

**REPORT OF**  
**MUNICIPAL GAS COMMISSION**  
**OF MISSOURI**  
**DECEMBER 31, 2017 and 2016**



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Municipal Gas Commission of Missouri

We have audited the accompanying financial statements of the Municipal Gas Commission of Missouri ("MGCM"), which comprise the statements of net position as of December 31, 2017 and 2016, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Municipal Gas Commission of Missouri as of December 31, 2017 and 2016, and the changes in its net position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Other Matters*

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 to 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Williams Keiper LLC*

June 4, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Municipal Gas Commission of Missouri ("MGCM") offers all persons interested in the financial position and results of MGCM's operations this narrative overview and analysis of MGCM's financial activities for the years ending December 31, 2017 and 2016. Please read this narrative in conjunction with the financial statements and the accompanying notes to financial statements which follow this section.

### Overview of the Financial Statements

MGCM was formed in 1988 under the Joint Municipal Utility Commission Act, Revised Statutes of Missouri, to provide for financing, acquisition and operation of natural gas production, transmission and distribution facilities and resources and for the joint purchase of natural gas to meet the requirements of its eleven-member municipalities. MGCM's role is to be an aggregator for the purpose of bulk purchasing of natural gas for resale to its member cities. MGCM also functions as a designated operating agent representing its members with major pipeline companies that transport the commodity and manages the supply and storage contracts for its members. MGCM's administration of the purchasing, transportation, and storage of natural gas on behalf of its membership reduces the total cost and increases the efficiency for all the members.

This report consists of two parts, Management's Discussion and Analysis (this section) and the financial statements. The financial statements are comprised of the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; the Statements of Cash Flows; and the Notes to Financial Statements. These statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The financial statements are prepared using proprietary or enterprise fund accounting. Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers for the provision of goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting.

The Statements of Net Position presents MGCM's financial position as of the end of the years presented. Information is displayed on assets and liabilities, with the difference between the two reported as net position. The net position of MGCM reflects the resources available as of the end of the year to support member activities. Over time, increases and decreases in net position measure whether MGCM's financial health is improving or deteriorating.

The Statements of Revenue, Expenses and Changes in Net Position present information detailing the revenues and expenses that resulted in the change in net position for the years presented. All revenues and expenses are reported on an accrual basis, following GAAP. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future periods. For example, gas purchases that occurred during the year will be reflected as an expense, whether or not they have been paid as of the end of the fiscal year.

The Statements of Cash Flows presents the cash inflows and outflows of MGCM categorized by operating, noncapital financing, and investing activities. It reconciles the beginning and end-of-year cash balances contained in the Statement of Net Position. The effects of accrual accounting are adjusted out and noncash activities, such as depreciation, are removed to supplement the presentation in the Statements of Revenue, Expenses and Changes in Net Position.

The Notes to Financial Statements follow the above financial statements and provide additional information that is essential for a full understanding of the information provided in the financial statements.

### Financial Analysis

An analysis of MGCM's financial position begins with a review of the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position. The following tables present summarized financial position and results of operations for the years ended December 31, 2017, 2016 and 2015. Additional details are available in the accompanying financial statements.

#### Condensed Statements of Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>			
Cash and Cash Investments	\$ 729,283	\$ 532,629	\$ 591,943
Accounts Receivable	839,886	1,046,148	703,934
Prepaid Expenses	12,142	12,263	12,340
Gas Imbalance	20,163	2,371	-
Gas in Storage	157,629	163,885	190,319
Total Current Assets	<u>\$ 1,759,103</u>	<u>\$ 1,757,296</u>	<u>\$ 1,498,536</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 674,391	\$ 708,632	\$ 517,602
Gas Imbalance	-	-	4,058
Total Current Liabilities	<u>674,391</u>	<u>708,632</u>	<u>521,660</u>
Advances from Members	60,719	60,719	60,719
Total Liabilities	<u>735,110</u>	<u>769,351</u>	<u>582,379</u>
<b>UNRESTRICTED NET POSITION</b>	<u>1,023,993</u>	<u>987,945</u>	<u>916,157</u>
Total Liabilities and Net Position	<u>\$ 1,759,103</u>	<u>\$ 1,757,296</u>	<u>\$ 1,498,536</u>

#### Financial Position Analysis – 2017

- Cash and Cash Investments increased \$196,654 or 36.9% from the 2016 year-end balance and represents 41.5% of the 2017 fiscal year-end total assets.
- Accounts Receivable reflects a \$206,262 or 19.7% decrease compared to 2016, mainly attributable to lower commodity costs in December 2017 coupled with a 4.8% demand decrease over comparable volumes in December 2016.
- Gas Imbalance represents the difference between the amount of gas actually used by members and what was scheduled to be delivered from the supplier. MGCM's vendors owed MGCM \$20,163 and \$2,371 of natural gas at December 31, 2017 and 2016, respectively, due to these differences. This balance naturally fluctuates from month to month and year to year.
- Gas in Storage decreased \$6,256 or 3.8%. This decrease is attributable to a 3,347 Dth decrease in the amount of gas in storage, partially offset by a \$0.09/Dth increase in the average cost of gas in storage.
- Accounts Payable was \$34,241 or 4.8% lower at the end of 2017 as compared to 2016 due to lower commodity costs and decreased load demand in December 2017 as compared to December 2016.

## Financial Position Analysis – 2016

- Cash and Cash Investments decreased \$59,314 or 10.0% from the 2015 year-end balance and represents 30.3% of the 2016 fiscal year-end total assets.
- Accounts Receivable reflects a 48.6% increase compared to 2015, mainly attributable to higher commodity costs in December 2016 coupled with a 44% demand increase over comparable volumes in December 2015.
- Gas Imbalance represents the difference between the amount of gas actually used by members and what was scheduled to be delivered from the supplier. MGCM's vendors owed MGCM \$2,371 of natural gas at December 31, 2016 and MGCM owed its vendors \$4,058 at December 31, 2015 due to these differences. This balance naturally fluctuates from month to month and year to year.
- Gas in Storage decreased \$26,434 or 13.9%. This decrease is attributable to a \$0.25/Dth decrease in the average cost of gas in storage and a 4,011 Dth decrease in the amount of gas in storage.
- Accounts Payable was 36.9% higher at the end of 2016 as compared to 2015 due to higher commodity costs on increased load demand in December 2016 as compared to December 2015.

## Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>			
Gas Sales	\$ 4,053,332	\$ 4,029,100	\$ 4,493,070
Management Fee	177,942	188,448	167,550
Total Operating Revenues	<u>4,231,274</u>	<u>4,217,548</u>	<u>4,660,620</u>
<b>OPERATING EXPENSES</b>			
Gas Purchases and Related Costs	3,990,748	3,955,683	4,416,397
Employee Expenses	121,818	109,341	100,700
Consulting Services	31,048	31,632	31,207
Other Expenses	53,561	49,950	46,715
Total Operating Expenses	<u>4,197,175</u>	<u>4,146,606</u>	<u>4,595,019</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest Income	1,949	846	135
Interest Expense	-	-	(145)
Total Nonoperating Income (Expense)	<u>1,949</u>	<u>846</u>	<u>(10)</u>
Increase (Decrease) in Net Position	<u>36,048</u>	<u>71,788</u>	<u>65,591</u>
Net Position, Beginning of the Year	<u>987,945</u>	<u>916,157</u>	<u>850,566</u>
Net Position, End of the Year	<u>\$ 1,023,993</u>	<u>\$ 987,945</u>	<u>\$ 916,157</u>

## Operating Results Analysis – 2017

- Gas Sales of \$4,053,332 remained flat from 2016 fiscal year levels with a 0.6% increase. Fiscal year 2017 saw relatively stable, but slightly overall higher natural gas prices and an approximate 5.6% decrease in gas sales volumes. Sales volumes were primarily down in 2017 due to the weather sensitive nature of members' loads.
- Lower natural gas consumption also impacts Management Fee revenues, leading to a 5.6% decrease from 2016. General and administrative costs are recovered through management fees, which are based upon a per Dth charge.

- General and administrative costs are recovered in Management Fees and totaled approximately 4.9% of total operating expenses.

### **Operating Results Analysis – 2016**

- Gas Sales of \$4,049,100 decreased approximately 10% from 2015 fiscal year levels. Fiscal year 2016 saw relatively stable, but overall lower natural gas prices and an approximate 3.7% decrease in gas sales volumes. Sales volumes were primarily down in 2016 due to the weather sensitive nature of members' loads.
- Lower natural gas consumption also impacts Management Fee revenues; however, an increase in the Management Fee rate led to a 12.5% increase from 2015. General and administrative costs are recovered through management fees, which are based upon a per Dth charge.
- Gas Purchases and Related Costs consist of gas supply, transportation, and storage costs and represents 95.4% of total operating expenditures. Members' natural gas consumption decreased approximately 3.7% from fiscal year 2015 to 2016. MGCM members saw an average commodity cost per MMBtu of \$3.00 for 2016 compared to \$3.30 for the 2015 fiscal year. Members, on average, realized an all-in delivered commodity price of \$4.70 MMBtu, which was approximately \$0.31 lower than the 2015 all-in delivered price, which was primarily the result of lower commodity purchases in 2016.
- General and administrative costs are recovered in Management Fees and totaled approximately 4.6% of total operating expenses.

### **Financial Outlook**

MGCM continues to maintain a relatively stable market outlook on commodity prices through the next five years and continues to lock in a portion of its gas supply prices throughout this period. The United States economy continues to improve, but there is still little indication it will drive natural gas prices significantly higher in the near term. Situations that could increase natural gas demand and commodity prices are an upsurge in natural gas demand from the power generation industry and infrastructure congestion, but again, abundant domestic supply levels and additional pipeline capacity are expected to moderate market prices overall.

MGCM is dedicated to providing reliable and economical natural gas supplies and related services to its members, as well as continuing support to its members in areas of training and natural gas pipeline developments.

### **Request for Information**

This financial report is designed to provide the reader a general overview and analysis of the financial activities of MGCM and is available at [www.mpua.org](http://www.mpua.org). Questions or requests for more information should be directed to Duncan Kincheloe, CEO, President, and General Manager, Municipal Gas Commission of Missouri, 1808 I-70 Drive SW, Columbia, MO 65203 (573-445-3279).

**MUNICIPAL GAS COMMISSION OF MISSOURI**

**STATEMENTS OF NET POSITION**

**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Investments	\$ 729,283	\$ 532,629
Accounts Receivable	839,886	1,046,148
Prepaid Expenses	12,142	12,263
Gas Imbalance	20,163	2,371
Gas in Storage	157,629	163,885
Total Current Assets	<u>\$ 1,759,103</u>	<u>\$ 1,757,296</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 674,391	\$ 708,632
Total Current Liabilities	<u>674,391</u>	<u>708,632</u>
<b>ADVANCES FROM MEMBERS</b>		
Total Liabilities	<u>60,719</u>	<u>60,719</u>
	735,110	769,351
<b>NET POSITION - UNRESTRICTED</b>		
Total Liabilities and Net Position	<u>1,023,993</u>	<u>987,945</u>
	<u>\$ 1,759,103</u>	<u>\$ 1,757,296</u>

See accompanying notes to financial statements.

**MUNICIPAL GAS COMMISSION OF MISSOURI**

**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<b>OPERATING REVENUES</b>		
Gas Sales	\$ 4,053,332	\$ 4,029,100
Management Fee	177,942	188,448
Total Operating Revenue	4,231,274	4,217,548
<b>OPERATING EXPENSES</b>		
Gas Purchases and Related Costs	3,990,748	3,955,683
Employee Expenses	121,818	109,341
Transfer to MJMEUC Alliance Fund	23,708	20,714
Consulting Services	31,048	31,632
Other	29,762	29,098
Tax on Storage Gas	91	138
Total Operating Expenses	4,197,175	4,146,606
Operating Income	34,099	70,942
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest Income	1,949	846
Total Nonoperating Income (Expense)	1,949	846
Increase in Net Position	36,048	71,788
Net Position, Beginning of Year	987,945	916,157
Net Position, End of Year	\$ 1,023,993	\$ 987,945

See accompanying notes to financial statements.

**MUNICIPAL GAS COMMISSION OF MISSOURI**

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<b>OPERATING ACTIVITIES</b>		
Receipts from Sales to Members	\$ 4,259,594	\$ 3,686,886
Receipts from Management Fee	177,942	188,448
Payments to Suppliers for Goods and Services	(4,097,305)	(3,805,439)
Payments to MJMEUC for Employee Services	(121,818)	(109,341)
Payments to MJMEUC Alliance Fund	(23,708)	(20,714)
Net Cash Provided (Used) by Operating Activities	194,705	(60,160)
<b>INVESTING ACTIVITIES</b>		
Interest Income	1,949	846
Net Cash Provided by Investing Activities	1,949	846
Net Increase (Decrease) in Cash and Cash Equivalents	196,654	(59,314)
Cash and Cash Equivalents at Beginning of Year	532,629	591,943
Cash and Cash Equivalents at End of Year	\$ 729,283	\$ 532,629
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 34,099	\$ 70,942
Adjustments for (Increases) Decreases in Current Assets and Increases (Decreases) in Current Liabilities:		
Accounts Receivable	206,262	(342,214)
Prepaid Expenses	121	77
Gas Imbalance	(17,792)	(6,429)
Gas in Storage	6,256	26,434
Accounts Payable	(34,241)	191,030
Net Cash Provided (Used) by Operating Activities	\$ 194,705	\$ (60,160)

See accompanying notes to financial statements.

# MUNICIPAL GAS COMMISSION OF MISSOURI

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Nature of the Organization*

The Municipal Gas Commission of Missouri (“MGCM”) was formed in 1988, under the Joint Municipal Utility Commission Act, Revised Statutes of Missouri, to provide for financing, acquisition and operation of natural gas production, transmission and distribution facilities and resources and for the joint purchase of natural gas to meet the requirements of its member municipalities that own natural gas distribution systems. MGCM's administration of the purchasing, transportation, and storage of natural gas on behalf of its membership reduces the total cost and increases the efficiency for all MGCM members. Members sign a Joint Agreement that covers terms and obligations of membership and MGCM's services. Municipalities can withdraw from membership upon five years notice. As of December 31, 2017, MGCM had nine members in Missouri and two members in an adjoining state.

#### *Measurement Focus, Basis of Accounting, and System of Accounts*

MGCM prepares its financial statements as a business-type activity in conformity with U.S. generally accepted accounting principles (“GAAP”) following applicable pronouncements of the Governmental Accounting Standards Board (GASB). The financial statements are prepared following the economic measurement focus and using the accrual basis of accounting, in conformity with these standards.

MGCM distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with MGCM's ongoing operations. Operating expenses include the costs of sales and services, employee expenses, member training, and administrative and general expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### *Accounts Receivable*

Accounts receivable consists of receivables due from member municipal utilities. MGCM believes all accounts receivable balances are fully collectible; therefore, an allowance for uncollectible accounts has not been reported in the financial statements.

#### *Gas Imbalance*

Imbalance is the difference between the amount of gas actually used by members and what was scheduled to be delivered from the supplier. This amount of gas is either due to MGCM (asset balance), or due to the gas supplier by MGCM (liability balance).

#### *Gas in Storage*

MGCM contracts for storing natural gas. Gas in storage is recorded at cost determined on an average cost basis. When current market price is lower than cost, adjustments to decrease inventory carrying cost to market are not made because current contracts with members allow inventory to be priced and recovered at cost.

### *Advances from Members*

Advances from members consists of collections from member municipalities for a contingency reserve at the inception of MGCM, less refunds made to these original members who have since withdrawn from membership.

### *Management Fee Revenue*

Management fees are billed to each MGCM member receiving gas supply to fund MGCM's administrative costs. The management fee is a set rate per dekatherm (Dth) of natural gas delivered to each member.

### *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### *Income Taxes*

MGCM is a body politic and corporate, municipal corporation of the State of Missouri and is exempt from federal and Missouri state income taxes.

### *Risk Management*

MGCM manages its risks through insurance coverage provided by private insurers, including officers' and directors' liability and other property and business risks. There were no significant reductions in coverage in the last three years.

## **2. CASH AND CASH EQUIVALENTS**

For the purpose of the statement of cash flows, MGCM considers all highly liquid debt instruments purchased with a maturity of three months or less, such as overnight repurchase agreements, to be cash equivalents.

Custodial risk for deposits is the risk that, in the event of a financial institution failure, MGCM's deposits may not be returned. MGCM's policy is to utilize a bank depository that poses little or no risk of loss of principal balance. MGCM requires its bank deposits to be fully insured or collateralized with securities. The bank cash account had a bank balance of \$729,283 and \$532,629 and a carrying amount of \$729,283 and \$532,629 at December 31, 2017 and 2016, respectively. The bank deposits are covered with FDIC insurance for \$250,000 and any excess balance is collateralized with securities held by the pledging financial institution's trust department or agent in MGCM's name.

## **3. LINE OF CREDIT**

MGCM maintains a \$500,000 bank line of credit to cover temporary cash shortages if they arise. The line of credit had a zero-outstanding balance at December 31, 2017 and 2016, and no amounts were drawn on this line of credit during 2017 and 2016. The interest rate is equal to the New York Prime Rate as published by the Wall Street Journal plus one percent, which combined was 5.5% at December 31, 2017, but no lower than the floor of 4.00%. The note matures on June 10, 2018. MGCM's gas storage inventory and accounts receivable serve as collateral.

#### **4. RELATED ORGANIZATIONS**

MGCM is a party to a Joint Operating Agreement with the Missouri Association of Municipal Utilities (“MAMU”) and the Missouri Joint Municipal Electric Utility Commission (“MJMEUC”) for the purpose of coordinating resources to improve efficiency and reduce costs. The resulting alliance, known as the Missouri Public Utility Alliance (“MPUA”) is managed by a Joint Operating Committee, comprised of three representatives from the governing boards of each member. This committee reviews and recommends annual budgets for each member, determines the allocation of expenses on a cost reimbursement basis to members, consults on employee issues, and recommends contractual arrangements with joint consultants to each member. These allocations of expenses are accounted for as a separate cost center (“Alliance”) of MJMEUC. A majority of telephone, utility, postage and other miscellaneous office expenses not directly attributable to a specific program or member are charged to the Alliance cost center. A portion of MGCM’s income is transferred to MJMEUC to pay for Alliance expenses. MGCM transferred to MJMEUC \$23,708 and \$20,714 for 2017 and 2016, respectively, to pay its allocated share of Alliance expenses.

All MPUA staff are employees of MJMEUC. MGCM reimburses MJMEUC for time spent by MJMEUC employees on MGCM matters. Salary and employee benefits reimbursements paid to MJMEUC totaled \$121,818 and \$109,341 in 2017 and 2016, respectively.

MGCM had an underpayment of \$460 at December 31, 2017 and an overpayment of \$913 at December 31, 2016 to MJMEUC for Alliance expenses.

A fourth MPUA related entity, MPUA Resource Services Corporation (“RSC”), was created in 2017. RSC is a non-profit and tax-exempt corporation formed to provide services to governmental entities that have utilities. RSC does not share office and other expenses with the other three entities on a joint operating basis but will instead be charged for services provided to it by the other MPUA entities beginning in 2018. MGCM has agreed to invest up to \$100,000 in RSC to provide RSC with funds as necessary to develop future RSC’s programs and services. As of December 31, 2017, MGCM has not invested any funds in RSC.

#### **5. PURCHASE COMMITMENTS**

MGCM entered into various purchase commitments for natural gas as a means to bring stability to their costs and to take advantage of attractive market prices. The total purchase commitments as of December 31, 2017 were for 1,187,500 Dth of natural gas for \$3,711,850, with commitment dates ranging from January 2018 to February 2020.