Columbia Pipeline Group, Inc.

Consolidated Financial Statements
December 31, 2018

Consolidated statements of income

year ended December 31 (millions of dollars)	2018	2017
Revenues (Note 4)	**1,865**	1,492
Income from Equity Investments (Note 7)	**77**	66
Operating and Other Expenses		
Plant operating costs and other	**681**	665
Property taxes	**82**	72
Depreciation and amortization	**229**	194
	992	931
Financial Charges		
Interest expense (Note 14)	**117**	124
Allowance for funds used during construction	**(178)**	(148)
Interest income and other	**(4)**	2
	(65	(22
Income before Income Taxes	**1,015**	649
Income Tax Expense (Note 13)	**231**	116
Net Income	**784**	533
Net income attributable to non-controlling interests (Note 15)	**—**	7
Net Income Attributable to Controlling Interests	**784**	526

The accompanying Notes to the consolidated financial statements are an integral part of these statements.

Consolidated statements of comprehensive income

year ended December 31 (millions of dollars)	**2018**	**2017**
Net Income	**784**	533
Other Comprehensive Income, Net of Income Taxes		
Change in fair value of cash flow hedges	**—**	13
Unrealized actuarial gains and losses on pension and other post-retirement benefit plans	**9**	2
Other comprehensive income/(loss) of equity investments	**3**	(12)
Other comprehensive income (Note 16)	**12**	3
Comprehensive Income	**796**	536
Comprehensive income attributable to non-controlling interests	**—**	7
Comprehensive Income Attributable to Controlling Interests	**796**	529

The accompanying Notes to the consolidated financial statements are an integral part of these statements.

Consolidated statements of cash flows

year ended December 31 (millions of dollars)	2018	2017
Cash Generated from Operations		
Net income	**784**	533
Depreciation and amortization	**229**	194
Deferred income taxes (Note 13)	**(100)**	449
Income from equity investments (Note 7)	**(77)**	(66)
Distributions received from operating activities of equity investments (Note 7)	**69**	62
Employee post-retirement benefits funding, net of expense (Note 17)	**—**	(13)
Equity allowance for funds used during construction	**(143)**	(136)
Other	**(3)**	3
Increase in operating working capital (Note 19)	**1,109**	(213)
Net cash provided by operations	**1,868**	813
Investing Activities		
Capital expenditures	**(3,969)**	(2,499)
Contributions to equity investments	**(138)**	(11)
Deferred amounts and other	**(266)**	(75)
Net cash used in investing activities	**(4,373)**	(2,585)
Financing Activities		
Distributions to non-controlling interests	**—**	(11)
Long-term debt repaid	**(500)**	—
Common share dividends paid	**(220)**	(220)
Equity issuance from TCPL USA	**3,149**	2,920
Common units of Columbia Pipeline Partners LP acquired (Note 15)	**—**	(921)
Net cash provided by financing activities	**2,429**	1,768
Decrease in Cash and Cash Equivalents	**(76)**	(4)
Cash and Cash Equivalents		
Beginning of year	**76**	80
Cash and Cash Equivalents		
End of year	**—**	76

The accompanying Notes to the consolidated financial statements are an integral part of these statements.

Consolidated balance sheets

at December 31 (millions of dollars)	**2018**	**2017**
ASSETS		
Current Assets		
Cash and cash equivalents	**—**	76
Accounts receivable	**311**	207
Related party receivable	**393**	32
Inventories	**56**	26
Other (Note 5)	**38**	24
	798	365
Plant, Property and Equipment (Note 6)	**13,982**	9,944
Equity Investments (Note 7)	**613**	462
Regulatory Assets (Note 8)	**123**	220
Goodwill (Note 9)	**1,976**	1,976
Other Assets (Note 10)	**2**	168
	17,494	13,135
LIABILITIES		
Current Liabilities		
Accounts payable and accrued interest	**792**	303
Related party payable	**952**	71
Current portion of long-term debt (Note 14)	**—**	500
	1,744	874
Regulatory Liabilities (Note 8)	**911**	1,167
Other Long-Term Liabilities (Note 12)	**11**	34
Long-Term Debt (Note 14)	**2,235**	2,232
Deferred Income Tax Liabilities (Note 13)	**1,164**	1,124
	6,065	5,431
EQUITY		
Shareholders' equity	**11,429**	7,704
	17,494	13,135

Commitments, Contingencies and Guarantees (Note 21)
Subsequent Events (Note 22)

The accompanying Notes to the consolidated financial statements are an integral part of these statements.

Consolidated statements of equity

year ended December 31 (millions of dollars)	2018	2017
Additional Paid-in Capital		
Balance at beginning of year	**7,473**	4,514
Equity investment from parent	**3,149**	2,920
Adjustment related to employee share-based payments	**(9)**	9
Columbia Pipeline Partners LP acquisition	**—**	30
Balance at end of year	**10,613**	7,473
Retained Earnings		
Balance at beginning of year	**252**	(54)
Net income attributable to controlling interests	**784**	526
Common share dividends	**(220)**	(220)
Reclassification of AOCI to retained earnings resulting from U.S. Tax Reform (Note 3)	**5**	—
Adjustment related to employee share-based payments	**9**	—
Balance at end of year	**830**	252
Accumulated Other Comprehensive Loss		
Balance at beginning of year	**(21)**	(24)
Other comprehensive income (Note 16)	**12**	3
Reclassification of AOCI to retained earnings resulting from U.S. Tax Reform (Note 3)	**(5)**	—
Balance at end of year	**(14)**	(21)
Equity Attributable to Controlling Interests	**11,429**	7,704
Equity Attributable to Non-Controlling Interests		
Balance at beginning of year	**—**	—
Net income attributable to non-controlling interests	**—**	7
Distributions declared to non-controlling interests	**—**	(11)
Impact of Columbia Pipeline Partners LP acquisition	**—**	4
Balance at end of year	**—**	—
Total Equity	**11,429**	7,704

The accompanying Notes to the consolidated financial statements are an integral part of these statements.

Notes to consolidated financial statements

1. DESCRIPTION OF COLUMBIA PIPELINE GROUP, INC.'S BUSINESS

Columbia Pipeline Group, Inc. (CPG Inc. or the Company) is a wholly-owned subsidiary of TransCanada PipeLines USA LTD. (TCPL USA), which is a subsidiary of TransCanada PipeLines Limited (TCPL). The Company's subsidiaries and investments operate and develop a portfolio which consists of the Company's investments in regulated natural gas pipeline, regulated natural gas storage facilities, midstream and other assets.

2. ACCOUNTING POLICIES

The Company's consolidated financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles (GAAP). Amounts are stated in U.S. dollars.

Basis of Presentation

These consolidated financial statements include the accounts of CPG Inc. and its subsidiaries. The Company uses the equity method of accounting for joint ventures in which it is able to exercise joint control and for investments in which it is able to exercise significant influence. Certain prior year amounts have been reclassified to conform to current year presentation.

Use of Estimates and Judgments

In preparing these consolidated financial statements, the Company is required to make estimates and assumptions that affect both the amount and timing of recording assets, liabilities, revenues and expenses since the determination of these items may be dependent on future events. The Company uses the most current information available and exercises careful judgment in making these estimates and assumptions. Actual results could differ from these estimates.

Regulation

The Company's natural gas pipelines and regulated natural gas storage assets are subject to the authority of the U.S. Federal Energy Regulatory Commission (FERC). The Company's natural gas transmission operations are regulated with respect to construction, operations and the determination of rates. Rate-regulated accounting (RRA) standards may impact the timing of the recognition of certain revenues and expenses in these rate-regulated businesses which may differ from that otherwise expected in non-rate-regulated businesses to appropriately reflect the economic impact of the regulator's decisions regarding revenues and rates. Regulatory assets represent costs that are expected to be recovered in customer rates in future periods and regulatory liabilities represent amounts that are expected to be returned to customers through future rate-setting processes. An asset qualifies for the use of RRA when it meets three criteria:

- a regulator must establish or approve the rates for the regulated services or activities
- the regulated rates must be designed to recover the cost of providing the services or products and
- it is reasonable to assume that rates set at levels to recover the cost can be charged to (and collected from) customers because of the demand for services or products and the level of direct or indirect competition.

CPG Inc.'s businesses that apply RRA currently include natural gas pipelines and regulated natural gas storage.

Revenue Recognition

Natural Gas Pipelines

Capacity Arrangements and Transportation

Revenues from the Company's natural gas pipelines are generated from contractual arrangements for committed capacity and from the transportation of natural gas. Revenues earned from firm contracted capacity arrangements are generally recognized ratably over the term of the contract regardless of the amount of natural gas that is transported. Transportation revenues for interruptible or volumetric-based services are recognized when the service is performed.

The Company's natural gas pipelines are subject to FERC regulations and, as a result, a portion of revenues collected may be subject to refund if invoiced during an interim period when a rate proceeding is ongoing. Allowances for these potential refunds are recognized using management's best estimate based on the facts and circumstances of the proceeding. Any allowances that are recognized during the proceeding process are refunded or retained at the time a regulatory decision becomes final. Natural gas pipelines' revenues are invoiced and received on a monthly basis. The Company does not take ownership of the natural gas that it transports for customers.

Natural Gas Storage and Other

Revenues from the Company's regulated natural gas storage services are generated mainly from firm committed capacity storage contracts. The performance obligation in these contracts is the reservation of a specified amount of capacity for storage including specifications with regards to the amount of natural gas that can be injected or withdrawn on a daily basis. Revenues are recognized ratably over the contract period for firm committed capacity regardless of the amount of natural gas that is stored, and when gas is injected or withdrawn for interruptible or volumetric-based services. Natural gas storage services revenues are invoiced and received on a monthly basis. The Company does not take ownership of the natural gas that it stores for customers.

Revenues from the Company's midstream natural gas services, including gathering, treating, conditioning, processing, compression and liquids handling services, are generated from contractual arrangements and are recognized ratably over the term of the contract. The Company also owns mineral rights associated with certain natural gas storage facilities. These mineral rights can be leased or contributed to producers of natural gas in return for a royalty interest which is recognized when natural gas and associated liquids are produced. Midstream natural gas service revenues are invoiced and received on a monthly basis. The Company does not take ownership of the natural gas for which it provides midstream services.

Cash and Cash Equivalents

The Company’s cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less and are recorded at cost, which approximates fair value.

In December 2018 the Company entered into a cash management program with TCPL USA. This program matches short-term cash surpluses and needs of participating affiliates, thus minimizing the total borrowings from outside sources. The regulated entities participating in the cash management program treat monies advanced under the program as a loan, accruing interest and repayable on demand. In addition, the regulated entities shall receive interest on monies advanced to TCPL USA at the rate of interest earned by TCPL USA on its short-term cash investments. The regulated entities shall pay interest on monies advanced from TCPL USA based on the short-term borrowing costs of TCPL USA.

Inventories

Inventories primarily consist of materials and supplies, including spare parts, and natural gas inventory in storage. Inventories are carried at the lower of cost and net realizable value.

Assets Held for Sale

The Company classifies assets as held for sale when management approves and commits to a formal plan to actively market a disposal group and expects the sale to close within the next twelve months. Upon classifying an asset as held for sale, the asset is recorded at the lower of its carrying amount or its estimated fair value, net of selling costs, and any losses are recognized in net income. Depreciation expense is no longer recorded once an asset is classified as held for sale.

Plant, Property and Equipment

Natural Gas Pipelines

Plant, property and equipment for natural gas pipelines is carried at cost. Depreciation is calculated on a straight-line basis once the assets are ready for their intended use. The depreciation rates of RRA are determined under the entity's FERC tariffs. Pipeline and compression equipment are depreciated at annual rates ranging from .75 per cent to three per cent, and metering and other plant equipment are depreciated at various rates reflecting their estimated useful lives. The cost of major overhauls of equipment is capitalized and depreciated over the estimated service lives of the overhauls. The cost of regulated natural gas pipelines includes an allowance for funds used during construction (AFUDC) consisting of a debt component and an equity component based on the rate of return on rate base approved by regulators. AFUDC is reflected as an increase in the cost of the assets in plant, property and equipment with a corresponding credit recognized in Allowance for funds used during construction in the Consolidated statements of income. The equity component of AFUDC is a non-cash expenditure.Interest is capitalized during construction of non-regulated natural gas pipelines.

Regulated natural gas storage base gas, which is valued at cost, represents storage volumes that are maintained to ensure that adequate reservoir pressure exists to deliver natural gas held in storage. Base gas is not depreciated.

When regulated natural gas pipelines retire plant, property and equipment from service, the original book cost is removed from the gross plant amount and recorded as a reduction to accumulated depreciation. Costs incurred to remove plant, property and equipment from service, net of any salvage proceeds, are also recorded in accumulated depreciation.

Midstream and Other

Plant, property and equipment for midstream assets is carried at cost. Depreciation is calculated on a straight-line basis once the assets are ready for their intended use. Gathering and processing facilities are depreciated at annual rates ranging from 1.7 per cent to 2.5 per cent, and other plant and equipment are depreciated at various rates. When these assets are retired from plant, property and equipment, the original book cost and related accumulated depreciation is derecognized and any gain or loss is recorded in net income.

The Company participates as a working interest partner in the development of certain Marcellus and Utica acreage. The working interest allows the Company to invest in the drilling activities in addition to receiving a royalty interest in well production. The Company uses the successful efforts method of accounting for natural gas and crude oil resulting from its portion of drilling activities. Capitalized well costs are depleted based on the units of production method.

Capitalized Project Costs

The Company capitalizes project costs once advancement of the project to a construction stage is probable or costs are otherwise likely to be recoverable. The Company also capitalizes interest costs for non-regulated projects in development and AFUDC for regulated projects in development. Capital projects in development are included in Intangible and other assets on the Consolidated balance sheets. These represent larger projects that generally require regulatory or other approvals before physical construction can begin. Once approvals are received, projects are moved to Plant, property and equipment under construction.

Impairment of Long-Lived Assets

The Company reviews long-lived assets such as plant, property and equipment and capital projects in development for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If the total of the estimated undiscounted future cash flows that are estimated for an asset within Plant, property and equipment, or the estimated selling price of any long-lived asset is less than the carrying value of an asset, an impairment loss is recognized for the excess of the carrying value over the estimated fair value of the asset.

Goodwill

The Company accounts for business combinations using the acquisition method of accounting and, accordingly, the assets and liabilities of the acquired entities are primarily measured at their estimated fair values at the date of acquisition. The excess of the fair value of the consideration transferred over the estimated fair value of the net assets acquired is classified as goodwill. Goodwill is not amortized and is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that it might be impaired. The annual review for goodwill impairment is performed at the reporting unit level which is one level below the Company's operating segments. The Company can initially assess qualitative factors to determine whether events or changes in circumstances indicate that goodwill might be impaired and if the Company concludes that it is not more likely than not that the fair value of the reporting unit is greater than its carrying value, the Company will then perform the quantitative goodwill impairment test. The Company can elect to proceed directly to the quantitative goodwill impairment test for any of its reporting units. If the quantitative goodwill impairment test is performed, the Company compares the fair value of the reporting unit to its carrying value, including its goodwill. If the carrying value of a reporting unit including its goodwill exceeds its fair value, goodwill impairment is measured at the amount by which the reporting unit’s carrying value exceeds its fair value.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. This method requires the recognition of deferred income tax assets and liabilities for future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates at the balance sheets date that are anticipated to apply to taxable income in the years in which temporary differences are expected to be reversed or settled. Changes to these balances are recognized in net income in the period which they occur, except for changes in balances related to regulated natural gas pipelines which are deferred until they are refunded or recovered in rates, as permitted by the regulator. Deferred income tax assets and liabilities are classified as non-current on the Consolidated balance sheets.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for asset retirement obligations in the period in which it is incurred, when a legal obligation exists and a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset and the liability is accreted through charges to Operating and other expenses.

For those AROs that the Company records, the following assumptions are used:

- when the asset is expected to be retired
- the scope and cost of abandonment and reclamation activities that are required and
- appropriate inflation and discount rates.

The Company has recorded AROs related to its mineral rights. The scope and timing of asset retirements related to most of the Company's natural gas pipelines and liquids pipelines is indeterminable. As a result, the Company has not recorded an amount for ARO related to these assets, with the exception of certain abandoned facilities and certain facilities expected to be retired as part of an ongoing modernization program that will improve system integrity and enhance service reliability and flexibility.

Environmental Liabilities

The Company records liabilities on an undiscounted basis for environmental remediation efforts that are likely to occur and where the cost can be reasonably estimated. These estimates, including associated legal costs, are based on available information using existing technology and enacted laws and regulations and are subject to revision in future periods based on actual costs incurred or new circumstances. Amounts expected to be recovered from other parties, including insurers, are recorded as an asset separate from the associated liability.

Employee Post-Retirement Benefits

The Company did sponsor a defined benefit pension plan (DB Plan) and other post-retirement benefit plans. The cost of the DB Plan and other post-retirement benefits received by employees is actuarially determined using the projected benefit method pro-rated based on service and management’s best estimate of expected plan investment performance, salary escalation, retirement age of employees and expected health care costs.

The DB Plan's assets were measured at fair value at December 31 of each year. The expected return on the DB Plan's assets was determined using market-related values based on a five-year moving average value for all of the DB Plan's assets. Past service costs were amortized over the expected average remaining service life of the employees. Adjustments arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The Company recognized the overfunded or underfunded status of the DB Plan as an asset or liability, respectively, on its Consolidated balance sheets and recognized changes in the funded status through Other comprehensive income/(loss) (OCI) in the year in which the change occurs. The excess of net actuarial gains or losses over 10 per cent of the greater of the benefit obligation and the market related value of the DB Plan's assets, if any, were amortized out of Accumulated other comprehensive income/loss (AOCI) and into net income over the expected average remaining service life of the active employees. When the restructuring of a benefit plan gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement.

For certain regulated operations, post-retirement benefit amounts are recoverable through rates as benefits are funded. The Company records any unrecognized gains or losses or changes in actuarial assumptions related to these post-retirement benefit plans as either regulatory assets or liabilities. The regulatory assets or liabilities are amortized on a straight-line basis over the expected average remaining service life of active employees.

Long-Term Debt Transaction Costs and Issuance Costs

The Company records long-term debt transaction costs and issuance costs as a deduction from the carrying amount of the related debt liability and amortizes these costs using the effective interest method.

Guarantees

Upon issuance, the Company records the fair value of certain guarantees entered into by the Company on behalf of a partially owned entity or by partially owned entities for which contingent payments may be made. The fair value of these guarantees is estimated by discounting the cash flows that would be incurred by the Company if letters of credit were used in place of the guarantees as appropriate in the circumstances. Guarantees are recorded as an increase to Equity investments or Plant, property and equipment and a corresponding liability is recorded in Other long-term liabilities. The release from the obligation is recognized either over the term of the guarantee or upon expiration or settlement of the guarantee.

3. ACCOUNTING CHANGES

Changes in Accounting Policies for 2018

Revenue from contracts with customers

In 2014, the FASB issued new guidance on revenue from contracts with customers. The new guidance requires that an entity recognize revenue from these contracts in accordance with a prescribed model. This model is used to depict the transfer of promised goods or services to customers in amounts that reflect the total consideration to which it expects to be entitled during the term of the contract in exchange for those promised goods or services. Goods or services that are promised to a customer are referred to as the Company's performance obligations. The total consideration to which the Company expects to be entitled can include fixed and variable amounts. The Company has variable revenue that is subject to factors outside the Company's influence, such as market prices, actions of third parties and weather conditions. The Company considers this variable revenue to be constrained as it cannot be reliably estimated, and therefore recognizes variable revenue when the service is provided.

The new guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue recognition and related cash flows.

The Company's accounting policies related to revenue recognition have not substantially changed as a result of adopting the new guidance on revenue from contracts with customers. Results reported for 2018 reflect the application of the new guidance, while the 2017 comparative results were prepared and reported under previous revenue recognition guidance which is referred to herein as "legacy U.S. GAAP." Under legacy U.S. GAAP, revenues were recognized when the risk, rewards, and benefits were transferred to the customer by the Company providing the goods or services under the contract, in an amount the Company expected to collect from the customer. Under the new guidance applied in 2018, revenues are recognized when the Company satisfies its performance obligations by transferring control of the promised goods or services to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company has elected to utilize a practical expedient to recognize revenues from its U.S. natural gas pipelines contracts as customers are invoiced. The new guidance was effective January 1, 2018, was applied using the modified retrospective transition method, and did not result in any material differences in the amount and timing of revenue recognition. Refer to Note 4, Revenues, for further information related to the impact of adopting the new guidance.

Financial instruments

In January 2016, the FASB issued new guidance on the accounting for equity investments and financial liabilities. The new guidance changes the income statements effect of equity investments and the recognition of changes in the fair value of financial liabilities when the fair value option is elected. The new guidance also requires the Company to assess valuation allowances for deferred tax assets related to available for sale debt securities in combination with their other deferred tax assets. This new guidance was effective January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Income taxes

In February 2018, the FASB issued new guidance that allows a reclassification from AOCI to retained earnings for stranded tax effects resulting from U.S. Tax Reform. This guidance can be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change is recognized. This new guidance is effective January 1, 2019, however, early adoption is permitted. The Company elected to early adopt this guidance effective fourth quarter 2018 and used a portfolio approach for releasing the income tax effects from AOCI to retained earnings. The Company applied this guidance retrospectively, at the beginning of the period of adoption, resulting in an adjustment to retained earnings of $5 million.

Restricted cash

In November 2016, the FASB issued new guidance on restricted cash and cash equivalents on the statements of cash flows. The new guidance requires that the statements of cash flows explain the change during the period in the total cash and cash equivalents balance, and amounts generally described as restricted cash or restricted cash equivalents. Restricted cash and cash equivalents will be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the statements of cash flows. This new guidance was effective January 1, 2018, was applied retrospectively, and did not have an impact on the Company's consolidated financial statements.

Employee post-retirement benefits

In March 2017, the FASB issued new guidance that requires entities to disaggregate the current service cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statements. The new guidance also requires that the other components of net benefit cost be presented elsewhere in the income statements and excluded from income from operations if such a subtotal is presented. In addition, the new guidance makes changes to the components of net benefit cost that are eligible for capitalization. Entities must use a retrospective transition method to adopt the requirement for separate presentation in the income statements of the components of net benefit cost, and a prospective transition method to adopt the change to capitalization of benefit costs. This new guidance was effective January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Goodwill impairment

In January 2017, the FASB issued new guidance on simplifying the test for goodwill impairment by eliminating Step 2 of the impairment test, which is the requirement to calculate the implied fair value of goodwill to measure the impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. This new guidance is effective January 1, 2020 with early adoption permitted. The Company elected to adopt this guidance effective fourth quarter 2018 as it simplified goodwill impairment testing. The guidance was applied prospectively and used in the 2018 annual goodwill impairment test.

Future Accounting Changes

Leases

In February 2016, the FASB issued new guidance on the accounting for leases. The new guidance amends the definition of a lease such that, in order for an arrangement to qualify as a lease, the lessee is required to have both (1) the right to obtain substantially all of the economic benefits from the use of the asset and (2) the right to direct the use of the asset. The new guidance also establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and corresponding lease liability on the balance sheets for all leases with a term longer than 12 months. Lessees will classify leases as finance or operating, with classification affecting the pattern of expense recognition in the statements of income. The new guidance does not make extensive changes to lessor accounting. The Company currently expects that substantially all of its leases where the Company is the lessor will continue to be classified as operating leases under the new standard.

In January 2018, the FASB issued an optional practical expedient, to be applied upon transition, to omit the evaluation of land easements not previously accounted for as leases that existed or expired prior to the entity's adoption of the new lease guidance. An entity that elects this practical expedient is required to apply it consistently to all of its existing or expired land easements not previously accounted for as leases. The Company will apply this practical expedient upon transition to the new standard.

The new guidance is effective January 1, 2019, with early adoption permitted. The Company will adopt the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application being January 1, 2019. In July 2018, the FASB issued a transition option allowing entities to not apply the new guidance, including disclosure requirements, to the comparative periods they present in their financial statements in the year of adoption. The Company will apply this transition option and use the effective date as the date of initial application. Consequently, financial information will not be updated and disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The Company will elect the package of practical expedients which permits entities not to reassess prior conclusions about lease identification, lease classification and initial direct costs under the rules of the new standard.

The Company believes that the effects of adoption will relate to the recognition of new ROU assets and lease liabilities on the Company's balance sheets for its operating leases and providing significant new disclosures about the Company's leasing activities. The guidance will not impact the Company's income statements. The Company's adoption of this guidance will not have a material impact on its consolidated financial statements. The new standard also provides practical expedients for a Company’s ongoing accounting. The Company will elect the short-term lease recognition exemption for all eligible leases. This means, for those leases that qualify, the Company will not recognize ROU assets or lease liabilities. The Company will also elect the practical expedient to not separate lease and non-lease components for all leases for which the Company is the lessee and for facility and liquids tank terminals for which the Company is the lessor.

Measurement of credit losses on financial instruments

In June 2016, the FASB issued new guidance that significantly changes how entities measure credit losses for most financial assets and certain other financial instruments that are not measured at fair value through net income. The new guidance amends the impairment model of financial instruments basing it on expected losses rather than incurred losses. These expected credit losses will be recognized as an allowance rather than as a direct write down of the amortized cost basis. The new guidance is effective January 1, 2020 and will be applied using a modified retrospective approach. The Company is currently evaluating the impact of the adoption of this guidance and has not yet determined the effect on its consolidated financial statements.

Fair value measurement
In August 2018, the FASB issued new guidance that amends certain disclosure requirements for fair value measurements. This new guidance is effective January 1, 2020, however, early adoption of certain or all requirements is permitted. The Company is currently evaluating the timing and impact of adoption of this guidance and has not yet determined the effect on its consolidated financial statements.

Implementation costs of cloud computing arrangements
In August 2018, the FASB issued new guidance requiring an entity in a hosting arrangement that is a service contract to follow the guidance for internal-use software to determine which implementation costs should be capitalized as an asset and which costs should be expensed. The guidance also requires the entity to amortize the capitalized implementation costs of a hosting arrangement over the term of the arrangement. This guidance is effective January 1, 2020, however, early adoption is permitted. This guidance can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the timing and impact of adoption of this guidance and has not yet determined the effect on its consolidated financial statements.

Consolidation
In October 2018, the FASB issued new guidance for determining whether fees paid to decision makers and service providers are variable interests for indirect interests held through related parties under common control. This new guidance is effective January 1, 2020, and will be applied on a retrospective basis, however early adoption is permitted. The Company is currently evaluating the timing and impact of the adoption of this guidance and has not yet determined the effect on its consolidated financial statements.

4. REVENUES

On January 1, 2018, the Company adopted new FASB guidance on revenue from contracts with customers using the modified retrospective transition method for all contracts that were in effect on the date of adoption. Results reported for 2018 reflect the application of the new guidance, while the 2017 comparative results were prepared and reported under previous revenue recognition guidance which is referred to herein as "legacy U.S. GAAP."

Financial Statement Impact of Adopting Revenue from Contracts with Customers

The Company adopted the new guidance using the modified retrospective transition method. As a practical expedient under this transition method, the Company is not required to analyze completed contracts at the date of adoption. The adoption of the new guidance did not have a material impact on the Company's previously reported consolidated financial statements at December 31, 2017.

The Company recognized $1,832 million of revenue from contracts with customers for the year ended December 31, 2018.

Capacity Arrangements and Transportation
For certain natural gas pipeline capacity contracts, amounts are invoiced to the customer in accordance with the terms of the contract, however, the related revenues are recognized when the Company satisfies its performance obligation to provide committed capacity ratably over the term of the contract. This difference in timing between revenue recognition and amounts invoiced creates a contract asset or contract liability under the new revenue recognition guidance. Under legacy U.S. GAAP, this difference was recorded as Accounts receivable.

Contract Balances

(millions of dollars)	**December 31, 2018**	**January 1, 2018**
Receivables from contracts with customers	**247**	168

5. OTHER CURRENT ASSETS

at December 31 (millions of dollars)	2018	2017
Regulatory assets (Note 8)	**26**	3
Prepaid expenses	**6**	7
Assets held for sale	**—**	13
Other	**6**	1
	38	24

6. PLANT, PROPERTY AND EQUIPMENT

at December 31 (millions of dollars)	2018			2017		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Natural Gas Pipelines						
Columbia Gas						
Pipeline	**6,073**	**1,341**	**4,732**	3,999	1,266	2,733
Compression	**2,703**	**653**	**2,050**	1,802	619	1,183
Metering and Other	**1,985**	**516**	**1,469**	1,723	486	1,237
	10,761	**2,510**	**8,251**	7,524	2,371	5,153
Under construction	**3,185**	**—**	**3,185**	2,661	—	2,661
	13,946	**2,510**	**11,436**	10,185	2,371	7,814
Other Natural Gas Pipelines						
Columbia Gulf	**2,058**	**828**	**1,230**	1,664	803	861
Midstream and Mineral Rights	**745**	**83**	**662**	723	65	658
Other	**136**	**82**	**54**	136	71	65
	2,939	**993**	**1,946**	2,523	939	1,584
Under construction	**600**	**—**	**600**	546	—	546
	3,539	**993**	**2,546**	3,069	939	2,130
	17,485	**3,503**	**13,982**	13,254	3,310	9,944

7. EQUITY INVESTMENTS

(millions of dollars)	Ownership Interest at December 31, 2018	Income/(loss) from Equity Investments		Equity Investments	
		year ended December 31		at December 31	
		2018	2017	2018	2017
Natural Gas Pipelines					
Millennium	47.5%	**58**	51	**374**	232
Pennant Midstream	47.0%	**13**	9	**188**	183
Hardy Storage	50.0%	**6**	6	**51**	47
		77	66	**613**	462

Distributions received from equity investments for the year ended December 31, 2018 were $69 million (2017 - $62 million). The undistributed earnings from equity investments as at December 31, 2018 were $13 million (2017 - $8 million). Contributions made to Millennium Pipeline Company, LLC to assist in funding their FERC approved capital projects for the year ended December 31, 2018 were $138 million (2017 - $11 million)

Summarized Financial Information of Equity Investments

year ended December 31 (millions of dollars)	Millennium	Pennant Midstream	Hardy Storage	2018
Income				
Revenues	**210**	**47**	**23**	**280**
Operating and other expenses	**(69)**	**(19)**	**(7)**	**(95)**
Net income	**122**	**28**	**13**	**163**
Net income attributable to CPG Inc.	**58**	**13**	**6**	**77**

year ended December 31 (millions of dollars)	Millennium	Pennant Midstream	Hardy Storage	2017
Income				
Revenues	204	34	23	262
Operating and other expenses	(66)	(16)	(8)	(90)
Net income	107	19	12	138
Net income attributable to CPG Inc.	51	9	6	66

at December 31 (millions of dollars)	Millennium	Pennant Midstream	Hardy Storage	2018
Balance Sheet				
Current assets	**82**	**15**	**9**	**106**
Non-current assets	**1,217**	**389**	**147**	**1,753**
Current liabilities	**(86)**	**(5)**	**(18)**	**(109)**
Non-current liabilities	**(427)**	**—**	**(37)**	**(464)**

at December 31 (millions of dollars)	Millennium	Pennant Midstream	Hardy Storage	2017
Balance Sheet				
Current assets	38	11	9	58
Non-current assets	969	381	149	1,499
Current liabilities	(51)	(4)	(17)	(72)
Non-current liabilities	(464)	—	(48)	(512)

8. RATE-REGULATED BUSINESSES

The Company's businesses that apply RRA currently include natural gas pipelines and regulated natural gas storage. Regulatory assets and liabilities represent future revenues that are expected to be recovered from or refunded to customers based on decisions and approvals by the applicable regulatory authorities. Depending on whether they are current or long-term in nature, Regulatory Assets are included on the balance sheets as either Other Current Assets or Regulatory Assets; Regulatory Liabilities are included in Accounts Payable and Accrued Interest or Regulatory Liabilities.

The Company's natural gas pipelines and regulated natural gas storage operate under the provisions of the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978 (NGA) and the Energy Policy Act of 2005, and are subject to the jurisdiction of the FERC. The NGA grants the FERC authority over the construction and operation of pipelines and related facilities, including the regulation of tariffs which incorporates maximum and minimum rates for services and allows regulated natural gas pipelines to discount or negotiate rates on a non-discriminatory basis. The Company's significant regulated natural gas pipelines are described below.

The 2018 FERC prescribed changes (FERC Actions) established a process and schedule by which all FERC-regulated interstate pipelines and natural gas storage facilities had to either (i) file a new uncontested rate settlement or (ii) file a FERC Form 501-G that quantifies the isolated impact of U.S. Tax Reform on FERC-regulated pipelines and natural gas storage assets.

The impact of the 2018 FERC Actions on the Company's more significant regulated natural gas pipelines is included below.

Columbia Gas Transmission, LLC

Columbia Gas' natural gas transportation and storage services are provided under a tariff at rates subject to FERC approval. In 2013, the FERC approved a modernization settlement which provides for cost recovery and return on investment of up to $1.5 billion over a five-year period to modernize the Columbia Gas system to improve system integrity and enhance service reliability and flexibility. In March 2016, an extension of this settlement was approved by the FERC, which allows for the cost recovery and return on additional expanded scope investment of $1.1 billion over a three-year period through 2020.

In response to the 2018 FERC Actions, Columbia Gas filed a Form 501-G including a statement explaining its rationale why the pipeline's rates are not required to change.

Columbia Gulf Transmission, LLC

Columbia Gulf Transmission LLC's (Columbia Gulf) natural gas transportation services are provided under a tariff at rates subject to FERC approval. In September 2016, the FERC issued an order approving an uncontested settlement following a FERC-initiated rate proceeding pursuant to section 5 of the NGA, which required a reduction in Columbia Gulf's daily maximum recourse rate and addressed treatment of post-retirement benefits other than pensions, pension expense, and regulatory expenses. The FERC order also requires Columbia Gulf to file a general rate case under section 4 of the NGA by January 31, 2020, for rates to take effect by August 1, 2020.

In response to the 2018 FERC Actions, Columbia Gulf filed a Form 501-G including a statement explaining its rationale why the pipeline's rates are not required to change.

Crossroads

Crossroads continues to operate under the rates approved by FERC in connection with its initial conversion and has committed to filing a rate case if the sale of firm capacity ever exceeds 150,000 Mcf/day.

In response to the 2018 FERC Actions, Crossroads filed a Form 501-G including a statement explaining its rationale why the pipeline's rates are not required to change.

Regulatory Assets and Liabilities

at December 31 (millions of dollars)	2018	2017	Remaining Recovery/ Settlement Period (years)
Regulatory Assets			
Deferred income taxes[1]	**124**	140	n/a
Pensions and other post retirement benefits[2]	**—**	80	n/a
Other	**25**	3	n/a
	149	223	
Less: Current portion included in Other current assets	**26**	3	
	123	220	
Regulatory Liabilities			
Operating and debt-service regulatory liabilities[3]	**—**	4	n/a
Pensions and other post retirement benefits[2]	**39**	127	n/a
Cost of removal[4]	**143**	139	n/a
Deferred income taxes - U.S. Tax Reform[5]	**731**	902	n/a
Other	**11**	12	n/a
	924	1,184	
Less: Current portion included in accounts payable and other	**13**	17	
	911	1,167	

1 These regulatory assets are underpinned by non-cash transactions or are recovered without an allowance for return as approved by the regulator. Accordingly, these regulatory assets are not included in rate base and do not yield a return on investment during the recovery period.

2 These balances represent the regulatory offset to pension plan and other post-retirement obligations to the extent the amounts are expected to be collected from or refunded to customers in future rates.

3 Operating and debt-service regulatory liabilities represent the accumulation of cost and revenue variances approved by the regulatory authority for inclusion in determining rates for the following calendar year.

4. This balance represents anticipated costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of certain rate-regulated operations for future costs to be incurred.

5. These balances represent the impact of the U.S. Tax Reform. The regulatory liabilities will be amortized over varying terms that approximate the expected reversal of the underlying deferred tax liabilities. See Note 13, Income Taxes, for further information on U.S. Tax Reform.

9. GOODWILL

At December 31, 2018, the Company's Goodwill of $1,976 million (2017 - $1,976 million) relates to the excess cost over the fair value of the net assets acquired by the acquisition of Columbia Energy Group in 2000, which was contributed to CPG Inc. prior to the full separation from NiSource Inc. in 2015.

10. OTHER ASSETS

at December 31 (millions of dollars)	2018	2017
Employee post-retirement benefits (Note 17)	**—**	158
Other	**2**	10
	2	168

11. NOTES PAYABLE

At December 31, 2018, total committed revolving and demand credit facilities available were $nil (2017 - $1.0 billion). This facility matured December 15, 2018.

at December 31 (billions of dollars, unless otherwise noted)			2018		2017
Borrower	**Description**	**Matures**	**Total Facilities**	**Unused Capacity**	**Total Facilities**
Committed, syndicated, revolving, extendible, senior unsecured credit facilities:					
Columbia	Used for Columbia general corporate purposes, guaranteed by TCPL		—	—	1.0

For the year ended December 31, 2018, the cost to maintain the above facilities was $1 million (2017 - $1 million).

12. OTHER LONG-TERM LIABILITIES

at December 31 (millions of dollars)	2018	2017
Deferred credits	5	8
Asset retirement obligations[1]	6	22
Other	—	4
	11	34

1 The majority of the Company's remaining asset retirement obligations relate to certain polychlorinated biphenyl ("PCB") remediation. As part of our process of assessing the estimated asset retirement obligation, we have re-evaluated our asset retirement obligations and determined that due to the construction status underway with the pipeline modernization settlement (Note 8) and the completion of certain key expansion projects to integrate the new expansion pipelines with the Company's existing pipeline infrastructure, the timing of settlement of the remediation activity of the historically recognized asset retirement obligations is indeterminable as the Company is required to operate and maintain its natural gas pipeline system, and intends to do so as long as supply and demand for natural gas exists, which the Company expects for the foreseeable future. Therefore, the Company believes its natural gas pipeline system assets have indeterminate lives and, accordingly, have recorded no asset retirement obligation outside of the PCB remediation under an Environmental Protection Agency (EPA) order and those related to mineral rights on non-regulated assets. The Company continues to evaluate its asset retirement obligations and future developments that could impact amounts it records

13. INCOME TAXES

U.S. Tax Reform

On December 22, 2017, the President of the United States signed H.R.1, the Tax Cuts and Jobs Act (U.S. Tax Reform or the Act) into law. As a result, the enacted U.S. federal corporate income tax rate was reduced from 35 per cent to 21 per cent effective January 1, 2018 and resulted in a remeasurement of existing deferred income tax assets and deferred income tax liabilities related to the Company's businesses to reflect the new lower income tax rate as at December 31, 2017.

For the Company's businesses not subject to RRA, the reduction in enacted income tax rates resulted in a decrease in net deferred income tax liabilities and a deferred income tax recovery of $86 million in 2017. For the Company's businesses subject to RRA, the reduction in income tax rates resulted in a reduction in net deferred income tax liabilities and the recognition of a net regulatory liability on the Consolidated balance sheets in the amount of $902 million.

Net deferred income tax liabilities related to the cumulative remeasurements of employee post-retirement benefits included in AOCI were also adjusted with a corresponding increase in deferred income tax expense of $5 million in 2017.

Given the significance of the legislation, the U.S. Securities and Exchange Commission (SEC) staff issued guidance which allowed registrants to record provisional amounts at December 31, 2017 which may be adjusted as information becomes available, prepared or analyzed during a measurement period not to exceed one year. The SEC guidance summarized a three-step process to be applied at each reporting period to identify: (1) where the accounting is complete; (2) provisional amounts where the accounting is not yet complete, but a reasonable estimate has been determined; and (3) where a reasonable estimate cannot yet be determined and therefore income taxes are reflected in accordance with law prior to the enactment of the Act.

At December 31, 2017, the Company considered amounts recorded related to U.S. Tax Reform to be reasonable estimates, however, certain amounts were provisional as the Company's interpretation, assessment and presentation of the impact of the tax law change were further clarified with additional guidance from regulatory, tax and accounting authorities received in 2018. With

additional guidance provided during the one-year measurement period and upon finalizing its 2017 annual tax return in 2018, the Company recognized further adjustments to its deferred income tax liability and net regulatory liability balances as well as a deferred income tax recovery of $66 million in fourth quarter 2018.

Commencing January 1, 2018, the Company amortized the net regulatory liabilities, recorded per U.S. Tax Reform, using the Reverse South Georgia methodology. Under this methodology, rate-regulated entities determine and immediately begin recording amortization based on their composite depreciation rates. In 2018, amortization of these net regulatory liabilities in the amount of $21 million was recorded and included in Revenues in the Consolidated statements of income. The net regulatory liability related to U.S. Tax Reform at December 31, 2018 was $731 million (2017 - $902 million).

Further to U.S. Tax Reform, the U.S. Treasury and the U.S. Internal Revenue Service issued proposed regulations in November and December 2018 which provided administrative guidance and clarified certain aspects of the new laws with respect to interest deductibility, base erosion and anti-abuse tax, the new dividend received deduction and anti-hybrid rules. Based on the Company's review and analysis of these proposed regulations, no material adjustments were recorded in the 2018 Consolidated financial statements. The proposed regulations are complex and comprehensive, and considerable uncertainty continues to exist until the final regulations are released, which is expected to occur later in 2019. CPG Inc. continues to review and analyze these proposed regulations as well as assess their potential impact on the Company.

Provision for Income Taxes

year ended December 31 (millions of dollars)	**2018**	**2017**
Current		
Federal	**311**	(336)
State	**20**	3
	331	(333)
Deferred		
Federal	**(122)**	469
State	**22**	(20)
	(100)	449
Income Tax Expense	**231**	116

Reconciliation of Income Tax Expense to Statutory Rate

year ended December 31 (millions of dollars)	**2018**	**2017**
Income before income taxes	**1,015**	649
Federal statutory tax rate	**21%**	35%
Expected federal income tax expense	**213**	227
U.S. Tax Reform	**19**	(81)
State income tax, net of federal income tax effect	**33**	19
Non-controlling interests	**—**	(4)
AFUDC Equity	**(30)**	(47)
Other	**(4)**	2
Income Tax Expense	**231**	116
Effective tax rate	**22.8%**	17.9%

Deferred Income Tax Assets and Liabilities

at December 31 (millions of dollars)	**2018**	**2017**
Deferred Income Tax Assets		
Operating loss carryforwards	**7**	78
Net regulatory liability	**209**	246
Other	**6**	11
Deferred Income Tax Assets	**222**	335
Deferred Income Tax Liabilities		
Difference in accounting and tax bases of plant, property and equipment	**(1,205)**	(1,259)
Equity investments	**(102)**	(89)
Other post-retirement benefits	**(29)**	(65)
Other	**(50)**	(46)
Deferred Income Tax Liabilities	**(1,386)**	(1,459)
Net Deferred Income Tax Liabilities	**(1,164)**	(1,124)

Federal Net Operating Losses

At December 31, 2018, the Company recognized a benefit of unused federal net operating loss carryforwards of nil (2017 - $268 million).

14. LONG-TERM DEBT

(millions of dollars)		2018		2017	
Outstanding Amounts	**Maturity Dates**	**Outstanding December 31**	**Interest Rate[1]**	**Outstanding December 31**	**Interest Rate[1]**
COLUMBIA PIPELINE GROUP, INC.					
Senior Unsecured Notes[2]	2020 to 2045	**2,250**	**4.4%**	2,750	4.0%
Current portion of long-term debt		**—**		(500)	
Unamortized debt discount and issue costs		**(15)**		(18)	
		2,235		2,232	

1 Interest rates are the effective interest rates except for those pertaining to long-term debt due to affiliates, in which case the weighted average interest rate is presented. The effective interest rate is calculated by discounting the expected future interest payments, adjusted for loan fees, premium and discounts. Weighted average and effective interest rates are stated as at the respective outstanding dates.

2 Certain subsidiaries of Columbia have guaranteed the principal payments of Columbia's senior unsecured notes. Each guarantor of Columbia's obligations is required to comply with covenants under the debt indenture and in the event of default, the guarantors would be obligated to pay the principal and related interest.

Principal Repayments

At December 31, 2018, principal repayments for the next five years on the Company's Long-term debt are approximately as follows:

(millions of dollars)	**2019**	**2020**	**2021**	**2022**	**2023**
Principal repayments on long-term debt	0	750	0	0	0

Long-Term Debt Repaid

The Company repaid long-term debt for the two years ended December 31, 2018 as follows:

(millions of dollars) Company	Retirement/ Repayment Date	Type	Amount	Interest Rate
COLUMBIA PIPELINE GROUP, INC.	June 2018	Senior Unsecured Notes	500	2.45%

Interest Expense

Interest expense in the two years ended December 31, 2018 was as follows:

(millions of dollars) year ended December 31	2018	2017
Interest on long-term debt	**105**	112
Interest on short-term debt	**9**	7
Amortization and other financial charges[1]	**3**	5
	117	124

[1] Amortization and other financial charges include amortization of transaction costs and debt discounts calculated using the effective interest method.

The Company made interest payments of $114 million in 2018 (2017 - $119 million), on long-term debt and notes payable, net of interest capitalized.

15. NON-CONTROLLING INTERESTS

The Company's Non-controlling interests included in the Consolidated balance sheets are as follows:

at December 31 (millions of dollars)	2018	2017
Non-controlling interest in Columbia Pipeline Partners LP	—	7

Columbia Pipeline Partners LP

On February 17, 2017, TCPL USA acquired all outstanding publicly held common units of Columbia Pipeline Partners LP at a price of $17.00 and a stub-period distribution payment of $0.10 per common unit for an aggregate transaction value of $921 million. As this was a transaction between entities under common control, it was recognized in equity.

16. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS

Components of Other comprehensive (loss)/income, including the portion attributable to non-controlling interests and related tax effects, are as follows:

year ended December 31, 2018 (millions of dollars)	Before Tax Amount	Income Tax Recovery/ (Expense)	Net of Tax Amount
Unrealized actuarial gains and losses on pension and other post-retirement benefit plans	**14**	**(5)**	**9**
Other comprehensive income of equity investments	**2**	**1**	**3**
Other Comprehensive Income	**16**	**(4)**	**12**

year ended December 31, 2017 (millions of dollars)	**Before Tax Amount**	**Income Tax Recovery/ (Expense)**	**Net of Tax Amount**
Change in fair value of cash flow hedges	21	(8)	13
Unrealized actuarial gains and losses on pension and other post-retirement benefit plans	3	(1)	2
Other comprehensive loss of equity investments	(21)	9	(12)
Other Comprehensive Income	3	—	3

The changes in AOCI by component are as follows:

	Cash flow hedges	**Pension and OPEB plan adjustments**	**Equity Investments**	**Total[1]**
AOCI Balance at December 31, 2017	—	(9)	(12)	(21)
Other comprehensive income before reclassifications	**—**	**9**	**3**	**12**
Net current period other comprehensive income	**—**	**9**	**3**	**12**
Reclassification of AOCI to retained earnings resulting from U.S. Tax Reform	**—**	**—**	**(5)**	**(5)**
AOCI Balance at December 31, 2018	**—**	**—**	**(14)**	**(14)**

1 All amounts are net of tax. Amounts in parentheses indicate losses recorded to OCI.

17. EMPLOYEE POST-RETIREMENT BENEFITS

On December 31, 2017, the Company's DB Plan merged with TCPL's existing DB Plan. In addition, on January 1, 2018, the Company's other post-retirement benefit plans merged with TransCanada USA Services Inc.'s other post-retirement benefit plan. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2018, where the benefit obligations and the fair value of plan assets was nil due to the merger of the plans. Owing to the fact that the plans merged and there are no longer direct employees of the Company, all associated obligations and assets were transferred to TransCanada as of January 1, 2018.

Total cash contributions by the Company for employee post-retirement benefits were as follows:

year ended December 31 (millions of dollars)	**2018**	**2017**
DB Plans	—	24
Other post-retirement benefit plans	—	1

In 2017, lump sum payouts exceeded service and interest costs for the Company's DB Plan. As a result, an interim remeasurement was performed on the Company's DB Plan at September 30, 2017 using a discount rate of 3.70 per cent. All other assumptions were consistent with those employed at December 31, 2016. The interim remeasurement of the Company's DB Plan increased unrealized actuarial gains by $12 million, of which $11 million was recorded in Regulatory assets and $1 million was recorded in OCI.

at December 31 (millions of dollars)	Pension Benefit Plans		Other Post-Retirement Benefit Plans	
	2018	2017	2018	2017
Change in Benefit Obligation[1]				
Benefit obligation – beginning of year	**352**	376	**121**	109
Transfer to obligation holder	**(352)**	—	**(121)**	—
Service cost	—	6	—	1
Interest cost	—	14	—	4
Benefits paid	—	(13)	—	(9)
Employee contributions	—	—	—	2
Actuarial (gain)/loss	—	8	—	14
Settlement	—	(39)	—	—
Benefit obligation – end of year	—	352	—	121
Change in Plan Assets				
Plan assets at fair value – beginning of year	**375**	348	**256**	231
Transfer to obligation holder	**(375)**	—	**(256)**	—
Actual return on plan assets	—	55	—	31
Employer contributions	—	24	—	1
Employee contributions	—	—	—	2
Benefits paid	—	(13)	—	(9)
Settlement	—	(39)	—	—
Plan assets at fair value – end of year	—	375	—	256
Funded Status – Plan (Deficit)/Surplus	—	23	—	135

[1] The benefit obligation for the pension benefit plans represents the projected benefit obligation. The benefit obligation for other post-retirement benefit plans represents the accumulated post-retirement benefit obligation.

The amounts recognized in the Company’s Consolidated balance sheets for the DB plan and other post-retirement benefits plans are as follows:

at December 31 (millions of dollars)	2018	2017
Other assets (Note 10)	—	158

The funded status based on the accumulated benefit obligation for the DB Plans is as follows:

at December 31 (millions of dollars)	2018	2017
Accumulated benefit obligation	—	352
Plan assets at fair value	—	375
Funded Status - surplus	—	23

The DB Plan's weighted average asset allocations and target allocations by asset category were as follows:

at December 31	Percentage of Plan Assets 2018	2017
Equity securities	—	62%
Debt securities	—	38%
	—	100%

The DB Plan did not hold any debt or equity securities of the Company or TransCanada at December 31, 2018 and 2017.

The other post-retirement benefit plans average asset and target allocation by asset category were as follows:

at December 31	Percentage of Plan Assets 2018	2017
Debt securities	—	80%
Equity securities	—	20%
	—	100%

The other post-retirement benefit plans did not hold any debt or equity securities of the Company or TransCanada at December 31, 2018 and 2017.

Pension plan assets are managed on a going concern basis, subject to legislative restrictions, and are diversified across asset classes to maximize returns at an acceptable level of risk. Asset mix strategies consider plan demographics and may include traditional equity and debt securities, as well as alternative assets such as infrastructure, private equity, real estate, and derivatives to diversify risk. Derivatives are not used for speculative purposes and the use of leveraged derivatives is prohibited.

All investments are measured at fair value using market prices. Where the fair value cannot be readily determined by reference to generally available price quotations, the fair value is determined by considering the discounted cash flows on a risk-adjusted basis and by comparison to similar assets which are publicly traded. In Level I, the fair value of assets is determined by reference to quoted prices in active markets for identical assets that the Company has the ability to access at the measurement date. In Level II, the fair value of assets is determined using valuation techniques, such as option pricing models and extrapolation using significant inputs, which are observable directly or indirectly. In Level III, the fair value of assets is determined using a market approach based on inputs that are unobservable and significant to the overall fair value measurement.

The following table presents plan assets for the DB Plan and other post-retirement benefit plans measured at fair value, which have been categorized into three categories based on a fair value hierarchy.

at December 31	Quoted Prices in Active Markets (Level I)		Significant Other Observable Inputs (Level II)		Significant Other Observable Inputs (Level III)		Total		Percentage of Total Portfolio	
(millions of dollars)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Asset Category										
Cash and Cash Equivalents	—	—	—	12	—	—	—	12	—	2
Equity Securities:										
U.S.	—	—	—	172	—	—	—	172	—	28
International	—	—	—	58	—	—	—	58	—	9
Global	—	—	—	51	—	—	—	51	—	8
Fixed Income Securities:										
Canadian bonds:										
Corporate	—	—	—	1	—	—	—	1	—	—
U.S. Bonds:										
Federal	—	—	—	195	—	—	—	195	—	31
Municipal	—	—	—	3	—	—	—	3	—	—
Corporate	—	—	—	111	—	—	—	111	—	18
International:										
Corporate	—	—	—	2	—	—	—	2	—	—
Other:										
Mortgage Backed	—	—	—	26	—	—	—	26	—	4
	—	—	—	631	—	—	—	631	—	100

The Company's plans merged with the TCPL DB plans on December 31, 2017, and all employees were transferred out of the Company, as such there are no future estimated benefit payments which the Company is liable for.

The significant weighted average actuarial assumptions adopted in measuring the benefit obligations were as follows:

at December 31	Pension Benefit Plan		Other Post-Retirement Benefit Plans	
	2018	2017	2018	2017
Discount rate	—	3.80%	—	3.80%
Rate of compensation increase	—	3.00%	—	—

The significant weighted average actuarial assumptions adopted in measuring the net benefit plan costs were as follows:

year ended December 31	Pension Benefit Plan		Other Post-Retirement Benefit Plans	
	2018	2017	2018	2017
Discount rate	—	4.10%	—	4.25%
Expected long-term rate of return on plan assets	—	6.25%	—	6.30%
Rate of compensation increase	—	2.50%	—	—

The overall expected long-term rate of return on plan assets is based on historical and projected rates of return for both the portfolio in aggregate and for each asset class in the portfolio. Assumed projected rates of return are selected after analyzing historical experience and future expectations of the level and volatility of returns. Asset class benchmark returns, asset mix and anticipated benefit payments from plan assets are also considered in the determination of the overall rate of return. The discount

rate is based on market interest rates of high-quality bonds that match the timing and benefits expected to be paid under each plan. The net benefit cost recognized for the DB plan and other post-retirement benefit plans is as follows:

year ended December 31	Pension Benefit Plan		Other Post-Retirement Benefit Plans	
(millions of dollars)	2018	2017	2018	2017
Service cost[1]	—	2	—	1
Other components of net benefit cost[1]				
Interest cost	—	4	—	4
Expected return on plan assets	—	(6)	—	(14)
Amortization of regulatory asset	—	20	—	—
Settlement charge - regulatory asset	—	1	—	—
Net Benefit Cost Recognized	—	21	—	(9)

1 Service cost and other components of net benefit cost are included in Plant operating costs and other in the Consolidated statements of income.

Pre-tax amounts recognized in AOCI were as follows:

at December 31 (millions of dollars)	2018		2017	
	Pension Benefits	Other Post-Retirement Benefits	Pension Benefits	Other Post-Retirement Benefits
Net loss	—	—	(4)	(1)

The estimated net loss for the DB Plan and for the other post-retirement benefit plans that will be amortized from AOCI into net periodic benefit cost in 2019 is nil.

Pre-tax amounts recorded in OCI were as follows:

at December 31 (millions of dollars)	2018		2017	
	Pension Benefits	Other Post-Retirement Benefits	Pension Benefits	Other Post-Retirement Benefits
Funded status adjustment	—	—	(3)	0

18. FAIR VALUE MEASUREMENT

Fair Value Hierarchy

The Company's financial assets and liabilities recorded at fair value have been categorized into three categories based on a fair value hierarchy.

Levels	How fair value has been determined
Level I	Quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date. An active market is a market in which frequency and volume of transactions provides pricing information on an ongoing basis.
Level II	Valuation based on the extrapolation of inputs, other than quoted prices included within Level I, for which all significant inputs are observable directly or indirectly. Inputs include published interest rates, interest rate swap curves, yield curves and broker quotes from external data service providers. This category includes interest rate derivative assets and liabilities where fair value is determined using the income approach and commodity derivatives where fair value is determined using the market approach. Transfers between Level I and Level II would occur when there is a change in market circumstances.
Level III	Valuation of assets and liabilities are measured using a market approach based on extrapolation of inputs that are unobservable or where observable data does not support a significant portion of the derivative's fair value. This category mainly includes long-dated commodity transactions in certain markets where liquidity is low and the Company uses the most observable inputs available or, if not available, long-term broker quotes to estimate the fair value for these transactions. Assets and liabilities measured at fair value can fluctuate between Level II and Level III depending on the proportion of the value of the contract that extends beyond the time frame for which significant inputs are considered to be observable. As contracts near maturity and observable market data becomes available, they are transferred out of Level III and into Level II.

Fair Value of Financial Instruments

The fair value of long-term debt is estimated using an income approach on quoted market prices for the same or simiiar debt instruments from external data service providers.

Certain non-derivative financial instruments included in Cash and cash equivalents, Accounts receivable, Intangible and other assets, Notes payable, Accounts payable and Accrued interest, and Other long-term liabilities have carrying amounts that approximate their fair value due to the nature of the item or the short time to maturity and would also be classified in Level II of the fair value hierarchy.

Credit risk has been taken into consideration when calculating the fair value of non-derivative instruments.

Balance Sheets Presentation of Non-Derivative Financial Instruments

The following table details the fair value of the non-derivative financial instruments, excluding those where carrying amounts approximate fair value, and would be classified in Level II of the fair value hierarchy:

	2018		2017	
at December 31 (millions of dollars)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Long-term debt, including current portion[1] (Note 14)	**(2,250)**	**(2,277)**	(2,750)	(2,932)

1 Long-term debt is recorded at amortized cost.

19. CHANGES IN OPERATING WORKING CAPITAL

year ended December 31 (millions of dollars)	2018	2017
(Increase)/decrease in Accounts receivable	**(81)**	11
Increase in Inventories	**(36)**	—
Decrease in Assets held for future use	**—**	(13)
Increase in Other current assets	**(26)**	107
Increase/(decrease) in Accounts payable and accrued interest	**1,252**	(318)
Increase in operating working capital	**1,109**	(213)

20. RELATED PARTY TRANSACTIONS

At December 31, 2018, $554 million was due to affiliates and is included on the Consolidated balance sheets (2017 due from affiliates - $35 million).

21. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments

Future annual payments under the Company's operating leases for various premises are approximately: 2019 - $9 million; 2020 - $8 million; 2021 - $6 million, 2022 - $5 million, 2023 - $4 million and 2024 and thereafter - $10 million. The operating lease agreements for the various premises expire at various dates through 2025, with an option to renew certain lease agreements for periods of one to 25 years.

Capital expenditure commitments include obligations related to the construction of growth projects and are based on the projects proceeding as planned. Changes to these projects, including cancellation, would reduce or possibly eliminate these commitments as a result of cost mitigation efforts. At December 31, 2018, the Company had capital expenditure commitments of approximately $30 million for its Natural gas pipelines, primarily related to construction costs associated with Columbia Gas and Columbia Gulf growth projects.

Contingencies

The Company is subject to laws and regulations governing environmental quality and pollution control. As at December 31, 2018, the Company had accrued approximately $7 million (2017 - $8 million) related to operating facilities, which represents the estimated future amount it expects to expend to remediate the sites. However, additional liabilities may be incurred as assessments occur and remediation efforts continue.

The Company and its subsidiaries are subject to various legal proceedings, arbitrations and actions arising in the normal course of business. The amount involved in such proceedings are not reasonably estimable as the final outcome of such legal proceedings cannot be predicted with certainty. It is the opinion of management that the ultimate resolution of such proceedings and actions, will not have a material impact on the Company's consolidated financial position or results of operations.

Guarantees

The Company and its partner in a jointly owned entity have jointly and severally guaranteed the financial performance of the jointly owned entity. This agreement includes a guarantee which primarily relates to the payment of liabilities. For this entity, any payments made by the Company under this guarantee in excess of its ownership interest are to be reimbursed by its partner.

The carrying value of this guarantee has been included in Other long-term liabilities on the Consolidated balance sheets. At December 31, 2018, the Company's share of potential estimated exposure and the carrying value are $16 million and $1 million respectively (2017 - $16 million and $1 million). This guarantee terminates in 2032.

22. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 6, 2019, the date these financial statements were authorized to be issued.

The Company paid dividends to TCPL USA in February 2019 for the amount of $55 million and in May 2019 for the amount of $55 million.

The Company's equity investments had the following activity subsequent to year end:

(millions of dollars)	Ownership Interest	Distributions from Equity Investments	Contributions to Equity Investments
		19-Mar	**19-Mar**
Natural Gas Pipelines			
Millennium	47.5%	20	10
Pennant Midstream	47.0%	—	—
Hardy Storage	50.0%	1	—
		21	**10**