(2.9)	(0.6)	(0.1)	—	(10.5)
Total net assets (liabilities) associated with our energy-related derivatives	$(1.4)	$0.7	$(2.5)	$(0.7)	$0.1	$ —	$(3.8)

Refer to Note 8, Derivative and Weather-Related Instruments and Note 9, Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements for further discussion of our derivative activities and fair value measurements.
Commercial Energy Systems. WGL Energy Systems sells energy (both electricity and thermal) and RECs from distributed generation assets. The sale of energy is under long term power purchase agreements (PPAs) with a general duration of 20 years, while the sale of RECs are usually under shorter term or immediate delivery contracts. Weather patterns have an effect on WGL Energy Systems solar generation assets to the extent that output is reduced. WGL Energy Systems may also be exposed to REC price risk. The REC market has limited visibility to forward market prices. WGL Energy Systems seeks to mitigate this price risk by entering into bundled energy and REC long-term purchase agreements and independent forward REC sale agreements, when possible.
WGL Energy Systems also earns revenues by providing energy efficiency and sustainability solutions to governmental agencies pursuant to various contractual vehicles, including the area wide contract. WGL Energy Systems earns margins between the price at which the solutions are sold and the cost to design and build them. Margins may be eroded by an underestimation of costs. WGL Energy Systems also conducts business with government agencies and faces future revenue risks relating to such government agencies not receiving appropriations funding or projects being unfunded by Congress.
WGSW holds project financing arrangements, whereby it holds an interest in a limited partnership that acquires distributed generation solar assets at fair market value and 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 nine months ended June 30, 2016:

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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	(7.2)
Other changes in net fair value	49.8
Realized net settlement of derivatives	(39.8)
Net assets (liabilities) at June 30, 2016	$(19.0)

Midstream Energy Services Segment
Roll Forward of Energy-Related Derivatives
(In millions)

Net assets (liabilities) at September 30, 2015	$(21.8)
Recorded to income	42.6
Realized net settlement of derivatives	(39.8)
Net assets (liabilities) at June 30, 2016	$(19.0)

The maturity dates of our net assets (liabilities) associated with the Midstream Energy Services segments' energy-related derivatives recorded at fair value at June 30, 2016 is summarized in the following table based on the level of the fair value calculation under ASC Topic 820:
Midstream Energy Services Segment
Maturity of Net Assets (Liabilities) Associated with our Energy-Related Derivatives

(In millions)	Remainder of 2016	2017	2018	2019	2020	Thereafter	Total
Level 1 — Quoted prices in active markets	$—	$—	$—	$—	$—	$ —	$—
Level 2 — Significant other observable inputs	(4.1)	(17.5)	—	—	—	—	(21.6)
Level 3 — Significant unobservable inputs	(1.5)	(5.0)	(1.8)	0.4	1.2	9.3	2.6
Total net assets associated with our energy-related derivatives	$(5.6)	$(22.5)	$(1.8)	$0.4	$1.2	$ 9.3	$(19.0)

Refer to Note 8, Derivative and Weather-Related Instruments and Note 9, Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements for 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 June 30, 2016 was approximately $20,300 and $23,200, related to its natural gas and electric portfolios, respectively. WGL Energy Services' value-at-risk for the natural gas and electric portfolios fluctuate relative to market prices and portfolio composition. The high, low and average value-at-risk for natural gas and electric portfolios between the period October 1, 2015 and June 30, 2016 are noted in the table below.

WGL Energy Services
Value-at-Risk

(In thousands)	High	Low	Average
Natural Gas Portfolio	$62.8	$7.6	$ 22.8
Electric Portfolio	116.0	15.8	47.1
Total	$178.8	$23.4	$ 69.9

Weather Risk

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

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

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

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

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

Billing Adjustment Mechanisms. In Maryland, Washington Gas has a 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. Additionally, to protect against the effects of warmer than normal weather in the District of Columbia, Washington Gas may also utilize HDD instruments. 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 8—Derivative and Weather-Related Instruments of the Notes to Condensed 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 June 30, 2016 and September 30, 2015, WGL and its subsidiaries had outstanding notes payable of $358.3 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 for the quarter.

Long-Term Debt. At June 30, 2016 and September 30, 2015, WGL had outstanding fixed-rate MTNs and other long-term debt of $1,194.3 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 June 30, 2016, the fair value of WGL's fixed-rate debt was $1,373.1 million. Our sensitivity analysis indicates that fair value would increase by approximately $44.5 million or decrease by approximately $41.4 million if interest rates were to decline or increase by 10%, respectively, from current market levels. At June 30, 2016, Washington Gas had outstanding fixed-rate MTNs and other long-term debt of $695.9 million, excluding current maturities and unamortized discounts. As of June 30, 2016, the fair value of Washington Gas' fixed-rate debt was $868.2 million. Our sensitivity analysis indicates that fair value would increase by approximately $32.0 million or decrease by approximately $30.0 million if interest rates were to decline or increase by 10%, respectively, from current market levels. In general, such an increase or decrease in fair value would impact earnings and cash flows only if WGL or Washington Gas were to reacquire some or all of these instruments in the open market prior to their maturity.

A total of $1,052.5 million, or approximately 88.0%, 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 $552.5 million, or approximately 79.4%, of Washington Gas' outstanding long-term debt, excluding current maturities, have make-whole call options which, if exercised, would require us to pay a premium over the face amount.

Derivative Instruments. WGL 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 $200.0 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.

Washington Gas expects to issue 30-year debt in late 2016. In anticipation of the debt issuance, 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. Refer to Note 8-Derivative and Weather-Related Instruments for further discussion of our interest-rate risk management activity.

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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—Three Months Ended June 30, 2016 vs. June 30, 2015

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" in Management's Discussion for WGL 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 three months ended June 30, 2016 and 2015.

Gas Deliveries, Weather and Meter Statistics

	Three Months Ended June 30,		Increase/
	2016	2015	(Decrease)
Gas Sales and Deliveries (millions of therms)			
Firm			
Gas sold and delivered	110.6	98.1	12.5
Gas delivered for others	89.0	67.1	21.9
Total firm	199.6	165.2	34.4
Interruptible			
Gas sold and delivered	0.3	0.3	—
Gas delivered for others	49.4	46.7	2.7
Total interruptible	49.7	47.0	2.7
Electric generation—delivered for others	65.9	57.9	8.0
Total deliveries	315.2	270.1	45.1
Degree Days			
Actual	388	203	185
Normal	290	296	(6)
Percent colder (warmer) than normal	33.8 %	(31.4)%	n/a
Average active customer meters	1,145,000	1,132,900	12,100
New customer meters added	2,461	2,501	(40)

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). The comparison of firm volumes delivered for the current quarter compared to the prior quarter primarily reflects significantly colder weather in the current quarter, as well as an increase in average active customer meters.

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.

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

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retains a defined amount of revenues based on a set threshold. The comparison for the current quarter compared to the prior quarter primarily reflects colder weather in the current quarter, as well as conversions of certain interruptible customers to firm service.

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. 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.

Income Taxes

Please refer to the nine months ended June 30, 2016, for information about Washington Gas' income tax expense and effective income tax rate.

RESULTS OF OPERATIONS—Nine Months Ended June 30, 2016 vs. June 30, 2015

Key gas delivery, weather and meter statistics are shown in the table below for the nine months ended June 30, 2016 and 2015.

Gas Deliveries, Weather and Meter Statistics

	Nine Months Ended June 30,		Increase/
	2016	2015	(Decrease)
Gas Sales and Deliveries (millions of therms)			
Firm			
Gas sold and delivered	710.0	883.8	(173.8)
Gas delivered for others	441.0	506.2	(65.2)
Total firm	1,151.0	1,390.0	(239.0)
Interruptible			
Gas sold and delivered	2.4	1.8	0.6
Gas delivered for others	194.9	217.8	(22.9)
Total interruptible	197.3	219.6	(22.3)
Electric generation—delivered for others	168.3	113.1	55.2
Total deliveries	1,516.6	1,722.7	(206.1)
Degree Days			
Actual	3,340	3,929	(589)
Normal	3,719	3,746	(27)
Percent colder (warmer) than normal	(10.2)%	4.9 %	n/a
Average active customer meters	1,141,200	1,129,200	12,000
New customer meters added	9,035	9,048	(13)

Gas Service to Firm Customers. The comparison in natural gas deliveries to firm customers primarily reflects significantly warmer weather, partially offset by an increase of average active customer meters of over 12,000 in the current period than in the same period of the prior year.

Gas Service to Interruptible Customers. The decrease in therm deliveries to interruptible customers reflects decreased demand due to warmer weather.

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. 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.

Income Taxes

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The following table shows Washington Gas' income tax expense and effective income tax rate for the nine months ended June 30, 2016 and 2015.

Income Taxes

	Nine Months Ended June 30,		Increase/
(In millions)	2016	2015	(Decrease)
Income before income taxes	$210.8	$205.6	$ 5.2
Income tax expense	80.3	77.4	2.9
Effective income tax rate	38.1 %	37.6 %	0.5 %

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 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. The following is an update of significant current regulatory matters in Washington Gas' jurisdictions. For a more detailed discussion of the matters below, refer to our combined Annual Report on Form 10-K for WGL and Washington Gas for the fiscal year ended September 30, 2015, as recast in the current report on Form 8-K filed on March 16, 2016.

District of Columbia Jurisdiction

Investigation into Washington Gas' Cash Reimbursement to Competitive Service Providers (CSPs). On August 5, 2014, the Office of the People's Counsel's (OPC) of DC filed a complaint with The 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.

District of Columbia Rate Case. On February 26, 2016, Washington Gas filed an application with the PSC of DC to increase its base rates for natural gas service, generating $17.4 million in additional annual revenue. The revenue increase would include $4.5 million associated with natural gas system upgrades previously approved by the PSC of DC and currently paid by customers 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

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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.

On April 27, 2016, the Commission issued an order approving a Washington Gas special contract with the U.S. Architect of the Capitol. This contract for natural gas service will generate annual firm revenues of $2.6 million and result in a reduction of the revenue deficiency in the pending rate case from $17.4 million to $14.8 million. On May 31, 2016, Washington Gas filed a correction of an adjustment related to bad debt expense, which increased the revenue deficiency from $14.8 million to $17.3 million.

On July 6, 2016, the OPC, the Apartment and Office Building Association of Metropolitan Washington (AOBA) and other intervenors filed direct testimony and exhibits. The OPC recommends a rate increase of approximately $0.4 million, while AOBA recommends a rate increase of not more than approximately $8.5 million. Rebuttal testimony by Washington Gas and all parties must be filed by August 26, 2016.

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, generating $45.6 million in additional annual revenue. The revenue increase includes $22.3 million 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.

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.

Pursuant to the law, on May 6, 2015, Washington Gas entered into a 20-year agreement with Energy Corporation of America (ECA) to acquire natural gas reserves through non-operating working interests in 25 producing wells located in Pennsylvania's Appalachian Basin for $126 million conditional upon approval by the Commonwealth of Virginia State Corporation Commission (SCC of VA).

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 six months, Washington Gas has been engaged in meaningful negotiations with a producer to acquire natural gas reserves through working interests in natural gas wells in the Appalachian Basin. 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. However, the current market environment for natural gas, with price curves that are low over an extended period of time, has made it a challenge to structure an agreement that will generate significant savings for customers and satisfy the public interest standard of the SCC of VA. We will continue to pursue a long-term reserve investment opportunity, and we will continue to evaluate additional alternatives to our original proposal that will meet the requirements of the SCC of VA.

Affiliate Transactions. On June 5, 2013, Washington Gas submitted a petition for declaratory judgment with the SCC of VA related to a proposed transfer to WGL Midstream of the remainder of the term of two agreements for natural gas storage service at the Washington Storage Service (WSS) and Eminence Storage Service (ESS) storage fields. Specifically, Washington Gas sought a declaratory judgment that the SCC of VA did not have jurisdiction over the proposed transaction since the WSS and ESS agreements were no longer utilized to provide utility service and the SCC of VA was preempted by the federal authority over the transfers. On April 15, 2015, the SCC of VA approved the transfer of WSS and ESS but did not issue a ruling on the request for declaratory judgment.

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.

WGL Holdings, Inc.
Washington Gas Light Company
Part I—Financial Information

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following issues related to our market risks are included under Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and are incorporated by reference into this discussion.

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

ITEM 4. CONTROLS AND PROCEDURES—WGL Holdings, Inc.

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 such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of June 30, 2016. Based on this evaluation process, the Chairman and Chief Executive Officer and the Senior Vice President and Chief Financial Officer have concluded that disclosure controls and procedures of WGL are effective. There have been no changes in the internal control over financial reporting of WGL during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting of WGL.

ITEM 4. CONTROLS AND PROCEDURES—Washington Gas Light Company

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 the disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) of Washington Gas as of June 30, 2016. Based on this evaluation process, the Chairman and Chief Executive Officer and the Senior Vice President and Chief Financial Officer have concluded that the disclosure controls and procedures of Washington Gas are effective. There have been no changes in the internal control over financial reporting of Washington Gas during the quarter ended June 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—Other Information

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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 legislation establishing 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 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

WGL Holdings, Inc.
Washington Gas Light Company
Part II—Other Information

ITEM 6. EXHIBITS
Exhibits:

Schedule/ Exhibit	Description
(a)(3)	Exhibits
	Exhibits Filed Herewith:
31.1	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer of WGL Holdings, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Vincent L. Ammann, Jr., the Senior Vice President and Chief Financial Officer of WGL Holdings, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer of Washington Gas Light Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.4	Certification of Vincent L. Ammann, Jr., the Senior Vice President and Chief Financial Officer of Washington Gas Light Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer, and Vincent L. Ammann, Jr., the Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

WGL Holdings, Inc.
Washington Gas Light Company

Signature

Pursuant to the requirements 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)

Date: August 3, 2016 /s/ William R. Ford
William R. Ford
Vice President and Chief Accounting Officer (Principal Accounting Officer)