

Consolidated statement of income

| year ended December 31 (millions of dollars) | 2017 |
|--|-------|
| Revenues | 1,492 |
| Income from Equity Investments (Note 6) | 66 |
| Operating and Other Expenses | |
| Plant operating costs and other | 665 |
| Property taxes | 72 |
| Depreciation and amortization | 194 |
| | 931 |
| Financial Charges | |
| Interest expense (Note 13) | 124 |
| Allowance for funds used during construction | (148) |
| Interest income and other | 2 |
| | (22) |
| Income before Income Taxes | 649 |
| Income Tax Expense (Note 12) | 116 |
| Net Income | 533 |
| Net Income Attributable to Non-Controlling Interests (Note 14) | 7 |
| Net Income Attributable to Controlling Interests and Common Shares | 526 |

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

Consolidated statement of comprehensive income

| year ended December 31 (millions of dollars) | 2017 |
|--|------|
| Net Income | 533 |
| Other Comprehensive Income, Net of Income Taxes | |
| Change in fair value of cash flow hedges | 13 |
| Unrealized actuarial gains and losses and prior service costs on pension and other post-retirement benefit plans | 2 |
| Other comprehensive loss on equity investments | (12) |
| Other comprehensive income (Note 15) | 3 |
| Comprehensive Income | 536 |
| Comprehensive income attributable to non-controlling interests | 7 |
| Comprehensive Income Attributable to Controlling Interest | 529 |

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

Consolidated statement of cash flows

| year ended December 31 (millions of dollars) | 2017 |
|---|------------|
| Cash Generated from Operations | |
| Net income/(loss) | 533 |
| Depreciation and amortization | 194 |
| Deferred income taxes (Note 12) | 449 |
| Income from equity investments (Note 6) | (66) |
| Distributions received from operating activities of equity investments (Note 6) | 62 |
| Employee post-retirement benefits funding, net of expense | (13) |
| Equity allowance for funds used during construction | (136) |
| Other | 3 |
| Increase in operating working capital (Note 18) | (213) |
| Net cash provided by operations | 813 |
| Investing Activities | |
| Capital expenditures | (2,499) |
| Contributions to equity investments | (11) |
| Deferred amounts and other | (75) |
| Net cash used in investing activities | (2,585) |
| Financing Activities | |
| Distributions paid to non-controlling interests | (11) |
| Common share dividends paid | (220) |
| Equity issuance from TCPL USA | 2,920 |
| Common units of Columbia Pipeline Partners LP acquired (Note 14) | (921) |
| Net cash provided by financing activities | 1,768 |
| Decrease in Cash and Cash Equivalents | (4) |
| Cash and Cash Equivalents | |
| Beginning of year | 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 sheet

| at December 31 (millions of dollars) | 2017 |
|--|--------|
| ASSETS | |
| Current Assets | |
| Cash and cash equivalents | 76 |
| Accounts receivable | 207 |
| Related party receivable | 32 |
| Inventories | 26 |
| Other (Note 4) | 24 |
| | 365 |
| Plant, Property and Equipment (Note 5) | 9,944 |
| Equity Investments (Note 6) | 462 |
| Regulatory Assets (Note 7) | 220 |
| Goodwill (Note 8) | 1,976 |
| Other Assets (Note 9) | 168 |
| | 13,135 |
| LIABILITIES | |
| Current Liabilities | |
| Accounts payable and accrued interest | 303 |
| Related party payable | 71 |
| Current portion of long-term debt (Note 13) | 500 |
| | 874 |
| Regulatory Liabilities (Note 7) | 1,167 |
| Other Long-Term Liabilities (Note 11) | 34 |
| Long-Term Debt (Note 13) | 2,232 |
| Deferred Income Tax Liabilities (Note 12) | 1,124 |
| | 5,431 |
| EQUITY | |
| Shareholders' equity | 7,704 |
| | 7,704 |
| | 13,135 |
| Commitments, Contingencies and Guarantees (Note 20) | |
| Subsequent Events (Note 21) | |

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

Consolidated statement of equity

| year ended December 31 (millions of dollars) | 2017 |
|--|--------------|
| Additional Paid-in Capital | |
| Balance at beginning of year | 4,514 |
| Equity investment from parent | 2,920 |
| Adjustment related to employee share-based payments (Note 3) | 9 |
| Impact of Columbia Pipeline Partners LP acquisition | 30 |
| Balance at end of year | 7,473 |
| Retained Earnings | |
| Balance at beginning of year | (54) |
| Net income/(loss) attributable to controlling interests | 526 |
| Common share dividends | (220) |
| Balance at end of year | 252 |
| Accumulated Other Comprehensive Income/(loss) | |
| Balance at beginning of year | (24) |
| Other comprehensive income (Note 15) | 3 |
| Balance at end of year | (21) |
| Equity Attributable to Controlling Interests | 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 | 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 PipeLine 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 pipelines, regulated natural gas storage facilities, midstream and other assets.

2016 Merger. On March 17, 2016, CPG Inc. entered into an Agreement and Plan of Merger (the Merger Agreement), among CPG Inc., TCPL, TCPL USA, Taurus Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of TCPL USA (Merger Sub), and, solely for purposes of Section 3.02, Section 5.02, Section 5.09 and Article VIII of the Merger Agreement, TransCanada Corporation (TransCanada). Upon the terms and subject to the conditions set forth in the Merger Agreement, effective July 1, 2016, Merger Sub was merged with and into CPG Inc. (the Merger) with CPG Inc. surviving the Merger as an indirect wholly owned subsidiary of TransCanada.

CPPL Merger. On November 1, 2016, CPPL announced that it had entered into an agreement and plan of merger (CPPL Merger Agreement) with CPG Inc., Pony Merger Sub LLC, a Delaware limited liability company and wholly owned subsidiary of CPG Inc. (Pony Merger Sub) and CPP GP LLC (MLP GP).

On February 16, 2017, the CPPL unaffiliated unitholders voted to approve the CPPL Merger. On February 17, 2017, CPG Inc. acquired all outstanding publicly held common units of CPPL at a price of \$17.00 and a stub period of distribution payment of \$0.10 per common unit for an aggregate transaction value of \$921 million. As a result of the CPPL Merger, CPPL became a wholly owned subsidiary of CPG Inc.

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. Note only one year of activity is presented in the financial information.

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.

Revenue Recognition

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 recognized ratably over the contract period regardless of the amount of natural gas that is transported. Transportation revenues for interruptible or volumetric-based services are recognized when physical deliveries of natural gas are made.

The Company's natural gas pipelines are subject to FERC regulations and, as a result, revenues collected may be subject to refund during a rate proceeding. 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.

The Company does not take ownership of the natural gas that it transports for its customers.

Regulated Natural Gas Storage

Revenues from the Company's regulated natural gas storage services 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. The Company does not take ownership of the gas that it stores for others.

Midstream and Other

Revenues from the Company's midstream natural gas services, including gathering, treating, conditioning, processing, compression and liquids handling services, are generated from volumetric based contractual arrangements and are recognized ratably over the contract period regardless of the amount of natural gas that is subject to these services. The Company also owns mineral rights in association with certain storage facilities. These mineral rights can be leased or contributed to producers of natural gas in return for a royalty interest. Royalties from mineral interests are recognized when product is produced.

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.

Inventories

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

Plant, Property and Equipment

Natural Gas Pipelines

Plant, property and equipment for natural gas pipelines are carried at cost. Depreciation is calculated on a straight-line basis once the assets are ready for their intended use. Pipeline and compression equipment are depreciated at annual rates ranging from .75 per cent to 3.3 per cent, and metering and other plant equipment are depreciated at various rates. 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 statement 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 a plant from service, net of any salvage proceeds, are also recorded in accumulated depreciation.

Midstream and Other

Plant, property and equipment for midstream assets are 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 and amortization are derecognized and any gain or loss is recorded in net income.

The Company participates as a working interest partner in the development of 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. Capital projects in development are included in Intangible and other assets on the Consolidated balance sheet. These represent larger projects that generally require regulatory or other approvals before physical construction can begin. Once approvals are received, or for regulatory projects, once they are filed with the FERC, projects are moved to Plant, property and equipment under construction. When the asset is ready for its intended use and available for operations, capitalized project costs are depreciated in accordance with the Company's plant, property and equipment depreciation policies, or for regulated companies capitalized project costs are depreciated using the depreciation rates from the most recent rate case.

Impairment of Long-Lived Assets

The Company reviews long-lived assets, such as Plant, property and equipment and Intangible assets 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 or the estimated selling price 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 Company can initially assess qualitative factors to determine whether events or changes in circumstances indicate that goodwill might be impaired. 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 first step of a two-step impairment test is performed by comparing the fair value to its carrying value, which includes goodwill. If the fair value is less than its carrying value, an impairment is indicated and the second step is performed to measure the amount of the impairment. In the second step, the implied fair value of goodwill is calculated by deducting the recognized amounts of all tangible and intangible net assets from the fair value determined in the initial assessment. If the carrying value of goodwill exceeds the calculated implied fair value of goodwill, an impairment charge is recorded in an amount equal to the difference. The Company can elect to move directly to the first step of the two-step impairment test for any of its reporting units when performing its annual impairment test.

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 statement 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 sheet 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 during which they occur, except for changes in balances related to regulated natural gas pipelines which are deferred until they are refunded, recovered in rates, or recognized as otherwise permitted by the regulator. Deferred income tax assets and liabilities are classified as non-current on the consolidated balance sheet.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for asset retirement obligations (AROs) 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.

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 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 on its Columbia Gas pipeline. The Company recognizes that certain assets, which include gas pipelines and natural gas storage wells, will operate for an indeterminate future period when properly maintained. A liability for these asset AROs will be recorded only if and when future retirement obligation with a determinable life is identified.

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. The estimates, including associated legal costs, are based on available information using

existing technology and enacted laws and regulations. The estimates 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.

[Pension and Other Post-Retirement Benefits](#)

The Company sponsors defined benefit pension plans (DB Plans) and other post-retirement benefit plans. The cost of the DB Plans 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 Plans' assets are measured at fair value at December 31 of each year. The expected return on the DB Plans' assets is determined using market-related values based on a five-year moving average value for all of the DB Plans' assets. Past service costs are 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 recognizes the overfunded or underfunded status of its DB Plans as an asset or liability, respectively, on its Consolidated balance sheet and recognizes changes in that 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 Plans' assets, if any, is amortized out of Accumulated other comprehensive income/loss (AOCI) and into Net income over the 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 or on behalf of 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, Plant, property and equipment, or a charge to Net income, 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 2017](#)

[Inventory](#)

In July 2015, the Financial Accounting Standards Board (FASB) issued new guidance on simplifying the measurement of inventory. The new guidance specifies that an entity should measure inventory within the scope of this guidance at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This new guidance was effective January 1, 2017, was applied prospectively and did not have a material impact on the Company's consolidated balance sheet.

Derivatives and hedging

In March 2016, the FASB issued new guidance that clarifies the requirements for assessing whether contingent call or put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The new guidance requires only an assessment of the four-step decision sequence outlined in GAAP to determine whether the economic characteristics and risks of call or put options are clearly and closely related to the economic characteristics and risks of their debt hosts. This new guidance was effective January 1, 2017, was applied prospectively and has not resulted in any impact on the Company's consolidated financial statements.

Equity method investments

In March 2016, the FASB issued new guidance that simplifies the transition to equity method accounting. The new guidance eliminates the requirement to retroactively apply the equity method of accounting when an increase in ownership interest in an investment qualifies it for equity method accounting. This new guidance was effective January 1, 2017, was applied prospectively and has not resulted in any impact on the Company's consolidated financial statements.

Future Accounting Changes

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 in accordance with a prescribed model. This model is used to depict the transfer of promised goods or services to customers in an amount that reflects the total consideration to which it expects to be entitled during the term of the contract in exchange for those goods or services. The new guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and the related cash flows. The Company will adopt the new guidance on the effective date of January 1, 2018 to align with TCPL's adoption. There are two methods in which the new guidance can be adopted: (1) a full retrospective approach with restatement of all prior periods presented, or (2) a modified retrospective approach with a cumulative-effect adjustment as of the date of adoption. The Company will adopt the guidance using the modified retrospective approach with the cumulative-effect of the adjustment, if any, recognized at the date of adoption, subject to allowable and elected practical expedients.

The Company identified all existing customer contracts that are within the scope of the new guidance by operating segment. The Company has completed its analysis of the contracts and has not identified any material differences in the amount and timing of revenue recognition as a result of implementing the new guidance. Therefore, the Company will not require a cumulative-effect adjustment to opening retained earnings on January 1, 2018.

Although consolidated revenues will not be materially impacted by the new guidance, the Company will be required to add disclosures based on the prescribed requirements. These new disclosures will include information regarding the significant judgments used in evaluating when and how revenues are recognized and information related to contract assets and deferred revenues. In addition, the new guidance requires that the Company's revenue recognition policy disclosure include additional detail regarding the various performance obligations and the nature, amount, timing and estimates of revenues and cash flows generated from contracts with customers. The Company has addressed system and process changes necessary to compile the information to meet the recognition and disclosure requirements of 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 will change the income statement 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 is effective January 1, 2018 and a method of adoption is specified for each component of the guidance. The Company has completed its analysis and does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Leases

In February 2016, the FASB issued new guidance on the accounting for leases. The new guidance amends the definition of a lease requiring the lessor 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 in order for an arrangement to qualify as a lease. 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 sheet for

all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new guidance does not make extensive changes to lessor accounting.

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 the practical expedient consistently to all of its existing or expired land easements not previously accounted for as leases. The Company continues to monitor and analyze additional guidance and clarifications provided by the FASB.

The new guidance is effective January 1, 2019, with early adoption permitted. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is continuing to identify and analyze existing lease agreements to determine the effect of application of the new guidance on its consolidated financial statements. The Company is also addressing system and process changes necessary to compile the information to meet the recognition and disclosure requirements of the new guidance and continues to monitor and analyze additional guidance and clarification provided by the FASB.

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 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.

Income taxes

In October 2016, the FASB issued new guidance on the income tax effects of intra-entity transfers of assets other than inventory. The new guidance requires the recognition of deferred and current income taxes for an intra-entity asset transfer when the transfer occurs. The new guidance is effective January 1, 2018 and will be applied using a modified retrospective approach. The Company has completed its analysis and does not expect the application of this guidance to have a material impact on its consolidated financial statements.

In February 2018, the FASB issued new guidance that allows a reclassification from AOCI to retained earnings for stranded tax effects resulting from the U.S. Tax Reform. This new guidance is effective January 1, 2019, however, early adoption is permitted. 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. The Company is currently evaluating this guidance in conjunction with its analysis of the overall impact of U.S. Tax Reform.

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 and will be applied prospectively, however, early adoption is permitted.

Employee post-retirement benefits

In March 2017, the FASB issued new guidance that will require 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 statement. The new guidance also requires that the other components of net benefit cost be presented elsewhere in the income statement 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 statement of the components of net benefit cost, and a prospective transition method to adopt the change to capitalization of benefit costs. This new guidance is effective January 1, 2018. The Company has completed its analysis and does not expect the application of this guidance to have a material impact on its consolidated financial statements.

Amortization on purchased callable debt securities

In March 2017, the FASB issued new guidance that shortens the amortization period for the premium on certain purchased callable debt securities by requiring entities to amortize the premium to the earliest call date. This new guidance is effective January 1, 2019 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.

Hedge accounting

In August 2017, the FASB issued new guidance on hedge accounting, making more financial and non-financial hedging strategies eligible for hedge accounting. The new guidance also amends the presentation requirements relating to the change in fair value of a derivative and additional disclosure requirements include cumulative basis adjustments for fair value hedges and the effect of hedging on individual statement of income line items. This new guidance is effective January 1, 2019, with early adoption permitted. The Company has elected to apply this guidance effective January 1, 2018. The Company has completed its analysis and does not expect the application of this guidance to have a material impact on its consolidated financial statements.

4. OTHER CURRENT ASSETS

| at December 31 (millions of dollars) | 2017 |
|---|------|
| Prepaid expenses | 7 |
| Assets held for future use | 13 |
| Other | 4 |
| | 24 |

5. PLANT, PROPERTY AND EQUIPMENT

| at December 31 (millions of dollars) | 2017 | | |
|---|--------|-----------------------------|-------------------|
| | Cost | Accumulated Depreciation | Net Book Value |
| Natural Gas Pipelines | | | |
| Columbia Gas | | | |
| Pipeline | 3,999 | 1,266 | 2,733 |
| Compression | 1,802 | 619 | 1,183 |
| Metering and Other | 1,723 | 486 | 1,237 |
| | 7,524 | 2,371 | 5,153 |
| Under construction | 2,661 | — | 2,661 |
| | 10,185 | 2,371 | 7,814 |
| Other Natural Gas Pipelines | | | |
| Columbia Gulf | 1,664 | 803 | 861 |
| Midstream and Mineral Rights | 723 | 65 | 658 |
| Other | 136 | 71 | 65 |
| | 2,523 | 939 | 1,584 |
| Under construction | 546 | — | 546 |
| | 3,069 | 939 | 2,130 |
| | 13,254 | 3,310 | 9,944 |

6. EQUITY INVESTMENTS

| (millions of dollars) | Ownership Interest at December 31, 2017 | Income from Equity Investments | Equity Investments |
|-----------------------|---|--------------------------------|--------------------|
| | | year ended December 31 | at December 31 |
| | | 2017 | 2017 |
| Natural Gas Pipelines | | | |
| Millennium | 47.5% | 51 | 232 |
| Pennant Midstream | 47.0% | 9 | 183 |
| Hardy Storage | 50.0% | 6 | 47 |
| | | 66 | 462 |

Distributions received from equity investments for the year ended December 31, 2017 were \$62 million. The undistributed earnings from equity investments as at December 31, 2017 were \$8 million.

Summarized Financial Information of Equity Investments

| year ended December 31 (millions of dollars) | Millennium | Pennant | Hardy | 2017 |
|---|------------|---------|-------|------|
| Income | | | | |
| Revenues | 204 | 34 | 23 | 262 |
| Operating and other expenses | (97) | (15) | (11) | (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 | Hardy | 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) |

7. 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 sheet 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 are considered to be natural gas companies operating 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. The FERC also has authority to regulate rates for natural gas transportation in interstate commerce. The Company's significant regulated natural gas pipelines are described below.

Columbia Gas

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 will allow for the cost recovery and return on additional expanded scope investment of \$1.1 billion over a three-year period through 2020.

Columbia Gulf

Columbia Gulf's 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.

Regulatory Assets and Liabilities

| at December 31 (millions of dollars) | 2017 | Remaining Recovery/ Settlement Period (years) |
|--|-------|--|
| Regulatory Assets | | |
| Deferred income taxes ⁵ | 140 | n/a |
| Pensions and other post retirement benefits ³ | 80 | n/a |
| Other | 3 | n/a |
| | 223 | |
| Less: Current portion included in Other current assets | 3 | |
| | 220 | |
| Regulatory Liabilities | | |
| Operating ⁴ | 4 | 1 |
| Pensions and other post retirement benefits ³ | 127 | n/a |
| Cost of removal ² | 139 | n/a |
| Deferred income taxes - U.S. Tax Reform ¹ | 902 | n/a |
| Other | 12 | n/a |
| | 1,184 | |
| Less: Current portion included in Accounts payable and other | 17 | |
| | 1,167 | |

¹ These balances represent the impact of the U.S. Tax Reform. The regulatory assets and regulatory liabilities will be amortized over varying terms that approximate the expected reversal of the underlying deferred tax assets and liabilities that gave rise to the regulatory assets and liabilities. See Note 12, Income Taxes, for further information.

² 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 subsidiaries for future costs to be incurred.

³ 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 customers in future rates. The balances are excluded from the rate base and do not earn a return on investment.

⁴ Operating regulatory liabilities represent the revenue sharing liability dictated by the FERC per Columbia Gas Transmissions Modernization settlement.

⁵ This balance represents the temporary difference for which deferred income taxes are recognized for AFUDC equity, as required by FERC

8. GOODWILL

All of CPG Inc.'s goodwill relates to the excess of cost over the fair value of the net assets acquired by the acquisition of CEG in 2000, which was contributed to CPG Inc. prior to the full separation from NiSource Inc. in 2015. CPG Inc.'s goodwill assets at December 31, 2017 were \$1,976 million.

9. OTHER ASSETS

| at December 31 (millions of dollars) | | 2017 |
|---|--|-----------|
| Employee post-retirement benefits (Note 19) | | 158 |
| Other | | 10 |
| | | <hr/> 168 |

10. NOTES PAYABLE

At December 31, 2017, total committed revolving credit facilities of \$1.0 billion were available. When drawn, interest on these credit facilities is charged at negotiated floating rates of U.S. banks. These credit facilities include the following:

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

For the year ended December 31, 2017, the cost to maintain the above facilities was \$1 million.

11. OTHER LONG-TERM LIABILITIES

| at December 31 (millions of dollars) | | 2017 |
|---|--|----------|
| Asset retirement obligations | | 22 |
| Deferred credits | | 8 |
| Other | | 4 |
| | | <hr/> 34 |

12. 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 deferred income tax expense of \$86 million.

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 sheet in the amount of \$902 million. In addition, it also resulted in an adjustment of the deferred income tax assets related to regulatory AFUDC Equity.

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

At December 31, 2017, the Company considers all amounts recorded related to U.S. Tax Reform to be reasonable estimates. Amounts related to businesses subject to RRA are provisional as the Company's interpretation, assessment and presentation of the impact of the tax law change may be further clarified with additional guidance from regulatory, tax and accounting authorities. Should additional guidance be provided by these authorities or other sources during the one-year measurement period, CPG Inc. will review the provisional amounts and adjust as appropriate.

Income Tax (Benefit)/Expense

| year ended December 31 (millions of dollars) | 2017 |
|---|-------|
| Current | |
| Federal | (336) |
| State | 3 |
| | <hr/> |
| | (333) |
| Deferred | |
| Federal | 469 |
| State | (20) |
| | <hr/> |
| | 449 |
| Income Tax (Benefit)/Expense | <hr/> |
| | 116 |

Reconciliation of Income Tax (Benefit)/Expense to Statutory Rate

| year ended December 31 (millions of dollars) | 2017 |
|--|-------|
| Income/(loss) before income taxes | 649 |
| Income tax expense/(benefit) computed at the statutory rate of 35 per cent | 227 |
| Adjustments resulting from: | |
| U.S. Tax Reform | (81) |
| State income tax, net of federal income tax effect | 19 |
| Non-controlling interests | (4) |
| AFUDC Equity | (47) |
| Asset impairment charge | |
| Other | 2 |
| Income Tax (Benefit)/Expense | 116 |
| Effective tax rate | 17.9% |

Deferred Income Tax Assets and Liabilities

| at December 31 (millions of dollars) | 2017 |
|---|---------|
| Deferred Income Tax Assets | |
| Operating loss carryforwards | 78 |
| Other regulatory liabilities | 16 |
| Tax rate change - regulatory gross up | 230 |
| Other comprehensive income | 5 |
| Other | 6 |
| Net Deferred Tax Asset | 335 |
| Deferred Income Tax Liabilities | |
| Difference in accounting and tax bases of plant, property and equipment | (1,259) |
| Equity investments | (89) |
| Other post-retirement benefits | (65) |
| Other regulatory assets | (46) |
| Deferred Income Tax Liabilities | (1,459) |
| Net Deferred Income Tax Liabilities | (1,124) |

Net Operating Losses

At December 31, 2017, the Company recognized the benefit of unused net operating loss carryforwards of \$268 million which will expire from 2028 to 2037.

Other

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is included in a consolidated federal return filed by TCPL USA, which is currently open to audit under the statute of limitations by the IRS for 2013 through 2017. In most cases, the Company's state income tax returns are open to audit under the statute of limitations for 2013 and subsequent tax years. The Company does not expect any significant changes to its unrecognized tax positions within the 12 months following the 2017 reporting period.

13. LONG-TERM DEBT

| Outstanding Amounts (millions of dollars, unless otherwise stated) | Maturity Dates | 2017 | |
|---|----------------|----------------------------|-------------------------------|
| | | Outstanding December 31 | Interest Rate ¹ |
| COLUMBIA PIPELINE GROUP, INC. | | | |
| Senior Unsecured Notes ² | 2018 to 2045 | 2,750 | 4.0% |
| Current portion of long-term debt | | (500) | |
| Unamortized debt discount and issue costs | | (18) | |
| | | 2,232 | |

¹ Interest rates presented are the effective interest rates and are stated as at the respective outstanding date. These notes are fixed rate and rate noted (4.0%) is the average effective interest rate.

² Certain subsidiaries of The Company 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, 2017, principal repayments on Long-term debt of the Company for the next five years are approximately as follows:

| (millions of dollars) | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter |
|--|------|------|------|------|------|------------|
| Principal repayments on long-term debt | 500 | 0 | 750 | 0 | 0 | 1,500 |

Interest Expense

Interest expense in the three years ended December 31, 2017 was as follows:

| year ended December 31 (millions of dollars) | 2017 |
|---|------|
| Interest on long-term debt | 112 |
| Interest on short-term debt | 7 |
| Amortization and other financial charges ¹ | 5 |
| | 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 \$119 million in 2017, on long-term debt and notes payable, net of interest capitalized.

14. NON-CONTROLLING INTERESTS

The Company's non-controlling interests included in the Consolidated statement of income are as follows:

| year ended December 31 (millions of dollars) | 2017 |
|---|------|
| Non-controlling interest in CPPL ¹ | 7 |
| | 7 |

¹ Non-controlling interest up to February 17, 2017 acquisition of publicly held common units of CPPL.

Columbia Pipeline Partners LP

On February 17, 2017, the Company acquired all outstanding publicly held common units of CPPL at a price of \$17.00 and a stub period of 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.

15. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| 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 and prior service costs on pension and other post-retirement benefit plans | 3 | (1) | 2 |
| Other comprehensive loss on 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, 2016 | (13) | (11) | — | (24) |
| Other comprehensive income before reclassifications ² | 13 | 2 | (12) | 3 |
| Amounts reclassified from accumulated other comprehensive loss ³ | | | | — |
| Net current period other comprehensive income/(loss) | 13 | 2 | (12) | 3 |
| AOCI Balance at December 31, 2017 | — | (9) | (12) | (21) |

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

² Other comprehensive income/(loss) before reclassifications on cash flow hedges are net of non-controlling interest gains of nil.

16. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company sponsors a DB Plan that covers many of its employees. Pension benefits provided under the DB Plan are based on years of service and highest average earnings over three consecutive years of employment.

On December 31, 2017, the DB Plan merged with the TCPL USA DB Plan.

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

| at December 31 (millions of dollars) | 2017 |
|---|------|
| DB Plans | 24 |
| Other post-retirement benefit plans | 1 |

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2017.

In 2017, lump sum payouts exceeded service and interest costs for the DB Plans. As a result, an interim remeasurement was performed on the 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 DB Plan increased the Company's unrealized actuarial gains by \$12 million, of which \$11 million was recorded in Regulatory assets and \$1 million was recorded in Other comprehensive income.

The following table provides a reconciliation of the plan's funded status and amounts reflected in the Company's balance sheet at December 31 based on a December 31 measurement date:

| at December 31 (millions of dollars) | Pension Benefit Plans | Other Post- Retirement Benefit Plans |
|---|--------------------------|--|
| | 2017 | 2017 |
| Change in Benefit Obligation ¹ | | |
| Benefit obligation – beginning of year | 376 | 109 |
| Service cost | 6 | 1 |
| Interest cost | 14 | 4 |
| Benefits paid | (13) | (9) |
| Employee contributions | — | 2 |
| Actuarial loss/(gain) | 8 | 14 |
| Settlement | (39) | — |
| Benefit obligation – end of year | 352 | 121 |
| Change in Plan Assets | | |
| Plan assets at fair value – beginning of year | 348 | 231 |
| 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 Company's pension benefit plans represents the projected benefit obligation. The benefit obligation for the Company's other post-retirement benefit plans represents the accumulated post-retirement benefit obligation.

The amounts recognized in the Company's Consolidated balance sheet for its DB plans and other post-retirement benefits plans are as follows:

| at December 31 (millions of dollars) | 2017 |
|---|------|
| Intangible and other assets | 158 |
| | 158 |

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

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

The Company's pension plan average asset and target allocation by asset category were as follows:

Asset Category

| | Percentage of Plan Assets | Target Allocations |
|-------------------|------------------------------|-----------------------|
| at December 31 | 2017 | |
| Equity securities | 62% | 60% |
| Debt securities | 38% | 40% |
| | 100% | |

The pension plan did not hold any debt or equity securities of the Company at December 31, 2017.

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

| | Percentage of Plan Assets | Target Allocations |
|-------------------|------------------------------|-----------------------|
| at December 31 | 2017 | |
| Debt securities | 80% | 80% |
| Equity securities | 20% | 20% |
| | 100% | |

The other post-retirement benefit plans did not hold any debt or equity securities of the Company at December 31, 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 (millions of dollars) | Quoted Prices in Active Markets (Level I) | Significant Other Observable Inputs (Level II) | Significant Other Observable Inputs (Level III) | Total | Percentage of Total Portfolio |
|---|---|--|---|-------|--|
| | 2017 | 2017 | 2017 | 2017 | 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 |
| State | — | — | — | — | — |
| Municipal | — | 3 | — | 3 | — |
| Corporate | — | 111 | — | 111 | 18 |
| International: | | | | | |
| Government | — | — | — | — | — |
| Corporate | — | 2 | — | 2 | — |
| Other: | | | | | |
| Real Estate | — | — | — | — | — |
| Mortgage Backed | — | 26 | — | 26 | 4 |
| | — | 631 | — | 631 | 100 |

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

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

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

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

| year ended December 31 | Pension Benefit Plan | Other Post- Retirement Benefit Plans |
|--|-------------------------|--|
| | 2017 | 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 Company's net periodic benefit cost is as follows:

| year ended December 31 (millions of dollars) | Pension Benefit Plan | Other Post-Retirement Benefit Plans |
|---|----------------------|-------------------------------------|
| | 2017 | 2017 |
| Service cost | 2 | 1 |
| Interest cost | 4 | 4 |
| Expected return on plan assets | (6) | (14) |
| Amortization of actuarial loss | — | — |
| Amortization of past service cost | — | — |
| Amortization of regulatory asset | 20 | — |
| Settlement charge - regulatory asset | 1 | — |
| Settlement charge - AOCI | — | — |
| Net Benefit Cost Recognized | 21 | (9) |

Pre-tax amounts recognized in AOCI were as follows:

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

Pre-tax amounts recorded in OCI were as follows:

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

17. 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 | <p>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.</p> <p>Inputs include published interest rates, interest rate swap curves, yield curves and broker quotes from external data service providers.</p> <p>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.</p> <p>Transfers between Level I and Level II would occur when there is a change in market circumstances.</p> |
| Level III | <p>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.</p> <p>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.</p> |

Fair Value of Financial Instruments

The fair value of long-term debt is estimated using an income approach based on quoted market prices for the same or similar 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 Other, 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 Sheet Presentation of 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:

| at December 31 (millions of dollars) | 2017 | |
|---|-----------------|------------|
| | Carrying Amount | Fair Value |
| Current and Long-Term Debt ¹ (Note 13) | (2,750) | (2,932) |

¹ Long-term debt is recorded at amortized cost.

18. CHANGES IN OPERATING WORKING CAPITAL

| year ended December 31 (millions of dollars) | 2017 |
|---|-------|
| Increase in Accounts receivable | 11 |
| Increase in Assets held for future use | (13) |
| Decrease in Other current assets | 107 |
| Decrease in Accounts payable and accrued interest | (318) |
| Increase in operating working capital | (213) |

19. RELATED PARTY TRANSACTIONS

The Company has a cash pooling arrangement with its affiliates. At December 31, 2017, \$35 million was due to affiliates and is included in Accounts payable on the consolidated balance sheet.

20. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments

Future annual payments under the Company's operating leases for various premises are approximately: 2018 - \$8 million; 2019 - \$7 million; 2020 - \$7 million, 2021 - \$5 million, 2022 - \$4 million and 2023 and thereafter - \$14 million. The operating lease agreements for the various premises expire at various dates through 2026, with an option to renew certain lease agreements for periods of one to 25 years.

At December 31, 2017, the Company was committed to natural gas pipelines capital expenditures totaling approximately \$305 million 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, 2017, the Company had accrued approximately \$8 million related to operating facilities, which represents the present value of 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, its subsidiaries, and its investments, 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 partners in Millennium have jointly and severally guaranteed the financial performance of this entity and is primarily related to the payment of liabilities.

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

21. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 17, 2018, the date these financial statements were authorized to be issued.

The Company borrowed and repaid \$1,670 million and \$985 million respectively on the revolving credit facility.

In June 2018, The Company paid the amount due on December 31, 2017 on its Senior Secured Notes amounting to \$500 million representing \$500 million in principal and nil in interest pursuant to the terms of the Note Purchase agreement. Under the agreement, any principal and interest that is due on a date other than a normal business day shall be made on the next succeeding business day without additional interest or penalty

The Company received equity injections from TCPL USA in May, June and August 2018 for the total amount of \$1,150 million and paid dividends to TCPL USA in March 2018 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 | | | |
|-----------------------|--------------------|---------------------------------------|--------|--------|--------|--------|--------|-------------------------------------|--------|--------|--------|
| | | 18-Jan | 18-Feb | 18-Mar | 18-Apr | 18-Jun | 18-Jul | 18-Feb | 18-May | 18-Jun | 18-Jul |
| Natural Gas Pipelines | | | | | | | | | | | |
| Millennium | 47.5% | — | — | 19 | — | 7 | — | 25 | 24 | 17 | 26 |
| Pennant Midstream | 47% | 2 | 1 | 1 | 1 | — | 3 | — | — | — | — |
| Hardy Storage | 50% | — | — | 1 | — | 1 | — | — | — | — | — |
| | | 2 | 1 | 11 | 1 | 4 | 3 | 12 | 11 | 8 | 12 |

U.S. Tax Reform and FERC proposed changes

On March 15, 2018, FERC issued a Notice of Proposed Rulemaking (NOPR) proposing interstate pipeline file a one-time report to quantify the impact of the federal income tax rate reduction could have on a pipeline's Return on Equity (ROE) assuming a single issue adjustment to a pipeline's rates, and an Notice of Inquiry (NOI) seeking comment on how FERC should address changes related to accumulated deferred income taxes (ADIT) and bonus depreciation (2018 FERC Action). On July 18, 2018, FERC issued a Final Rule adopting and revising procedures from, and clarifying aspects of, the NOPR. The Final Rule will become effective September 13, 2018, and is subject to requests for further rehearing and clarification. We continue to evaluate this Final Rule and our next course of action, however, we do not expect an immediate or a retroactive impact from the Final Rule.