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PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
1325 G STREET, N.W., SUITE 800
WASHINGTON, D.C. 20005

OPINION AND ORDER

March 3, 2017

FORMAL CASE NO. 1137, IN THE MATTER OF THE APPLICATION OF WASHINGTON GAS LIGHT COMPANY FOR AUTHORITY TO INCREASE EXISTING RATES AND CHARGES FOR GAS SERVICE, Order No. 18712

Before the Commission:

Betty Ann Kane, Chairman
Willie L. Phillips, Commissioner
Richard Beverly, Commissioner*

Appearances:

Leslie T. Thornton, Cathy Thurston-Seignious, Donald R. Hayes, Meera Ahamed, John H. Dodge, Paul S. Buckley, for Washington Gas Light Company; Sandra Mattavous-Frye, Karen R. Sistrunk, Danielle Lopez, Laurence C. Daniels, Barbara L. Burton, Kenneth Mallory, Thaddeus J. Johnson, Scott H. Strauss, Jeffrey Schwarz, Anjali Patel, Latif Nurani, Robert A. Weishaar, Jr., for Office of the People's Counsel; Frann G. Francis, Nicola Y. Whiteman, Kristen Bowden, Excetral K. Caldwell, for Apartment and Office Building Association of Metropolitan Washington; Brian Caldwell for the District of Columbia Government, John S. Tobey, for the General Services Administration, and Nina Dodge and John Macgregor, for District of Columbia Climate Action.

* Commissioner Beverly's term began December 20, 2016.[1] Commissioner Joanne Doddy Fort participated in the hearings but her term expired December 20, 2016.

[1] Commissioner Beverly has personally reviewed the entire record in this base rate case.

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I. BACKGROUND

1. On February 26, 2016, Washington Gas Light Company ("WGL" or "Company") filed an Application requesting authority to increase existing rates and charges for gas service in the District of Columbia.[2] WGL's Application requested authority to earn a 8.23% overall rate of return, including a return on equity ("ROE") of 10.25%. According to WGL, the requested rates were designed to collect approximately $171.7 million in total annual distribution revenues, which represents an increase in the Company's weather-normalized annual distribution revenues of approximately $17.4 million of which $4.5 million reflects costs associated with system upgrades previously approved by the Commission and paid through customer surcharges.[3] The Company represented that this reflects an overall increase of approximately 7.6% in revenues over and above current rates.[4]

2. A pre-hearing conference was held on March 23, 2016. By Order No. 18172, the Commission designated the issues for consideration and set the procedural schedule for this proceeding.[5] By the same Order, the Commission granted petitions to intervene filed by the Apartment and Office Building Association of Metropolitan Washington ("AOBA"), the General Services Administration ("GSA"), the District of Columbia Government ("DCG" or "District Government"), and the District of Columbia Climate Action ("DCCA"). The Office of the People's Counsel of the District of Columbia ("OPC") is a party as of right.[6]

3. On May 2, 2016, WGL filed supplemental direct testimony and exhibits[7], thereafter, the parties in the proceeding filed direct testimony and exhibits on July 6 and 8, 2016.[8] WGL submitted its rebuttal and surrebuttal testimony on August 26, and October 13,

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2 *Formal Case No. 1137*, *In the Matter of the Application of Washington Gas Light Company for Authority to Increase Existing Rates and Charges for Gas Service ("Formal Case No. 1137")*, Washington Gas Light Company's Application for Authority to Increase Existing Rates and Charges for Gas Service in the District of Columbia, filed February 26, 2016 ("Application").

3 Application at 1 and 3. The Company revised its requested revenue increased to $17.3 million, as a result of the Commission's subsequent approval of a special contract with the U.S. General Services Administration for the account of the Architect of the Capital. *See* WGL (2D) at 10 (Tuoriniemi).

4 *Formal Case No. 1137*, Washington Gas Light Company's Proposed Notice, filed February 26, 2016 ("Proposed Notice").

5 *Formal Case No. 1137*, Order No. 18172, Attachment A.

6 *See* D.C. Code § 34-804 (2001) (OPC is a party, as of right, in any Commission investigation, valuation, or reevaluation, concerning any public utility operating in the District of Columbia).

7 *Formal Case No. 1137*, Washington Gas Light Company's Supplemental Direct Testimony and Exhibits, filed May 2, 2016.

8 *Formal Case No. 1137*, Office of the People's Counsel Direct Testimony and Exhibits, filed July 6, 2016; *Formal Case No. 1137*, Apartment and Office Building Association Direct Testimony and Exhibits, filed July 6, 2016; *Formal Case No. 1137*, District of Columbia Direct Testimony and Exhibits, filed July 6, 2016; *Formal Case No. 1137*, General Service Administration Direct Testimony and Exhibits, filed July 6, 2016; and *Formal Case No. 1137*, DC Climate Action Direct Testimony of John Macgregor and Nina Dodge and Exhibits, filed July, 6, 2016 and July 8, 2016, respectfully.

2016, respectively.[9] On July 15 and September 2, 2016, parties participated in a Settlement and Stipulation Conference but reached no agreement on both occasions.[10] WGL filed its Fully Conformed Direct, Supplemental, Rebuttal and Surrebuttal Testimonies on October 13, 2016,[11] while all other parties filed their conformed testimonies at the first evidentiary hearing on October 14, 2016.[12]

4. The Commission held four community hearings in this proceeding on September 20 and 21, 2016 and October 5 and 15, 2016. Evidentiary hearings were held on October 14, 17, 24, 27-28, 2016, as well as November 2, 2016.[13] On November 9, 2016, OPC, WGL and DCCA, filed Motions to Correct the Transcript.[14] All the parties filed post-hearing briefs on November 21, 2016, and reply briefs on December 13, 2016.[15]

5. In reviewing any utility rate increase application the Commission is "entrusted with the primary responsibility of arriving at a fair balance between the interests of ratepayers and that of WGL's investors'. . ."[16] Our role as regulators in this case is to ensure that essential natural gas service is available, adequate, provided to all who require it and that the services will be priced at a reasonable level. Pursuant to its statutory and constitutional rights the utility is permitted to fully recover the cost of providing this essential service. This cost includes a reasonable return on investments made by utility investors which allows the utility to "maintain financial integrity, attract necessary capital, and fairly compensate investors for the risks they have assumed" while simultaneously providing "protection to the relevant public interests, both

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[9] *Formal Case No. 1137*, Washington Gas Light's Rebuttal and Surrebuttal Testimony, filed August 26, 2016 and October 13, 2016, respectively.

[10] *Formal Case No. 1137*, Report on Settlement and Stipulation, filed July 21, 2016; *Formal Case No. 1137*, Report on Settlement and Stipulation, filed July September 9, 2016.

[11] *Formal Case No. 1137*, Washington Gas Light's Conformed Direct, Supplemental, Rebuttal and Sur-Rebuttal Testimonies, filed October 13, 2016.

[12] In this case, the Direct Testimony of OPC, WGL or an intervenor is designated (for example) as "OPC (_) at _ (name of witness)"; while subsequent Testimony is cited as "WGL (2_) at_ (name of witness)" or "WGL (3_) at _ (name of witness)" through supplemental, rebuttal, and surrebuttal.

[13] In this case, testimony from the evidentiary hearings is designated as (Tr. at _).

[14] *Formal Case No. 1137*, DC Climate Action Motion to Correct Transcript, filed November 9, 2016; *Formal Case No. 1137*, Office of the People's Counsel Motion to Correct Transcript, filed November 9, 2016; *Formal Case No. 1137*, Washington Gas Light Company Motion to Correct Transcript, filed November 9, 2016. Each movant separately submitted their motion and proposed changes that neither materially nor substantially change the dialogue found in the transcripts. The motions seek to correct typographical, spelling and reference errors. No objections were filed to the motions. **The Commission grants the parties' Motions to Correct Transcript.**

[15] In this case, the a post-hearing initial brief is designated as "AOBA Br. at _"; and a post-hearing reply brief is "District Government R. Br. at _".

[16] *Washington Gas Light Co. v. Public Service Commission*, 450 A.2d 1187, 1193 (D.C.1982), citing *People's Counsel v. Public Service Commission*, 399 A.2d 43, 45 (D.C 1979), quoting *In re Permian Basin Area Rate Cases*, 390 U.S. 747, 792; 88 S.Ct. at 1373 (1968).

existing and foreseeable."[17] It is also important to note that in reviewing WGL's rate increase application the Commission is only approving the distribution delivery charges of the Company which in the case of a typical gas customer is approximately half of a customer's total bill.[18] The rest of the bill consists of gas supply charges, where the Commission regulates only default service provided by WGL,[19] and taxes and surcharges that the Commission does not regulate. Another factor, among many that the Commission is required to consider in its utility rate deliberations, is "the economy of the District."[20] Based on these overarching principles we address WGL's rate application.

II. COMMUNITY COMMENTS

6. Traditionally, in addition to hearing testimony at formal evidentiary hearings, the Commission holds community hearings in utility rate cases to solicit comments from the public at large, including Advisory Neighborhood Commissions ("ANCs") and individual ANC Commissioners. On September 20, 21, October 5 and 15, 2016, the Commission held Community Hearings in this proceeding. Most community comments were directed at WGL's request for a rate increase. They point out that (among other things) there are many residents of the District of Columbia who are harshly impacted by WGL rate increases because they are seniors, disabled, or living on fixed incomes, whose income level is low but still not low enough to qualify them for the special low income Residential Essential Services ("RES") discount rate.[21]

7. At the October 5, 2016 hearing, comments were filed by Joyce Robinson-Paul. Ms. Paul states that the "whole increase should be thrown out" because "seniors are dying from hypothermia in their homes, los[ing] their homes and literally suffering trying to make way out of no way." WGL displays insensitivity to the "real human suffering" given the current issues of "low income residents who suffer through the winter due to the severe cold and snow storms" experience. Ms. Paul also states that "greed and inhumane treatment of the poor creates an unjust society" and, with the rate increase, this will only unjustly push the already marginalized communities out of their homes and communities. Ms. Paul request that the Commission

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[17] *People's Counsel v. Public Service Commission*, 399 A.2d 43, 45 (D.C. 1979).

[18] *See generally* D.C. Code § 34-301 (2001 Ed.). *See also*, *Formal Case No. 1127*, Technical Conference Report, ¶ 11, filed April 8, 2016.

[19] *See* D.C. Code § 34-1671.06 (b)(2) (2001). "The gas company shall provide, pursuant to the prices, terms, and conditions of its tariffs approved by the Commission, default service to those customers who do not select a natural gas supplier and to customers who chose a natural gas supplier but whose service is terminated by the customer or by the natural gas supplier for any reason."

[20] *See* D.C. Code § 34-808.02 (2001). "The Commission has considered the situation of low-income Pepco customers as a matter well within its discretionary authority." *Formal Case No. 1076, In the Matter of the Application of the Potomac Electric Power Company for Authority to Increase Existing Retail Rates and Charges for Electric Distribution Service* ("*Formal Case No. 1076*"), Order No. 15710, ¶372 n.735, rel. March 2, 2010 ("Order No. 15710").

[21] *See, Formal Case No. 1137*, Joyce Robinson-Paul Comments emphasizing the impact on seniors, filed October 5, 2016.

demand that "utilities [to] establish a senior citizen rate, similar to the DC property tax rate established for seniors 65 and older."[22]

8. Comments were also submitted on October 15, 2016 by rate payers Lara Levison, Judy Taylor, and Jim Schulman. Jim Schulman, a member of the DC Consumer Utility Board, asserts that "the MMP [Multifamily Piping Program, a subsidy] threatens to displace efficient central energy systems such as cogeneration or heat pump systems or even renewable energy systems with less efficient individually metered single-apartment methane-fired systems – at the ratepayers expense[]." He also states that the MMP program would "less incentiv[ize] [building owners and developers] to install higher energy-efficiency programs for their common spaces." Overall he asserts that "more energy [is] wasted, more gas [ ] burned, more pipes would be installed that could leak, and [] energy consumption and emission would be greater." Lastly, Mr. Schulman states that given the staggering statistic that "3% of all methane [a potent greenhouse gas] in WGL's pipes disappears as system losses," the Commission should "direct WGL to immediately engage in empirical leak detection procedures and best practices."[23]

9. Similarly, comments by Lara Levision and Judy Taylor echo Mr. Schulman's points regarding the MMP program and methane emissions. Ms. Levision asserts that "the [MMP] program is contrary to the District's goal of reducing greenhouse gas emissions by 50% by 2032 and 80% by 2050, and [ ] the [drafted] Comprehensive Energy Plan." Ms. Levison suggests that "rather than encouraging increased use of natural gas, we need to transition to renewable sources of energy, both centralized generation such as from large offshore or onshore wind farms, or distributed generation such as solar electric panels and solar thermal water heaters."[24] Ms. Taylor a resident residing in northwest, states that the MMP opposes DC's sustainability goals. She states that such a program would "lock [its] customers into gas for the long term and dis-incentivize developers from investing in the new, very efficient centralized HVAC systems and onsite renewable power for electricity." Also, she asserts that given the fact that WGL signed onto the Environmental Protection Agency's ("EPA") new Methane Challenge program, the Commission should include methane emissions as a "criteria for prioritizing pipeline replacement in the [PROJECTpipes] program," and that "[WGL] treat continuous improvement of natural gas leakage detection, and quantification programs as part of its core business."[25]

10. On October 20, 2016, Judith O'Babatunde testified against the WGL rate increase, stating that WGL's service in the past year has been unsatisfactory and stressful due to WGL's defunct online payment system.[26] She experienced multiple "recurrence[s] of formerly paid bill totals re-posted to the following month's bill statements, along with extra erroneous fees, and a warning of discontinued service for a bill already paid." She states that this shows

[22] *Formal Case No. 1137*, Joyce Robinson-Paul Comments, filed October 5, 2016.

[23] Formal Case No. 1137, Jim Schulman Comments, filed October 17, 2016.

[24] *Formal Case No. 1137*, Lara Levison Comments, filed October 17, 2016.

[25] *Formal Case No. 1137*, Judy Taylor Comments, filed October 17, 2016.

[26] *Formal Case No. 1137*, Judith O'Babatunde, filed October 20, 2016.

that the project had been improperly managed, and that although the issues were not her fault, the telephone customer service was substandard and inadequate. More expressly, Ms. O'Babatunde, states that the lack of application of the necessary project management skills appears to have played a substantial part in this issue. On September 27, 2016, Ward 6, resident, stated that WGL should "explain to ratepayers the reasons why they need an increase in light of the U.S. natural gas glut, relatively low wholesale natural gas pricing, the development of fracking domestically, and the infrastructural challenges the industry has in shipping natural gas from outside of the mid-Atlantic/northeast."[27] Overall, Mr. Anderson wants the Commission to ask WGL the following three questions: 1) how does WGL's proposed rate increase reflect the above described supply-demand dynamic, 2) has WGL factored-in the possibility of continued low prices in the foreseeable future, and 3) why this favorable wholesale pricing environment could not be utilized to substantially fund WGL's planned investments.

11. Subsequent to receiving multiple communications from residents regarding WGL's project crew workers, the ANC 2A invited WGL and OPC representatives to its October 2016 meeting. After deliberation and discussion the ANC agreed to oppose the rate increase proposed by WGL in this proceeding. ANC 2A argues that in WGL's Foggy Bottom Historic District replacement of gas meters project, neither ANC 2A, individual homeowners, or the Historic Preservation Review board was contacted in regards to the design and planning phase of the project. The initial installation of meters was error ridden and had to be reinstalled at the Hughes Mews NW location. ANC 2A recommends that before equipment installments occur in historic neighborhoods, the equipment should be made available for inspection and comment by neighbors, ANC, and the Historic Preservation Review Board before installation. ANC 2A asserts that even though a subcontractor of WGL was assigned to communicate with ANC 2A, the subcontractor manager was withdrawn after several weeks and problems persisted. ANC 2A requests that a detailed presentation be given to it and related groups explaining the project's numbers, scope, and timelines. Lastly, ANC 2A recommends that WGL assign a single point of contact for all projects to communicate with directly or at least have a prime contractor to communicate with. Usually a government agency must give "great weight" to the advice it receives from ANCs and from individual Advisory Neighborhood Commissioners.[28] And while the Commission has considered the information provided by ANC 2A, we are not compelled to give "great weight" to advice it received in rate cases.[29] The Commission will pursue the gas meter relocation issue in another Commission proceeding.[30] The Commission has taken note of the outpouring of sentiment from the public concerning WGL's rate increase request. We have carefully considered all the comments from community witnesses in adjudicating WGL's rate application.

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27 *Formal Case No. 1137*, Erik Anderson Comments, filed October 20, 2016.

28 *See* D.C. Code § 1-309.10 (2016).

29 The Commission is not required to give "great weight" (or any special weight) to the advice it receives from ANCs regarding ratemaking. *See, e.g., Office of People's Counsel v. Public Serv. Comm'n*, 630 A.2d 692, 698 (D.C. 1993); *Formal Case No.1076*, Order No.15710, ¶433, n.838.

30 *See Formal Case No. 1141, Expedited Petition of the Office of the People's Counsel for an Investigation Into the Pipe Replacement and Meter Relocation Practices of Washington Gas Light Company* ("OPC Petition"), filed December 21, 2016.

III. TEST YEAR (ISSUE 1)[31]

12. The purpose of adopting a test year is to ensure that rate levels and the revenues they produce have a realistic relationship to the revenue requirements of the Company and to determine costs and investments as accurately as possible to allow the Company a reasonable opportunity to recover its costs.[32] WGL proposed a test year of actual results for the twelve months ending September 30, 2015. According to WGL, its proposed test year fairly presents the costs and revenues that the Company is reasonably likely to incur during the rate effective period, *i.e.*, the initial 12 months that the rates resulting from this proceeding will be in effect.[33] OPC does not challenge the use of WGL's proposed test year, although OPC disputes many of WGL's proposed adjustments to its historical test year data.[34] None of the other parties objected or commented on WGL's proposed test year.

13. For the test year, WGL proposes 50 Rate Making Adjustments ("RMA") that it contends are "consistent with Commission precedent and represent known and measurable costs that the company expects to incur during the rate effective period."[35] Of the 50 RMAs, 37 are fairly typical RMAs and the other 13 are "Distribution Only" adjustments.[36] The "Distribution Only" adjustments are *pro-forma* adjustments that WGL contends are consistent with the Commission's directives in *Formal Case No. 1093*, Order No. 17132 that required WGL remove all non-distribution costs from WGL's distribution cost of service.[37] These 13 Distribution Only

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[31] Designated Issue 1 asks: "Is WGL's proposed test-year appropriate in this case?"

[32] *See Formal Case 610, The Application of Washington Gas Light Company for Authority to Increase Existing Rates, Tolls, Charges and Schedules for Gas* Service ("*Formal Case 610")*, Order No. 5685 at 6, rel. January 23, 2975 ("Order No. 5685").

[33] WGL Br. at 9.

[34] OPC Br. at 12.

[35] WGL Br. at 4.

[36] These adjustments are: WGL RMA 1D-Purchase Gas Revenues and Costs, WGL RMA 2D-Uncollectibles Gas Account, WGL RMA 3D-Gas Administrative Charges, WGL RMA 4D-Gas Procurement Costs, WGL RMA 5D- Storage and ACA Carrying Costs, WGL RMA 6D-Asset Optimization Revenues, WGL RMA 7D-DC Income Taxes, WGL RMA 8D-Federal Income Taxes, WGL RMA 9D-Storage Gas Inventory, WGL RMA 10D-Supplier Refunds and Interest, WGL RMA 11D-Interest on Debt, WGL RMA 12D-Cash Working Capital, and WGL RMA 13D-Gas Supplier Balancing Charges.

[37] *Formal Case No. 1093*, *In the Matter of the Investigation into the Reasonableness of Washington Gas Light Company's Existing Rates and Charges for Gas Service ("Formal Case No. 1093")*, Order No. 17132, ¶ 139, rel. May 15, 2013 ("Order No. 17132"). The Commission directed WGL to:

> submit future rate case filings in such a manner that distribution-only rate base, revenue, and expenses (and any adjustments thereto) are easily discernible from the Company's other regulated matters, such as purchased gas and transmission rate base, revenues, and expenses. WGL may continue to present its adjustments as the Company has in this case, but it must prepare a separate schedule that starts with the District's totals, and then it must remove all non-distribution items and provide the adjustments made to derive the distribution rate items, along with all associated work papers. (Order No. 17132, ¶ 349).

adjustments are uncontested and are intended to remove all non-distribution costs from the distribution cost of service.

DECISION

14. Test years are generally adopted to reduce speculation about a utility's revenue and cost levels, and to ensure that Commission-set rate levels and the revenues they produce have a realistic relationship to the revenue requirements of the utility.[38] Under the Commission Rule 200.4, a utility may choose a historical test year or a proposed test year that incorporates up to six months of forecasted data.[39] The Commission has the responsibility of "select[ing] a test year that appears likely to be representative of the future."[40] In this instance, WGL's proposed test year is uncontested. The Commission concurs that WGL's proposed test year ending September 30, 2015 is reasonable and is an appropriate starting point for purposes of evaluating the merits of WGL's Application. The parties have proposed certain ratemaking adjustments to WGL's application and we will address below each party's proposals accordingly.

15. For the 13 uncontested *pro-forma* "Distribution Only" adjustments, the Commission finds each of them to be just and reasonable because they remove non-distribution items from the Company's books, consistent with the Commission's directive in Order No. 17132 (in *Formal Case No 1093*), Paragraph 139. Therefore, we approve these adjustments that reduce the rate base by $9.1 million and operating expenses by $6.9 million.

IV. CAPITAL STRUCTURE AND RATE OF RETURN (ISSUE 2)[41]

16. The Commission must determine a reasonable rate of return based on the cost of capital, including debt and equity, and the capital structure for WGL. Our decisions consistently follow the well-settled standards established in *Washington Gas Light Co. v. Public Service Commission*, 450 A.2d 1187, 1209-1215 (D.C. 1982) (review of *Formal Case No. 686*).[42] We also adhere to the standards derived from the Supreme Court's decisions in *Bluefield Waterworks & Improvement Co. v. Public Service Commission of the State of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*") and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("*Hope*"). Specifically, the Supreme Court in Bluefield stated:

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[38] *See, e.g., Formal Case No. 610*, Order No. 5685 at 6.

[39] 15 DCMR § 200.4 (1987).

[40] *Potomac Electric Power Company v. The Public Service Commission or the District of Columbia*, 402 A.2d 14, 19 (D.C. 1979).

[41] Designated Issue 2 asks: "What is the appropriate capital structure and rate of return (including cost of equity and debt) for WGL? Should WGL's authorized rate of return on common equity be adjusted downward to reflect reduced risk resulting from the Company's proposed implementation of a Revenue Normalization Adjustment, and, if so, by how many basis points?"

[42] *See, e.g., Formal Case No. 850, In the Matter of Investigation into the Reasonableness of the Authorized Return of Equity, Rate of Return, and Current Charges and Rates for Telecommunications Services Offered by the Chesapeake and Potomac Telephone Company*, Order No. 9927 at 7-8, rel. January 27, 1992. S*ee also Office of People's Counsel v. Public Service Commission*, 455 A.2d 391, 397-398 (D.C. 1982) (review of *Formal Case No. 685*).

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding, risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.[43]

The Commission determines the Company's authorized overall rate of return[44] by the "cost of capital" method. That method seeks to determine what return the Company must offer its investors in order to attract the capital investment in its stocks and bonds necessary to finance its construction and operations. It is assumed that the cost of capital is essentially and practically the equivalent of a fair rate of return. The overall cost of a utility's capital is calculated by determining the cost of each component in the company's capital structure. A weighted cost for each component is derived by multiplying its cost by its ratio to total capital. The sum of these weighted costs then becomes the utility's overall rate of return, which is multiplied by the company's rate base to determine the company's required return.[45] With these standards forming the backdrop for our consideration of Issue No. 2, we turn to its various components and the evidence submitted into the record of this proceeding by the parties.

A. Capital Structure

17. The capital structure refers to the percentage of the utility's total capital comprised of debt, equity, and other financial components that are used to finance a company's investments in rate base. WGL's capital structure is based on the following four components: (1) long-term debt; (2) short-term debt; (3) preferred stock; and (4) common equity. Each component earns a different rate of return, with the highest return being for common equity. Due to its higher rate of return, the parties focus on determining how much of WGL's capital

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[43] *Bluefield Waterworks & Improvement Co. v. Public Service Commission of the State of West Virginia*, 262 U.S. 679, 692-693 (1923).

[44] "The rate of return is an expression, in terms of percentage of rate base, of: 'the amount of money a utility earns, over and above operating expenses, depreciation expense, and taxes expressed as a percentage of the legally established net valuation of utility property, the rate base. Included in the returns are interest on debt, dividends on preferred stock, and earnings on common stock equity. In other words, the return is that money earned from operations which is available for distribution among the various classes of contributors of money capital." *Formal Case No. 685, In the Matter of Application of Potomac Electric Power Company for an Increase in its Retail Rates for the Sale of Electric Energy, ("Formal Case No. 685"),* Order No. 6096 at 6, rel. June 14, 1979.

[45] *See generally*, *Washington Gas Light Co. v. Public Service Commission*, 450 A.2d 1187, 1209, n.30 (D.C. 1982).

structure is attributable to common equity and then use that to calculate the proportion of other components of WGL's capital structure.

18. **WGL.** WGL proposes continuing the Commission's "long-standing practice of using an actual capital structure that matches the rate base and cost of service during the test year."[46] To that end, WGL asserts that its actual capital structure as of September 30, 2015, was 37.81% long-term debt, 2.95% short-term debt, 1.48% preferred stock, and 57.76% common stock.[47] WGL adjusted its actual capital structure, "in accordance with past practice to address such items as seasonality and other non-rate related items."[48] WGL indicates that short-term debt was adjusted for seasonal variations and calculated using the average daily balance for twelve months, while long-term debt was adjusted to add back in the unamortized debt discount balance.[49] Regarding common equity, WGL Witness Gode, adjusted for seasonal fluctuations "the retained earnings component of common equity to reflect average balances for the five quarters ended September 30, 2015."[50]

19. WGL states that in *Formal Case No. 1093*, "the Commission determined that the Company's then-existent 59.3% equity ratio (not reflective of deferred taxes) was at the upper bounds of reasonableness."[51] Given that WGL's proposed equity ratio is 57.76% in this case, Witness Gode provides "detailed explanations regarding the Company's financing activities since the last base rate case as well as why, on an adjusted basis, the proposed equity ratio was in line with comparable utility companies."[52] WGL that ratings agencies look to the "actual capital structure and level of deferred taxes" when rating a company's debt.[53] WGL emphasizes that its high equity ratio ensures the security of its debt and better credit rating, which as "the issuer of high-grade securities [WGL] has greater flexibility to issue securities at relatively lower cost."[54]

20. Witness Gode indicates that WGL has issued no equity since *Formal Case No. 1093* and has increased its long-term debt during that same period.[55] Regarding WGL's "reduced need for debt financing," WGL states that, "[a]ccelerated depreciation and the expensing of repairs allowed under tax law have resulted in an effective 'zero-cost' loan from

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46 WGL Br. at 9, citing *Washington Gas Light Co. v. Public Service Commission*, 450 A.2d 1187, 1214 (D.C. 1982).

47 WGL Br. at 9, citing WGL (B) at 2 (Gode).

48 WGL Br. at 9.

49 WGL Br. at 10-11, citing WGL (B) at 8-9 (Gode).

50 WGL Br. at 11.

51 WGL Br. at 12.

52 WGL Br. at 12.

53 WGL Br. at 11-12, citing Tr. at 172; WGL (B) at 4 (Gode).

54 WGL Br. at 12, citing WGL (B) at 4 (Gode).

55 WGL Br. at 12, citing WGL (B) at 10 (Gode).

taxing authorities that, for ratemaking purposes, is accounted for as a reduction to rate base rather than as a zero cost element of capital structure," which "has the impact of reducing the revenue requirement when the authorized overall rate of return is applied to net rate base."[56] WGL asserts that "the immediate effect . . . raises the apparent equity ratio;" however, the "revenue requirement would be exactly the same if deferred tax liability were not removed from rate base, but instead were reflected as a zero-cost long-term debt component of the Company's capital structure."[57]

21. Finally, Witness Gode compares "the equity ratios of comparable utility companies," using "the comparable group chosen" by WGL Witness Hevert in determining WGL's cost of equity, and found that the median equity of the proxy group is 48.6%, compared to 57.8% for WGL.[58] Witness Gode contends that to "make the comparison meaningful and fair, he added deferred tax liability as a component of capital, which results in a median equity of the proxy group of 39.0%, compared to 42.6% for WGL.[59] Witness Gode attributes these results to WGL making "greater proportional use of cost-free deferred tax liabilities as a funding mechanism than its peers and that it has directly benefited customers."[60]

22. **OPC.** OPC Witness O'Donnell recommends a capital structure of 47.0% long-term debt, 0% short-term debt, 0% preferred stock, and 53.0% common stock.[61] OPC begins by stating that "[t]he objective of utility rate regulation is to balance the needs of the capital markets (including stockholders) with the needs of ratepayers," which is important because as "OPC Witness O'Donnell explains[,] that costs to consumers are greater when the utility finances a higher proportion of its rate base investment with common equity and preferred stock instead of long-term debt."[62] Further, OPC highlights that equity financing costs ratepayers more because of differing tax treatment as compared to corporate debt. OPC contends that the higher increased costs ultimately result in "unjust, unreasonable, and unnecessarily high rates."[63]

23. OPC states that the Public Service Commission of Maryland ("Maryland Commission" "provided similar warnings to WGL" regarding its equity ratio as did this Commission in *Formal Case No. 1093*. Specifically, the Maryland Commission found that "WGL's equity ratio was out of line with its peers" when it rejected a 60.80% equity ratio,

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56 WGL Br. at 13, citing WGL (B) at 10-12 (Gode).

57 WGL Br. at 13, citing WGL (B) at 12 (Gode).

58 WGL Br. at 14, citing WGL (B) at 13 (Gode). However, we note that in a subsequent revision, Witness Hevert proposed comparable group for cost of equity purposes that was slightly different then Witness Gode's group for capital structure purposes.

59 WGL Br. at 14, citing WGL (B) at 13 (Gode).

60 WGL Br. at 14, citing WGL (B) at 13 (Gode).

61 OPC Br. at 36, citing OPC (B) at 46, 67 (O'Donnell).

62 OPC Br. at 36-37, citing OPC (B) at 39 (O'Donnell).

63 OPC Br. at 37, citing OPC (B) at 36-37 (O'Donnell).

"determin[ing instead] that a 53.02% common equity ratio was just and reasonable."[64] OPC Witness O'Donnell found that the average equity ratio for his group of comparable companies was 52.57% as compared to 53.22% for WGL Witness Hevert's cost of equity peer group (or "proxy group').[65] OPC also cites the average equity ratio accepted by regulatory bodies in 2015 for natural gas utilities as 49.93% and as 50.89% for 2016. OPC points out that as of December 31, 2015, WGL Holdings only had a common equity ratio of 49%.[66] Given that WGL has only undertaken "a token reduction in its equity ratio from 59.30% to 57.76%" since *Formal Case No. 1093* and how far out of alignment its actual common equity ratio is with other measures, OPC asserts that "the Commission should reject WGL's requested 57.76% equity ratio and proposed capital structure."[67]

24. Regarding the role of deferred income taxes in WGL's capital structure, OPC explains that "[d]eferred taxes are created when the regulatory system allows the utility to collect taxes from consumers before the utility actually pays those taxes at some point down the road. This practice frees up funds from consumers that the utility can invest in plant facilities and equipment."[68] OPC suggests that the handling of deferred taxes, by which WGL collects money for taxes that are deferred and in turn invests those same funds in rate base for which WGL is paid a return is "potentially resulting in double-dipping" by WGL.[69] Additionally, OPC rebuts an argument WGL raised in its Maryland rate case. In that case, WGL stated that "imputing a zero cost capital component without an increase to rate base violates [Internal Revenue Service ("IRS")] regulations governing tax normalization, because using deferred taxes associated with bonus depreciation as both a reduction to rate base and zero cost capital will be considered double-counting."[70] OPC explains that because the Maryland Commission's decision "did not contain any imputed zero cost capital, WGL's [concerns] regarding the IRS normalization rules become moot."[71]

25. **AOBA.** AOBA suggests two alternatives in determining an appropriate capital structure for WGL: (1) establish a capital structure that would "be reasonably indicative of the Company's overall costs of capital during the rate effective period" by including the $250 million in debt WGL recently issued; or (2) "break with past precedent . . . and replace [WGL's actual capital structure] with a capital structure that ensures that District ratepayers are required to bear no greater equity burden than WGL Holdings' non-utility operations."[72] Under the first

64 OPC Br. at 38, citing OPC Cross-Examination Exhibit No. 76 at 8-12.

65 OPC Br. at 39, citing OPC (B) at 42-43 (O'Donnell).

66 OPC Br. at 39.

67 OPC Br. at 40.

68 OPC Br. at 41.

69 OPC Br. at 41.

70 OPC Br. at 42, quoting OPC Cross-Examination Exhibit No. 76 at 4.

71 OPC Br. at 42, citing OPC Cross-Examination Exhibit No. 76 at 10.

72 AOBA Br. at 32-33.

option, AOBA argues that WGL's issuance of $250 million in debt "after the filing of all direct and rebuttal testimony . . . cannot be ignored."[73] AOBA states that "[g]iven the size and comparatively low effective cost rate," not taking the debt into account "would virtually assure that any authorized rate of return for [WGL] in this proceeding will exceed the Company's actual costs of capital for the rate effective period."[74] AOBA states that due to the timing of the debt issuance, there is only a "limited record" on this issue.[75] Additionally, AOBA contends that WGL's refusal to include the $250 million debt issuance results in "the very mismatch" of conditions as they will exist during the rate effective period that WGL Witness Tuoriniemi sought to avoid.[76] Further, AOBA rejects WGL Witness Gode's claims that the capital structure cannot be updated, by pointing to language in *Formal Case No. 1016*, where adjustments were made for short-term debt.[77] AOBA also highlights *Formal Case No. 1103*, where the Commission allowed the use of out-of-test-year debt issuances and equity contributions for an updated capital structure.[78]

26. Under the second proposed option, AOBA contends that the Commission should take action "to protect District ratepayers from inappropriate leveraging of [WGL's] utility operations to improve the profitability of WGL Holdings non-utility operations."[79] AOBA explains that the "vast majority of WGL Holdings' non-utility capital investment" is used by WGL Midstream operations for construction of interstate pipeline projects.[80] At the end of the test year, September 30, 2015, "WGL Holdings non-utility activities were financed with only 27.28% common equity, while [WGL] at the same point in time had 57.17% common equity."[81] In response to WGL Witness Gode's objections to AOBA's position, AOBA contends that "when WGL Holdings seeks financing for non-utility operations it does not do so by reliance on the stand-alone credit characteristics of its non-utility operations (either in aggregate or for individual subsidiaries). Rather, it appeals to investors by leveraging the holding company's consolidated balance which is dominated by [WGL] and derives its strength from the high percentage of equity found in the capital structure for [WGL]."[82] AOBA's "solution to the

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73 AOBA Br. at 33.

74 AOBA Br. at 33.

75 AOBA Br. at 33.

76 AOBA Br. at 42, citing WGL (D) at 12 (Tuoriniemi).

77 AOBA Br. at 44, citing *Formal Case No. 1016, In the Matter of the Application of Washington Gas light Company, District of Columbia Division, for Authority to Increase Existing Rates and Charges for Gas Service,* ("*Formal Case No. 1016"),* Order No. 12986, ¶ 8, rel. November 10, 2003 ("Order No. 12986").

78 AOBA Br. at 44, citing *Formal Case No. 1103, In the Matter of the Application of the Potomac Electric Power Company for Authority to Increase Existing Retail Rates and Charges for Electric Distribution Service, ("Formal Case No. 1103"),* Order No. 17424, ¶ 298, rel. March 26, 2014 ("Order No. 17424").

79 AOBA Br. at 32-33.

80 AOBA Br. at 34.

81 AOBA Br. at 34.

82 AOBA Br. at 35.

problem of ratepayers subsidization of non-utility operations is to require that the capital structure authorized for [WGL] include no greater common equity than the capital structure of its holding company parent" which AOBA calculates "would require the Commission to establish the common equity percentage for [WGL] for ratemaking purposes[,] in this proceeding at 50.16%."[83]

27. AOBA states that deviation from the Commission's policy of using "a company's actual end-of-year capital structure adjusted to reflect known and measurable changes anticipated through the mid-point of the rate effective period" are appropriate "where there is persuasive record evidence that the utility's capital structure has been manipulated to include a larger amount of high cost equity than was warranted for an independent utility company with the same risk profile."[84] Further, AOBA cites a decision by the D.C. Court of Appeals for the proposition "that the focus of the Commission's capital structure determination must be placed on achieving 'the lowest cost of service that is consistent with a sound financial posture' for [WGL's] stand-alone utility operations."[85] AOBA states that WGL's "actual capital structure changes on a quarter-to-quarter, month-to-month, and even a day-to-day basis" and the appropriate annual capital costs for WGL are not "based on a point in time estimate."[86] In making its determinations, AOBA urges the Commission to "be acutely sensitive to the comparatively high cost of equity capital . . . [as] 'each dollar of Common Equity that is replaced by a dollar of long-term debt lowers the Company's overall cost of capital.'"[87] AOBA Witness Oliver states that "the extreme amounts of Common Equity used by [WGL] are unnecessary and do not represent a cost-effective use of ratepayer dollars."[88] In response to WGL Witness Gode's claim that any shift from common equity to debt "would 'cause unnecessarily high interest expense,'" AOBA contends that Witness Gode "fails to address the relative magnitudes of [WGL's] costs for common equity and long-term debt."[89] To this point, AOBA Witness Oliver "shows that the effective cost of [WGL's] requested return on common equity is 'three times greater' than its weighted average cost of long-term debt."[90]

28. **WGL Response.** WGL asserts that OPC and AOBA do not present any "credible evidence or argument" against "the Company's financing policies and practices" and resulting capital structure.[91] WGL argues that OPC's recommendation is based on "a flawed comparison

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83 AOBA Br. at 36-37.

84 AOBA Br. at 37-38, citing *Formal Case No. 1093*, Order No. 17132, ¶ 15.

85 AOBA Br. at 38, quoting *Re: Chesapeake & Potomac Telephone Company*, 57 PUR 3d 1, 39 (DCPSC 1967).

86 AOBA Br. at 38.

87 AOBA Br. at 45, quoting AOBA (A) at 40 (Oliver).

88 AOBA Br. at 45, quoting AOBA (A) at 39 (Oliver).

89 AOBA Br. at 45, citing WGL (B) at 15 (Gode).

90 AOBA Br. at 45, citing AOBA (A) at 39 (Oliver).

91 WGL R. Br. at 4.

of 'comparable' companies" while AOBA's comparison to WGL Holdings is "baseless" and relies on "an ill-informed and misapplied adjustment of the capital structure for post-test year activity."[92] WGL asserts a "significant failing" of OPC and AOBA is their "unwillingness, or inability, to recognize the role of deferred taxes in both the composition of a capital structure and the reduction of rate base" and instead they "focus superficially on per-books capital structure components instead of properly analyzing how the capital structure was developed and the actual revenue impact on customers."[93]

29. First, WGL contends that OPC and AOBA ignored its "extensive discussion of deferred taxes" presented on the record in this case.[94] WGL states: "Unfortunately for the adequacy and clarity of the record, the limited discussion by OPC and AOBA's experts was largely inaccurate."[95] In response to OPC Witness O'Donnell's summation of WGL Witness Gode's testimony, WGL asserts Witness O'Donnell is "completely inaccurate" in arguing that deferred taxes result in higher rates for consumers. WGL Witness Gode refutes OPC's argument by: "(1) citing a well-known industry expert who identifies deferred taxes as a zero-cost loan, (2) citing a treatise existing since the 1980's that debunked the myth of "phantom taxes," and (3) providing a cash flow analysis that demonstrates that increases in deferred tax liabilities benefit customers."[96] WGL asserts that "[t]he demonstration that deferred tax treatment benefits customers . . . [is] unrebutted by OPC and AOBA."[97] WGL also argues that "the use of a hypothetical capital structure to artificially lower the equity ratio . . . would effectively result in denying the Company a reasonable opportunity to earn its authorized return and otherwise recover the prudent costs of providing the natural gas service to District customers" and is unrebutted by OPC and AOBA.[98] WGL points to Witness Gode's rebuttal testimony and asserts that "reducing rate base for accumulated deferred income taxes and imposing a hypothetical equity structure . . . would be an illegal confiscation and violate the Company's statutory and constitutional rights to recover the cost of service and have a reasonable opportunity to earn its authorized return."[99] In the event that a hypothetical capital structure is ordered, WGL states "it would not only represent poor ratemaking practice, it would possibly have other consequences," such as the Company seeking a private letter ruling from the IRS regarding the impact of the new structure on its tax position, as well as leading WGL to reassess its tax accounting methods as they relate to deferred taxes.[100]

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92 WGL R. Br. at 4.

93 WGL R. Br. at 4-5.

94 WGL R. Br. at 3.

95 WGL R. Br. at 5.

96 WGL R. Br. at 6.

97 WGL R. Br. at 7.

98 WGL R. Br. at 7.

99 WGL R. Br. at 8, referencing WGL (2B)-2.

100 WGL R. Br. at 9.

30. WGL reiterates that deferred taxes should be accounted for when looking at peer groups of utilities and that WGL "has made greater proportional use than its peers of cost-free deferred taxes as a funding mechanism."[101] Further, in response to OPC's assertions that deferred taxes "potentially result[] in double-dipping" by WGL, the Company states that OPC provides "[n]o citation to record evidence."[102]

31. WGL challenged OPC Witness O'Donnell's inclusion of UGI and NiSource in his comparable group of utilities because of the respective amount of regulated earnings and recent spin-off of certain business segments.[103] WGL asserts that after the removal of these two companies, the average equity of OPC's peer group is 55.7%. Further, WGL argues that Spire Inc. should also be removed from the peer group because of Spire's increased debt related to acquisitions, which when Spire is removed further raises the peer group average equity to 57.1%[104]

32. WGL states that AOBA's claim of cross-subsidy between WGL and WGL Holdings is "unfounded."[105] WGL points out that AOBA does not allege that WGL or WGL Holdings have violated any of the Commission's ring-fencing measures and cost allocation manual procedures.[106] WGL states that "[t]he source of AOBA Witness Oliver's concerns is apparently that the difference between the five quarter average of WGL Holdings equity ratio (50.1%) and the Company's 57.7% actual equity ratio is too large."[107] Further, WGL points out that "the relative equity ratios for WGL Holdings and [WGL] are closer aligned once deferred taxes are taken into account."[108]

33. Finally, WGL rejects AOBA's inclusion of the $250 million in long term debt in WGL's capital structure because such "selective updating fails to recognize the increased cost of service items that the $250 million financed."[109] WGL contends that "there is no adequate record to update both the capital structure and the cost of service."[110] WGL states that inclusion of the long-term debt "would unfairly include the capital structure effects of a large long-term debt financing without recognition of the cost items, such as the new Customer Information

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101 WGL R. Br. at 9, citing WGL (B) at 13 (Gode).

102 WGL R. Br. at 10, citing OPC Br. at 41.

103 WGL R. Br. at 11.

104 WGL R. Br. at 12.

105 WGL R. Br. at 13.

106 WGL R. Br. at 13, citing 15 DCMR § 3900-3999 (2011).

107 WGL R. Br. at 13, citing AOBA (A) at 47 (B. Oliver); AOBA Br. at 34.

108 WGL R. Br. at 14. citing WGL (2B)-6.

109 WGL R. Br. at 15.

110 WGL R. Br. at 15.

System, that were funded by the financing" and there is "no adequate evidentiary basis to make the update in a correct manner."[111]

34. **OPC Response.** OPC contends that "WGL attempts to construe [the Commission's warning in *Formal Case No. 1093*] as a mere 'observation.'"[112] However, OPC asserts, "[t]he Commission did not simply make a passing observation; it evaluated the evidentiary record and affirmatively concluded that the Company's equity ratio reached the 'upper bounds of reasonableness.'"[113] Additionally, OPC states, "WGL's attempt to use deferred taxes to justify an excessively high equity ratio burdens customers and unnecessarily forces ratepayers to bear more of the Company's financing costs."[114]

35. **AOBA Response.** AOBA asserts that WGL's focus on deferred income taxes and their relationship to a utility's capital structure "are little more than a distraction from more substantive issues."[115] AOBA states that WGL "has presented no evidence that consideration of deferred income taxes as part of the capital structure used for ratemaking purposes is a widespread practice among either natural gas distribution utilities or their holding companies."[116] In response to WGL Witness Gibson's explanation about how credit ratings agencies look at deferred income taxes, AOBA explains "that S&P use of deferred income taxes is for the purpose of computing financial ratios (e.g., Long-Term Debt to Total Capitalization where the definition of Total Capitalization is expanded to include certain Liabilities). S&P does not suggest that deferred taxes are a component of [WGL's] capital structure."[117] Pointing to Exhibit WGL (C)-12 for support, AOBA states, "capital structures are generally examined in terms of the debt and equity component and exclude consideration of other elements of 'Total Capitalization and Liabilities' that are commonly reported by utilities;" however, if deferred income taxes are part of the consideration "then there are a number of other elements of 'Total Capitalization and Liabilities' that should also be considered as part of [WGL's] Capital Structure."[118]

DECISION

36. Before assessing the appropriate capital structure, the Commission must address several preliminary but foundational arguments. First, the Commission will address the role of deferred taxes in utility financing and capital requirements. The Commission agrees with WGL

[111] WGL R. Br. at 17.

[112] OPC R. Br. at 9, citing WGL Br. at 9; *Formal Case No. 1093*, Order 17132, ¶ 18.

[113] OPC R. Br. at 9, citing *Formal Case No. 1093*, Order 17132, ¶ 18.

[114] OPC R. Br. at 10, citing OPC Br. at 41-42; OPC (B) at 41 (O'Donnell); AOBA (A) at 46 (Oliver); AOBA Br. at 34-37.

[115] AOBA R. Br. at 2.

[116] AOBA R. Br. at 2.

[117] AOBA R. Br. at 3.

[118] AOBA R. Br. at 3.

that the use of deferred tax liabilities as a funding mechanism benefits ratepayers and WGL's accounting methods are appropriate. Further, we note that WGL as a prudent and responsible utility has a duty to both its shareholders and its ratepayers to maximize the use of cost-free deferred tax liabilities.

37. Second, the Commission finds that AOBA's references to WGL Holding's capital structure are inappropriate because the WGL Holdings is not an entity with comparable risks to WGL. Further, AOBA is not alleging any violation of the Commission's rules as it relates to utility-holding company transactions. Third, as to AOBA's proposal to incorporate $250 million of post-test year debt, the Commission notes that this adjustment would reflect a transaction that is outside of the test year and would fail to properly take into account other expenses and additions possibly related to rate base during the same period. This aligns with AOBA's statement that WGL's "actual capital structure changes on a quarter-to-quarter, month-to-month, and even a day-to-day basis" and the appropriate annual capital costs for WGL are not "based on a point in time estimate."[119] Therefore, we find that inclusion of the post-test year debt unnecessarily focuses on a point in time outside the test-year and is inappropriate given the lack of inclusion of other related expenses or additions to rate base.

38. Finally in assessing a utility's capital structure, the Commission looks to the same risk-comparable peer groups presented by the parties in determining both the common equity ratio and the cost of common equity to ensure internal consistency across our decision making. WGL presents the adjusted capital structures for WGL and its peer group, including the impact of deferred taxes as described in Exhibit WGL (B)-9. WGL Witness Gode testified that "the equity ratios of comparable utility companies," using "the comparable group chosen" by WGL Witness Hevert in determining WGL's cost of equity, and found that the median equity of the proxy group is 48.6%, compared to 57.8% for WGL.[120] Witness Gode contends that to "make the comparison meaningful and fair, he added deferred tax liability as a component of capital, which results in a median equity of the proxy group of 39.0%, compared to 42.6% for WGL.[121] Witness Gode attributes these results to WGL making "greater proportional use of cost-free deferred tax liabilities as a funding mechanism than its peers and that it has directly benefited customers."[122] By WGL's own calculation, when deferred taxes are added as a capital component it results in WGL's equity ratio being 360 basis points higher than the median for its peer group.[123] As part of its rebuttal testimony, WGL updated its peer group to include Chesapeake and Spire, which results in a peer group median adjusted equity ratio of 40.4%, which is 220 basis points less than WGL's adjusted equity ratio of 42.6%.[124]

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[119] AOBA Br. at 38.

[120] WGL Br. at 14, citing WGL (B) at 13 (Gode).

[121] WGL Br. at 14, citing WGL (B) at 13 (Gode).

[122] WGL Br. at 14, citing WGL (B) at 13 (Gode).

[123] *See* WGL (B)-9, and WGL (B) at 8 (Gode).

[124] *See* WGL (2B)-1 at 1.

39. In its Reply Brief, WGL argues against OPC Witness O'Donnell's inclusion of NiSource, UGI Corporation, and Spire in OPC's peer group, for the purposes of developing a capital structure. WGL argues that when Spire, UGI and NiSource are removed, the resulting average equity ratio of the comparable group of utilities is 57.1%, which is relatively close to the actual equity ratio of WGL (57.7%).[125] The Commission agrees with WGL that UGI and NiSource are poor comparisons because of their different risk profile and corporate restructuring. However, we reject WGL's exclusion of Spire because of its low equity ratio due to acquisition related debt from 2013 and 2014. While Spire has an equity ratio on the low end, it is offset by Chesapeake which has the highest equity ratio in WGL's peer group and the exclusion of only the outlier favorable to WGL is inappropriate. This can be seen by comparing WGL's proposed 57.76% common equity ratio with those of other comparable utilities and with recent periods.[126] Furthermore, we note that WGL Witness Hevert uses both Chesapeake and Spire in his risk comparable samples for determining the cost of equity discussed in the next section. For purposes of internal consistency, it is imperative that the risk-comparable sample be equivalent for purposes of both estimating the cost of common equity and determining the appropriate common equity ratio. Company Witness Hevert proposes that the following seven companies be used as a proxy group for purposes of his cost of equity analysis: Atmos Energy, Chesapeake Utilities, New Jersey Resources, Northwest Natural Gas, South Jersey Industries, Southwest Gas, and Spire.[127]

40. The 2015 Common Equity Ratios for these companies is:[128]

Utility	**Equity Ratio**
Atmos Energy	56.50%
Chesapeake Utilities	70.60%
New Jersey Resources	56.80%
Northwest Natural Gas	57.50%
South Jersey	50.80%
Southwest Gas	50.70%
Spire	47.00%

The average of this proxy group's common equity ratios is 55.70%.

41. In *Formal Case No. 1093*, Order No. 17132, the Commission found "WGL's pronounced equity build-up over the past decade to be troubling because it is out of line with the companies that WGL itself identifies as proxy companies and because its higher equity ratio raises the Company's rate of return and the rates that D.C. ratepayers must pay."[129] The Commission recognized that an $84.1 million tax refund "was an unusual event" and the removal

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125 WGL R. Br. at 12, citing WGL (2B) at 23 (Gode).

126 OPC (B) at 44:8-9 (O'Donnell Direct).

127 WGL (2C)-8.

128 OPC (B) at 42:5-9 (O'Donnell).

129 *See Formal Case No. 1093*, Order No. 17132, ¶ 18.

of those funds would still leave WGL with an equity ratio of 57.23%. The Commission proceeded to reference an earlier warning that "if the Company's capital structure includes too much equity, the Commission may be compelled to use a more appropriate hypothetical capital structure in [the utility's] next base rate proceeding."[130] Finally, in *Formal Case No. 1093*, the Commission observed that "[WGL's] equity ratio at 59.76% has reached the upper bounds of reasonableness. If it continues to be so significantly out of line with the capital structure of similar companies, the Commission may have no choice but to seriously consider the use of some form of a hypothetical capital structure for rate-setting purposes in the Company's next base rate case."[131]

42. In this case WGL presents its actual capital structure which includes a common equity ratio of 57.76%. OPC and AOBA argue that WGL's capital structure is out of line with its peer group. In fact, WGL Witness Gode's testimony also suggests that WGL's equity ratio is higher than the peer group. As discussed above, the appropriate peer group has an average equity ratio equal to 55.70%. The Commission finds that WGL's actual capital structure continues to be significantly out of line with the capital structure of its peer group and warrants a reassessment of the utility's actual capital structure for rate-setting purposes. Therefore, these particular facts form a sufficient basis to compel the Commission to depart from our long-standing policy of using the actual capital structure and adopt an appropriate hypothetical capital structure for rate-setting purposes in this proceeding.

43. In reviewing WGL's capital structure, the Commission aims to ensure that WGL's approved capital structure enables the Company to adequately maintain its credit ratings with an opportunity to earn its reasonably allowed rate of return. However, we also aim to balance that goal by ensuring that the District ratepayers are being charged reasonable rates of return, using the appropriate capital structure. Based on all the evidence in the record, and having considered the average equity ratio for WGL's comparable group of companies, we find that a just and reasonable common equity ratio for WGL is 55.7%. Adjusting the Company's other capital components upward proportionally, the appropriate capital structure is:

WGL's Approved Capital Structure

Component	Ratio
Debt	
Long-Term	39.65%
Short Term	3.09%
Preferred Stock	1.55%
Common Equity	55.70%

44. In future rate cases, WGL should provide information demonstrating how its proposed capital structure and allowed and proposed returns on equity ("ROEs"), compare to those of its peer group of companies. This information should provide at a minimum: the capital structure components, the ROEs, the credit ratings, and other similar credit metrics of the peer

130 *See Formal Case No. 1093,* Order No. 17132, ¶ 18, quoting *Formal Case No. 896*, Order No. 9516 at 6.

131 *See Formal Case No. 1093,* Order No. 17132, ¶ 18.

group. This information will assist the Commission and parties in reviewing WGL's cost of capital proposal.

B. Cost of Capital

45. WGL's Capital Structure is based on four components, each with a different cost, expressed as rate of return, to be paid by ratepayers. The components are: (1) long-term debt, (2) short-term debt; (3) preferred stock; and (4) common equity. Based on the record, WGL, OPC, and AOBA all agree that long-term debt costs are 5.83%, short-term debt costs 1.06%; and preferred stock costs are 4.79%. The sole area of dispute is the rate of return paid for common equity, to which we now turn.

46. **WGL.** WGL proposes a return on common equity of 10.25%, which represents the midpoint of WGL's 10.00% to 10.50% cost of equity range.[132] WGL arrived at its proposed ROE by measuring the cost of equity of a proxy group composed of seven natural gas distribution companies ("WGL Proxy Group"),[133] using four methods: Constant Growth and Multi-Stage forms of the Discounted Cash Flow ("DCF") method, the Capital Asset Pricing Model ("CAPM"), and the Bond Yield Plus Risk Premium Model ("RPM").

47. WGL selected companies for its proxy group with "comparable risks" to WGL such that the resulting allowed ROE proposed for WGL would be "commensurate with the returns expected elsewhere in the market for investments of equivalent risk."[134] WGL Witness Hevert began by using companies "covered and evaluated by *Value Line*."[135] Next, Witness Hevert applied a series of screens to determine companies that were comparable in risk to WGL.[136] Following the addition of one company, Chesapeake Utilities, during rebuttal testimony, WGL's proxy group contains seven companies.[137]

48. According to WGL, under the first method, the Constant Growth DCF method produces a range for the cost of equity, inclusive of flotation costs, for WGL's Proxy Group of 8.52% to 11.49%.[138] The DCF method requires the use of an expected dividend yield plus an

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132 WGL Br. at 14, citing WGL (2C) at 2 (Hevert).

133 WGL Br. at 16, citing WGL (C) at 15-16 (Hevert). The seven companies are: Atmos Energy, Laclede Group, Inc., New Jersey Resources, Northwest Natural Gas, South Jersey Industries, Southwest Gas and Chesapeake Utilities.

134 WGL Br. at 15, citing *Formal Case No. 1093*, Order No. 17132, ¶ 29.

135 WGL Br. at 15, citing WGL (C) at 30 (Hevert).

136 WGL Br. at 16, citing WGL (C) at 15-16 (Hevert). The screens are: excluding companies that do not consistently pay quarterly cash dividends; excluding companies not covered by at least two utility industry equity analysts; excluding companies that do not have investment grade senior bond and/or corporate credit ratings from Standard and Poor's; including companies that are primarily regulated gas distribution utilities, and excluding companies with less than 60.00 percent of net operating income from regulated natural gas utility operations; and excluding companies that are currently known to be party to a merger, or other significant transaction.

137 WGL Br. at 16, WGL (C) at 16 (Hevert); WGL (2C) at 7 (Hevert).

138 WGL Br. at 18, citing WGL (C) at 26 (Hevert).

expected growth rate in dividends per share to establish an investor-required cost of equity. Witness Hevert calculated the dividend yield, using 30-, 90-, and 180-day averaging periods and relied on consensus earnings growth estimates provided by Zack, First Call, and Value Line, and an earnings retention growth rate. From these growth rates for each company in the WGL Proxy Group, Witness Hevert calculated a mean low, mean, and mean high ROE for each of the three daily averages.[139] Witness Hevert's mean Constant Growth DCF range, excluding flotation costs, is 8.79% to 9.14% and the median is 8.93% to 9.17%.[140] Hevert's Updated Mean DCF results are 8.90% to 9.24%.[141]

49. According to WGL, under the second method, the Multi-Stage DCF method produces a range for the cost of equity, including flotation costs, for WGL's Proxy Group of 9.45% to 10.36%.[142] The Multi-Stage DCF analysis involves consideration of different growth rates in the future. For his long-term nominal U.S. Gross Domestic Product ("GDP") growth rate for his third stage growth estimate, Witness Hevert used 5.27%. This number is based on real U.S. GDP growth rate of 3.25% from 1929-2014 and with an expected inflation rate of approximately 2.0%.[143] Witness Hevert conducted his analysis as before to produce his range for WGL's Proxy Group. Witness Hevert's mean Multi-Stage DCF range, excluding flotation costs, is 8.51% to 8.91% and the median is 8.93% to 9.17%.[144]

50. With regard to the third method of determining the cost of equity, the CAPM, that method uses the yield on a risk-free interest bearing obligation plus a rate of return that is proportional to the systematic risk of an investment. WGL Witness Hevert utilizes two different proxies for the risk-free obligation, specifically: (1) the current 30-day average yield of 30-year U.S. Treasury bonds of 2.28% and (2) the near-term projected yield of 30-year U.S. Treasury bonds of 3%.[145] In determining the systemic risk of investment, Witness Hevert relied on: (1) Bloomberg and *Value Line* data, less the current 30-year U.S. Treasury bond yield, which produced a market risk premium of 10.77% to 11.48% and (2) Bloomberg and Value Line data, less the near-term projected 30-year U.S. Treasury yield, with the same market risk premium.[146] Hevert also relied upon Beta coefficients, which ranged from .618 to .721 on average.[147] WGL calculates the range for the cost of equity for the WGL Proxy Group of 9.41% to 11.50% using the CAPM.[148] Utilizing only the current 30-Year Treasury range, the CAPM cost of equity, as

[139] WGL Br. at 17, citing WGL (C)-2, WGL (C)-4.

[140] *See* WGL (2C)-8.

[141] WGL (2C) at 54 (Hevert).

[142] WGL Br. at 18, citing WGL (C) at 33 (Hevert).

[143] WGL (2C)-10.

[144] *See* WGL (2C)-8.

[145] WGL (2C)-13.

[146] WGL (2C)-13.

[147] WGL (2C)-12.

[148] WGL Br. at 19, citing WGL (C) at 35-36 (Hevert).

calculated by Witness Hevert, for the WGL Proxy Group is 9.41% to 11.03%.[149] Hevert's Updated CAPM Range, with the current Treasury Yield, is 8.94% to 10.09%.[150]

51. Under the fourth cost of equity model used by WGL, the RPM, the cost of equity is determined by corporate bond yields plus a risk premium to account for the higher risk of equity compared to debt (the risk premium). To calculate the risk premium, WGL Witness Hevert uses the difference between authorized ROEs and the then-prevailing level of long-term Treasury yields. Based on a sample of 1,027 natural gas rate proceedings going back to 1980, he determined that the equity risk premium is inversely related to the level of interest rates.[151] Witness Hevert assumes Treasury yields from 2.98% to 4.55% and performs a regression analysis to develop a Risk Premium cost of equity range from 9.99% to 10.40%.[152] When only current 30-Year U.S. Treasuries are used, the Updated Risk Premium estimate for cost of equity is 10.02%.[153]

52. WGL Witness Hevert takes several additional matters into consideration in forming his judgment in recommending a ROE in this case. First, Witness Hevert considered the small size of WGL's District of Columbia operations.[154] Looking at the number of customers and annual revenue, Witness Hevert determined that WGL's District operations "are significantly smaller than the proxy group average" at 10.26% of the proxy group median, and this would raise risks the Company faces because of reduced ability to handle operational challenges and reduced liquidity in accessing capital markets.[155] Pointing to a Morningstar analysis, Witness Hevert claims that the small size premium is 409 basis points, but he does "not make an explicit premium adjustment to his recommended ROE."[156] Second, Witness Hevert contends "that the financial models like DCF and CAPM approaches do not explicitly consider flotation costs, but as a legitimate cost they must be considered when setting the appropriate ROE."[157] Witness Hevert calculates the impact of flotation costs to be 14 basis points but does not explicitly add this to his recommended ROE.[158] Finally, Witness Hevert considers actions by

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149 WGL Br. at 17.

150 WGL (2C) at 55 (Hevert).

151 WGL (C) at 37-40 (Hevert).

152 WGL Br. at 19, citing WGL (C) at 40 (Hevert). *See Also*, WGL (C)-8.

153 WGL (2C)-14 at 1.

154 WGL Br. at 20.

155 WGL Br. at 20; WGL (C) at 40-42 (Hevert).

156 WGL. Br. at 20; WGL (C) at 43 (Hevert); WGL (C)-9.

157 WGL Br. at 21; WGL (C) at 48 (Hevert).

158 WGL Br. at 21.

the U.S. Federal Reserve Board since 2008 and how shifting policy will impact market expectations.[159]

53. **OPC.** OPC relies primarily on the DCF to determine the appropriate cost of equity, which it identifies as 8.75%.[160] Witness O'Donnell also performed a Comparable Earnings analysis. OPC uses a proxy group comprised of nine gas distribution companies; the two companies which WGL Witness Hevert did not include are NiSource and UGI ("OPC Proxy Group").[161] Witness O'Donnell provides a separate analysis of WGL Holdings. For its DCF analysis, OPC Witness O'Donnell averaged the dividend yield expected over the next 12 months for each company in the OPC Proxy Group from April 8, 2016 through July 1, 2016.[162] To assess both short-term and long-term movements in dividend yield, Witness O'Donnell examined the 13-, 4-, and 1-week diffident yields.[163] This resulted in a dividend yield of 2.7% to 2.8% for the OPC Proxy Group and 2.8% to 2.9% for WGL Holdings.[164] To determine the growth rate, Witness O'Donnell used: (1) the Plowback Ratio Method; (2) the 5- and 10-year Historical Compound Rates of Change in earnings per share ("EPS"), dividends per share ("DPS"), and book value of equity per share ("BVPS"); (3) the Annual Forecasted Compound Rates of Change in EPS, DPS, and BVPS; and (4) the Forecasted Rate of Change in EPS.[165] OPC relied on information from *Value Line* for the first three methods and drew on information compiled by Charles Schwab for the fourth method.[166] When calculating these methods, Witness O'Donnell finds a growth rate range of 4.75% to 5.75% for the OPC Proxy Group and 5.00% to 6.00% for WGL Holdings. Combining the respective dividend yields and growth rate results, leads OPC Witness O'Donnell to find a DCF range of 7.35% to 8.55% for the OPC Proxy Group and 7.9% to 8.9% for WGL Holdings.[167]

54. OPC Witness O'Donnell also utilized the Comparable Earnings Method to establish the cost of equity for WGL. This method uses historical and projected earned returns on equity. Witness O'Donnell relies on the historical and projected earned returns on equity from *Value Line* for the years 2014-2016 and 2018-2020 for the OPC Proxy Group.[168] Witness O'Donnell also looked at state-allowed returns on equity for natural gas utilities in 2015 and

159 WGL Br. at 21; WGL (C) at 50-54 (Hevert).

160 OPC Br. at 14, citing OPC (B) at 10-11 (O'Donnell).

161 OPC Br. at 14, citing WGL (2C) at 7, 53 (Hevert).

162 OPC Br. at 16.

163 OPC Br. at 16.

164 OPC Br. at 15-16, citing OPC (B)-1.

165 OPC Br. at 17, citing OPC (B) at 18-21 (O'Donnell); OPC (B)-1; OPC (B)-2; OPC (B)-4.

166 OPC (B) at 18, 20, 21 (O'Donnell).

167 OPC Br. at 17. *See also*, OPC (B) at 23 (O'Donnell).

168 OPC (B)-4.

2016, which were 9.60% and 9.52%, respectively.[169] For WGL Holdings, Witness O'Donnell used earned returns provided by WGL Holdings to analysts on March 15, 2016. WGL Holdings earned a ROE of 8.4% in 2014 and an expected return of 8.9% in 2015.[170] Based on this information, OPC Witness O'Donnell determined that the cost of equity using the Comparable Earnings Method range for the OPC Proxy Group is 9.0% to 10.5%.[171]

55. **AOBA.** AOBA argues that WGL "provides no evidence that market conditions have changed significantly since the Commission's determination in Formal Case No. 1093."[172] AOBA Witness Oliver performed a DCF and CAPM analysis utilizing the same six companies as WGL Witness Hevert used in his direct testimony, which means that AOBA did not include Chesapeake.[173] AOBA also looked at WGL Holdings. AOBA Witness Oliver used prices and dividends from Yahoo on May 26, 2016 and used projected 5-year EPS growth rates from Zacks, CNN, and Yahoo on May 26, 2016. AOBA Witness Oliver presents DCF analysis that produces an average result of 8.94%.[174] Witness Oliver found the DCF ROE range for WGL Holdings to be 10.10% to 11.10%.[175]

56. AOBA Witness Oliver presents a CAPM analysis that produces an average result of 8.97%.[176] In preparing this analysis, Witness Oliver uses current and projected 30-year U.S. Treasury Bond yields, and market risk premia from 7.00% to 8.00%. This results in a CAPM range of 8.35% to 9.58%.[177]

57. Based on his DCF and CAPM analysis and the lack of market changes since *Formal Case No. 1093*, AOBA Witness Oliver recommends "the Commission maintain [WGL's] ROE as presently authorized at 9.25%," if the revenue normalization adjustment, discussed in Section VII, B, is rejected.[178]

DECISION

58. The District of Columbia Court of Appeals, in *Metropolitan Board of Trade v. Public Service Commission of the District of Columbia*, 432 A.2d 343, 350 (D.C. 1981), set out the standards for setting rates as follows:

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169 OPC Br. at 20, citing OPC (B) at 26.

170 OPC (B) at 26 (O'Donnell).

171 OPC Br. at 21, citing OPC (B) at 27.

172 AOBA Br. at 46.

173 *See* AOBA (A)-4.

174 AOBA Br. at 46, AOBA (A) at 63-64 (B. Oliver).

175 AOBA (A) at 63-64 (B. Oliver).

176 AOBA Br. at 46.

177 AOBA (A) at 63 (B. Oliver); AOBA (A)-4 at 1, 3.

178 AOBA Br. at 47.

> The Commission, not this court, has the responsibility for establishing rate designs and for setting specific utility rates. * * * Rate design principles and specific rates approved by the Commission, however, must be "reasonable, just, and nondiscriminatory." * * * This statutory authority is deliberately broad and gives the Commission authority to formulate its own standards and to exercise its ratemaking function free from judicial interference, provided the rates fall within a zone of reasonableness which assures that the Commission is safeguarding the public interest that is, the interests of both investors and consumers. * * * From the investor standpoint, courts have defined the lower boundary of this zone of reasonableness as "one which is not confiscatory in the constitutional sense." * * * From the consumer standpoint, the upper boundary cannot be so high that the rate would be classified as "exorbitant." [Citations omitted][179]

Consequently, the establishment of a rate of return on common equity at any point within the range of reasonableness is within the Commission's statutory authority to set just, reasonable, and nondiscriminatory rates.[180]

59. In its decisions, the Commission has relied primarily on the DCF method to determine a utility's appropriate cost of common equity because the Commission consistently has found that the DCF method produces results more reasonable than those of other calculation methods.[181] The DCF analysis attempts to estimate the return which investors require from an

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179 *See Metropolitan Board of Trade v. Public Service Commission*, 432 A.2d 343, 350 (D.C. 1981) (citing *Federal Power Commission v. Natural Gas Pipeline Co.*, 315 U.S. 575, 585 (1942); *Washington Public Interest Organization v. Public Service Commission*, 393 A.2d 71, 76 (D.C. App. 1978), *cert. denied sub nom.*; *Potomac Electric Power Co. v. Public Service Commission*, 444 U.S. 926 (1979).

180 *See* D.C. Code § 34-1101. S*ee also, Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591 (1944); *Bluefield Waterworks & Improvement Co. v. Public Service Commission of the State of West Virginia,* 262 U.S. 679 (1923); *Washington Gas Light Co. v. Public Service Commission,* 450 A.2d 1187, 1209-1215 (D.C. App. 1982.)

181 *See*, *e.g.*, *Formal Case No. 939, In the Matter of the Application of Potomac Electric Power Company for an Increase in Retail Rates for the Sale of Electric Energy ("Formal Case No. 939"),* Order No. 10646 at 38 and n.16, rel. June 30, 1995 ("Order No. 10646"). (citing *Formal Case Nos. 929*, *912*, *905*, *889*, and *869*). *See also, Formal Case No. 929, In the Matter of the Application of Potomac Electric Company for an Increase in Retail Rates for the Sale of Electric Energy ("Formal Case No. 929"),* Order No. 10387 at 38-41, rel. March 4, 1994 ("Order No. 10387"); *Formal Case No. 912, In the Matter of the Application of Potomac Electric Power Company for an Increase in Retail Rates for the Sale of Electric Energy ("Formal Case No. 912"),* Order No. 10044 at 45, rel. June 26, 1992 ("Order No. 10044"); *Formal Case No. 905, In the Matter of the Application of Potomac Electric Power Company for an Increase in Retail Rates for the Sale of Electric Energy ("Formal Case No. 905"),* Order No. 9868 at 22-26, rel. October 23, 1991 ("Order No. 9868"); *Formal Case No. 889, In the Matter of the Application of Potomac Electric Power Company for an Increase in Retail Rates for the Sale of Electric Energy,* Order No. 9509 at 27-30, rel. July 24, 1990; *Formal Case No. 869, In the Matter of the Application of Potomac Electric Power Company for an Increase in Retail Rates for the Sale of Electric Energy*, Order No. 9216 at 33-36, rel. March 3, 1989.

equity investment in WGL. This return may be expressed as the investor-expected stock dividend yield plus the anticipated stock dividend growth rate. Nevertheless, the Commission's preference for the DCF model does not preclude consideration of other methods like the CAPM and RPM for calculating cost of equity in some instances. In fact, in a recent Pepco rate case, the Commission clarified that its reliance on the DCF method did not foreclose the parties from advocating the use of other methods in future rate proceedings.[182] In addition, in determining the just and reasonable cost of equity, the Commission considers the entire record, which may include actions taken by other commissions and recent changes in the law.[183]

60. The parties have presented the Commission with an ample record on which to make a decision. In this proceeding, the witnesses for the parties have presented their recommended ROE based on a range of equity returns. All cost of equity witnesses have conducted a DCF analyses as a first step in determining WGL's appropriate ROE. They have confirmed or qualified their DCF analyses using proxy groups of natural gas utilities, deemed by the witnesses to be of comparable risks to WGL. Some of the witnesses also present cost of equity recommendations that incorporate results from different risk premium methodologies to assist in the refinement of their DCF results. Several witnesses also contend that the Commission should take into account other considerations which are relevant to the determination of a reasonable cost of equity and overall return for WGL.

61. We find the proxy groups selected by the parties to be generally reasonable for assessing the investment risks in the financial market and the comparability of those risks of the selected proxy utilities to WGL. We are mindful that there are a limited number of natural gas distribution companies that can serve as proxies for WGL. Because of the small size of the proxy samples and the weight of regulated operations on companies included in the OPC Proxy Group, we agree with WGL that as we discussed above, NiSource and UGS are inappropriate for inclusion in the proxy group while Chesapeake and Spire are appropriate for inclusion in the proxy group.[184] Further, we are not persuaded by AOBA and OPC that WGL Holdings is an appropriate point of comparison as its risk profile includes all of its non-utility operations.

62. The range of the proposed adjusted dividend yields for the parties is from 2.62% to 4.01%. In this proceeding, as in most DCF analysis, the source of contention is determining the appropriate long-term growth rate to be employed in the DCF model.[185] Using various DCF growth models that measure growth under a range of conditions (*i.e.*, constant growth, and multi-

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[182] *Formal Case No. 939*, Order No. 10646 at 38.

[183] *See, e.g.*, *Formal Case No. 1016*, Order No. 12986, ¶¶ 57-64 (the Commission considered but rejected other record evidence when determining whether adjustments to DCF calculations should be made, including the impact of the new income tax law).

[184] While Hevert included Spire in his proxy group, Gode excluded Spire from his group for capital structure comparisons without explanation (Revised Gode Rebuttal at 23). Since it is critical to consistently use the same proxy group for both cost of equity estimation and capital structure, we include Spire in both.

[185] The adjusted dividend yields of the respective parties are all within a reasonable range of WGL's proposed adjusted dividend yield of 2.62% - 3.01%, with OPC's proposed adjusted dividend yield ranging from 2.7% to 2.8%; and AOBA's, 3.39%-4.01%. *See* WGL (2C)-8; OPC (B) at 18 (O'Donnell); AOBA (A)-4.

stage growth) the parties have proposed DCF estimates based on recommended long-term growth rate that range from OPC's projected growth rate of 4.75% to WGL's projected long-term growth rate of 5.27%.[186]

63. Presented below are the results of the parties' DCF analyses, as they have presented them, as well as the final cost of equity ranges and recommended ROE, using their various recommendations that include the use of DCF, CAPM, RPM and other methods:

Party	Result of DCF Analyses	Range of Equity Returns	Recommended Return on Equity
WGL	8.51% - 9.17%	8.51% - 10.56%	10.25%
OPC	7.35% - 8.55%	7.35% - 10.50%%	8.75%
AOBA	8.94%	8.94% - 9.25%	9.25%

64. We do not adopt OPC's recommended ROE at the low end of the range because Witness O'Donnell determined his dividend yields based on time periods that were too short and subject to short-run price aberrations and were not adjusted for one-half year's growth. When this is corrected it raises OPC's DCF range by approximately 30 basis points. Additionally, OPC Witness O'Donnell's DCF growth rate set his growth rate without taking into account the impact on growth of stock issuances (the so-called "vs" term) as WGL Witness Hevert did, which when corrected raises OPC's DCF range by 26 basis points. Correcting for these matters raises OPC's range for the ROE by 56 basis points to 7.91% to 9.11%.

65. We do not adopt WGL's recommended ROE at the high end of the range because WGL Witness Hevert utilizes an inflated U.S. GDP growth rate for the long-term growth rate as part of his Multi-Stage DCF. We do not believe that a 5.27% growth rate is justified at this point in time for ratemaking purposes and we must set his Multi-Stage DCF results aside. Additionally, with regard to the CAPM presented by Witness Hevert, the Commission finds that the use of forecasted U.S. Treasury Yields is speculative and so we will disregard his CAPM results based on those projections. Finally, WGL Witness Hevert has misapplied Commission policy as it relates to flotation costs. Such costs are clearly recoverable by the utility; however they are not recovered as part of the ROE but instead recovered as an expense, as Pepco did and the Commission approved in *Formal Case No. 1103*, where we note Witness Hevert testified on behalf of the utility.[187] The Commission will not approve a flotation adjustment in this case. WGL, the wholly-owned subsidiary of WGL Holdings does not issue common stock. WGL Holdings has not issued any common stock since 2001, as of the end of the test year. If there were recent issuances of common stock by WGL Holdings, it might be appropriate to allocate some of them to WGL's DC jurisdiction, and amortize them over a reasonable time period in the cost of service. The facts in this case do not warrant a flotation adjustment to the cost of equity, or recovery of hypothetical flotation costs in WGL's cost of service for the DC jurisdiction.

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186 *See* OPC (B) at 23 (O'Donnell); WGL (2C)-10.

187 *See Formal Case No. 1103*, Order No. 17424, ¶ 63. ("The Commission's policy has been to treat flotation costs as a cost of service item and not as a component of the cost of equity, and to allow the recovery of all prudent and reasonable operating expenses in a timely manner.").

66. We are also not persuaded by Witness Hevert's use of a small size premium for two reasons. First, in competitive markets, small companies may have greater risk than medium to large competitive companies. However, that does not apply to small regulated utilities in regulated markets. Regulation provides a safety valve for those small regulated utilities that significantly diminishes their risk relative to larger regulated utilities. That safety valve protects small companies from competition and allows small companies to increase their rates without facing competitive pressures. Second, Witness Hevert miscalculated WGL's implied market capitalization of 10.26% relative to the proxy group median. He used the DC rate base as opposed to the Company's rate base in all jurisdictions (DC, Maryland, and Virginia) in his calculations.[188] Relative to the proxy group, WGL is not that small.

67. Based upon the record evidence presented by the parties, the Commission determines that a rate of return on common equity in a range from 8.75% to 9.25% is reasonable for purposes of this proceeding.

68. Within the range of reasonableness that we have established, the Commission's practice has been to lean towards the midpoint in selecting a rate of return on common equity unless there are additional factors that argue for selecting a cost of equity that is in a different part of the range of reasonableness. The Commission recognizes that WGL does not have a decoupling mechanism as do a number of utilities in the proxy group. Consequently, WGL's cost of equity is based on the proxy group's lower incremental risk associated with decoupling mechanisms, which warrants using the upper end of the range, 9.25%. However, to mitigate this issue, the Commission is increasingly shifting the coverage of WGL's distribution revenue requirement towards the customer charge, which is more predictable and not subject to variability.

69. For all of these reasons, we will set the rate of return for common equity at the higher end of the range and authorize a rate of return on cost of equity of 9.25%. We note that this figure approximates the mid-point of the overall CAPM ROE range, using all the data points on the record. This will allow WGL to maintain its current bond rating and access the capital markets on reasonable terms as it moves forward with its reliability enhancements, which ultimately is in the best interest of the ratepayers at this time.

OVERALL COST OF CAPITAL

70. Based on the above findings, we determine that the appropriate overall cost of capital for WGL is 7.57%, which is determined as follows:

[188] *See* WGL (C)-9.

WGL's Approved Cost of Capital

Capital Components	**Ratio**	**Cost**	**Weighted Cost**
Debt			
Long-Term	39.65%	5.83%	2.31%
Short Term	3.09%	1.06%	0.03%
Preferred Stock	1.55%	4.79%	0.07%
Common Equity	55.70%	9.25%	5.15%
Rate of Return			**7.57%**

This rate of return will allow WGL to maintain its financial integrity, attract capital on reasonable terms, and earn a return commensurate with those of other investments of corresponding risks.

V. RATE BASE (ISSUE 3)[189]

71. Rate base represents the investment the Company makes in plant and equipment in order to provide service to its customers. It is the value of a company's property used and useful in providing that service minus accrued depreciation.[190] The opening and closing rate base recommendations are set out below and the specifics of the contested rate base adjustment are discussed in greater detail in this Section.

72. **WGL.** WGL argues that it determined its net ratemaking rate base of $261.9 million for the test year in a manner consistent with "Generally Accepted Accounting Principles" ("GAAP"). Consistent with Commission precedent, WGL contends that it used a 13-month average rate base.[191]

73. WGL proposes the following adjustments to rate base: WGL RMA 9-Accumulated Deferred Income Tax (uncontested);[192] WGL RMA 23-Cash Working Capital (methodology uncontested, updated for flow through adjustments); WGL RMA 24-Gas Plant in Service/ Construction Work in Progress ("CWIP") (addressed in Issue 4); WGL RMA 26-Reserve for Depreciation (addressed in Issue 7); and WGL RMA 29-Environmental Costs (uncontested). WGL asserts that these adjustments to rate base are reasonable and consistent with Commission precedent. WGL recommends that the Commission approve these adjustments.

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[189] Issue 3 asks: "Is WGL's proposed rate base -- including, but not limited to, plant in service, construction work in progress, and cash working capital--appropriate, properly calculated, and consistent with the proposed adjustments to rate base components and related operating income adjustments?"

[190] *Potomac Electric Power Co. v. Public Service Commission*, 380 A.2d 126, 133, n.8 (D.C. 1977).

[191] WGL Br. at 21-22.

[192] OPC raised concerns related to accumulated deferred income taxes ("ADIT") as it relates to its adjustments to two projects: PROJECTpipes and the vintage mechanical coupling ("VMCR"), which are addressed in Issue 4. WGL RMA 9-ADIT reflects the elimination of deferred taxes except those related to the difference between book and tax depreciation within the test year. This adjustment is uncontested.

DECISION

74. The Commission has reviewed the three uncontested adjustments and independently found them reasonable. Thus, the Commission approves: WGL RMA 9-Accumulated Deferred Income Tax Adjustment (reduces rate base by $11,645,633 and increases operating income by $3,106,580); WGL RMA 23-Cash Working Capital (flow through based on the Commission's approved return on debt and approved adjustments reduces rate base by $545,634); and WGL RMA 29-Environmental Costs (increases rate base by $217,991 and reduces operating income by $30,472). WGL RMA 24-Gas Plant in Service/CWIP, relates to WGL's two accelerated pipe replacement programs, the vintage mechanical coupling replacement program ("VMCR Program") and PROJECTpipes and WGL RMA 26-Reserve for Depreciation are addressed in this Order below.

A. Vintage Mechanical Couplings Replacement Program and PROJECTpipes (Issue 4)[193]

75. **The VMCR Program.** The VMCR Program was created as part of a Settlement Agreement in *Formal Case No. 1027*, a case designed to address mechanical coupling gas leaks in the WGL distribution system.[194] As part of the Settlement Agreement, WGL agreed to replace or encapsulate certain vintages (viz. 1952-1956 and 1962-1965) of mechanical coupling or mechanically coupled pipe. In the Settlement Agreement, the parties indicated that they "expected [the VCMR Program] to conclude in approximately seven years, with total spending not to exceed $28 million."[195] The parties also agreed that the decision to encapsulate or replace service and mains would be left to WGL's good engineering judgment. However, WGL agreed to "work to use the most cost effective method of replacing mains and services."[196] WGL estimated that on average, it would replace or encapsulate 3.7 miles of main per year and replace or line approximately 495 services per year at a cost of around $4 million a year. WGL relied on various assumptions for these cost estimates.[197]

76. To recover the costs associated with the VMCR Program, the parties agreed to the imposition of a surcharge to distribution rates based on actual expenditures on coupling

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[193] Designated Issue 4 asks: "Has WGL properly accounted for the treatment of revenue and plant in service related to the Plant Recovery Adjustment and the PROJECTpipes adjustments in a reasonable and appropriate manner?"

[194] *Formal Case No. 1027, In the Matter of the Emergency Petition of the Office of the People's Counsel for an Expedited Investigation of the Distribution System of Washington Gas Light Company; GT97-3, In the Matter of the Application of Washington Gas Light Company for Authority to Amend its Rate Schedule No. 6; GT 06-1, In the Matter of the Application of Washington Gas Light Company for Authority to Amend General Service Provision No.23 ("Formal Case No. 1027, GT97-3, GT 06-1"),* Joint Motion for Approval of Unanimous Agreement of Stipulation and Full Settlement and Waiver of Commission Rule 130.12, filed October 2, 2009.

[195] *Formal Case No. 1027, GT97-3, GT06-01,* Unanimous Agreement of Stipulation and Full Settlement ("VMCR Settlement Agreement") at 5, filed October 2, 2009.

[196] VMCR Settlement Agreement at 5.

[197] VCMR Settlement Agreement at 6.

replacement and encapsulation.[198] The parties indicated that the surcharge would continue until the next base rate case, at which time the "new base rates [would] include the latest balance of un-recovered mechanical coupling replacement work which is available prior to the new rates becoming effective." However, WGL was "not precluded from seeking a continuation of the surcharge mechanism as part of a base rate filing."[199] In *Formal Case No. 1093*, the Commission decided to continue the VMCR Program surcharge, but rejected WGL's proposal to increase the amount for the VMCR Program to $35 million.[200]

77. **PROJECTpipes.** PROJECTpipes is the first five year plan of a 40-year Accelerated Pipe Replacement Program which is designed to replace certain pipe on an accelerated basis. The total cost for this program was approved at $110 million.[201] In a Settlement Agreement, the parties (WGL, OPC, and AOBA) agreed that PROJECTpipes should be funded by a separate surcharge on customers' bills until the costs are included in base rates in a subsequent base rate case. The parties also agreed that the surcharge would end after the effective date of new base rates in the second base rate case without further action by the Commission.[202]

78. **WGL.** To account for the costs of the VMCR Program and PROJECTpipes, in Adjustment 24, WGL first removes all costs associated with CWIP from the test year (an amount of $34,156,000).[203] Then WGL adjusts the test year amounts related to the two programs from average to end-of-period amounts to reflect a "clean transfer from the surcharges" and avoid double recovery of these costs. WGL added back CWIP amounts for the VMCR Program and PROJECTpipes to be included in rate base, arguing that inclusion of these amounts in rate base is consistent with the Settlement Agreement in *Formal Case No. 1115*, which allows for recovery of these program costs through the surcharge based on total expenditures.[204] WGL seeks to include the full $28 million approved for the VMCR Program since this amount has closed to plant in service account as of January 2016, slightly outside of the test year. WGL

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[198] VCMR Settlement Agreement at 6.

[199] VCMR Settlement Agreement at 7.

[200] *Formal Case No. 1093*, Order No. 17132, ¶ 271. In approving the continuation of the surcharge, the Commission did direct WGL to speed up the completion of VMCR Program projects and to manage costs more effectively.

[201] *Formal Case No. 1115*, Order No. 17431, ¶ 66.

[202] *Formal Case No. 1115*, Unanimous Agreement of Stipulation and Full Settlement ("PROJECTpipes Settlement Agreement") at 4, filed December 10, 2014. ("[t]he surcharge mechanism shall terminate after the effective date of new base rates approved by the Commission in the second base rate case identified in Section 5 absent further action by the Commission.").

[203] CWIP is Construction Work in Progress. It represents utility plant under construction but not yet in service or used and useful.

[204] WGL Br. at 24.

asserts that the increase to plant in service from the VMCR Program is $4,363,000, while the increase to plant in service from PROJECTpipes is $10,875,000.[205]

79. **OPC.** OPC asserts that WGL has not properly accounted for the treatment of revenue and plant in service related to the VMCR and PROJECTpipes surcharges. OPC argues that the surcharges related to these programs are excessive, unjust, and unreasonable.[206] OPC contends that after review of project data and spending for both programs, it is apparent that WGL has longstanding and continuous problems in completing work and containing costs. OPC claims that WGL has not met its burden of proof to show that the amounts collected by the surcharges that it seeks to roll into base rates are prudent. Instead, OPC claims, WGL relies on the fact that the VMCR Program and PROJECTpipes were approved by the Commission in *Formal Case Nos. 1027* and *1115* to justify that the costs it seeks to roll into rate base are reasonable.[207] OPC argues that WGL has failed to demonstrate how its cost overruns related to the VMCR Program and PROJECTpipes are reasonable.[208] OPC claims that WGL should be held accountable for continued poor implementation and management and cost overruns.

80. OPC also contests WGL's argument that the $28 million cap in the VMCR Program was not a total cap on spending for the entire VMCR Program, arguing that WGL specifically testified at the *Formal Case No. 1027* public hearing that the $28 million cap was for the entire Program.[209]

81. Because of the problems that have occurred with the VMCR Program and PROJECTpipes, and because WGL is attempting to collect the entire $28 million for the VMCR Program in this base rate case, OPC contends that the Commission should include only those costs associated with WGL's original cost estimates for each project in the VMCR Program and PROJECTpipes in WGL's rate base. OPC argues that such a decision would be consistent with Commission precedent, which requires that the utility must demonstrate that costs are prudent if challenged by another participant in the proceeding.[210]

82. Based on these principles, OPC proposes several changes to WGL RMA 24 in its OPC Adjustment 1 and OPC Adjustment 2. OPC recalculates both VMCR Program and PROJECTpipes costs to include the original estimated costs. OPC also adjusted the depreciation expense to take into account these reduced costs, which impacted Accumulated Depreciation and Accumulated Deferred Income Taxes ("ADIT").[211] For the VMCR Program, OPC reduces the

205 WGL Br. at 24-25, citing WGL (D) at 47-50 (Tuoriniemi).

206 OPC Br. at 57.

207 OPC Br. at 58.

208 OPC Br. at 66.

209 OPC Br. at 69.

210 OPC Br. at 59.

211 Accumulated Deferred Income Taxes is a tax liability incurred in a present period but deferred for payment until a future period, arising because of differences in depreciation methods used for tax purposes and for accounting purposes.

net plant in service by $10.6 million and the depreciation expense by $165,000.[212] For PROJECTpipes, OPC's recalculations result in a reduction of net plant in service of $9.2 million and depreciation expense of $108,000.[213]

83. OPC also argues that ADIT should be adjusted to reflect OPC's plant adjustments for the VMCR Program and PROJECTpipes. OPC's revised calculation represents a 100% repair deduction and end of year balances for the VMCR Program and PROJECTpipes and includes CWIP ADIT to reflect the inclusion of CWIP in WGL's calculation of depreciation expenses.[214]

84. **AOBA.** AOBA shares OPC's concerns regarding WGL's costs for the VMCR Program and PROJECTpipes. AOBA argues that ratepayers should not bear the burden of excessive pipe replacement costs. AOBA supports OPC's proposed adjustments to costs for the VMCR Program and PROJECTpipes.[215]

85. **WGL Response.** By reducing the actual costs for the VMCR Program and PROJECTpipes, WGL argues that OPC is ignoring the "used and useful" standard that the Commission has adopted to determine whether plant should be included in rate base.[216] Further, WGL asserts that it has demonstrated that the costs for these programs were reasonable and prudently incurred. Thus, WGL argues, these costs should be included in rate base.[217]

86. WGL argues that recovery of PROJECTpipes CWIP in this rate case is reasonable because of the surcharge mechanism to recover PROJECTpipes costs. WGL contends that under this surcharge, the Company is allowed to recover expenditures when they are incurred, instead of waiting until the plant is placed in service. WGL adds that 96% of the project amounts in the CWIP balance were placed in service as of July 29, 2016, before the beginning of the rate-effective period. Further, WGL claims, including this CWIP amount in rate base now will remove it from the surcharge, instead of waiting until the next rate case to remove these amounts from the surcharge.[218]

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[212] OPC Br. at 61, citing OPC (D)-10. Note: The actual amounts in OPC Adjustment 2 included in OPC (A)-4, Schedule 2 REPLACEMENT PAGE are a reduction to net plant in service of $9.9 million and a reduction to depreciation expense of $165,000. In addition, accumulated depreciation was reduced by $700,000 and ADIT was reduced by $4.1 million.

[213] OPC Br. at 62, citing OPC (D)-11. Note: The actual amounts in OPC Adjustment 1 included in OPC (A)-4, Schedule 1 REPLACEMENT PAGE are a reduction to net plant in service of $8.5 million and a reduction to depreciation expense of $108,000. In addition, accumulated depreciation was reduced by $718,000 and ADIT was reduced by $3.5 million.

[214] OPC (A) at 12 (Dismukes).

[215] AOBA Br. at 59-60.

[216] WGL R. Br. at 33.

[217] WGL R. Br. at 34.

[218] WGL R. Br. at 35-36.

87. WGL argues that the VMCR surcharge was capped at $28 million, which WGL used to determine the remaining plant balance to be moved into base rates in this rate case. WGL asserts, however, that the PROJECTpipes surcharge does not expire and is not capped.[219] Pursuant to the PROJECTpipes Settlement Agreement, WGL asserts that the surcharge is supposed to be adjusted to remove the plant balance costs being collected in base rates upon implementation of new rates.[220]

88. WGL argues that OPC's proposed changes to WGL RMA 24 are unfounded. WGL objects to OPC's use of estimated costs instead of actual costs in its calculation of VMCR and PROJECTpipes costs that should be included in rate base. WGL asserts that there is no precedent standing for the proposition that only estimated costs can be recovered.[221] WGL argues that OPC conceded that WGL has used cost control measures in the VMCR Program and PROJECTpipes.[222] WGL also contends that OPC ignored many of the key findings of the Audit Report, which undercut the reasons for OPC's proposed changes.[223] WGL claims that OPC also ignores the responses that WGL has made in response to some of the findings in the Audit Report.[224] Further, WGL argues, OPC's adjustments would create financial hardship for WGL.

89. WGL represents that it employs a wide variety of robust management processes and systems for its VMCR Program and PROJECTpipes projects.[225] WGL argues that OPC does not discuss these practices in its criticisms of WGL's management of the VMCR Program or PROJECTpipes.[226]

90. WGL identifies the following four major cost drivers that account for the difference in estimated and actual costs: cost escalations and inflation; construction technique changes; limited working hours and disposal fees; and traffic control. WGL argues that these cost drivers were virtually all out of WGL's control and unforeseeable.[227] While cost escalations were the greatest driver of VMCR costs, WGL argues that the cost escalation track to the regional GDP.[228] WGL asserts that the change in construction technique, from keyhole encapsulation to direct bury was required due to the District's Department of Transportation's ("DDOT") changing requirements, a change that WGL had no time to prepare for or comment

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219 WGL R. Br. at 44.

220 WGL R. Br. at 44-45.

221 WGL R. Br. at 46.

222 WGL R. Br. at 48.

223 WGL R. Br. at 52-53.

224 WGL R. Br. at 53-56.

225 WGL R. Br. at 56-57.

226 WGL R Br. at 52-26.

227 WGL R. Br. at 62.

228 WGL R. Br. at 63.

on.[229] Other new DDOT requirements such as a reduction in working times and the preparation of increased traffic flow plans also increased costs.[230] WGL argues that OPC's ADIT proposals are flawed since OPC did not consider test year ADIT in its calculations.[231]

91. WGL argues also that OPC's objection to the inclusion of some PROJECTpipes CWIP costs in rate base should be rejected because the PROJECTpipes surcharge permits WGL to recover the costs incurred as incurred, regardless of whether the costs are in CWIP or "general plant in service" ("GPIS"). According to WGL, it is more efficient to include CWIP amounts in base rates now instead of monitoring costs on a project-by-project basis and using more complex computations to remove these amounts from the surcharge at a later time.[232]

92. **OPC Response.** OPC reiterates its position that WGL has not properly accounted for treatment of revenue and plant in service related to the VMCR Program and PROJECTpipes surcharges. OPC continues to assert that the costs for these programs are excessive, unjust, and unreasonable.[233] OPC also claims that WGL misinterprets OPC's proposed revisions to WGL RMA 24.[234] OPC contests WGL's claim that cost inflation is the main reason for the cost increases in the VMCR Program. To the contrary, OPC asserts that the Commission found that WGL's failure to complete projects in a timely manner caused the cost increases. OPC claims that the consequences of the cost increases should fall on the shareholders, not the ratepayers.[235] OPC asserts that WGL has not presented sufficient evidence to dispel doubts about the prudency of the VMCR and PROJECTpipes costs.[236]

93. OPC also contests WGL's assertions that many of the cost increases were out of WGL's control. OPC contends that these assertions are contradicted by the Audit Report.[237] OPC argues that WGL does not prove the prudency of the costs or present any testimony that shows the measures that WGL has been or will be using to ensure the lowest costs for VMCR or PROJECTpipes projects.[238]

94. OPC asserts that the $4.8 million of WGL's CWIP related to the VMCR Program and PROJECTpipes should be removed from rate base, based on the Commission's long-

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229 WGL R. Br. at 64.

230 WGL R. Br. at 65-67.

231 WGL R. Br. at 28-30.

232 WGL R. Br. at 67.

233 OPC Br. at 66.

234 OPC Br. at 67.

235 OPC Br. at 70.

236 OPC Br. at 71.

237 OPC Br. at 80.

238 OPC Br. at 82.

standing policy that CWIP should not be included in rate base.[239] OPC rejects WGL's arguments in favor of such treatment.[240] Finally, OPC contends that WGL's assertions that disallowance of WGL's VMCR and PROJECTpipes costs would result in serious financial loss are overblown.[241]

DECISION

95. WGL and OPC propose different adjustments regarding the VMCR Program because implementation of the VMCR Program has been problematic. The Commission's concerns regarding the slow pace of, and escalating costs incurred in, the VMCR Program compelled the Commission to order WGL to perform a management audit of the Program.[242]

96. On February 8, 2016, the Program Management Audit ("Audit Report"),[243] prepared by Jacobs Consultancy Inc. and the Program Agreed Upon Procedures ("AUP") Report ("AUP Report") prepared by BCA Watson Rice LLC,[244] were submitted to the Commission.[245] The Audit Report contained a mixed set of findings regarding WGL's performance on the VMCR Program. While the Audit Report found that WGL's overall strategic planning, cost estimation processes, and communications plans were problematic, it concluded that WGL followed many leading practices in the actual construction work and changed to a construction technique that would result in a safer network with a lower maintenance cost. The Audit Report also found that WGL's costs were in line with costs of similar pipe replacement programs.[246]

97. **Inclusion of actual costs for the VMCR Program and PROJECTpipes in rate base.** While WGL proposes to include all of the actual costs for the VMCR Program and PROJECTpipes in rate base, OPC argues that only the original estimated costs for the projects should be included in rate base. In support of this argument, OPC cites to the Audit Report's

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239 OPC Br. at 71.

240 OPC Br. at 72.

241 OPC Br. at 68.

242 *Formal Case No. 1027, GT97-3, GT 06-1*, Order No. 17387, ¶ 4, rel. February 21, 2014.

243 *Formal Case No. 1027, GT97-3, GT 06-1*, Washington Gas Light Company ("WGL") Vintage Mechanical Coupling Replacement and Encapsulation Program ("Program") Management Audit ("Audit Report"), filed February 8, 2016. Both a confidential and public version of the Audit Report were filed. While the parties mark many of the findings in the Audit Report as confidential, they are in fact in the public version of the Audit Report. Thus, the Commission declines to mark this information as confidential in this Order.

244 *Formal Case No. 1027, GT97-3, GT 06-1*, Washington Gas Light Company Vintage Mechanical Coupling Replacement and Encapsulation Program Agreed upon Procedures ("AUP") Report ("AUP Report"), filed February 8, 2016. A public version of this document was filed on February 29, 2016.

245 The AUP engagement was conducted to address the third and fourth objectives listed above. The AUP Report found no instances in which non-VMCR Program costs were allocated to the Program.

246 Audit Report at 73-77.

findings regarding internal cost control[247] exemplified by the fact that WGL seeks to recover the entire $28 million for the VCMR Program as actual costs in this base rate case, even though the VMCR Program was not completed by the end of the test year. In response, WGL argues that OPC does not cite to all of the findings in the Audit Report, omitting those findings that approve of WGL's business practices. WGL also argues that OPC ignores WGL's response to the findings in the Audit Report that OPC used to support its positions.

98. The Audit Report made numerous findings, both positive and negative, regarding WGL's management of the VMCR Program.[248] To address the weaknesses, the Auditor proposed 12 recommendations for action.[249]

99. On a fundamental level, while the Audit Report found problems with WGL's cost estimation practices it determined that the work performed was within the general cost range for similar programs. The Audit Report also found that direct bury techniques used by WGL, while the most expensive, led to a safer system with a lower maintenance cost. Most of the Audit Report's recommendations relate to development of better ways of estimating costs at the beginning of projects, to eliminate surprise cost increases.

100. In its arguments, OPC omits the positive findings on the Audit Report, focusing instead only on WGL's weaknesses, particularly in cost estimation.[250] OPC specifically neglects to discuss the positive findings in the Audit Report regarding WGL's actual costs and construction methods. While the Commission has found that WGL's cost estimation practices are problematic,[251] on balance these deficiencies do not annul the positive findings in the Audit Report. The Audit Report does not conclude nor does the Commission find that the VMCR Program costs were imprudent and unreasonable. In fact, the Audit Report found that WGL's

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[247] The Commission notes that the Audit Report refers to a management audit of the VMCR Program only, not PROJECTpipes. However, because PROJECTpipes is a similar accelerated pipe replacement program, using many of the same cost estimated and construction techniques that were used in the VMCR Program, the Commission and the parties have relied on the Audit Report as a basis for arguments and directives relating to PROJECTpipes as well as the VMCR Program. See *Formal Case No. 1027, GT97-3, GT 06-1, Formal Case No. 1115, In the Matter of Washington Gas Light Company's Request for Approval of a Revised Accelerates Pipeline Replacement Plan ("Formal Case No. 1115")*, Order No. 18503, ¶ 167, rel. August 23, 2016 ("Order No. 18503).

[248] *See Formal Case No. 1027, GT97-3, GT 06-1, Formal Case No. 1115*, Order No. 18503, ¶¶ 170-230. (Commission's discussion of the findings of the Audit Report).

[249] *See Formal Case No. 1027, GT97-3, GT 06-1, Formal Case No. 1115*, Order No. 18503, ¶¶ 170-230. (Commission's discussion of the Audit Report's recommended actions).

[250] OPC also did not mention WGL's commitment to look at improvements in documentation of project estimates, including its use of historical averages to estimate costs. *Formal Case No. 1027, GT97-3, GT06-01, Formal Case No. 1115*, Comments of Washington Gas Light Company on Management Audit at 21, 33, filed April 1, 2016. WGL also committed to update its estimation processes to take into account the time value of money and cost escalations. *Formal Case No. 1027, GT97-3, GT06-01*, WGL Supplemental Response to Order No. 18146 at 7-8, filed April 29, 2016.

[251] *See Formal Case No. 1027, GT97-3, GT06-01, Formal Case No. 1115*, Order No. 18503, ¶¶ 175, 178, 186, 197.

costs were in line with other urban replacement projects. Further, many of the reasons for the deviations between estimated and actual costs were due to factors beyond WGL's control.

101. The Commission notes that OPC bases its adjustments on the fact that while the Settlement Agreement in *Formal Case No. 1027* placed a $28 million spending cap on the VMCR Program,[252] WGL is seeking to roll over the entire $28 million into base rates in this base rate case because WGL has actually expended the $28 million on the VMCR Program, even though the VMCR Program is not yet complete. However, OPC has not provided any precedent for its position that WGL must be held to original cost estimates when recovering costs for a specific pipe replacement program, especially when WGL is not attempting to recover any more than the $28 million cap in this proceeding.

102. Furthermore, the Commission finds that OPC's methodology for the adjustments in OPC Adjustment 1 and OPC Adjustment 2 is unreasonable. OPC calculated its adjustment based on the average cost of remediation for each foot of main and each service derived from four projects in WGL's Master Plan. OPC made the assumption that these costs would not change throughout the duration of the Program and applied its derived costs to all projects. After reviewing the Company's rebuttal testimony, which identified deficiencies in OPC's workpapers, the Commission finds that the workpapers are incomplete. In addition, OPC's monthly accumulation of amounts failed to properly include all the dollar amounts in the Overhead Cost to Complete.[253] Thus, OPC's adjustments cannot be used to reduce WGL's VMCR Program and PROJECTpipes costs. The Commission rejects OPC's proposal to adjust the VMCR Program and PROJECTpipes costs based on WGL's original estimated costs.

103. The Commission is persuaded that WGL has included VMCR Program and PROJECTpipes project costs that are closed to service and are providing service to customers. Thus, because these assets are providing useful service for the benefits of district customers they should be included in rate base in this proceeding. In making this finding, the Commission notes that WGL is not seeking to roll over amounts in excess of the $28 million cap in this rate case. Issues regarding cost recovery of any amount in excess of $28 million for the VMCR Program will be addressed in the next base rate case. In the event that WGL seeks recovery of amounts over $28 million in the next base rate case, the Commission expects the parties to present evidence on, and thoroughly brief, the issue of whether costs exceeding a spending cap can be recovered through base rates.

104. **Inclusion of VMCR Program and PROJECTpipes CWIP in Rate Base.** WGL proposes to include the CWIP associated with the VMCR Program and PROJECTpipes in

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[252] WGL now argues that there was only a cap on the amount to be passed through the VCMR Program surcharge. However, the Settlement Agreement states: "[t]he Program is expected to conclude in approximately seven years, with total spending not to exceed $28 million." *Formal Case No. 1027*, Unanimous Agreement of Stipulation and Full Settlement at 5, filed October 2, 2009. Additionally, at the public interest hearing on the Settlement Agreement, Witness Buckley, responding to the question of whether the $28 million was a cap, responded that "as a practical matter…yes, but we're very hopeful the amounts are going to come in significantly lower than that." *Formal Case No. 1027, GT97-3, GT06-01,* Public Interest Hearing Transcript at 12, October 28, 2009.

[253] WGL (3D) at 30-31 (Tuoriniemi), referring to the electronic workpapers for OPC (D)-11.

rate base, notwithstanding the Commission's earlier determinations that CWIP should not be included in rate base. WGL argues that this inclusion will allow cleaner accounting in the VMCR Program and PROJECTpipes surcharges. OPC argues that these amounts should be removed in accordance with Commission precedent.

105. The Commission has on a number of occasions set out its standard for the inclusion of CWIP as a post-test year ratemaking adjustment.[254] The Commission's general three-prong standard was recently pronounced in Order No. 17132:

> the rate base of a utility can properly include the cost of a construction project that is in service during the test period, and in appropriate circumstances, a project completed outside the test period, as long as its in-service date is not too remote in time from the test period."[255] To be placed in rate base, it must be shown that these projects and their related costs are "known and certain changes that can be calculated with precision, that were needed, reasonable, and beneficial to ratepayers during the rate-effective period." In administering this rule, we have held that "it is reasonable to allow the costs of construction projects to be included in rate base when projects are in fact placed in service before the end of the test year, but are not recorded as being test year plant in service because of delays in bookkeeping.[256]

106. In *Formal Case No 1093*, the Commission also noted that "there is an exception to its general rule under which it has, on at least one occasion, allowed some non-pollution CWIP to be included in rate base if there is a "unique and compelling" reason.[257] The "burden

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[254] *See Formal Case No. 1087, In the Matter of the Application of the Potomac Electric Power Company for Authority to Increase Existing Retail Rates and Charges for Electric Distribution Service ("Formal Case No. 1087"),* Order No. 16930, ¶ 61, rel. September 27, 2012 (on a case-by-case basis, the Commission has allowed in rate base completed projects that are outside of the test year . . .); *see, e.g., Formal Case No. 1053, In the Matter of the Application of the Potomac Electric Power Company for Authority to Increase Existing Retail rates and Charges for Electric Distribution Service ("Formal Case No. 1053"),* Order No. 14712, ¶¶ 90-101, rel. January 30, 2008 ("Order No. 14712"); *Formal Case No. 870, In the Matter of the Application of District of Columbia Natural Gas, A Division of Washington Gas Light Company for Authority to Increase Existing Rates and Charges for Gas Service* ("*Formal Case No. 870"),* Order No. 9146 at 452, 483-85, rel. October 28, 1988; *Formal Case No. 905*, Order No. 9868 at 651, 682-83; *see also Formal Case No. 912*, Order No. 10044 at 512, 569.

[255] *Formal Case No. 1053*, Order No. 14712, ¶ 68.

[256] *Formal Case No. 1093*, Order No. 17132, ¶ 72, citing *Formal Case No. 1053*, Order No. 14712, ¶ 69, quoting *Formal Case No. 1016*, Order No. 12986, ¶ 187.

[257] *Formal Case No. 685*, Order No. 6095 (announcing Commission's general policy of excluding CWIP from rate base).

of justifying an out-of-period adjustment is on the party seeking the adjustment."[258] It is against this backdrop that we evaluate WGL's out of test year recovery requests.

107. While WGL seeks to include the CWIP for the VMCR Program and PROJECTpipes to make a clear break from the amounts to be included in the VMCR Program and PROJECTpipes surcharges, the Commission finds that this rationale is insufficient to depart from our long-standing precedent. While the Settlement Agreements establishing the VMCR Program and PROJECTpipes did include surcharges, they did not include provisions that would permit moving any CWIP from these Programs into the rate base and the Commission made no commitment to allow this in future rate cases.

108. The Commission notes that for the VMCR Program, the surcharge was to expire "upon the implementation of new base rates," in which case the new rate base would "include the latest balance of un-recovered mechanical coupling replacement work which is available prior to the new rates becoming effective," unless WGL decided to seek continuation of the surcharge in the next base rate case.[259] In *Formal Case No. 1093*, the Commission chose not to end the surcharge in order to incentivize WGL to complete the projects in the VMCR Program in a timelier manner. Now, however, because WGL has expended the $28 million amount in the Settlement Agreement for the VMCR Program, the Commission chooses to end the surcharge. The unrecovered amounts of CWIP for the VMCR Program totaling $1,764,443[260] will be moved into a new regulatory account to be included in rate base for recovery.[261]

109. For PROJECTpipes, the Settlement Agreement states that the surcharge will end after the effective date of new base rates approved by the Commission in the second base rate case post-settlement.[262] This is the first base rate case after the approval of the Settlement Agreement. Thus, the surcharge will not end at this time, so the PROJECTpipes CWIP can remain in the PROJECTpipes surcharge until the next base rate proceeding. There is no need to move the CWIP totaling $4,812,395,[263] completed outside of the test year, to rate base since the surcharge is continuing. The Commission's modification to WGL RMA 24 reduces rate base by $4,949,851, increases operating income by $80,434, and reduces the revenue deficiency by $791,758.

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[258] *See, e.g., Office of People's Counsel v. Public Service Commission*, 989 A.2d 190, 194 (D.C. 2010); *Office of People's Counsel v. Public Service Commission*, 610 A.2d 240, 247 (D.C. 1992).

[259] VMCR Settlement Agreement at 7.

[260] WGL (D)-3, Adjustment 24, line 14.

[261] The Commission notes that AOBA argues in testimony that the VMCR Program costs above $28 million should be placed in a regulatory liability account. AOBA (A) at 165. WGL has not sought to include amounts over $28 million, so these amounts will be addressed in the next rate case. The Commission declines to address these additional amounts here. In the meantime, the Commission will continue to scrutinize WGL's expenditures for both the VMCR Program and PROJECTpipes in *Formal Case Nos. 1027* and *1115*.

[262] PROJECTpipes Settlement Agreement at 4.

[263] WGL (D)-3, Adjustment 24, line 8.

110. **ADIT Treatment.** Our rejection of OPC Adjustment 1 moots the ADIT adjustment in OPC Adjustment 2.

B. Integrity Management Cost Deferral Program (Issue 5)[264]

111. **WGL.** WGL seeks approval to defer the costs of its new Integrity Management Cost Deferral Program ("Program") in a regulatory asset, and recover these costs in subsequent rate cases.[265] The Company is proposing a "recordation system"[266] for costs associated with the Program and plans to "rely upon the Commission's acceptance of the proposed deferral mechanism as the necessary evidence to record the amounts as a regulatory asset."[267] The Company plans to limit the cumulative amount deferred between rate cases to 5% of the rate base established in this proceeding, thus allegedly moderating the impact of the deferral proposal on customer rates.[268] OPC and AOBA oppose WGL's request and DCCA offers comments related to the WGL's gas leakage mitigation measures related to the Program.

112. WGL states that the activities under the Program will be designed to accelerate or enhance pipeline safety through the Company's Distribution Integrity Management Program Plan, Damage Prevention Program Improvement Plan for the District of Columbia, and other future pipeline safety initiatives that represent risk mitigation measures that may arise but are currently unknown or not identified through regulatory oversight activities and/or through new federal regulations pertaining to pipeline safety.[269] Company Witness Huey asserts in his direct testimony that the list of activities currently included in the Program appears to be non-exclusive and could potentially include any future activities that accelerate or enhance pipeline safety.[270] According to WGL, if the Commission approves this deferral, the activities specifically outlined in Witness Huey's testimony will be approved for deferral, and any programs subsequent to this proceeding will be filed with the Commission for approval after discussion with the Commission engineering staff.[271]

113. WGL asserts that the activities included in the Program at this time would improve system and customer safety, enhance reliability for customers, and reduce greenhouse gas emissions associated with leaks caused by excavation damage.[272] The Company argues that

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[264] Designated Issue 5 asks: "Is the proposed Integrity Management Cost Deferral Program necessary, reasonable and appropriate and is it reasonable to approve the deferral of costs in a regulatory asset for future consideration in a rate case?"

[265] WGL (D) at 75 (Tuoriniemi).

[266] WGL R. Br. at 37.

[267] WGL (D) at 76 (Tuoriniemi).

[268] WGL (J) at 4 (Huey).

[269] WGL (J) at 2 (Huey).

[270] WGL (J) at 2 (Huey).

[271] WGL (J) at 5 (Huey).

[272] WGL (J) at 4 (Huey).

these pipeline safety efforts are incremental to, or in excess of the safety activities performed at the time base rates were set.[273]

114. **OPC.** OPC opposes WGL's proposal, stating that it is unnecessary and provides no incremental benefits to customers.[274] OPC argues that the Company has failed to show the Program costs qualify as unusual or nonrecurring expenses, which are appropriate for regulatory asset treatment.[275] OPC claims that the possibility the Company may undertake activities that may exceed regulatory requirements is insufficient to entitle these activities to regulatory asset treatment.[276] OPC suggests that the costs sought are part of the regular cost of doing business and therefore should not be given a regulatory asset treatment, citing prior Commission decisions on this issue.[277]

115. **AOBA.** AOBA argues that the Company's proposal to place the Program's cost in a regulatory asset is vague, speculative and conceptual, and should therefore be rejected.[278] AOBA states that pipeline safety has always been a core responsibility of the Company, and WGL failed to demonstrate that a failure to account for these costs as a regulatory asset will impede its ability to maintain a safe and reliable system.[279]

116. **DCCA**. DCCA urges the Commission to adopt four measures to improve WGL's natural gas leakage mitigation, arguing that the Company has not adopted the newer advanced technologies and methodologies for leakage detection and qualification.[280] DCCA agrees with WGL that the Company's leak detection and measures methods conform to industry and regulatory standards but argues that new best practices have to be adopted to address more effectively the natural gas leakage problem across WGL's gas distribution infrastructure, especially when aging gas infrastructure is involved.[281] DCCA asks the Commission to: (1) require WGL to make continuous improvement of best practices for the detection, measurement and mitigation of natural gas and methane leakage from the distribution infrastructure part of its core business and to budget accordingly;[282] (2) require WGL to pilot state-of-the art best practices and advanced technologies for leak detection and measurement, arguing that the pilot would help assess various options for new technologies and their potential for improving

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273 WGL (J) at 4 (Huey).

274 OPC Br. at 72.

275 OPC Br. at 73.

276 OPC Br. at 76.

277 OPC Br. at 77.

278 AOBA Br. at 81.

279 AOBA Br. at 83.

280 DDCA Br. at 10.

281 DCCA Br. at 11.

282 DCCA Br. at 12.

programs, including PROJECTpipes;[283] (3) exercise regulatory supervision of the pilot practices, including tracking program timelines and budget, project fulfillment, and quality control;[284] and (4) create a proceeding to track the costs, implementation, and reporting of the District portion of the Company's voluntary five-year commitments under the EPA Methane Challenge Partnership Agreement and the Program Implementation Plan.[285]

117. **WGL Response.** WGL opposes AOBA's claim that the Program is conceptual by stating that it includes specific activities, estimated costs, and duration.[286] In response to the concerns raised by OPC and AOBA, WGL reiterats that it is seeking a Program mechanism, not a regulatory asset treatment for a particular project, and that District residents directly benefit from WGL's safety activities by improving the reliability and safety of the gas system that serves them, and potentially lowering or mitigating upward pressure on pipeline costs.[287]

118. In response to DDCA's proposed natural gas leakage mitigation measures, WGL states that the Program is designed to address pipeline risk more expeditiously, improve system and customer safety, enhance reliability for customers, and reduce greenhouse gas emissions associated with leaks caused by excavation damage.[288] WGL states that its existing leak detection and measurement methods are already consistent with industry standards and the equipment used by the Company's leak survey technicians today is among the best in the industry.[289] WGL further asserts that through its Distribution Integrity Management Program Plan, leak data is evaluated and analyzed looking for trends and making recommendations to mitigate any identified risks.[290] In addition, the Company is mitigating the risks of the leak-prone families of pipe material by accelerating their replacement via *Formal Case No. 1027* and PROJECTpipes. Finally, WGL asserts that as a voluntary partner with the EPA it has already agreed to track ambitious, transparent commitments that exceed the federal regulatory requirements.[291]

DECISION

119. After reviewing all of the evidence presented in this case regarding the activities included in the Program and the projected costs associated with these activities, the Commission rejects WGL's request to defer the costs of the Program in a regulatory asset and recover the

283 DCCA Br. at 13.

284 DCCA Br. at 14.

285 DCCA Br. at 14-15.

286 WGL R. Br. at 38.

287 WGL R. Br. at 41.

288 WGL R. Br. at 69.

289 WGL R. Br. at 69.

290 WGL R. Br. at 70.

291 WGL R. Br. at 73.

costs in subsequent rate cases. In previous proceedings, the Commission "generally has been cautious about granting 'regulatory asset' treatment for utility expenses"[292] and has decided that when a regulatory asset is created, "it strengthens a utility's claim that the expense was prudently incurred and suggests that there is a 'reasonable assurance' that the utility will be allowed to recover it in rates."[293] In the past, the Commission has ruled that the regular costs of doing business are usually not given special regulatory asset treatment.[294] In light of prior Commission decisions, we find that on this record, WGL has failed to establish that the costs associated with the Program will be incurred outside of the normal course of business and that expedited recovery of these costs is necessary to shore up the utility's financial situation. Therefore, we see no reason to depart from the traditional ratemaking procedures at this time. However, WGL is welcome to seek ratepayer funding for the Program costs in future rate cases.

120. DCCA urges the Commission to adopt four measures to improve WGL's natural gas leakage mitigation. DCCA's concern related to field risk assessment and prioritization of risk concerning gas pipelines aligns with the Commission commitment to continuous improvement of best practices in pipeline remediation and replacement. However, in accordance with prior Commission and federal directives, and through its voluntary initiatives, WGL has already employed measures and methodologies that conform to industry and regulatory standards. In addition, the Commission has ongoing proceedings that directly address WGL's efforts to replace aging pipeline infrastructure and improve leak detection. Based on these facts, and specifically because many of DCCA's concerns have already been addressed, at this time the Commission declines to adopt the four measures suggested by DCCA.

VI. LONG TERM PLAN FOR CAPITAL PROJECTS (ISSUE 6)[295]

121. **WGL.** In Exhibit WGL (2O)-1, WGL presents its most recent five year plan for long-term capital expenditures, breaking down the expenditures by major component.[296] WGL asserts that its long-term plan for capital expenditure projects, including test year projects is reasonable, appropriate, and complete. WGL argues that only capital expenditures that occurred during the test year were included in the cost of service, and therefore its long-term capital expenditure plan has no effect on the revenue requirement or revenue deficiency in this case. Notwithstanding this fact, WGL explains that it develops five-year capital expenditure plans, which it updates annually as part of its planning.[297] WGL identifies PROJECTpipes as one of its

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292 *Formal Case No. 1103*, Order No. 17539, ¶42.

293 *Formal Case No. 1103*, Order No. 17539 at ¶42.

294 *Formal Case No. 1103*, Order No. 17539 at ¶42.

295 Designated Issue 6 asks: "Is WGL's long-term plan for capital expenditure projects (including test year projects) reasonable, appropriate, and complete? Does WGL's long term plan support goals to provide a safer, reliable, efficient, and cost effective delivery of energy in the District?"

296 WGL presents five fiscal years (FY 2016-2020) of capital expenditures, broken down into categories for new additions, replacements, and cost of removal. WGL's total proposed capital expenditures are: for FY 2016, $75,867,334; for FY 2017, $74,943,812; for FY 2018, $74,040,777; for FY 2019, $74,882,478; and for FY 2020, $89,117,343.

297 WGL Br. at 32.

most significant capital expenditure projects.[298] Additionally, WGL contends that many of the improvements referenced in its Exhibit WGL (2J)-1 are responses from customers for upgrades or access to natural gas. WGL also represents that potential growth areas and/or projects are included in the five-year plan.[299]

122. WGL argues that its long-term plan supports goals to provide a safer, reliable, efficient, and cost effective delivery of energy in the District. WGL contends that with PROJECTpipes, WGL is focused on replacing pipe with higher leak rates, reducing future leaks, and minimizing customer disruptions. WGL claims that under PROJECTpipes, it is taking steps to increase the safety of its facilities from the impact of sudden releases of natural gas by replacing medium pressure residential and most multi-family and small commercial services, including installing an Excess Flow Valve between the gas main and the customer's premise where operationally practical and/or commercially available.[300] WGL also asserts that it is replacing low pressure segments with medium pressure segments, eliminating customer outages due to possible water infiltration and permitting customers to install energy efficient appliances and gas-fired backup generators.[301] Additionally, WGL assists customers who wish to convert from other sources of energy to natural gas.[302]

123. **OPC.** OPC argues that WGL's long-term capital expenditures plan is not reasonable or cost-effective. As support for this position, OPC uses the Audit Report's findings regarding the VMCR Program, which OPC identifies as a major long-term pipe improvement program, to identify what it considers the reasons for significant cost overrun. OPC argues that the Company has not employed any cost-control measures. OPC states that WGL must ensure that the costs it incurs—and that its ratepayers pay—for its long-term capital expenditures projects are prudently incurred and just and responsible. OPC recommends that the Commission require WGL to undertake the cost control measures consistent with the recommendations of the Audit Report to ensure the reasonableness of WGL's long-term capital expenditures plan.[303]

124. **WGL Response.** WGL's rebuttal focused on OPC's allegations that the Company lacked cost-control measures. The Company provided extensive testimony in response to the select findings from the Audit Report that OPC used to justify its argument. The Company provided additional information on the Company's management process and systems it employs as cost-control measures. The Company also provided explanations for cost variances that it has incurred in the VMCR Program and PROJECTpipes.[304]

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[298] WGL Br. at 32-33.

[299] WGL Br. at 33.

[300] WGL Br. at 34.

[301] WGL Br. at 35.

[302] WGL Br. at 35-36.

[303] OPC Br. at 82.

[304] WGL R. Br. at 61-67.

125. **OPC Response.** OPC contests WGL's assertions that no party filed testimony regarding WGL's operational details or planned capital expenditures. To the contrary, OPC contends that it filed testimony regarding the progress of work and cost overruns associated with the VMCR Program and PROJECTpipes, two of WGL's largest capital expenditure programs. OPC argues that WGL has not proven that its long-term capital expenditures programs are reasonable and cost-effective. OPC recommends that the Commission reject WGL's long-term capital expenditure plan.[305]

DECISION

126. The Commission finds this plan reasonable. However, the Commission also notes OPC's concerns about this plan due to the cost estimation problems experienced with the VMCR Program and PROJECTpipes, two major long term capital expenditure programs. The Commission will continue to scrutinize any future WGL long term capital expenditure plan to ensure that the problems experienced with these two programs do not continue with other long term capital expenditure programs. As the long term capital expenditures plan has no revenue requirement impact in this case, the Commission finds that no adjustment to the plan is necessary at this time.

VII. DEPRECIATION (ISSUE 7)[306]

127. Depreciation expense is the means by which regulated utilities recoup, over the expected useful life of plant in service, the costs of the assets used to provide service to ratepayers. The costs to be recovered include the utilities' initial outlay and the expected costs of removing or retiring the assets from service (minus any salvage value) at the ends of their lives. As WGL recovers these amounts from ratepayers through depreciation expense, it includes them in a "recorded reserve." In this instance, WGL submits there are two major depreciation issues in this case involving two ratemaking adjustments. The first is WGL RMA 25, which adjusts WGL's depreciation expense as a result of an updated depreciation study. OPC presents an alternative adjustment as OPC Adjustment 4. The second is WGL RMA 26 which updates WGL's reserve for deprecation. OPC presents its alternative as OPC Adjustment 5.

128. **WGL.** WGL RMA 25 increases annual depreciation expense by $907,000 and decreases operating income by $530,849. WGL Witness White presents the Company's 2015 Depreciation Study, which is based on plant and depreciation reserve balances as of December 31, 2014.[307] This new depreciation study was filed as a result of a Settlement Agreement, approved by the Commission in *Formal Case No. 1115*, Order No. 17789.[308] WGL explains that

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305 OPC R. Br. at 18-19.

306 Designated Issue 7 asks: "Are the Company's new depreciation study developed and depreciation rates calculated in a reasonable and appropriate manner, consistent with the Commission's previous determination, and are the results of that study properly employed in the determination of the Company's accumulated depreciation and depreciation expense?"

307 WGL Br. at 39, citing WGL (H)-2.

308 WGL Br. at 39, citing *Formal Case No. 1115*, Order No. 17789, ¶ 75.

its 2015 Study was developed from the 2010 Depreciation Study used by the Company in *Formal Case No. 1093* by "adding Company plant and depreciation reserve transactions over the period 2010-2014 to the database used in conducting the 2010 Study."[309] Witness White's firm "estimated projection lives and curves for each plant account through a two-step analysis." The first step of the estimate was a "life analysis," which "involved a statistical analysis to estimate projection lives and curves from recorded retirement activity" and the second step was "life estimation," which "blended the results of life analysis of the first step with informed judgment and expectations about the future to estimate an appropriate projection life and curve for each plant account."[310]

129. Witness White observed a "significant" increase in the realized net salvage rates for distribution main and service over the past several years and concluded that it was related to "a policy adopted by the Company in 2009 to allocate 16.5% of the cost of main and service replacements to cost of removal."[311] This net salvage rate was retained in the 2015 Depreciation Study but Witness White recommends the Company review this policy.[312]

130. Witness White's firm also compared the recorded reserve to the "'computed' or 'theoretical' reserve, which is the level required to achieve the objectives of depreciation accounting if the amount and timing of retirements of [the utility plant] and net salvage occur as predicted."[313] WGL contends that "[b]ased on service lives and net salvage rates estimated in the 2015 [S]tudy and using the present value formulation of future accruals for net salvage, the Company's total recorded reserve appears to exceed the calculated ['theoretical'] reserve by about $80.4 million," which lead Witness White to rebalance recorded reserves "to reduce offsetting imbalances and increase depreciation rate stability."[314] As a result, Witness White "recommends a composite primary account depreciation rate of 2.55%, which represents a reduction of 0.07 percentage points from the current composite rate of 2.62%" and when applied to the current "2014 plant account balances would reduce annual depreciation expense by approximately $491,000."[315]

131. Separately, WGL requests a change in Commission policy to approve "amortization accounting for ENSCAN units classified in Account 397.20 (ENSCAN Equipment) in the 2015 Study."[316] WGL explains that an ENSCAN unit is a small electronic device attached to a customer's meter that is used to transmit usage data to the Company's

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309 WGL Br. at 40, citing WGL (H) at 8 (White).

310 WGL Br. at 40, citing WGL (H) at 8-9 (White), WGL (H)-2 at 8-11.

311 WGL Br. at 40-41.

312 WGL Br. at 41, citing WGL (H)-2 at 12.

313 WGL. Br. at 41.

314 WGL Br. at 41, citing WGL (H)-2 at 12.

315 WGL Br. at 42, citing WGL (H)-2, Statement A at 18-19.

316 WGL Br. at 42.

electronic meter reading equipment and based on the account balance of $18,378,000 during the test year and the average number of meters of 158,000, the book cost per ENSCAN unit is approximately $116.[317] WGL contends that in *Formal Case No. 1016*, the Commission was concerned about an accounting change resulting in "a loss of control of WGL's assets and loss of accuracy of WGL's accounts."[318] WGL asserts that because ENSCAN units are involved in meter reads, WGL's "billing system serves as the primary control over ENSCAN units."[319] Additionally, WGL states, "due to the small size of ENSCAN units and the ongoing field and meter reading operations of the utility, it is difficult to track retirements with precision and it would not be cost-effective to track the physical location and retirement."[320] Based on the mean service life between 17.8 and 18.3 years and the maximum service life estimated by the manufacturer of 17-20, "[Witness] White recommends an amortization period of 18 years for ENSCAN equipment," which is longer than the 17-year life approved in Maryland or the 10-year life approved in Virginia.[321]

132. **OPC.**[322] OPC asserts that WGL's "proposed depreciation rates are unreasonable and, absent modification will result in an over-recovery in the Company's rates of depreciation expense."[323] As a preliminary matter, OPC Witness Smith, agreeing with WGL Witness White, suggests that WGL review its policy to allocate 16.5% of the cost of mains and services replacement projects to the cost or removal and address this issue in WGL's next base rate case and depreciation study.[324] Further, OPC presents two alternatives, OPC Adjustment 4 and OPC Adjustment 5 that address recommended depreciation rates and the accumulated depreciation reserve respectively. Finally, OPC opposes the amortization of ENSCAN equipment.

133. First, OPC asserts that WGL "has a large and growing depreciation reserve surplus" which causes "serious intergenerational equity concerns" because of the long period of time over which WGL is proposing to return it to ratepayers.[325] OPC is seeking to have the Commission direct that $12 million of the $80 million depreciation reserve surplus be returned to ratepayers over three years and the remainder returned over the 36 years proposed by WGL.[326] OPC explains that:

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[317] WGL Br. at 42-43, citing WGL (D)-3 at 25, WGL (D)-4 at 37.

[318] WGL Br. at 43, quoting *Formal Case No. 1016,* Order No. 12986, ¶ 170.

[319] WGL Br. at 43, citing WGL (3D) at 62 (Tuoriniemi).

[320] WGL Br. at 43, citing WGL (3D) at 62 (Tuoriniemi).

[321] WGL Br. at 44, citing WGL (H)-2 at 16.

[322] AOBA. DCCA. DCG. And GSA filed no comments on this issue.

[323] OPC Br. at 83.

[324] OPC Br. at 108, citing WGL (H)-2 at 12.

[325] OPC Br. at 87, citing OPC (C) at 13 (Smith).

[326] OPC Br. at 87, citing OPC (C) at 14 (Smith).

> If asset service lives and net salvage costs could be known in advance, depreciation rates could be calculated to recover investment and net removal costs at precisely the right pace. In that idealized world, at any point in time, the sum of a company's recorded reserve and the amounts remaining to be collected in future depreciation expense would equal its total investment and net removal costs. But the real world is more complicated. Estimated service lives and net removal costs change over time, which affects the pace at which those costs should be recovered. This, in turn, affects whether the recorded reserve may be viewed as under-funded or over-funded in light of the new estimates.[327]

134. OPC Witness Smith explains that the intergenerational equity concerns exist because "[f]uture customers who receive such a flow-back over the next couple of decades under the remaining-life technique may not be the same customers who funded the growth of the surplus in the past."[328] Witness Smith bases the need for his recommendation on the premise that "WGL's reserve surplus is 'extremely large' and has 'grown consistently' between rate cases."[329] OPC identifies the cause of this increase as the Commission's decision in *Formal Case No. 1093* to switch from a straight line accounting method for estimating net salvage amounts to a present-value method.[330] OPC explains the impact of this change:

> the switch from straight-line to present-value net salvage accruals, intended to spread cost burdens more equitably between current and future customers, not only reduced the net salvage accruals charged to current customers. It also reduced WGL's implied reserve requirement, and increased its depreciation reserve surplus. The same intergenerational equity considerations that prompted the change in net salvage method also argue in favor of returning at least a portion of the surplus on an accelerated basis.[331]

OPC's contends its proposal for an accelerated return of the depreciation reserve surplus to ratepayers extends the Commission's decision in *Formal Case No. 1093* "to [its] logical conclusions."[332]

135. Second, OPC Witness Smith recommends that the Commission reject WGL's proposed service life curves for five plant accounts, which the Commission previously

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[327] OPC Br. at 88.

[328] OPC Br. at 92, citing OPC (C) at 14 (Smith).

[329] OPC Br. at 92, citing OPC (C) at 14 (Smith).

[330] OPC Br. at 93-94, citing *Formal Case No. 1093*, Order No. 17132, ¶¶ 105-107.

[331] OPC Br. at 94.

[332] OPC. Br. at 96.

considered in *Formal Case No. 1093*.[333] OPC explains that in *Formal Case No. 1093*, "the Commission found that 'OPC's longer service lives and curve shapes are generally better than WGL's' and directed WGL to use them" and when WGL sought reconsideration the Commission explained in its denial that "WGL has the burden of proof to justify its proposed depreciation rates."[334] OPC states that the "2015 depreciation study provided . . . the same service lives [WGL] sought and the Commission rejected in Formal Case No. 1093 for four of the [five] disputed accounts, and [ ] a service life longer than the one WGL proposed in Formal Case No. 1093, but shorter than the one the Commission adopted, for the fifth account."[335] Witness Smith explained that the 2015 Study "'does not provide any explanation for the Company's decisions[s]' to depart from the lives and curves the Commission required WGL to use in Formal Case No. 1093."[336] Further, OPC asked "WGL Witness White what adjustments he had made to his service life recommendations to reflect the Commission's service live determination . . . and WGL Witness White responded that he made none."[337] OPC points out that Witness White acknowledged that "the force of retirement acting on WGL's assets . . . did not change significantly since Formal Case No. 1093."[338] OPC concludes that OPC Witness Smith "didn't start from scratch" in conducting his assessment and that since the forces of retirement between the 2010 Study and 2015 Study did not change "the curves and lives adopted in Formal Case No. 1093 remain appropriate."[339]

136. Third, OPC suggests the "Commission should deny WGL's request to amortize, rather than depreciate, its investment in ENSCAN equipment" as WGL "has identified no changed circumstances justifying a different conclusion."[340] OPC contends that the Commission denied WGL identical request in *Formal Case No. 1016* "on policy grounds" and that WGL simply asserts that the Commission was wrong because WGL does "not believe that amortization of ENSCAN equipment involves a loss of asset control or loss of accounting accuracy."[341] OPC highlights that WGL Witness White, on cross-examination, "acknowledged that the Company's request for a different ruling in this case is not based on any changed facts or circumstances."[342] Witness Smith explains that "depreciation is tied to actual retirement experience" and that

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333 OPC Br. at 85, citing OPC (C) at 56 (Smith).

334 OPC Br. at 99, citing *Formal Case No. 1093*, Order No. 17132, ¶ 103; *Formal Case No. 1093*, Order No. 17204, ¶ 28.

335 OPC Br. at 100, citing OPC (C) at 47 (Smith).

336 OPC Br. at 100, citing OPC (C) at 48 (Smith).

337 OPC Br. at 100, citing OPC (C)-18 at 4, 9, 12, 16, 20, 24.

338 OPC Br. at 101, citing Tr. at 1220:20-22 (WGL Witness White, "I could not find evidence that forces of retirement have changed.").

339 OPC Br. at 102, citing OPC (C) at 47 (Smith).

340 OPC Br. at 86.

341 OPC Br. at 105-106, citing WGL (H)-2 at 16.

342 OPC Br. at 106-107, citing Tr. at 1225:2-7 (OPC cross-examination of Witness White).

because under amortization WGL would no longer track unit specific information it becomes "difficult to assess over time whether the chosen amortization periods are appropriate or not."[343] Lastly, OPC states, "WGL has not explained why it is substantially more burdensome to track ENSCAN units for depreciation purpose than it is for operational and billing purpose" as WGL explained it would continue to do.[344]

137. **WGL Response.** As a preliminary matter, WGL indicates that it does not oppose OPC's recommendation regarding WGL reviewing its current policy of allocating a fixed percentage of replacement project cost of removal in its next depreciation study and rate case.[345] First, WGL contends that "[d]iffering opinions on the derivation of depreciation expense do not lead to over- or under-recovery of depreciation expense if that expense is included in rates based on the Commission's final approved depreciation rates. To assert that the Company's recommendation somehow creates an opportunity for expense over-recovery is unfounded and incorrect."[346] WGL argues that "OPC Witness Smith makes a fundamental error in using the theoretical reserves derived in the 2015 Depreciation Study as the basis for his proposed adjustment because he proposed changes to the projection lives and curves for five plant accounts and attempted to change the account for ENSCAN equipment from an amortizable account . . . to a depreciable account" each of which would require a recalculation of the theoretical reserve.[347] WGL explains that the increase in the theoretical reserve that alarms OPC is a result of the application of a new, SFAS 143[348] present value formulation of accruing for net salvage adopted in *Formal Case No. 1093*.[349]

138. WGL also contends that "concerns related to 'intergenerational inequity' are not meaningful when group depreciation accounting is used, as it is in the Company's depreciation system" as some plant has a short life and is under-depreciated while other plant has a longer-life and over-depreciated.[350] Further, WGL explains that "any amount included in accumulated depreciation related to the theoretical reserve imbalance lowers the return required by the Company. The result is that 'customers are not harmed by a theoretical imbalance in the reserve; in fact[,] customers are benefiting from the pre-tax rate of return on this balance."[351] WGL also contends that "while the adjustment proposed by OPC in this case is not the same adjustment as

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343 OPC Br. at 107, citing OPC (C) at 15 (Smith).

344 OPC Br. at 107.

345 WGL R. Br. at 86-87.

346 WGL R. Br. at 74.

347 WGL R. Br. at 75.

348 SFAS 143 refers to the Financial Accounting Standards Board's Summary of Statement No. 143. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs.

349 WGL R. Br. at 75-76, citing WGL (3D) at 51 (Tuoriniemi).

350 WGL R. Br. at 76.

351 WGL R. Br. at 77, citing WGL (3D) at 49 (Tuoriniemi).

has been twice rejected by the Commission, it is fundamentally similar to earlier proposed adjustments to reduce depreciation expense through the accelerated return of amounts collected from ratepayers through depreciation rates approved by the Commission."[352]

139. Second, WGL in contesting OPC's recommendation on the continued use of service lives for five accounts as determined in *Formal Case No. 1093*, indicates only that "OPC Witness Smith did not conduct a statistical analysis of the disputed plant accounts" and that WGL's "methodology for estimating service lives for the five disputed – plant accounts – and indeed for all plant accounts – was fully explained by Company Witness White."[353]

140. Third, WGL explains that it "provided a substantial foundation for the proposed 18-year amortization period for ENSCAN equipment in this case" unlike in *Formal Case No. 1016*.[354] Additionally, WGL cites its answers in response to Commissioner Phillip's questioning of WGL Witness Tuoriniemi for support that, even with amortization accounting, WGL will maintain continued control over ENSCAN equipment from an operational and billing perspective.[355]

141. **OPC Response.** OPC reiterates the Commission's determination in *Formal Case No. 1093*, that "when parties raise 'serious doubts about a particular aspect of WGL's proposed depreciation rates, WGL has the burden of dispelling those doubts and convincingly justifying the specific challenged part of the Company's proposal."[356] OPC asserts it raised clear objections to WGL's service lives on the five accounts, and the amortization of the depreciation reserve amount, to which WGL has the burden to respond. Finally, regarding the amortization of ENSCAN equipment, OPC contends that WGL has presented no new information beyond what was presented in *Formal Case No. 1016*, and WGL is simply seeking a change in Commission policy.[357]

DECISION

142. The Commission's decisions on WGL's deprecation rates are guided by the depreciation principles the Commission announced in *Formal Case No. 1076* and followed in *Formal Case No. 1093*.[358] As a preliminary matter, both WGL and OPC agree that in its next rate case, WGL should revisit its policy to allocate 16.5% of the cost of main and service

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352 WGL R. Br. at 80, referencing *Formal Case No. 1076*, Order No. 15710, ¶ 77; *Formal Case No. 1093*, Order No. 17132, ¶ 43.

353 WGL. R. Br. at 82.

354 WGL. R. Br. at 83.

355 WGL R. Br. at 84-85, citing Tr. at 1531-1532 (Commission Phillips questions WGL Witness Tuoriniemi).

356 OPC R. Br. at 20, citing *Formal Case No. 1093*, Order No. 17204, ¶ 28.

357 OPC R. Br. at 21-22.

358 *See Formal Case No. 1076*, Order No. 15710, ¶¶ 234-236, 239, 248-252, 254; *Formal Case No. 1093*, Order No. 17132, ¶¶ 101-110.

replacements to cost of removal in developing its new depreciation study.[359] The Commission agrees with this course of action and directs WGL to file a new depreciation study at least 90 days before WGL's next rate case.

143. First, regarding OPC's request for a faster amortization of the depreciation reserve imbalance, the Commission notes that in *Formal Case No. 1093*, we rejected a similar OPC request because "remaining-life depreciation rates automatically adjust for any reserve imbalance."[360] WGL's Witness Tuoriniemi points out that the Commission has repeatedly rejected similar OPC requests in *Formal Case Nos. 1093*, *1076*, and *1054*.[361] Additionally, OPC Witness Smith's three-year amortization of the $12 million amount is based his "judgment" and moves away from the Commission's use of the remaining life methodology.[362] Further, WGL is correct in that "any amount included in accumulated depreciation related to the theoretical reserve imbalance lowers the return required by the Company. The result is that 'customers are not harmed by a theoretical imbalance in the reserve; in fact customers are benefiting from the pre-tax rate of return on this balance."[363] Additionally, while the growth in WGL's depreciation reserve is the result of the switch to present value accounting for net salvage, the reserve is a snapshot in time and subject to reevaluation with each new depreciation study and rate case. Therefore, the Commission again rejects OPC's attempts to accelerate the return of any depreciation reserve imbalance to rate payers as improper and contrary to the appropriate use of the remaining life methodology for handling depreciation.

144. Second, OPC proposes that WGL maintain the current approved average service life and curve shapes for five accounts as the Commission approved in *Formal Case No. 1093*.[364] WGL proposed in the 2015 Depreciation Study average service life and curve shapes that were, as identified by OPC Witness Smith and unchallenged by WGL, "the same service lives [WGL] sought . . . in Formal Case No. 1093 for four of the [five] disputed accounts, and [ ] a service life longer than the one WGL proposed in Formal Case No. 1093, but shorter than the one the Commission adopted, for the fifth account."[365] WGL Witness White did not provide a justification for his revision to previously rejected service lives but indicated that "retirement forces are unchanged" and he "did not identify any future forces of retirement expected to be significantly different from those observed in the past."[366] The Commission looks disfavorably on arguments, such as these presented by WGL on this issue, when parties advance positions that

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359 *See* WGL Br. at 41; OPC Br. at 108; WGL R. Br. at 86-87.

360 *See Formal Case No. 1093*, Order No. 17132, ¶ 109.

361 *See* WGL (3D) at 52 (Tuoriniemi).

362 *See* WGL (2H) at 13 (White); Commission Exhibit 7 (OPC's Response to PSC 1-3).

363 WGL R. Br. at 77, citing WGL (3D) at 49 (Tuoriniemi).

364 Those Accounts are: 367.1 Transmission Mains-Steel; 376.1 Distribution Mains-Steel; 381.5 Meter-Electronic Demand Recorders; 382 Meter Installations; and 384 House Regulators Installations.

365 OPC Br. at 100, citing OPC (C) at 47 (Smith).

366 *See* OPC Br. at 102; Commission Exhibit 8 (WGL Response. to OPC Data Request 4-7).

have been previously decided, without even acknowledging prior Commission determinations or making a minimum showing to distinguish the party's position. Such efforts are a waste of resources for the Commission, intervenors, and the utility and an unnecessary expense to ratepayers. Therefore, just as we did in *Formal Case No. 1093*, we find that OPC's recommended lives and curves fit the actual data better than WGL's proposed service lives and curve shapes and adopt OPC's service lives.[367]

145. Finally, turning to WGL's proposed amortization of ENSCAN equipment in account 397.20, we find that such a change is warranted. OPC contends that WGL's request is identical to its request in *Formal Case No. 1016*, where we denied the amortization of ENSCAN equipment.[368] In *Formal Case No. 1016*, the Commission expressed doubts about "care and precision" with which WGL determined the amortization period for ENSCAN equipment and expressed concerns about WGL's "loss of control" of ENSCAN equipment.[369] In this case, WGL utilized reasonable care in determining an appropriate amortization period and through Witness Tuoriniemi's testimony provided a reasonable basis for WGL maintaining control of ENSCAN equipment locations through WGL's customer billing system.[370] Therefore, the Commission approves WGL's request to amortize ENSCAN equipment.

146. Based on the determinations above the Commission finds that WGL's approved depreciation rate is 2.43%. The Commission's depreciation decision increases rate base by $801,047, increases operating income by $468,743. Attachments: E. Annual Depreciation Rates, lists the approved depreciation rates by account.

VIII. TEST YEAR REVENUES (ISSUE 8)[371]

147. WGL reports per book test-year revenues of $261,101,737.[372] WGL proposes 13 *pro-forma* "Distribution Only" adjustments to reduce revenues by $102,078,672 to reflect revenues related to Distribution.[373] Two major categories of revenues are presented by the Company: (a) Delivery of Gas; and (2) Other Operating Revenues. The Company claims these adjustments are needed to eliminate the financial effect of anomalies (such as weather) on WGL's revenues.[374] WGL contends that all of the adjustments are necessary, in part, because the Commission directed WGL to present revenues on a distribution-only basis, and that "the

367 *See Formal Case No. 1093*, Order No. 17132, ¶ 104.

368 *See* OPC Br. at 105-106.

369 *See Formal Case No. 1016*, Order No. 12986, ¶¶ 169 (b), 170.

370 *See* WGL Br. at 44, Tr. at1532:11-14.

371 Designated Issue 8 asks: "Are WGL's test-year revenues, sales, and any proposed adjustments reasonable, and appropriate?"

372 WGL (D)-1, Page 1 of 4 REVISED 05-31-2016.

373 WGL (D)-1, Page 1 of 4 REVISED 05-31-2016.

374 WGL Br. at 46.

revenue adjustments are reasonable and consistent with prior Commission precedent."[375] Additionally, other revenue issues that were raised by parties during the course of this case are discussed in this section.

148. Starting with WGL RMA 1, Revenues, WGL states that the adjustments: (a) "reflect[ ] $(44.8) million of combined revenue-related adjustments, using methodologies . . . approved by the Commission in prior rate cases;"[376] (b) were applied to per book revenues for the test year to determine the ratemaking revenues [Deliveries of Gas and Other Operating Revenues]; (c) are necessary to incorporate the effects of WGL's Normal Weather Study; and (d) reflects the exclusion of the Residential Essential Services ("RES") credits.[377]

149. In addressing Peak Usage Charges, the Company contends that; (a) it calculated these charges by customer class using the billing determinants for February and the tariff rates; (b) it is unknown what the peak usage month (March 2017 – January 2018) applicable to billings is during the rate effective period; and (c) based on 30 year weather data, the peak usage month of January 2014 was abnormally colder than the 30-year average resulting in WGL using February 2014 for estimating the Peak Usage Charge.[378] WGL proposes to increase the Peak Usage Charge by $400,098.[379] The Company's present revenue for the Peak Usage Charge is $3,022,967.[380]

150. Other adjustments that the Company states that it made are the: (a) District of Columbia Delivery Tax and other pass-through taxes ($32,754,582); (b) elimination of the Sustainable Energy Trust Fund ("SETF") ($4,320,903) and the Energy Assistance Trust Fund ("EATF") ($1,574,043) from the cost of service computations; (c) removal of $1 million gas delivery revenues associated with net unbilled gas revenues that accrued during the test year; and (d) removal of $175,000 of the rate refund credits reflecting rate case expense amortization.[381]

151. With respect to Other Operating Revenues, WGL asserts that to avoid double counting the Company reduced revenues related to late payment fees by $216,000 and transportation revenues by $72.3 million.[382] WGL also reduced revenues to reflect the removal of 50% of the ground lease rents received from the former East Station plant site and adjusted Watergate revenues to reflect the appropriate level of test year demand cost while eliminating all other Watergate revenues.[383] In addition, subsequent to the Commission's approval of the

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375 WGL Br. at 47.

376 WGL Br. at 47.

377 WGL Br. at 47.

378 WGL Br. at 48.

379 WGL (M)-1 Schedule B, at 4, column C, line 9.

380 WGL (M)-1 Schedule B, at 2, column C, line 15.

381 WGL Br. at 48-49 and 21 Day Compliance Filing Adjustment 1 Revenues

382 WGL Br. at 48.

383 WGL Br. at 49.

Architect of the Capital ("AOC") contract, the Company increased distribution charge revenues by $2,641,000 based on 7,999,000 therms of firm usage on a normal weather basis.[384]

152. WGL requests that the Commission reject OPC's $2.6 million revenue adjustment for the special contract with the AOC.[385] WGL indicates that it subtracted the $2.6 million AOC special contract from the updated revenue deficiency of $19.9 million, this resulted in a corrected revenue deficiency of $17.3 million.

153. **OPC.** OPC argues that "WGL has not accurately reflected revenues from the AOC contract which decreases the revenue deficiency by $2,641,000, which is based on 7,999,000 therms of firm usage on a normal weather basis."[386] OPC states that although WGL Witness Tuoriniemi affirmed that AOC revenues should be removed from the revenue deficiency calculation, the Company's corrected filing does not account for the AOC contract. As a result, OPC proposes a $2.6 million adjustment (OPC Adjustment 11) to the Company's revenue requirement.

154. **AOBA.** AOBA takes issue with WGL's estimation of Normal Weather therms and the interplay that these problems have on other parts of the Company's overall presentation. AOBA believes that the Commission "lacks a reasonable and reliable basis on which to make basic ratemaking determinations" and, "has little choice but to deny the Company's entire revenue increase request."[387]

155. With respect to the Peak Usage Charge revenue, AOBA argues that "[t]he data and calculations that [WGL] proposed to use to adjust Peak Usage Charge revenue for customer growth do not reflect, and are inconsistent with the Peak Usage Charge provisions in the Company's present and proposed rate schedules for non-Residential firm service customers (*i.e.*, current Rate Schedules 2, 2A and proposed Rate Schedule 2, 2A, 2B and 2C)."[388] AOBA asserts that WGL's peak usage charge billing determinants for the test year, as developed through WGL's Normal Weather Study, is inappropriate.[389] More specifically, AOBA states that: (a) the Company has calculated Peak Usage Charge revenues at present rates using peak monthly usage data derived from the Company's Normal Weather Study; (b) the Company simply assumed that all peak usage for all classes occurred in January (which it did not),[390] and (c) WGL did not follow its tariff and calculate the peak usage charge based on each customer's maximum billing

384 WGL Br. at 50.

385 WGL R. Br. at 89.

386 OPC Br. at 109.

387 AOBA Br. at 48.

388 AOBA Br. at 66.

389 AOBA Br. at 103.

390 AOBA claims that approximately 57% of commercial & industrial customers did not have their peak usage in the same month as the class peak month in the test year.

month usage.[391] AOBA Witness Bruce Oliver stated, with respect to Peak Usage Charges, that "WG[L] must be required to develop greater analytic support for the methodology it proposes and demonstrate the validity of the computational assumptions it employs."[392] AOBA argues that because the Company used a proxy to estimate peak usage charge billing determinants for the [Commercial and Industrial ("C&I")] and [Group Metered Apartments ("GMA")] customers for the test year, "the Company failed to perform necessary and appropriate analysis of its historic peak usage charge data before adopting its highly simplistic estimation approach . . ."[393] AOBA notes that 57% (6,068) of C&I customers have their peak usage determined outside of the class peak month of the test year.[394] AOBA reminds the Commission that "peak billing usage charge billing determinants for the rate effective period must reflect normal weather for the prior November – April period, not normal weather usage."[395] In addition, AOBA argues that WGL failed to consider "the impact of its methods and assumptions on the reasonableness of the gas use estimates produced or the equity of the rate determinations that result."[396]

156. AOBA also offered its position on several revenue related adjustments for Issue 8, some of which will be discussed under Issue 8(a).[397] As to the other revenue related adjustments, AOBA posits that with respect to late payment fees, WGL's proposed $216,000 reduction in test year Late Payment Charge revenue for billed revenue does not reflect all of the factors that actually influence WGL's actual Late Payment Charge revenue collections.[398] AOBA contends that there are other factors that WGL should have reviewed, such as: (a) the mix of customers by rate classification for whom late payments are billed; (b) the frequency that customers in each rate classification are billed late payment charges; (c) the number of customers in each rate class who are billed multiple late payment charges on a single monthly bill; and (d) the extent to which customers make partial payments on amounts billed before late payment charges are applied.[399] Moreover, AOBA contends that because "billed charges per customer vary significantly across WGL's rate classifications, [ ] that the differences between the mix of customers by rate class for whom late payment charges are assessed and the Company's overall mix of customers erode the likelihood that Late Payment Charge Revenue will be proportional to total Gross Revenue."[400] AOBA argues that WGL's Late Payment Charge Revenue assumptions

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[391] AOBA Br. at 103-104.

[392] AOBA (A) 78 (B. Oliver).

[393] AOBA Br. at 103-104.

[394] AOBA Br. at 104. Witness Oliver testified that he doesn't believe that there is a simple relationship between peak usage billing determinants and individual customers' peak usage. *See* AOBA (A) 78 (B. Oliver).

[395] AOBA Br. at 104-105.

[396] AOBA Br. at 105.

[397] AOBA's position on the normal weather study is discussed in Section VII, A, Issue 8(a) *infra*.

[398] AOBA Br. at 56.

[399] AOBA Br. at 57.

[400] AOBA Br. at 57-58.

are overly simplistic. AOBA contends that Late Payment Charge revenues do not vary directly with the Company's gross revenue as WGL suggests and that the Company's proposed $216,000 reduction in test year Late Payment Charge revenue should be rejected.[401]

157. **WGL Response.** In response to AOBA's position on late payment charges by rate class, WGL asserts that, the Company "computed a composite rate using a test-year average factor to calculate this adjustment, which incorporates all of the factors that may influence the amount of late payment fees."[402] WGL notes that the Company used composites for uncollectible accounts rates without AOBA taking any issue with it.[403] In addition, WGL notes that use of composites for the late payment fee factor is consistent with the Commission's allowance and use of uncollectible composites in prior gas rate cases.[404]

DECISION

158. The Company's uncontested *pro-forma* Distribution Only revenue adjustments were found reasonable and accepted *supra* under Issue 1, Test Year.

159. With respect to AOBA's Peak Usage Charge issue, the Commission, in Order No. 18224, informed the parties that they could explore computation of peak usage charge revenue, and whether WGL's use of February 2015 normal weather usage by class was a reasonable proxy for normal weather usage charge by revenue rate class that would be computed on a customer-by-customer basis.[405] The Order stated that:

> WGL, as the proponent of the rate increase request in this proceeding, bears the burden in substantiating its revenue request and is free to present its case as it deems appropriate. AOBA is similarly free to argue that WGL has not met its burden of proof and/or that the Company's computation of the Peak Usage Charge is unreasonable and **take on the burden of presenting an alternative methodology for computing that charge.** We also clarify that AOBA and other parties are not precluded from addressing the Company's estimates of Peak Usage Charge Revenue or proposing alternative calculations of Peak Usage Charge Revenue in this proceeding. **The parties are free to address the impacts in this proceeding of alternative determinations of test year Peak Usage Charge Revenue on**: (i) the Company's estimates of normal weather test year revenue and billing determinants; (ii) the Company's claimed requirements for

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401 AOBA Br. at 58.

402 WGL R. Br. at 88.

403 WGL R. Br. at 86.

404 WGL R. Br. at 88.

405 *Formal Case No. 1137*, Order No. 18224, ¶ 22.

> additional revenue; and (iii) the Company's development of rates and charges by rate class. [emphasis added][406]

160. Based on the record, the Commission finds that WGL Peak Usage calculations are reasonable. The Commission rejects AOBA's recommendation to re-compute peak usage revenue and accepts WGL's proposed billing determinants for Peak Usage Charges for the following reasons. We agree with WGL Witness Tuoriniemi's argument that it is reasonable to use the normal weather peak month usage in estimating what the peak usage charge will be in the rate effective period because "we do not know what weather the District of Columbia will experience in the rate effective period. Therefore, both the Commission and the Company have relied on estimating what normal weather would be for the purposes of determining ratemaking revenues, or revenues collected under present rates."[407]

161. In addition, WGL Witness Tuoriniemi asserts that to perform the Peak Usage Charge methodology as described by AOBA would require reviewing 12,671 customers and relying on 456,156 bills plus any billing adjustments (over a 36 month period) and would be burdensome to the Company to prepare and to the parties to review.[408] AOBA does not contend that customers have been billed incorrectly. As a result, the Commission finds that WGL has met its burden of proof by presenting sufficient evidence to substantiate the Peak Usage Charges. On the other hand, AOBA, failed to comply with Order No. 18224. Although it raised concerns with the Company's Peak Usage Charges, AOBA failed to provide alternative calculations of peak usage charges. Moreover, not only did AOBA fail to provide an alternative calculation, it did not quantify the impact or estimate of the adjustment it is proposing. Therefore, the Commission accepts WGL's proposed increase in the Peak Usage Charges billing of $400,098.

162. The Company's Revenue and Other adjustments associated with flow-through District of Columbia Delivery Tax, SETF, EATF, DC Right-of-Way, and former East Station plant, were uncontested.[409] The Commission has independently reviewed these adjustments and find them to be just and reasonable which result in total Distribution Operating Revenues of $154,242,733.

163. As to the AOC contract, the Commission finds that WGL's update properly reflected the $2.6 million reduction in its calculation of its revenue deficiency; thus we reject OPC Adjustment 11 and AOBA Adjustment 1.

164. After reviewing AOBA's concerns regarding AOBA Adjustment 2, the $216,000 late payment charge revenues and the use/differences of individual rate classes, the Commission

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406 *Formal Case No. 1137*, Order No. 18224, ¶ 25 (Emphasis added).

407 WGL (2D) at 7 (Tuoriniemi).

408 WGL (3D) at 71 (Tuoriniemi).

409 The Commission has reviewed WGL's adjustments to Transportation and Watergate revenues, no party has objected to these adjustments and we accept them as filed. In addition, consistent with Order No. 17132, ¶132, WGL has provided additional information on Other Operating Revenues regarding its Transportation Service revenues. *See* WGL (D)-4, Page 21 of 67.

rejects AOBA's recommended adjustment. AOBA complains that billed revenues do not reflect all of the factors that influence late payment charges and that WGL should have used additional factors in calculating the late payment collections inclusive of using the mix of customers by rate classification. We reject AOBA's recommendation because it does not follow Commission precedence and is contrary to the manner in which we treat uncollectibles. Moreover, the Commission has not previously required the use of additional factors and, consistent with our treatment of uncollectibles, we have allowed WGL to use composite rates in the past and AOBA has not challenged such use. Therefore, the Commission believes that the use of composite rates would produce an average of late payment charge revenue that is reasonably aligned with actual results and therefore rejects AOBA Adjustment 2.

A. Weather Normalization (Issue 8(a))[410]

165. **WGL.** The Company's Witness Gibson introduced WGL's Normal Weather Study which asserts: (a) includes the number of months of weather usage; (b) is consistent with Order No.17132 in *Formal Case No. 1093*; and (c) and utilizes the most recent 30 years of weather data available.[411] Witness Gibson asserts that the first step in determining ratemaking revenues is to establish what constitutes normal weather.[412] This step is necessary because "volumetric rates are set on a normalized level of throughput rather than actual throughput that could be much lower or much higher based on actual weather experienced in the test period."[413] In other words, WGL avers that "if actual throughput were used to design rates, the Company would not be afforded the opportunity to recover its cost of service and achieve its authorized rate of return."[414]

166. Witness Gibson explains that: (a) the Company uses a simple linear regression calculation for calculating weather sensitivity; (b) there is a strong relationship between heating degree days ("HDD") and usage; and, (c) all classes are sensitive to weather.[415] He opines that the Company's current weather normalization model is simple to execute, the inputs, calculation and outputs are clearly understood, while still providing a reasonable prediction of normal weather usage.[416]

167. Consistent with Order No. 17132, the Company states that it predicted normal weather usage through a Normal Weather Study, using a combination of historical usage and

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[410] Designated Issue 8(a) asks: "Is the weather normalization adjustment reasonable?" Weather Normalization is a ratemaking adjustment to utility revenues and expenses to account for atypical usage levels resulting from abnormal weather and is a critical component of billing determinant estimates, the units on which prices are actually levied (e.g., therms).

[411] WGL Br. at 50.

[412] WGL Br. at 50.

[413] WGL Br. at 50.

[414] WGL Br. at 50.

[415] WGL Br. at 51.

[416] WGL Br. at 51-52.

HDD data.[417] With this data, the Company states that it calculates weather sensitivity coefficients and base usage factors.[418] WGL states that "these factors are then applied to Normal Weather HDDs to determine the therm throughput used in the calculation of the distribution charge in the revenue adjustment."[419] WGL asserts that the Normal Weather HDDs are based on an average of 30 years of daily average temperature data recorded at Ronald Reagan Washington National Airport.[420]

168. WGL cites Witness Gibson's testimony detailing the various calculations and conversions the Company used to arrive at the Normal Weather therms.[421] The result of this calculation provided the Company with 3,972 Normal Weather HDDs for the calendar year.[422] The Company claims that the various calculations, detailed on Schedule 3, were performed by customer class.[423] WGL Witness Gibson's testimony relies on Schedule 1 to show the final, adjusted, test period normal weather throughput by customer class.[424] The Company requests that the Commission find the Company's weather normalization adjustment reasonable and accept WGL RMA 1 as proposed.[425]

169. **AOBA**. AOBA argues that the Company's revenue increase should be totally rejected in its entirety because WGL has "fail[ed] to provide the Commission with a reasonable and reliable assessment of Normal Weather therms by rate class."[426] AOBA argues that the Normal Weather Study the Company presents results that are inconsistent, counter-intuitive, and lack transparency in their derivation[427]

170. AOBA emphasizes that "the methods and data used to produce the Company's Normal Weather Study in this case are not the same as those the Company used in its last case,"[428] a fact that WGL Witness Gibson "ultimately admitted . . ."[429] AOBA argues that "the

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417 WGL Br. at 52.

418 WGL Br. at 52.

419 WGL Br. at 52.

420 WGL Br. at 52-53.

421 WGL Br. at 53-54.

422 WGL Br. at 53.

423 WGL Br. at 55.

424 WGL Br. at 55.

425 WGL Br. at 55.

426 WGL Br. at 4.

427 WGL Br. at 4 and 18.

428 AOBA Br. at 4, (emphasis omitted). *See also*, AOBA Br. at 22-23.

429 AOBA Br. at 4.

Company's Normal Weather Study illogically suggests that annual therm use for the test year must be reduced to reflect normal weather conditions."[430]

171. Moreover, AOBA asserts that "by inappropriately lowering its test year therms, [WGL] also lowers its assessment of normal weather test year revenue. That directly impacts the Company's revenue deficiency calculation and increases the size of its revenue increase request in this proceeding."[431]

172. ABOA asserts that weather normalization analysis is intended to adjust weather sensitive gas use to reflect expected usage under normal weather conditions to determine what, if any, influence that normal weather conditions would have on the test year gas use.[432] AOBA notes that for this proceeding WGL computed 3,972 Normal Weather HDDs for the test year.[433] AOBA contends that the test year was warmer than normal and that weather sensitive gas use needs an upward adjustment to reflect expected gas use under Normal Weather conditions.[434]

173. AOBA goes on to argue that WGL has over stated its need for additional revenue and supports its position by stating:

> The reductions in estimated Normal Weather therm requirements for three classes addressed in AOBA's cross-examination of [WGL] Witness Gibson are all driven by unexplained, if not totally inexplicable, reductions in estimated non-weather-sensitive Base Gas therms. However, these are just examples. Overall, WG's Normal Weather Study produces more than a 6.0 million therm reduction in Annual Therm requirements for the District of Columbia despite actual test year HDDs that are below Normal Weather HDDs. This results in WG's understatement of revenue at present rates and WG's **overstatement of its need for additional revenue**.[435]

174. AOBA challenges WGL's methodology for estimation of Normal Weather therms and states that the methodology lacks credibility because "the Company has failed to perform basic checks to assess the reasonableness of gas use estimates that its estimation methods produce."[436] In addition, AOBA asserts that the Company has offered no comparable Normal Weather Study results for prior proceedings or other jurisdictions to ascertain the industry's best

430 AOBA Br. at 5, (emphasis omitted).

431 AOBA Br. at 5.

432 AOBA Br. at 18.

433 AOBA Br. at 19.

434 AOBA Br. at 19.

435 AOBA Br. at 21 (emphasis in AOBA's brief).

436 AOBA Br. at 22.

practices.[437] Therefore, AOBA argues that in the absence of reasonable and credible estimates of Normal Weather therms and Normal Weather revenue, the Commission should reject WGL's revenue increase.[438]

175. **WGL Response.** WGL maintains that its Normalization Adjustment is reasonable and that its Normal Weather Study estimate is 97% accurate.[439] WGL contends that consistent with Commission precedent and policy regarding normalized test year weather conditions, the Company has used a linear regression methodology to establish the volumetric rates on a normalized level of throughput as opposed to actual throughput.[440] The Company states that the Commission has directed that normal weather studies be based on: (a) the use of the most recent 30-years of weather data independently generated by National Oceanographic and Atmospheric Administration ("NOAA") to determine normal weather; (b) all work papers be filed which identify the sources of the data it relies upon, explains any statistical models, and provide clear direction on how the calculations were done; and (c) the Company's best judgment on refinements to aspects of its weather normalization adjustment.[441] WGL avers that Witness Gibson provided clear step by step instructions on the calculations and that Witness Tuoriniemi describes how the adjustment is applied.[442]

176. WGL takes issue with AOBA's challenges to the Company's weather normalization adjustment. More specifically, WGL states that AOBA and the Company are in agreement that the Normal Weather HDDs are computed consistent with Commission directives in Order No. 17132, but disagree with respect to the estimation of weather-sensitive gas usage and non-weather sensitive ("Base Gas") usage.[443] Because weather-sensitive and Base Gas are not directly observable, the Company states that it uses a regression analysis to estimate their usage for the test year.[444] WGL maintains that they performed the same regression calculation as was done in *Formal Case No. 1093*.

177. Contrary to AOBA's claims, WGL asserts that it performed the appropriate adjustment for weather sensitive gas usage for the Normal Weather Study which adjusted weather sensitive gas use upward.[445] The Company points out that its normal weather model shows that the test year was warmer than normal and requires an "upward" adjustment to weather

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437 AOBA Br. at 22-23.

438 AOBA Br. at 26.

439 WGL R. Br. at 90.

440 WGL R. Br. at 90.

441 WGL R. Br. at 91-92.

442 WGL R. Br. at 91-92.

443 WGL Br. at 93-94.

444 WGL Br. at 94.

445 WGL R. Br. at 94.

sensitive gas use to reflect expected gas use under normal weather conditions.[446] Therefore, the Company argues that the Commission should reject AOBA's assertion that no upward adjustment for weather sensitive gas usage was made.[447]

178. WGL asserts, contrary to AOBA's contentions, that "[t]he Normal Weather Study adjusts Base Gas use downward, as required by the data."[448] The Company goes on to address AOBA's criticism of the Company's downward adjustment for Base Gas and states that "Examining the 36 months of usage and actual HDD data collected from the Company's billing system, or even the same data within the test year, when there are zero HDDs or relatively few HDDs (e.g., 1-5), Base Gas usage remains variable."[449] The Company explains that the results of the linear regression calculation based on the input data results in a downward adjustment of the therms related to Base Gas.[450] WGL criticizes the exercise that AOBA used at the evidentiary hearing and in its brief to show differences between class estimates and Base Gas estimates within each class and states that AOBA has a "fundamental misunderstanding of how a weather normalization regression model works, and its ultimate purpose."[451] WGL contends that AOBA's position is a "simplistic math exercise[ ] [which] merely show[s] that variations exist, not that such variations are not produced by the model, or that they should not be produced by the model."[452] In addition, WGL takes issue with AOBA's allegation "that the reductions in estimated Normal Weather therm requirements for three classes . . . are all driven by unexplained, if not totally inexplicable, reductions in estimated non weather sensitive Base Gas therms."[453] Moreover, WGL points out that, contrary to AOBA's claims, nowhere in Schedule 3B of the Normal Weather Study do the estimates of Base Gas exhibit wide variability or produce "unexplained" or "inexplicable" results.[454] WGL states "AOBA either does not understand regression principles, or hopes to add nonexistent confusion to the discussion in an effort to distract the Commission from the fact that the Company's regression analysis is 97% accurate."[455] WGL requests that the Commission reject AOBA's criticism of the Company's estimation of Base Gas use.[456]

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446 WGL R. Br. at 95.

447 WGL R. Br. at 95.

448 WGL R. Br. at 96.

449 WGL R. Br. at 96.

450 WGL R. Br. at 96.

451 WGL R. Br. at 96.

452 WGL R. Br. at 96.

453 WGL R. Br. at 96-97.

454 WGL R. Br. at 97.

455 WGL R. Br. at 97.

456 WGL R. Br. at 97.

179. WGL asserts that it has not changed regression methodologies and request that the Commission reject AOBA's claim that the Company used a different regression methodology in this case opposed to the methodology utilized in *Formal Case No. 1093*.[457] WGL describes the regression methodology and states that in *Formal Case No. 1093*:

> the Company used the weather-sensitive coefficient [from the regression analysis] to calculate weather-sensitive gas use, or volume measured in therms.[458] The Company then subtracted those therms from actual usage during the test year to derive Base Gas use. In this case, the Company calculated weather-sensitive gas use from the slope just as in Formal Case No. 1093. But, instead of calculating Base Gas use as the remainder of actual use less weather sensitive use, the Company derived Bas Gas use directly from the Base Gas factor produced by the regression model. Company Witness Gibson expressly called out this new Base Gas calculation in his pre-filed Direct Testimony. And Company Witness Gibson reiterated at hearing "there is a difference in method"—not methodology—from Formal Case No. 1093 because, "in the prior case, I don't believe we were using the regression's calculation of the intercept as the base factor." Thus, WGL argues that it refined its use of the standard regression model, just as the Commission encouraged in Formal Case No. 1093.[459] The Company did not change methodologies. The Company cleaned the data inputs used in the regression analysis.[460]

180. In response to AOBA's position that the Company's removing of anomalous data affected the results of the normal weather analysis, the Company argues that AOBA did not provide any analysis to show that leaving the anomalous data in the analysis would improve the overall reliability of the regression model's results.[461] The Company states that its regression estimates are 97% accurate. Therefore, WGL contends that the Commission should reject AOBA's "quibble" regarding the elimination of anomalous data from the regression inputs.[462]

181. WGL challenges AOBA's contention that the Company's treatment of the accounts for the AOC and GSA results in an overstatement of sensitivity of gas use to HDDs.[463] The Company disputes AOBA's argument that "because [the] AOC and GSA take delivery of

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[457] WGL R. Br, at 97-98.

[458] WGL R. Br. at 98.

[459] WGL R. Br. at 98.

[460] WGL R. Br. at 98.

[461] WGL R. Br. at 99.

[462] WGL R. Br. at 99.

[463] WGL R. Br. at 99-100.

some gas under firm service, and those therms are billed under what AOBA calls "baseload requirements," weather sensitive gas for AOC and GSA represent a significantly larger percentage of total annual gas than for purely interruptible customers."[464] WGL asserts that AOBA's position is "nonsensical" and that "for the purposes of calculating Normal Weather throughput, it does not matter that part of AOC and GSA load is firm [because both firm and interruptible customers] take delivery through a meter, and the Company measures both classes' usage through that meter."[465] The Company went on to state that the "[ ]interruptible volumes are not priced in the Company's ratemaking revenue adjustment … [so] disaggregating the special contract volumes into a separate class in the Normal Weather Study would have no impact on the Company's ratemaking revenues or revenue deficiency in the case."[466]

182. In addition, the Company contends that the regression analysis did address AOBA's concerns regarding the alleged overstatement of interruptible normal weather therms.[467] The Company cited Witness Gibson's testimony which indicated that all AOC firm volumes were included in the interruptible class and that GSA was included in the Normal Weather study when it was prepared and has since been returned to fully interruptible service as of October 2016.[468] WGL argues that AOBA's analysis of the usage distinctions is fundamentally and fatally flawed and that AOBA statement that for all interruptible service, "no month reflected actual gas usage that was less than 30% of gas use in the month of highest actual gas use" is in error.[469] WGL takes issue with AOBA's assertion that GSA will have no interruptible load in the months of June-September which "significantly reduces" GSA's baseload requirements for firm service. WGL argues that "[w]hat AOBA does not say is that the 30% lower actual gas usage already includes AOC and GSA."[470] WGL asserts that "AOBA is not presenting a correct or accurate comparison of usage characteristics between AOC and GSA, and other interruptible customers."[471]

183. Lastly, WGL states that "AOBA's 'best practices' argument is not only unsupported by record evidence or Commission authority, it is contradicted by Order No. 17132" and should be rejected. In support of its position that it used "best practices," the Company cites Witness Gibson's testimony indicating that in formulating the Company's weather normalization study he reviewed weather normalization analyses of the Company's regional counter parts.[472]

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464 WGL R. Br. at 100.

465 WGL R. Br. at 100.

466 WGL R. Br. at 100.

467 WGL R. Br. at 101.

468 WGL R. Br. at 101.

469 WGL R. Br. at 102.

470 WGL R. Br. at 102.

471 WGL R. Br. at 102.

472 WGL R. Br. at 104.

WGL requests that the Commission deny AOBA's proposal to reject the Company's revenue increase.

DECISION

184. "The purpose of weather normalization is to provide a reasonable projection of sales and revenue for the rate-effective periods so that rates set by test year revenues and costs can be reasonably representative of the future."[473] In *Formal Case No. 1093*, the Commission determined that weather studies conducted for ratemaking purposes should use current data (the most recent 30 years) that is independently generated.[474] The Commission did not prescribe the approach to be used for its weather normalization methodology and indicated that the Company could use its "best judgment" to continue to refine and improve the analyses that goes into determining normal weather.[475]

185. In this instance, WGL used the most recent 30 years of weather data and made a change in the method for calculating Base Gas when compared to the method used in *Formal Case No. 1093*. The Commission has reviewed the method for calculating Base Gas in *Formal Case No. 1093* and observes that in that case, the Company "backed into" how it derived Base Gas using an arithmetic derivation by subtracting normal weather-sensitive therms from actual therms. Whereas, in this case, WGL calculated both the weather-sensitive gas therms and Base Gas therms using a simple regression calculation. The Company's revision to use of a regression calculation for the Base Gas factor instead of the method used in *Formal Case No. 1093* had the effect of altering/refining the process and resets Base Gas to an amount of therms that is not dependent on weather.[476]

186. The question for the Commission is whether the change made by WGL for calculating Base Gas is reasonable. We agree with WGL's position that the methodology is a simple regression which calculates the relationship between usage per bill and actual HDDs. Based on our review of the record, we have determined that WGL's refinement of the calculation for determining Base Gas is consistent with our *Formal Case No. 1093* pronouncement that the Company use its "best judgment" to refine and improve the Company's analyses in determining normal weather. Permitting the use of the regression methodology for the Base Gas factor that is an estimate that best fits the data, has the effect of smoothing out Base Gas since it is no longer treated as a remainder of actual gas use less weather-sensitive gas use. The new methodology should provide a more consistent calculation for estimating Base Gas from rate case to rate case. Accordingly, the Commission finds WGL's weather normalization methodology reasonable and no further refinements are necessary. Additionally, the Commission does not accept AOBA's request to reject the Normal Weather Study.

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473 *See Formal Case No. 1087,* Order No. 16930, ¶ 73.

474 *Formal Case No. 1093*, Order No, 17132, ¶¶ 120-121.

475 *Formal Case No. 1093*, Order No. 17132, ¶ 121.

476 WGL R. Br. at 98.

B. Revenue Normalization Adjustment (Issue 9)[477]

187. **WGL.** WGL seeks approval of a Revenue Normalization Adjustment ("RNA"), "which is a billing adjustment factor computed on a monthly basis that will create a credit or charge to the monthly distribution charges for firm customers."[478] On brief, the Company points to Witness Gibson's testimony which states that "[t]he RNA reflects the difference between the actual monthly revenues received by the Company, by customer class, and the level of revenues the Company is authorized to collect in such month, by customer class, by the Commission order in this proceeding."[479] WGL notes that normalization provisions (*i.e.*, decoupling clauses) have been broadly adopted throughout the United States, including by this Commission for the Pepco.[480]

188. The Company asserts that the proposed RNA is in the public interest because it: (a) promotes energy efficiency; (b) better aligns rates and costs; and (c) provides more stable and predictable bills.[481] Additionally, WGL contends, "the RNA mechanism will mitigate large swings due to weather and maintain the Company's revenue level consistent with the revenue requirement established in the most recent rate case."[482] The Company argues that by "decoupling the direct relationship between customers' gas usage and the Company's revenues, [it] can encourage wiser use of energy" without concern for negative consequences to its financial health.[483] WGL also notes that, by maintaining the Company's revenue level, it would lessen the need to file rate cases.[484]

189. WGL contends that "the Commission should create a level playing field for conservation and energy efficiency, including removing any disincentives for the utilities' participation."[485] WGL requests that the Commission adopt the proposed rate design, similar to that of Pepco's Bill Stabilization Adjustment ("BSA"), which would remove financial disincentives for the Company's participation in energy efficiency efforts.[486] WGL asserts that its proposed RNA will decouple the link between its throughput and its overall revenue.[487] WGL

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477 Issue 9 asks: "Is WGL's proposed revenue normalization adjustment reasonable and appropriate, and what other ratemaking adjustments might be necessary and appropriate if the Company's proposed RNA is approved?"

478 WGL Br. at 56.

479 WGL Br. at 56.

480 WGL Br. at 56.

481 WGL Br. at 56.

482 WGL Br. at 56-57.

483 WGL Br. at 57.

484 WGL Br. at 57.

485 WGL Br. at 57.

486 WGL Br. at 57.

487 WGL Br. at 57-58.

asserts that no party offered any distinguishing feature between the RNA and the BSA or why the RNA differed from Pepco's methodology.[488]

190. On brief, WGL cites to the testimony of its Witness Raab to support the argument that it is guaranteed that the Company will not achieve the level of revenues authorized by the Commission in this case due to several factors that directly affect the Company's ability to earn its authorized return, including: (a) weather; (b) naturally occurring reductions in use; and (c) financially induced conservation.[489] Witness Raab points out that approximately 60% of the usage in the District is weather-sensitive and that extremely warm or cold weather significantly impacts customers' bills and the level of revenues the Company ultimately receives.[490] Witness Raab opined that: (a) the level of normal weather sales that are used to develop rates for WGL are overstated; (b) the HDDs calculation methodology adopted by the Commission in *Formal Case No. 1093* results in overstating the amount of usage based on recent trends in weather; and (c) due to the weather methodology, the Company is likely to face annual revenue shortfalls of approximately $3.7 million.[491]

191. WGL Witness Raab also notes that there are some naturally occurring reductions in the level of natural gas usage from conservation efforts. The Company contends that these conservation efforts have significantly and directly impacted the utility's ability to earn a fair return, such as improved appliance performance, improved home energy efficiency, reduction of number of people per household.[492] Witness Raab "conclude[s] that the reductions in usage trends are likely to continue during the rate effective period."[493]

192. Witness Raab contends that approving the RNA will benefit both the customer and the Company. He contends that there will be more stable bills for the customers because the RNA will effectively "cap" winter bills protecting customers from the vagaries of extreme winter weather. In addition, Witness Raab asserts there would be a positive impact on the Company by reducing arrearages and potentially reducing terminations that are caused by high bills and customer's inability to pay those bills.[494]

193. With respect to the mechanics of the RNA, WGL Witness Wagner stated that the monthly revenues authorized by the Commission would be determined by allocating the annual revenues approved by the Commission based on the normal weather study filed by the Company. WGL states, "the first step in calculating the RNA factors for each class is to adjust the

488 WGL Br. at 58.

489 WGL Br. at 59.

490 WGL Br. at 59-60.

491 WGL Br. at 60.

492 WGL Br. at 61.

493 WGL Br. at 62.

494 WGL Br. at 62.

authorized revenues to reflect the customer growth adjustment for each class."[495] WGL asserts that "the change in the number of customers is then used to determine the change in revenues from Customer Charges and Distribution Charges for the residential customer classes."[496] For the non-residential customer classes, this factor also includes Peak Usage Charge impacts.[497] Step two is to "calculate the required revenue adjustment for each customer class."[498] The third step is to calculate the actual calendar month base revenue, by customer class.[499] Lastly, the actual calendar month base revenue, by customer class, is subtracted from the monthly target base revenue to determine the required revenue adjustment. A resulting positive amount provides a credit (*i.e*., reduction) to the distribution charge and a negative amounts results in a charge (*i.e*., increase) in the distribution charge.[500] Any excess, or shortfall, "is divided by the budgeted therms for the each customer class for the billing month to determine the actual per therm credit or charge, which is used to adjust the distribution charges."[501]

194. Lastly, WGL argues that if the proposed RNA is approved there should be no separate adjustment to the Company's ROE because "the allowed return should be commensurate with the returns expected elsewhere in the market for investments of equivalent risk."[502] WGL contends that Witness Hevert demonstrated that "all of the companies in his comparable group of utilities have a decoupling mechanism of one form or another."[503] Witness Hevert opines that:

> Because revenue stabilization and cost recovery mechanisms are common among the proxy companies, there is no reason to assume that [WGL] would be materially less risky than its peers, and that its Cost of Equity would be lower than its peers' as a result of the proposed decoupling mechanism. In fact, if the mechanisms are not approved by the Commission, the Company may be seen as more risky than the peer group.[504]

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495 WGL Br. at 65.

496 WGL Br. at 64.

497 WGL Br. at 64.

498 WGL Br. at 64.

499 WGL Br. at 64.

500 WGL Br. at 64-65.

501 WGL Br. at 65.

502 WGL Br. at 65.

503 WGL Br. at 65.

504 WGL Br. at 65.

195. **OPC.** OPC argues that the RNA should be rejected because it is neither reasonable nor appropriate.[505] More specifically, OPC contends that: (a) the Company has not demonstrated that the RNA provides benefits to customers; (b) the RNA stabilizes WGL's revenues but would add volatility to customers' monthly bills and be a disincentive; (c) WGL failed to demonstrate it needs an RNA; and (d) the Company's forecast does not show declining consumption.[506] Moreover, OPC believes that the Company has presented a faulty argument in claiming that it faced the risk of incurring financial "penalty" as a result of volumetric-based rate design since the Company presented "no analyses of any kind showing that it has failed in the past few years to recover its approved revenue requirement or earn its authorized rate of return."[507] OPC noted that WGL had not pursued rate relief outside of a Commission directive (*Formal Case No. 1093*) or as a condition of a settlement agreement (*Formal Case No. 1054*).[508] Moreover, OPC argues that the last rate case, *Formal Case No. 1093*, did not include a proposed decoupling mechanism.[509]

196. OPC asserts that Witness Wagner acknowledged that the proposed RNA would not provide clear conservation incentives to individual customers and that "whether a consumer sees a surcharge or a credit is not a function of its individual activities, but rather is dependent on whether a class of customers 'bec[omes] more [or less] efficient as a class.'"[510] OPC argues that an RNA is a disincentive to an individual customer who is energy efficient because they would still be subject to a surcharge on the distribution portion of their monthly bill because the customer class as a whole used fewer therms than forecasted.[511] OPC also challenges WGL's assertion that "customers do not care what the rates are, [but] it's the bill that matter[s]."[512] OPC argues that an RNA would result in bill instability for customers and that customers rates could significantly fluctuate up and down on a monthly basis depending on overall Company revenues.[513] OPC also challenges WGL's assertion that customers "prefer" RNA-style pricing and states that the customer representatives in this matter are united in their opposition to the RNA proposal and request rejection of the same.[514]

197. In furtherance of its contention that WGL did not supply needed evidence, OPC points to Witness Raab's failure to provide recent per-customer consumption data to support his

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505 OPC Br. at 110.

506 OPC Br. at 110.

507 OPC Br. at 112.

508 OPC Br. at 110 and 112.

509 OPC Br. at 110.

510 OPC Br. at 117.

511 OPC Br. at 117-118.

512 OPC Br. at 118.

513 OPC Br. at 119.

514 OPC Br. at 120.

testimony "that the growth in demand was consistent with adding customers, even as per-customer consumption was dropping."[515] OPC notes that the data that was provided was more than 10 years old.[516]

198. Additionally, OPC asserts that Witness Raab's testimony acknowledges that conservation programs are with the District's Sustainable Energy Utility ("SEU") but suggests that WGL's provision of 'effective assistance' to the SEU may be at risk without an RNA. Nonetheless, OPC states that Witness Raab "admitted that the Company has provided such assistance to the SEU throughout its existence, the absence of an approved RNA notwithstanding."[517]

199. OPC contends that there would be no need for an RNA if the Company's rate design problem was fully addressed.[518] OPC Witness Smith opines that if "WGL shifting of costs into the customer charge is approved and customer charges are increased in the current case, that would address, at least in part, WGL's concern about revenue stability without an RNA."[519]

200. In addition, if the RNA is approved, OPC requests that "its implementation be conditioned on a reduction in the Company's [ROE]" by at least 50 basis points. In support of the reduction in the ROE, OPC argues that the Company is to be provided with an opportunity -- not a guarantee -- to earn the Commission approved rate of return. Thus, the RNA shifts the risk to ratepayers and should result in lowering of the ROE.[520]

201. **AOBA.** AOBA argues that the RNA should be rejected because: (a) there are substantial flaws in its design; (b) the Company has operated for decades without one; and (c) the Company has remained financially stable throughout.[521] AOBA challenges WGL's contention that the RNA realigns the collection of revenues to the incurrence of costs and removes disincentives for promotion of conservation. More specifically, AOBA states that the RNA "simply provides WG[L] a further opportunity to collect fixed distribution costs through volumetric charge adjustments" in an effort to ensure the Company's revenue recovery.[522] In addition, contrary to WGL's claim regarding disincentives, AOBA argues that the claim is irrelevant since promotion of energy efficiency is the responsibility of the SEU.[523] AOBA also

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515 OPC Br. at 114.

516 OPC Br. at 114.

517 OPC Br. at 116-117.

518 OPC Br. at 121.

519 OPC Br. at 121.

520 OPC Br. at 121-122.

521 AOBA Br. at 61.

522 AOBA Br. at 61.

523 AOBA Br. at 61.

points out that approval of an RNA would potentially negate the Company's need to purchase weather-related instruments to protect shareholders interests.[524]

202. AOBA raises several implementation issues. One such issue is that the RNA mechanism proposed by WGL makes no distinction between heating and non-heating customers thereby: (a) inappropriately shifting cost recovery and risk between customers in the heating and non-heating subclasses significantly undermining cost-based ratemaking principles; (b) introducing added weather sensitivity to the bills of non-heating customers; and (c) destabilizing bills for non-heating customers within each rate class.[525] Another implementation issue AOBA raises is that the proposed RNA mechanism includes no limits on monthly rate adjustments.[526] AOBA recommends, if the RNA is implemented, that a fixed percentage cap be instituted "to serve as a mechanism to protect customers from large monthly rate fluctuations."[527] AOBA asserts that WGL's efforts to continuously shift costs to fixed charges provides the Company with greater assurance of revenue recovery further negating the need for the RNA.[528]

203. AOBA also contends that the Company's Peak Usage Charge adjustment is inappropriate because the data and calculations the Company proposes to use for customer growth does not reflect, and is inconsistent with, Rate Schedules 2 and 2A and proposed Rate Schedules 2, 2A, 2B, and 2C, for non-Residential firm service customers.[529] AOBA maintains that the proposed adjustment methodology "misrepresents the relationship between customer growth, peak usage, and authorized revenues."[530] Absent a showing of a direct correlation between these factors, "the customer growth adjustment that WGL proposes to apply to Peak Usage as part of its RNA must be rejected."[531]

204. In addition, AOBA asserts that the RNA, if approved, should be shown on customers' bills so that consumers can be well-informed of their bill components. AOBA argues that not showing the RNA on the bill "runs counter to basis ratemaking principles and is inconsistent with [the District's] efforts to improve the efficiency and sustainability of energy use."[532]

205. The last issue AOBA raises is that the RNA provides no direct benefit to District customers and is therefore inconsistent with the Commission's position/signal regarding

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524 AOBA Br. at 62.

525 AOBA Br. at 62-63.

526 AOBA Br. at 64.

527 AOBA Br. at 65.

528 AOBA Br. at 65.

529 AOBA Br. at 66.

530 AOBA Br. at 66.

531 AOBA Br. at 66.

532 AOBA Br. at 67.

approval of decoupling mechanisms. In support of this assertion, AOBA states that the Commission indicated in Order No. 15738 that, "a decoupling mechanism which reduces the Company's risk may not be just and reasonable if there is no corollary benefit to the ratepayers by reducing the [ROE] at the time of implementation."[533] AOBA notes that in the same Order the Commission also indicated that WGL was free to propose a decoupling mechanism without corresponding adjustments but that the Commission would not be compelled to approve the mechanism.[534] Here, AOBA asserts, WGL submitted the RNA without a corresponding adjustment to either the ROE or any other element of its cost of service or revenue increase request.[535] Therefore, AOBA argues that WGL's requested RNA should be denied for failing to provide a corresponding benefit (*i.e.*, a substantial utility concession) to District ratepayers.[536]

206. **DCG.** DCG does not directly oppose an RNA. Rather, DCG asserts that "the RNA introduces an element of volatility and complexity to customers' bills that will be particularly harmful to RES customers."[537] DCG argues that there are potential hazards for RES customers if an RNA is approved and noted that WGL Witness Wagner stated that "if the residential customer class on average uses less than the normal weather amount, then that high usage RES customer will actually be assessed a surcharge on each therm used."[538] In addition to the surcharge added to the bills, DCG believes that the RNA will add complexity and lack of transparency to RES customers' bills at a time when the Commission is moving to simplify the RES rate structure.[539] DCG states that if the Commission decides to adopt the RNA, it should exclude RES customers from application of the RNA.[540]

207. In response to WGL's contention that the BSA and the RNA are similar, DCG states that a major distinguishing feature between the BSA and the RNA is that the BSA does not apply to low-income customers whereas the RNA does.[541] DCG goes on to note that, contrary to WGL's position, the RNA will not act to cap the bills of the RES customers because the RNA uses the average usage level of an entire customer class as opposed to an individual customer's usage so that any effort to conserve by an individual may not be recognized.[542] DCG contends

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533 AOBA Br. at 67-68, citing *Formal Case No. 1079*, Order No. 15738, ¶ 8.

534 AOBA Br. at 68.

535 AOBA Br. at 68, referencing *Formal Case No. 1079*, Order No. 15738, ¶ 8.

536 AOBA Br. at 68-70.

537 DCG Br. at 2.

538 DCG Br. at 5.

539 DCG Br. at 8-9.

540 DCG Br. at 2.

541 DCG R. Br. at 2.

542 DCG R. Br. at 2.

that WGL's cap argument is undercut by the two-month billing lag because it shows a lack of predictability and could harm RES customers who need to stay within their energy budget.[543]

208. **GSA.** GSA argues that the RNA should be rejected by the Commission because: (a) WGL has not met its burden of proof that implementing the RNA is just and reasonable; (b) WGL failed to support adoption of the RNA with substantial evidence but, instead, does so with comparisons to adjustment mechanisms in other jurisdictions without proving meaningful analysis of how the data from other jurisdictions is relevant to the District; and (c) WGL's position "that what is good in other jurisdictions must be good for District Ratepayers" is speculative.[544] Moreover, GSA avers that WGL neither presented any evidence on what the impact of the proposed RNA would be on the Company's ability to earn its authorized rate of return nor provided any meaningful analysis of the RNA's billing impact on District ratepayers over an extended time period.

209. In support of its arguments, GSA states that WGL has not met its burden of proof because the Company failed to develop the record sufficiently to support the proposed RNA. GSA points to the testimony of WGL Witnesses Raab and Wagner (direct and rebuttal) noting that neither witnesses' expert opinion provides the Commission with "the requisite facts to *infer* that the proposed RNA is fair, just, and reasonable."[545] GSA notes that Witness Raab's testimony purports to: (a) identify the RNA as a billing mechanism to remedy the mismatch between WGL's fixed costs and the utility's volumetric rate structure; (b) provide justification for the RNA on the basis that it addresses sound rate structure; (c) show that 38 out of 51 regulatory jurisdictions have adopted some form of non-volumetric rate designs; (d) show that 22 states have adopted revenue decoupling mechanisms potentially climbing to 50% of the jurisdictions during the pendency of this case; (e) identify the rate stabilization tariffs and indicate that 9 states have implemented some form of rate stabilization tariff; and (g) suggest that consumers benefit with more stable and predictable bills.[546] However, GSA argues that Witness Raab did not provide any specific analysis comparing the 38 non-volumetric rate designs or the 22 revenue decoupling mechanisms to the Company's RNA.[547] GSA also asserts that WGL did not elaborate on or compare the other jurisdictions tariffs with the proposed RNA.[548] GSA argues that Witness Raab simply noted the similarities between other tariffs and the proposed RNA but failed to provide meaningful analysis or explanation. As a result, GSA argues that Witness Raab's testimony is insufficient evidence to support a conclusion that the RNA is fair, just, and reasonable.[549]

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543 DCG R. Br. at 3.

544 GSA Br. at 4.

545 GSA Br. at 7.

546 GSA Br. at 7-9.

547 GSA Br. at 8-9.

548 GSA Br. at 9.

549 GSA Br. at 10-11.

210. GSA also questions WGL's position that the RNA provides customer benefits because "Witness Raab does not opine whether the proposed RNA, in fact, provides consumers with more stable predictable bills or whether the proposed RNA will, in fact, provide benefits to low income consumers."[550] GSA maintains that what Witness Raab offers at best is speculative and notes that his testimony that capped rates should "reduce arrearages and eventually lead to lower rates for all consumers on the system" does not deal with the probability or likelihood that the RNA will provide consumer benefits.[551] GSA argues that this testimony "does not provide the Commission with the ability to ascertain the probability that said benefit will actually occur and in turn, whether the RNA is likely or not likely to achieve this benefit."[552]

211. GSA further notes that Witness Wagner's testimony deals with explaining the mechanics of the RNA and how the adjustments will be charged and applied, but does not directly address whether the proposed RNA is fair, just, and reasonable.[553] GSA notes that Witness Wagner's rebuttal stated that: (a) it is a mathematical certainty that if the Commission approves the Company's revenue request it would materially improve the Company's likelihood of earning its allowed rate of return; and (b) there would be no bill impact to the customers that the Commission had not already approved when setting the revenue levels in this case.[554] GSA challenges these statements asserting that WGL has presented no empirical evidence to support its position and has provided no analysis on the potential billing impact to customers.[555]

212. Lastly, GSA requests that if the RNA is approved, the Commission only adopt it on a three-year trial basis or that it be reviewed in WGL's next base rate case, whichever is sooner.[556] In support of this position, GSA Witness Goins opines that allowing the RNA on a limited basis would provide the Commission with an opportunity to investigate whether any changes are necessary to the ratemaking mechanism to ensure the RNA is effective and in the public interest.[557]

213. **WGL Response.** In general, WGL replies to the parties' briefs by stating that: (a) the opposition to the RNA does not point to any fundamental harm or reason why the mechanism for calculating the RNA is not in the public interest; and (b) in light of the SEU's function, no party has presented any distinguishing feature as to why a decoupling mechanism is appropriate for Pepco but not for WGL.[558]

550 GSA Br. at 9.

551 GSA Br. at 9.

552 GSA Br. at 9.

553 GSA Br. at 9

554 GSA Br. at 10.

555 GSA Br. at 11.

556 GSA Br. at 12-13.

557 GSA Br. at 13.

558 WGL R. Br. at 104.

214. The Company notes that AOBA's positions that the RNA suffers from a design flaw and that customers do not directly benefit from the RNA are incorrect. Moreover, the Company contends that it "has agreed to the use of a 'cap' on the level of charge in any particular month as well as additional disclosure in its tariffs of the applicability of the RNA to various tariff classes."[559] WGL argues that "the RNA mechanism will benefit both customers and the Company from the vagaries of extreme weather."[560]

215. WGL challenges GSA's arguments that: (a) an empirical study/analysis is necessary; and (b) there is a need for analysis of the potential bill impact on ratepayers.[561] WGL asserts that GSA's view of the record is inaccurate, noting that GSA's own Witness Goins "acknowledged 'significant variability' of earnings from year-to-year which the RNA is designed to address."[562] The Company notes that Witness Goins recognized the ten-year history of the RNA in Maryland which showed "significant variability" with customer credits generated as high as $17 million and customer charges as high as $21 million.[563] WGL argues that "significant variability" impacts both WGL's earnings and customers' bills and that "[t]he RNA [as] designed assure[s] that customers pay – and the Company receives – the approved level of revenues authorized by the Commission."[564] The Company notes its problem–free, ten-year RNA experience in Maryland and Virginia and opines that an empirical study or analysis is not necessary since the Company provided GSA with "real world" data.[565] WGL reiterates that approving the RNA will assure that the Company receives the authorized amount of revenue per customer, regardless of extreme weather, and that no more and no less than that amount will be collected on a customer class basis.[566]

216. The Company requests that the Commission reject GSA's recommendation that if the RNA is approved, it should only be on a three-year "experimental basis," arguing that Commission adopted rate designs or rate structures are not "indefinite" and that changes to previously-approved rate structures are made if a party demonstrates a need for change.[567] In addition, WGL avers that since at least 40 different jurisdictions have adopted similar decoupling mechanisms, the proposed RNA should not be considered experimental.[568]

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559 WGL R. Br. at 105.

560 WGL R. Br. at 105.

561 WGL R. Br. at 106.

562 WGL R. Br. at 106.

563 WGL R. Br. at 106.

564 WGL R. Br. at 106-107.

565 WGL R.Br. at 107.

566 WGL R. Br. at 107-108.

567 WGL R. Br. at 109.

568 WGL R. Br. at 109.

217. WGL rejects DCG's argument that RES customers should be exempt from the proposed RNA because it: (a) introduces "volatility and complexity" to RES customers' bills; and (b) is unfair to subject RES customers to an RNA when low-income Pepco customers have a exemption from similar decoupling mechanism in the BSA.[569] The Company contends that the facts support that: (a) low-income customers would benefit from an RNA; (b) the monthly distribution rate charges would be seamless like other bill adjustments; (c) the ten-year history of nearly identical RNA in Maryland with no customer complaints validates a lack of customer problems; (d) the RNA has led to reductions in arrearages and terminations; (e) "RES customers 'normally exceed the normal weather usage amount for the residential class as a whole;'" (f) low-income customers have a greater need for the protections offered by the RNA because their usage is more weather sensitive than the average customer; and (g) regardless of the two-month billing lag, the customer will receive the credit.[570]

218. The Company acknowledges that the RAD customers may be exempt from the distribution charge adjustment of the BSA.[571] Nonetheless, WGL believes that the evidence clearly shows that low income gas customers would benefit from the RNA and should not be exempted.[572] WGL asserts, as detailed in testimonies of Witnesses Raab and Wagner, that low-income residential customers can benefit (lower arrearages and protection from extremely cold weather) from an effective cap on their winter bills.[573]

219. In response to OPC's brief, WGL rejects OPC's contention that the Company failed to justify the RNA's approval, arguing that "[t]he record evidence overwhelmingly supports the adoption of the RNA."[574] The Company disputes OPC's assertion that it provided no analysis showing that WGL in the last few years has failed to recover its approved revenue requirement or earn its authorized rate of return.[575] In support of its position, and contrary to OPC's assertions, WGL points to two instances of revenue deficiency in the past few years: (a) the over $8.3 million revenue deficiency that the Commission found in *Formal Case No. 1093*; and (b) the substantial evidence WGL has submitted in this case, on the basis of a September 2015 test year, which WGL believes justifies the requested rate increase in excess of $17 million.[576]

220. WGL also takes issue with OPC's challenge that the "average usage per customer has dropped over the last few decades due to improvements in appliance efficiency, home

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569 WGL R. Br. at 109.

570 WGL R. Br. at 109-111.

571 WGL R. Br. at 111.

572 WGL R. Br. at 111.

573 WGL R. Br. at 111.

574 WGL R. Br. at 112.

575 WGL R. Br. at 112.

576 WGL R. Br. at 112, citing *Formal Case No. 1093,* Order No. 17132.

insulation and other efficiency measures[,] claiming that the information is too old."[577] In addition, WGL states that the SEU's large operating budget assures that further advances in energy efficiency for natural gas heated homes will continue.[578]

221. With respect to OPC's concerns regarding bill stability and the two month billing lag, WGL contends that Witness Raab testified that the lag is necessary since the rate is subject to Commission review.[579] WGL also takes issue with OPC's suggestion that instead of an RNA, volumetrically based rates can be addressed through increases in the customer charge. The Company concedes that OPC is technically correct that increases in the customer charge could provide some relief; however, WGL asserts that this would still leave over 70% of its revenue requirement to be collected through volumetric rates.[580]

222. WGL continues to challenge OPC's and AOBA's arguments that the Company's ROE should be reduced by up to 50 basis points if the RNA is approved.[581] The Company argues that both OPC and AOBA witnesses inappropriately rely on the 2009 Pepco rate case to support their proposed reductions in the ROE.[582] The Company notes that both witnesses acknowledge that in 2014, in *Formal Case No. 1103*, the Commission reduced Pepco's ROE adjustment to 10 basis points, reflecting reduced risk.[583] WGL avers that the record in this proceeding does not warrant an adjustment to the Company's ROE, pointing to the testimony of WGL Witnesses Hevert and Raab's for support; Witness Hevert identified the decoupling mechanisms of each peer group and Witness Raab provided an industry review of decoupling and attested to the accuracy of the proposed tariffs.[584]

223. **OPC Response**. OPC maintains that the Company cannot claim that the RNA mechanism is needed to ensure the Company's well-being given the absence of a WGL-initiated rate case filing, absent a Commission Order or Settlement Agreement. In addition, OPC notes that WGL is forecasting annual demand increases so the record provides no basis for concern that impending consumption declines will penalize the Company.[585] Lastly, OPC notes that the RNA in Maryland produced significant monthly bill swings between credits and surcharges that were not associated with an individual customer's consumption decisions.[586]

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[577] WGL R. Br. at 113.

[578] WGL R. Br. at 113.

[579] WGL R. Br. at 113.

[580] WGL R. Br. at 113.

[581] WGL R. Br. at 113-114.

[582] WGL R. Br. at 115.

[583] WGL R. Br. at 115.

[584] WGL R. Br. at 114.

[585] OPC R. Br. at 24-25.

[586] OPC R. Br. at 25.

DECISION

224. The Revenue Normalization Adjustment, WGL's proposed revenue decoupling adjustment, is designed to decouple WGL's revenues from the variation in gas sales, allowing the Company to adjust its base (delivery) rates to reflect actual changes in the revenue it collects on a per customer basis from adjusted test-year levels approved in a WGL base rate proceeding. Decoupling mechanisms are generally offered "as a means to accomplish public policy goals of promoting energy efficiency and making a utility indifferent with respect to the reduction of energy consumption."[587] Essentially, decoupling mechanisms insulate a utility's revenue from factors such as changes in sales volume, extreme weather, and economic activity.[588] The Commission, consistent with the intervening parties' positions, rejects WGL's proposed RNA for the reasons set forth below.

225. We are not persuaded, as WGL contends, that adoption of the RNA promotes energy efficiency, better aligns rates and costs, and provides more stable and predictable bills. As Witness Rabb testified, the significant reductions in the level of natural gas usage from conservation efforts is naturally occurring and is not result of any efforts by the Company to promote energy efficiency. We concur with OPC that there is no need to remove WGL's "disincentive" since the Company does not administer energy efficiency programs in the District – the Sustainable Energy Utility does.[589] Initially, to find the RNA just and reasonable, the Commission would need to review recent District-specific data about trends in average usage and related effects on the Company's financials. The Company did not proffer any testimony or data on recent District-specific trends in average usage per customer. Consequently, WGL has not provided the Commission with sufficient recent evidence on the record to determine if the Company's claim of falling average customer usage is accurate and warrants an RNA mechanism to counter the resulting declining sales.

226. Secondarily, there is no evidence that the RNA "better aligns its rate structure with its cost structure" because WGL offered no proof of financial pressures that it is incurring due to a lack of an RNA mechanism. Other than the assertion that the RNA would assist the Company in meeting its approved revenue the Company failed to present any financial analysis explaining how the proposed RNA would impact the long-term financial health of the Company.[590]

227. Finally, the Company acknowledged that the month-to-month variations in the RNA also add month-to-months variations to customer bills thus undermining the Company's contention of more stable and predictable bills.[591] Additionally, an RNA does not signal the

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587 *Formal Case No. 1079*, Order No. 16101, ¶ 30.

588 *Formal Case No. 1079*, Order No. 16101, ¶ 30.

589 OPC (C) at 76 (Smith).

590 WGL did not seek an RNA the last rate case *Formal Case No. 1093* because of an intention to simplify the presentation of that base rate application. Tr. at 1087:8-22.

591 Tr. at 1628:15-21.

individual ratepayer that reduced consumption means a lower bill because the RNA surcharge is based on the usage behavior of the entire class, not the individual customer. Consequently, a customer who has conserved energy may not get the benefit of being energy efficient.

228. Lastly, during the evidentiary hearing, the Commission raised some concerns regarding the Company's monthly billing and monthly number of customers billed.[592] Namely, that the Company's monthly customer counts for two months during the test year were erroneous by WGL's own admission.[593] Specifically, due to billing errors that occurred in February 2015, the monthly numbers were lower than normal, and the correction in April 2015 produced higher numbers than normal.[594] In response to these concerns, WGL Witness Wagner stated that "the two errors would offset each other, with the result that the total for the year was correct."[595] WGL's response fails to convince the Commission that approval of the RNA would be based on accurate and verifiable monthly billing information and be fairly implemented.

229. In the past, the Commission has found that "a decoupling mechanism which reduces the Company's risk may not be just and reasonable if there is no corollary benefit to the ratepayers by reducing the [ROE] at the time of implementation."[596] In this instance, the Commission's decision to reject WGL's RNA renders this question as well as the issue of whether the RES customers should pay the RNA moot. Finally, WGL asserts that the RNA should be approved, in part, because the Commission previously approved the BSA, Pepco's decoupling mechanism. However, WGL has presented no recent data showing that Pepco and WGL face similar trends in average customer usage. Therefore, for the reasons stated above, the Commission rejects WGL's proposed RNA.

IX. TEST YEAR EXPENSES (ISSUE 10)[597]

230. Test year expenses include what a company spends: to operate and maintain its distribution system; to pay employee wages, benefits and incentive compensation; to purchase materials and supplies; to pay interest on the company's debt; to pay federal, state and local taxes; and to pay the costs of other direct business expenses adjusted for known and measurable changes to make it reflective of the rate-effective period. WGL presents per book test-year expenses of $234,977,866, which were reduced to remove non-distribution expenses of $95,197,894, resulting in distribution-related expenses of $139,779,972. The Company proposes

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592 Tr. at 1528-1541.

593 *See* Tr. 1755-1756, and Commission Exhibit Nos. 15, 16, 17.

594 Tr. at 1755:14.

595 Tr. at 1754-1757.

596 *Formal Case No. 1079*, Order No. 15738, ¶ 8.

597 Issue 10 asks: "Are WGL's test-year expenses and any related proposed adjustments reasonable, including, but not limited to, pension and OPEB, executive compensation, and uncollectibles?"

to increase its expenses by $4,450,304 through various adjustments resulting in ratemaking expenses of $144,230,276.[598]

A. Uncontested Adjustments

231. In addition to the ratemaking adjustments to remove non-distribution items discussed in Section VIII, Test Year Revenue, the following expense adjustments are either unopposed or are agreed to by the parties: WGL RMA 2, Uncollectible Gas Accounts; WGL RMA 3, Sustainable Energy Trust Fund; WGL RMA 4, Energy Assistance Trust Fund; WGL RMA 5, D.C. Delivery Tax; WGL RMA 6, D.C. Rights-of-Way Fees; WGL RMA 7, Other Income Taxes; WGL RMA 8, Federal Income Taxes; WGL RMA 11, Other Post-Employment Benefits ("OPEB") Costs; WGL RMA 12, Pension Expense; WGL RMA 13, 401K Expense; WGL RMA 16, OPEB and Pension Carrying Cost; WGL RMA 17, Medical Plan Inflation; WGL RMA 18, Executive Fringe Benefits; WGL RMA 19, Trade Dues; WGL RMA 20, AGA (American Gas Association) Dues; WGL RMA 21, General Advertising; WGL RMA 22, Community Affairs; WGL RMA 27, Tax Depreciation; WGL RMA 29, Environmental Costs; WGL RMA 32, Regulatory Commission Expense; WGL RMA 33, Insurance Expense; WGL RMA 34, Interest on Customer Deposit; WGL RMA 35, Revolver and Lines of Credit Fees; and WGL RMA 37, Audit Fees.

DECISION

232. The Commission has reviewed the adjustments and independently finds them to be just and reasonable. Therefore, we approve the above adjustments for this proceeding subject to our determination of the final revenue requirement.

B. Abandoned Peaking Plant

233. **WGL.** WGL proposes, in RMA 31, to amortize, over ten years, the District of Columbia's balance of the Chillum peaking liquefied natural gas plant, which was proposed by the Company but was never built. The District's share of the plant development costs is $1,504,114, which includes costs associated with design and engineering, demolition and site preparation, project management support, travel, miscellaneous, and legal.[599] According to WGL, the facility was designed to serve the needs of WGL's customers, and the costs incurred for the project were reasonable and prudent. WGL states that "[a]bandoning this facility was an extraordinary event, in that abandonment of utility facilities under construction is rare."[600]

234. WGL claims that in *Formal Case No. 1093*, the Commission authorized WGL to keep the costs for the plant in rate base because the plant was designated for future use by customers. However, a post hoc change in zoning and a subsequent court ruling denying WGL the ability to construct the plant forced WGL to abandon the project.[601] WGL also highlights the

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598 WGL (D)-1, page 1 of 4 REVISED May 31, 2016.

599 WGL (D) at 64- 65 (Tuoriniemi).

600 WGL R. Br. at 23.

601 WGL R. Br. at 23-24.

fact that in *Formal Case No. 785*, the Commission approved a ten-year amortization of the costs associated with a Pepco abandoned facility and in *Formal Case No. 840*, the Commission accepted the amortization of the costs associated with the retirement of WGL's East station.[602]

235. **OPC.** OPC opposes the adjustment, contending that the plant was never built, has played no role in serving customers, and has not resulted in anything "used and useful" for the District ratepayers.[603] Further, OPC states that WGL abandoned the plant nearly seven years after the Prince George's County Council denied in 2006 the Company's appeal of a decision of the zoning hearing examiner.[604] OPC asserts that since the plant was abandoned, the Company has looked to alternative arrangements to meet the needs that would have been served by the plant, and District customers are paying their share of the costs of these alternative arrangements.[605] OPC argues that the Company admits that, to include the plant costs in the Company's rate base, the abandoned plant must be used and useful in providing utility service.[606] However, non-existent facilities are not used or useful, OPC states,[607] adding that the Company expended substantial costs and efforts on the project, even after the project encountered zoning hurdles and unfavorable court reviews of the adverse zoning decision.[608] OPC points out that the Company was considering abandoning the project as early as mid-2006 but decided to spend about $2.5 million to continue to fight for the project, despite its initial consideration to abandon it in 2006.[609]

236. Finally, OPC acknowledges that in the past, this Commission and the Maryland Commission have allowed utilities to recover costs for abandoned facilities. Nevertheless, OPC urges the Commission to, at a minimum, disallow at least a portion of the costs and significantly lengthen the amortization period. OPC proposes a 45-year amortization period, instead of a ten-year period, in the event the costs associated with the plant are approved.[610] The 45-year period matches the plant's depreciable average service life.

237. **WGL Response.** WGL states that OPC has failed to supports its claim that these costs should be disallowed.[611] WGL asserts again that the costs are reasonable and prudent and

602 WGL R. Br. at 24, citing *Formal Case No. 785*, Order No. 7716 at 62; and *Formal Case No. 840*, Order No. 8569 at 31-33.

603 OPC Br. at 43-44.

604 OPC Br. at 43.

605 OPC Br. at 44.

606 OPC Br. at 45, citing WGL (3D) at 26 (Tuoriniemi).

607 OPC Br. at 45.

608 OPC Br. at 46-47.

609 OPC Br. at 47.

610 OPC Br. at 46-47.

611 WGL's R. Br. at 24-25.

therefore should be accepted. WGL also disagrees with OPC's proposed 45-year amortization period, stating that OPC did not provide support for its recommendation.[612]

DECISION

238. As recognized by the parties, "expenditure for an item may be included in a public utility's rate base only when the item is 'used and useful' in providing service; that is, current rate payers should bear only legitimate costs of providing service to them."[613] WGL argues that the costs were reasonable and prudent because the plant's anticipated purpose was to provide low-cost serve to customers during periods of peak use. The Commission agrees that, as part of providing services to its customers, WGL had to plan for future peak use and therefore began to pursue the construction of the Chillum facility. The plant was intended to be "used and useful" to customers for an extended period of time after it was constructed and was expected to provide low-cost services during times of peak use.

239. OPC points out that the project could have been suspended as early as 2006 based on the zoning board's adverse decision and the subsequent Prince George's Council's decision upholding the board's initial conclusion.[614] Based on this assumption, OPC argues that the costs were not prudent and the Commission should disallow at least a portion of the costs. As stated by WGL, previously, the Commission has held that to "disallow amortization of the project loss would be to apply a standard—not of reasonable prudence, but—of absolute stockholder liability for plant cancellations. We decline to accept this standard."[615] Therefore, we reject OPC's recommendation to deny the costs in their entirety and now consider whether a portion of these costs of should be excluded as imprudent under the specific circumstances.

240. Following the adverse zonal decision in 2006, the Company continued working on the project and pursued expensive legal remedies in an effort to overcome the zoning hurdles. The Commission examined the timeline of the events associated with the project and noted that although the Company continued to pursue the project after its zoning permit was denied several times, the Company's decision not to abandon the project was prudent and based on the available information at the time. The record evidence shows that this project would have provided a benefit to District ratepayers had the Company succeeded in obtaining the necessary zoning permit and in constructing the plant. The Company has provided information demonstrating that because of the schedule set to deliver the project, it was necessary to continue investing in the project while the regulatory reviews were pending to cover design, engineering work, and legal expenses.[616] Thus, we find that the Company should recover the entire District portion of the abandoned peaking plant through amortization.

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612 WGL R. Br. at 25.

613 *Washington Gas Light Co. v. Baker*, 88 U.S. App, D.C. 115, 188 F. 2d 11 (1950), cert, denied, 340 U.S. 952,71 S .Ct, 571, 95 L. Ed, 686 (1951).

614 OPC Br. at 43-47.

615 *Formal Case No. 785*, Order No. 7716 at 62.

616 WGL (P) at 6-7 (Murphy); see also, WGL (P)-1 Page 1 of 1.

241. However, consistent with our decision in *Formal Case No. 567*,[617] we find that the Company should not be allowed to earn a return on the project expenses because this would improperly shift the risk associated with utility construction projects from shareholders to ratepayers. In that case, by Order No. 5522, the Commission clearly stated that "asking the ratepayer to provide a return on the unrecovered costs ignores the compensation for risk-taking inherent in the [rate of] return . . . especially since the project never resulted in property used and useful to the rate paying public."[618] Therefore, we deny the Company's request to include the unamortized portion of WGL RMA 31 in the rate base. Our decision is consistent with the Maryland Public Service Commission's and the Virginia State Corporation Commission's decisions related to the Chillum facility, which reached the same conclusion on this specific issue.[619]

242. Finally, the Commission turns to the question of how long the amortization period should be in this instance. WGL proposes a ten-year period based on the ten-year period approved in *Formal Case No. 785* and by Order No. 86013 of the Maryland Commission. At the same time, OPC argues for a 45-year amortization based on the average service life of the plant. The Commission finds that because the plant is not in service, the proposed 45-year period is unreasonable and could potentially create an administrative burden on the Company by requiring it to track a small amount of annual amortization over several decades. The Commission further finds that the ten-year amortization period is not supported by the record although prior precedent approving a ten-year period exists. In *Formal Case No. 785*, which is cited by WGL, the ten-year period was considered appropriate given the particular facts and circumstances. Unlike the instant case, the plant in *Formal Case No. 785* was canceled due to declining load growth and despite the company's best efforts to find a partner for the plant construction.[620] In this instance, we find that the equipment should be depreciated over a fifteen-year period, which matches the average service life of the plant equipment, had the plant been constructed.[621] We also find that, the longer amortization period will minimize the impact on ratepayers, who, as OPC highlights, are already paying for WGL's alternative arrangements necessary to meet peak usage demand.

243. The Commission's decision on RMA 31 reduces rate base by $1,504,114 and increases operating income by $29,337.

C. Labor Related Adjustments

244. In WGL RMA 10 Labor Expenses, Wages and Salaries, the Company proposes adjustments for labor expenses, totaling $1,217,587, so that the test year more accurately reflects

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617 *Formal Case No. 567*, Order No. 5522 at 18.

618 *Formal Case No. 567*, Order No. 5522 at 18.

619 *See* Maryland Public Service Commission *Formal Case No. 9322*, Order No. 86013; OPC Cross-Examination Exhibit No. 24 (Commission Data Request 2-1).

620 *Formal Case No. 840*, Order No. 8569. In this case the Commission approved a two-year period.

621 OPC Cross-Examination Exhibit No. 24 (Commission Data Request 2-1).

labor costs that the Company will experience during the rate effective period.[622] According to WGL, all of the labor adjustments represent known and measurable adjustments to the test year.[623] Included within the Company's wages and salaries are incentive compensation. The Company provides two categories of at-risk or incentive compensation: (1) the short-term incentive compensation plan ("STIP"); and (2) the long-term incentive compensation plan ("LTIP"). The purpose of an at-risk compensation plan is to limit the fixed costs of a company and to increase the percentage of overall compensation an employee has at-risk based on performance. The Company alleges that it has demonstrated that the reasonableness of its compensation programs, in terms of design and pay levels, is consistent with general industry best practices, and has shown how the Company's incentive compensation plans benefit ratepayers.[624] WGL is asking for approval to include $1,832,899, on a District of Columbia basis, of STIP payments and $2,437,926 of LTIP payments in its cost of service. OPC opposes the Company's test year expenses with respect to various elements of at-risk pay, including the STIP and LTIP compensation and the supplemental executive retirement plan ("SERP") which accounts for $831,380.[625] OPC urges the Commission to reject the STIP, LTIP, and SERP expenses in their entirety.[626]

1. Short-Term and Long-Term Incentive Compensation

245. **WGL.** According to WGL, the reasonableness of the proposed STIP and LTIP expenses has been demonstrated through the testimony of several Company Witnesses, in terms of design and pay levels being consistent with general industry best practices, and has shown how the Company's incentive compensation program benefits ratepayers. Company Witness Sims sponsored the explanation of the Company's Corporate Scorecard to support WGL's at-risk short-term incentive compensation and related cost recovery. WGL's determination to award at-risk short-term compensation is based on meeting defined Corporate Scorecard goals. The Corporate Scorecard goals relate to safety, service reliability, operational efficiency, customer satisfaction, financial strength, and other areas that support ratepayers. By tying compensation to achievement of Scorecard goals, the Company claims that it has created a program that establishes a direct nexus between incentive compensation and ratepayer benefit.[627] Company Witness Gutermuth reiterated that WGL's compensation program is market-based and ties pay to performance. According to Witness Gutermuth, WGL has designed compensation programs to attract, motivate, and retain qualified employees with the skills and experience required to operate the Company effectively, and to achieve the organization's short- and long-term goals.[628] In support of these claims, WGL presented a series of benchmarking analyses performed by

[622] WGL (D)-2, page 3 of 3, REVISED 5-31-16.

[623] WGL R. Br. at 116.

[624] WGL R. Br. at 116-117.

[625] OPC Br. at 122, *et seq.*

[626] OPC Br. at 122.

[627] WGL (A) at 8-13 (Sims).

[628] WGL (F) AT 2-7 (Gutermuth).

Mercer Human Resource Consulting, which according to the Company, revealed that WGL's compensation levels are competitive, reasonable, and consistent with the Company's compensation philosophy.[629]

246. With respect to STIP compensation, the Company states that short-term incentive payments are earned by an employee based in part on the employee's personal achievement, whether the Company meets a threshold return on equity target, and on whether the Corporate Scorecard goals are met. WGL argues that the majority of the Corporate Scorecard goals are directly related to providing safe, reliable, and cost-effective natural gas service and, as such, directly benefits ratepayers.[630]

247. **OPC.** OPC objects to recovery of both STIP and LTIP, stating that the Company provides no legal or factual basis to support a finding that recovery would be reasonable.[631] According to OPC, the Company has shown neither that its at-risk compensation plans provide benefits to ratepayers - as Commission policy requires - nor that previous orders denying rate recovery of LTIP diminished the motivation for employees to accomplish company goals and objectives.[632] OPC asserts that the Commission policy is not, and has never been, so broad as to allow recovery of executive compensation simply because the Company claims that these are costs of providing utility service.[633] Rather, OPC argues, WGL is required to show that its incentive compensation plans provide a tangible benefit to ratepayers.[634] Based on these arguments, OPC urges the Commission to exclude the recovery of the two at-risk compensation plans.

248. **WGL Response.** In response to OPC's objection to rate recovery of at-risk incentive compensation, including STIP, WGL argues that the proposed STIP expenses are reasonable and allowing their recovery will be consistent with Commission Order No. 17132 because the compensation provides benefits to ratepayers.[635] WGL states that it has performed the same benchmarking analysis in preparation for this case that it performed for *Formal Case No. 1093*, and has kept the same Corporate Scorecard goals, which are based on activities that benefit ratepayers.[636] Also, WGL claims that similarly to *Formal Case No. 1093*, the Company has provided evidence that employees receive STIP compensation based on WGL's evaluation of the employees' achievement of the goals in the Corporate Scorecard.[637] For these reasons, WGL

629 See generally, WGL (G) (Halloran).

630 WGL (F) at 4 (Gutermuth).

631 OPC R. Br at 25.

632 OPC R. Br at 25.

633 OPC R. Br. at 26.

634 OPC R. Br. at 26.

635 WGL R. Br. at 122.

636 WGL R. Br. at 122.

637 WGL R. Br. at 122.

urges the Commission to accept the Company's test year adjustment in the amount of $1,832,703 for STIP costs.

249. WGL's long-term incentives are paid at the director level and above in an effort to establish a meaningful link between compensation for senior level employees and long-term organizational goals. In contrast to STIP, which it linked to the Corporate Scorecard goals, the long-term incentive payments are made through a mix of performance shares and performance units, both earned based on total shareholder return relative to peer companies. WGL states that while the trigger for these payments is related to shareholder return and not ratepayer services, shareholder return reflects the health of the utility, specifically, the Company's ability to meet its obligation to provide safe, reliable gas distribution service, and the Company's ability to access capital that funds infrastructure improvements and growth.[638] WGL explains that only employees at the director level or above (51 employees) were eligible to receive long-term compensation in Fiscal Year 2015. The payout is based on the Company's three-year total shareholder return ("TSR") relative to a group of peer utility companies. Long-term compensation is not dependent on individual performance or on the Corporate Scorecard. It is based on TSR and is graduated from zero to 200 percent. WGL further claims that the LTIP plan rewards employees for undertaking long-term initiatives.[639]

250. Responding to OPC's recommendations related to STIP, WGL states, among other things, that the Commission should reject "OPC's pivot away from Order No. 17132 and the new hurdles OPC erects to recovery of STIP costs."[640] To address OPC's objection to recovery of LTIP expenses, WGL claims that to provide safe and reliable utility service to ratepayers, the Company must have qualified, motivated employees at all levels and must align its pay practices with the market for talent.[641] According to Company Witness Halloran, WGL's pay values and pay mix are consistent with common practice across utilities as well the general industry.[642] WGL states that if it were to reduce LTIP, in order to recruit and maintain qualified personnel, the Company would need to increase either base pay or STIP, both of which the Commission has traditionally allowed to be recovered in rates.[643] For all these reasons, the Company states that the Commission should reject OPC's proposal to remove all LTIP costs from the test year expenses.

DECISION

251. **Short-Term Incentive Compensation.** WGL seeks to recover the costs of its STIP applicable to union, non-supervisory management employees and its executive personnel. In *Formal Case* No. *989*, the Commission stated that the legal standard it would apply to

[638] WGL (F) at 5-7 (Gutermuth).

[639] TR at 292:5-300:3.

[640] WGL R. Br. at 121.

[641] WGL R. Br. at 119.

[642] WGL (G) at 7 (Halloran).

[643] WGL R. Br at 120-121.

determine whether to allow a utility to recover corporate executive incentive compensation is whether the incentive plan provides benefit to the ratepayers. The Commission also listed some of the factors to be considered in assessing the benefit to the ratepayers, including whether the incentive compensation was necessary to provide quality service, and whether the costs were consistent with comparable companies in the region.[644] Applying the factors established in *Formal Case No. 989*, the Commission approved the Company's at-risk STIP request in *Formal Case No. 1093* and determined that the compensation paid under STIP to union and non-supervisory managers, and to supervisory executives was reasonable, competitive, and benefits ratepayers by providing incentives for Company personnel to achieve the many customer-related goals that are set forth in the Corporate Scorecard.

252. Similarly to *Formal Case No. 1093*, in this proceeding, WGL undertook a benchmarking analysis to evaluate the design and level of the Company's pay for non-union employees to show that the utilization of STIP is common in the industry and that WGL's pay values and pay mix are consistent with the practices of other similar utilities and energy companies. Under WGL's compensation plan, STIP payments are not dependent on achieving corporate financial goals, but the payout amount is based on the performance of the individual employee towards achieving the Company's Corporate Scorecard goals. The weighting of corporate versus individual goals varies by organizational level. Incentive payments to employees at the executive level are more dependent on company performance than individual performance, since at higher levels in the organization, individuals have an increased opportunity to impact corporate performance. The Company also maintains that the payment of STIP for supervisory managers is linked to the achievement of Corporate Scorecard goals, which provide direct ratepayer benefits through improved safety, service reliability, operational efficiency, customer satisfaction, and other areas that support ratepayers.

253. The Commission finds that WGL has demonstrated that ratepayers benefit to some degree from the operation of the STIP because the great majority of the Corporate Scorecard goals used in awarding STIP are based on activities that benefit ratepayers by focusing on providing safe, reliable, and cost-effective natural gas service. The Commission is persuaded by WGL's evidence that supervisory managers receive STIP compensation based upon WGL's evaluation of the employees' achievement of the goals in the Corporate Scorecard. However, given the record of this proceeding, the Commission is not persuaded that WGL has presented sufficient evidence to support the claim that the two specific corporate goals related to WGL's financial performance provide benefit to ratepayers. The non-utility earnings goal, which captures the ability of WGL Holdings to deliver earnings through non-utility activities, and the Utility Return on Equity goal, which measures the capability to earn the weighted average return on common equity, are not necessary to provide quality service to ratepayers. Each of these financial goals accounts for 10% of the total payout plan and is designed to provide benefits to shareholders, not ratepayers. Regarding the 10% for Non-Utility Adjusted EBIT, given the Commission's preference and directives in *Formal Case No. 1093* regarding separating non-utility (or more specifically, non-distribution) items from distribution cost of service, the Commission does not view the ability of WGL Holdings, Inc. to deliver earnings through non-utility activities as directly benefiting the District's distribution ratepayers. Furthermore, the

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[644] *Formal Case No. 989*, Order No. 12589, ¶ 149.

Commission wants to avoid any unintended consequence of fostering subsidization of non-utility activities.

254. Regarding the 10% for Utility ROE, the Commission finds that the capability to earn a utility's authorized ROE includes a number of critical financial management attributes, including, but not limited to: strong cost and internal controls, astute financial planning, strong risk management and treasury practices, accurate books and records, and robust cost estimation and budgeting practices. Accordingly, significant variances between cost estimates and actual costs, as found in the management audit associated with *Formal Case No. 1027*, and as noted in the record for this proceeding, represent a significant impediment to maintaining an overall capability to earning a utility's authorized ROE. As a result, the Commission is reducing the requested STIP recovery by 20% (10% for the Corporate Scorecard Utility ROE and 10% for the Corporate Scorecard Non-Utility Adjusted EBIT) for the two financial performance goals. This adjustment also includes a modification to payroll taxes resulting in an increase in operating income by $146,039.

255. **Long-Term Incentive Compensation**. The standard this Commission has set for a utility to receive cost recovery for LTIP in rates requires WGL to show that LTIP provides a tangible benefit to ratepayers. In this instance, WGL does not establish that ratepayer benefits are part of the equation for determining LTIP benefits for senior executives. On the contrary, LTIP awards to executives are determined exclusively by the total shareholder return to WGL Holdings based on a comparison of returns to a WGL peer group over a three-year period. As was the case in *Formal Case Nos. 929*, *989*,[645] and *1093*, we find that the LTIP in this case only provides incentives to increase the profitability of WGL Holdings and is not designed to provide a benefit to ratepayers. Accordingly, the Commission accepts OPC's adjustment that excludes all LTIP expenditures from ratepayer recovery. This adjustment, with its modification to payroll taxes, increases operating income by $1,447,269.

2. Supplemental Executive Retirement Plan Expenses

256. **WGL.** WGL proposes an adjustment to its SERP and defined benefit restoration plan (collectively "SERP") costs in the amount of $831,380. The purpose of the SERP is to provide an incentive to attract and retain officers of the Company who are at the midpoint in their careers and may not have fully vested or had the opportunity to realize the full benefit of the Company's pension or savings plans. The SERP provides a retirement benefit that supplements the benefit payable under WGL's pension plan.[646] WGL's Witness Halloran argues that SERP is a critical component of the Company's compensation program and absolutely necessary to enable WGL to attract and retain the talent needed to serve its customers efficiently and effectively. According to him, there is a direct link between this program, as with all compensation, and benefits to ratepayers.[647] Company Witness Gutermuth reiterates that SERP is a critical compensation tool, which supports the Company's ability to attract and retain

645 *Formal Case No. 989*, Order No. 12589, ¶ 150; *Formal Case No. 929*, Order No. 10387 at 93.

646 WGL Br. at 79-80.

647 WGL (G) at 24 (Halloran).

candidates with the skills and experience necessary to run the Company in a manner consistent with the provision of safe, reliable, and reasonably priced gas distribution service for its customers.[648] Finally, Company Witness Gibson restates that the "tangible benefit [from SERP] received by customers is utility service."[649]

257. **OPC.** OPC asserts, through the testimony of its Witness Schultz, that: (1) Commission policy is that SERP costs are properly borne by shareholders, not ratepayers; (2) based on this policy the Commission has disallowed SERP cost recovery in previous proceedings; and (3) WGL here "fail[ed] to demonstrate that hiring and retaining executives has been impacted by the prior SERP disallowance."[650] OPC claims that despite prior absence of rate recovery for this compensation program, WGL has continued to provide SERP benefits to eligible executives, and has never claimed that it will stop paying SERP benefits should rate recovery again be denied.[651] For these reasons, OPC asserts that SERP costs should be excluded from rates.[652]

258. **WGL Response.** WGL claims that OPC's position that "the Company has offered no evidence to support a finding that ratepayers should bear the expense of providing SERP benefits to the Company's executives"[653] is wrong and the Commission should reject OPC's proposal to exclude all SERP costs.

DECISION

259. Consistent with prior Commission decisions, we reject the inclusion of $831,380 of SERP costs as contrary to the Commission's policy. As we held in *Formal Case No. 939* and *Formal Case No. 1053*, and more recently in *Formal Case No. 1093*, all costs for SERP should be borne by shareholders, not ratepayers, because these costs reflect the Company's wish to compensate its executives over and above its qualified pension plan.[654] WGL has not provided any arguments that are sufficiently compelling to persuade us to depart from that policy. This adjustment increases operating income by $486,492.

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648 WGL (F) at 8 (Gutermuth).

649 WGL (2E) at 3-4 (Gibson).

650 OPC (A) at 46-47 (Schultz).

651 OPC R. Br. at 27.

652 OPC R. Br. at 27.

653 OPC Br. at 124.

654 *See Formal Case No. 939*, Order No. 10646 at 128; *Formal Case No. 1053*, Order No. 14712, ¶ 190; *Formal Case No. 1093*, Order No. 17132, ¶ 66.

D. Pension and OPEB Trackers (Issue 12)[655]

260. **WGL.** WGL proposes to adjust the per book amounts included in the test year related to its Other Post-Employment Benefits ("OPEB") and pension expense to amounts expected to be incurred in the rate effective period.[656] The Company's proposal does not increase the revenue requirement in this case. The adjustments associated with pension and OPEB trackers and carrying costs are uncontested but OPC has several recommendations.[657]

261. To recover any potential discrepancy between estimated and actual balances of OPEB, pension and carrying costs, WGL proposes to net the existing balances and amortizations as of the end of the test year period and to extend the amortization period beyond May 2018.[658] WGL's request to extend the amortization period is triggered by the fact that the accrued balance through June 4, 2013, when the previously-approved rate went into effect, would not be fully amortized by May 2018 if it were collected at that previous rate. In WGL's last rate case, the actual deferrals were different from the projections based on a new actuarial study for fiscal year 2013 as well as the deferrals continuing through June 4, 2013. WGL proposes that netted balances and carrying charges be fully amortized in October 2019. This way, the balances on these trackers will be settled in an expeditious manner, without increasing the revenue requirement in this case. Also, WGL asserts that the proposed amortizations will not change the amounts that will be netted. According to WGL, its proposal to extend amortization past May 2018 will increase the carrying costs by $1,009,237. However, reflecting an adjustment in this case to fully amortize the balances past May, 2018 would increase the revenue requirement by $10,246,303. Thus, WGL contends, ratepayers will receive a net benefit of $9,237,066 from the Company's proposed treatment.[659]

262. **OPC.** OPC does not recommend a specific adjustment, but is concerned that certain aspects of the Company's proposal will unreasonably burden ratepayers.[660] Specifically, OPC urges the Commission to address two issues: the Company's authorized revenue requirement following the full amortization of the OPEB and pension trackers and carrying costs; and the Company's proposed methodology for calculating carrying costs.[661] First, OPC urges the Commission to implement cost-recovery protections to preclude the Company from over-recovering amortized OPEB and pension trackers and carrying costs.[662] OPC is concerned

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655 Designated Issue 10 asks: "Is WGL's proposed recovery of costs associated with pension and OPEB trackers and carrying costs reasonable in this case?"

656 WGL (3E) at 18 (Gibson).

657 WGL RMA 16 Pension and OPEB Carrying Costs. The adjustment reclassifies the carrying costs amortizations to reflect the amortizations approved in *Formal Case No. 1093*, consistent with the Company's proposal relating to the trackers. The adjustment was uncontested by the parties.

658 Under Commission Order No. 17204, the amortizations would have ended May, 2018.

659 *See generally* WGL (3E) (Gibson).

660 OPC R. Br. at 152.

661 OPC R. Br. at 152.

662 OPC R. Br. at 152.

that WGL may continue to collect payments for these expenses through its rates during the gap period between October 2019, when all costs will be fully amortized, and April 2020, when the Company is required to file another rate case.[663] OPC Witness Schultz estimates that by extending through April 2020 the charges associated with these trackers, ratepayers would over pay the pension tracker and carrying costs by about $12 million.[664] According to OPC, the Company should not be authorized to recover amounts in excess of those balances, and it would be unreasonable, unjust, and discriminatory to require ratepayers to continue paying for known and measurable amounts that have been paid off in full.[665] OPC recommends that the Commission require the Company to record the collection of the amortization built into rates as a regulatory liability with a continuation of carrying charges calculated in the manner consistent with the method utilized up to date the amortization is complete.[666]

263. Further, OPC argues that the Commission should reconsider its methodology for calculating OPEB and pension carrying costs.[667] OPC explains that under the existing methodology approved by the Commission in *Formal Case No. 1093*, the Company is authorized to continue the accrual of compounded carrying costs set at the authorized pre-tax rate of return. OPC believes that this treatment is not reasonable because it allows the Company to make money on the carrying cost, assuming the rates are set and in effect by April 2020.[668] To avoid this problem, OPC proposes that carrying charges be based on the cost of debt only.[669]

264. **WGL Response.** In response to OPC's concerns related to WGL's calculation of these expenses, WGL asserts that its proposal is based on the Commission decision in *Formal Case No. 1093*, Order No. 17132, and that OPC has not offered any new rationale why the Commission should establish a new tracker mechanism.[670]

DECISION

265. The Commission finds that WGL's proposed treatment of OPEB and pension trackers and carrying costs is consistent with Order No. 17132. With respect to OPC's first concern that WGL may over-collect after the costs are amortized until the next time rates are reviewed, the Commission determined in Order No. 17132 that while the collection may extend until the next rate case, rates are not tagged to specific expenses.[671] Other expenses (*e.g.*, payroll

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663 OPC R. Br. at 153.

664 OPC R. Br. at 153.

665 OPC R. Br. at 153.

666 OPC R. Br. at 154.

667 OPC R. Br. at 154.

668 OPC R. Br. at 155.

669 OPC R. Br. at 155.

670 WGL R. Br. at 141-142.

671 OPC R. Br. at 153.

increases and inflation) will likely increase until the next rate case and the additional funds have the potential to offset these increases. With respect to OPC's proposal that carrying charges not be compounded but be based on the cost of debt only, the Commission finds OPC's arguments unpersuasive. The calculation methodology of carrying charges was established in *Formal Case No. 1016*, where OPC presented the opposite argument – that compounded carrying costs in the Company's cost of capital was appropriate when calculating a refund. Now that collections are necessary, OPC argues that this methodology is no longer appropriate. The Commission has settled the tracker issue, at least through May 2018, and the only additional carrying charges are those that result from the Company's proposal to extend the amortization. Therefore, the Commission rejects OPC's recommendation and finds that there is no reason to depart from prior decisions.

E. Research & Development Initiatives (Issue 13)[672]

266. **WGL.** WGL proposes to increase its ratepayer-financed research and development ("R&D") activities by participating in two programs sponsored by the Gas Technology Institute ("GTI").[673] WGL proposes an increase in test year revenues to fund its participation in two GTI-managed consortia: the Operations Technology Development ("OTD") program with total cost of $79,034, and the Utilization Technology Development ("UTD") program requiring $100,000 of funding.[674] The combined pre-tax cost for the two programs is $179,034,[675] and the impact on WGL's operating income is $104,764. OPC and AOBA oppose the proposed adjustment.

267. According to WGL, OTD funds R&D that would benefit gas consumers, local distribution companies ("LDCs") and the general public by developing technologies and products that increase the safety, improve the reliability, and reduce the costs of gas transmission and distribution systems.[676] WGL asserts, UTD funds R&D that is anticipated to benefit end users of natural gas by increasing the efficiency, reducing emissions, and lowering the cost of

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[672] Designated Issue 13 asks: "Are WGL's proposed research and development Initiatives for gas customers reasonable and appropriate?"

[673] GTI is an organization that conducts and manages gas industry research and development projects. *See* WGL (I) at 6 (Edelstein). Beginning in 1998, funding for gas industry R&D shifted from FERC to local gas distribution and pipeline companies. This shift in funding for R&D has meant that these costs now must be approved by the local gas company and the local public utility commission. WGL's participation in the OTD and UTD is thus contingent upon Commission approval in this rate case, and would not begin until the rate effective period. *See* WGL (I) at 5-7 (Edelstein).

[674] WGL (D)-3 and WGL (D) at 71 (Tuoriniemi). During the test year, the Company had an average of 158,067 District of Columbia customers. Therefore, the proposed incremental funding amount requested is $179,034. (158,064 x $0.50 + $100,000 = $179,034).

[675] WGL (I) at 31 (Edelstein).

[676] WGL (I) at 7-8 (Edelstein).

gas using equipment, and ensuring the safe use of natural gas in customers' homes and businesses.[677]

268. Twenty-three natural gas LDCs located throughout the United States are members of OTD, and 16 gas LDCs are members of UTD.[678] All of the funding for UTD and OTD comes from gas LDCs that have received regulatory approval for cost recovery of R&D funding.[679] In his direct testimony, Company Witness Edelstein listed several examples of successful OTD and UTD R&D projects and the associated benefits.[680]

269. WGL has identified ten R&D projects in which it would participate in the District of Columbia under the OTD program beginning in 2017.[681] These initiatives include: (1) GPS Excavation Encroachment (Phase 2), which can notify a gas operator of a potential damage;[682] (2) Residential Methane Detectors Program (Phase 2), designed to achieve full customer adoption of residential methane detectors;[683] (3) Triple Plus Shut Off Valve (Pilot Program), which combines a residential methane detector with an automatic shut off valve;[684] (4) Pipe System Repair Technique, which represents a novel repair method for live leaking steel infrastructure applications;[685] (5) Semi-Automated Fusion Equipment – Industry Steering Committee, an industry steering committee that will be assembled to address industry needs related to fusion equipment;[686] (6) Remote Field Quality Assurance/Quality Control ("QA/QC") (Phase 2), which will further develop a QA/QC application for remote monitoring of the quality of work on the field, such as new service installation and repairs;[687] (7) Construction Compliance Monitoring (Phase 2), a software system, which will assess new construction work and deploy audit resources based on the risk associated with each project;[688] (8) No Stub Service/Lateral Requirement, designed to develop a method of retiring gas service or other lateral type fittings without leaving an extended stub on the gas main, and thus mitigating the potential for damage during future excavation;[689] (9) Remote Service Abandonment – No Excavation, which will

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677 WGL (I) at 7 (Edelstein).

678 WGL (I) at 7 (Edelstein).

679 WGL (I) at 7 (Edelstein).

680 WGL (I) at 8-22 (Edelstein) and WGLL (I)-1. *See* discussion and description of "winners" projects.

681 WGL (I) at 30 (Edelstein).

682 WGL (I)-5 at 1.

683 WGL (I)-5 at 1.

684 WGL (I)-5 at 1.

685 WGL (I)-5 at 2.

686 WGL (I)-5 at 2.

687 WGL (I)-5 at 2.

688 WGL (I)-5 at 2-3.

689 WGL (I)-5 at 4.

eliminate the need to excavate when terminating a gas service line; and (10) Keyhole Collaboration Program, which will develop, test, and facilitate innovating keyhole techniques, which will allow maintenance activities to be conducted through small pavement openings.[690]

270. WGL also identified eight UTD projects under the UTD program beginning 2017. These initiatives include: (1) Low-Cost Condensing Water Heaters, which will develop a low-cost, high-efficiency, low-emissions burner;[691] (2) Integrated Contact Condensing Water Heater, which will recuperate heat and recycle moisture, while meeting strict emissions restrictions;[692] (3) Whole House Retrofit Building American (Phase 4/5), aiming to reduce energy costs in existing single and multi-family homes in the District;[693] (4) Combo Systems Enhancements/Air Handler Enhancements, which will improve combination space-and water-heating systems;[694] (5) Gas Technologies in Energy Efficient (Tight) Houses, which will include testing of fan-assisted furnaces;[695] (6) Multifamily Infrastructure Challenges, which will address the existing challenges of providing natural gas to multi-family buildings;[696] (7) FlexCHP High-Efficiency Ultra-Clean Power &Steam Package, which will develop a small- to medium-size gas-turbine based combined heat and power system;[697] and (8) FlexCHP Power and Steam, which will develop a system capable of delivering 1,200 kW electricity and 1,200 BHP steam/hot water output.[698]

271. In the description of these projects, WGL lists their benefits, which include enhanced safety, increased efficiency, and reduced maintenance time, among others.[699] WGL's Witness Edelstein presents benefits cost analysis for each project proposed in the District.[700] According to WGL, the Company will choose where its research dollars are applied from the list of candidate projects that GTI provides to the Company each year. In future years, the already-selected projects will be funded to their conclusion. WGL will also have the option to fund its own projects through GTI using its membership contributions to OTD and UTD.[701] WGL asserts that because the Company is already a member of OTD, the additional funding requested

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690 WGL (I)-5 at 4.

691 WGL (I)-6 at 1.

692 WGL (I)-6 at 1.

693 WGL (I)-6 at 1-2.

694 WGL (I)-6 at 2.

695 WGL (I)-6 at 2.

696 WGL (I)-6 at 2-3.

697 WGL (I)-6 at 3.

698 WGL (I)-6 at 3.

699 WGL (I)-5 at 6.

700 WGL (I)-3 at 4.

701 WGL (I) at 31 (Edelstein).

in this proceeding would allow WGL to increase the overall funding level of the OTD projects and to fund additional projects that, due to financial limitations, WGL is currently unable to fund.[702]

272. Based on Company Witness Edelstein's analysis, WGL contends that customers in the District of Columbia will receive benefits from GTI research in excess of known costs.[703] The Company claims that participation in the GTI program will provide direct benefits to its customers and contribute to the needed funding of these critical R&D projects.[704]

273. **OPC.** OPC states that the proposed adjustment for R&D expenses has not been shown to be just and reasonable and should therefore be rejected.[705] OPC asserts that WGL has failed to demonstrate that the proposed R&D will in fact provide District ratepayers with benefits sufficient to justify the imposition of related costs upon consumers.[706] According to OPC, WGL's analysis is based on inputs, assumptions and sources that are not District-specific and as a result are unreliable.[707] OPC argues that WGL's analysis is based on surveys derived from sources containing aggregated data from many sources, not only District data.[708] OPC asserts that WGL has not conducted an actual survey of District consumers to inform the Company of what technologies and products are of interest to consumers and to what degree.[709]

274. Further, OPC states that WGL has failed to demonstrate that ratepayers should bear the R&D funding burden.[710] OPC explains that, with respect with UTD funding, consumers may be forced to pay double – once for the R&D funding and once for the purchase of the actual product funded by the research.[711] For the proposed OTD projects, OPC argues that Company Witness Edelstein was unable to quantify any of the project benefits.[712] Finally, OPC argues that PROJECTpipes and the VCMR programs are the vehicles by which the Company is allegedly improving the safety and reliability of its distribution system, and therefore WGL should not seek additional contribution for OTD projects alleged to bring the same benefits.[713]

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702 WGL (I) at 30 (Edelstein).

703 WGL R. Br. at 143.

704 WGL (I) at 33 (Edelstein).

705 OPC R. Br. at 31.

706 OPC Br. at 155, citing OPC (E) at 7 (Mariam).

707 OPC Br. at 156-157.

708 OPC Br. at 157.

709 OPC Br. at 157.

710 OPC Br. at 158.

711 OPC Br. at 158.

712 OPC Br. at 159.

713 OPC Br. at 159.

275. **AOBA.** Opposing WGL's effort to impose additional costs for R&D on District ratepayers, AOBA states that WGL's arguments in the current rate case are similar to WGL's arguments in *Formal Case No. 1093*, where the Commission rejected the proposed cost recovery for R&D projects.[714] According to AOBA, the analyses presented by WGL are highly questionable and even speculative, and not indicative of direct and traceable benefits for District ratepayers.[715] AOBA argues that there is no indication that there would be barriers to the implementation of the projects without District participation in the two R&D programs.[716] Finally, AOBA stated that if WGL management and stakeholders believe that these GTI programs are beneficial, they should continue to fund them outside of the rate-making process.[717]

276. **WGL Response.** In response to OPC's concern that WGL's R&D benefit cost analyses did not include interviews with customers and a District specific survey, the Company asserts that GTI does not conduct consumer surveys as a part of its R&D programs but relies on advisory bodies to determine what advancement would benefit consumers.[718]

277. Replying to AOBA's criticism that the Company's R&D benefit cost analysis is "tenuous" and "speculative," WGL states that none of the parties have refuted the actual data, assumptions or methodology used in the analysis.[719] WGL further states that specific benefits for the users of the advanced end-use technologies in the District of Columbia have been determined, and benefits to all consumers in the District of Columbia for reduced Operations and Maintenance costs have been calculated.[720]

278. In response to AOBA's argument that "there is no indication that there would be barriers to the implementation of the referenced new technologies in the District if ratepayers do not participate in the OTD and UTD programs," WGL asserts that if the District does not participate in these R&D programs, the new technologies will not be tested in District residences, homes, buildings, and streets.[721] Referring to the testimony of Company Witness Edelstein, WGL argues that there are unique features of the District of Columbia housing that are challenging and therefore equipment testing under local conditions is critical for successful implementation of new technologies in the District. Specifically, Witness Edelstein referred to the unique features of the District's row houses and apartment and condo buildings, which present venting issues.[722]

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[714] AOBA's Br. at 54.

[715] AOBA's Br. at 54-55.

[716] AOBA's Br. at 55.

[717] AOBA's Br. at 56.

[718] WGL R. Br. at 145, citing OPC Br. at 156-157.

[719] WGL R. Br. at 144, citing AOBA Br. at 54.

[720] WGL R. Br. at 144, citing WGL (I)-3 and (I)-4.

[721] WGL R. Br. at 145-146.

[722] WGL R. Br. at 146.

DECISION

279. The Commission is persuaded by AOBA and OPC that WGL has failed to demonstrate that the proposed projects have quantifiable benefits for District ratepayers that outweigh the expected costs. Therefore, we reject WGL's request to increase its ratepayer-financed R&D activities by participating in two programs sponsored by the GTI. This adjustment increases operating income by $104,764.

280. WGL claims that the benefits are quantifiable and asserts that "all consumers will benefit from unquantified safety, deliverability, and integrity benefits of OTD technologies and all consumers will benefit from a general lowering of demand in the District of Columbia from the use of advanced end use technologies, even those consumers who do not purchase such technologies."[723] WGL recognizes that there are unique features of the District of Columbia housing that are challenging and therefore equipment testing under local conditions is critical prior to successful implementation of new technologies in the District. However, the Company did not present any specific projects for the District that aim to address the unique challenges and risks associated with housing locations in the District. WGL states that if the District does not participate in these R&D programs, the new technologies will not be tested in District residences, homes, buildings, and streets. However, the Company presented no evidence to support exactly how it plans to select the specific projects for the District, when, where and how testing will be done, and what specific benefits could these projects bring to District ratepayers.

281. As we stated in Order No. 17132, the Commission is not opposed to WGL funding any of the proposed projects through shareholder funds if it still wants to pursue R&D projects. Moreover, the Company is welcome to seek ratepayer funding for R&D projects in future rate cases so long as WGL can demonstrate quantifiable benefits for District ratepayers.

F. Fee Free Credit Card Payment Program (Issue 14)[724]

282. **WGL.** WGL proposes a revenue adjustment of $161,343.16[725] to reflect the costs associated with its Fee-Free Credit/Debit Card program, which offers residential and small commercial customers the option to pay their bills using their debit or credit card, without incurring a fee.[726] WGL maintains that in order to secure lower transaction costs, it must pay the transaction fees directly to the card issuers and processors and therefore cannot pass the cost directly to the individual customers who selected the credit/debit payment method.[727] WGL is

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723 WGL R. Br. at 145.

724 Issue No. 14 asks "What has been the Company's actual cost expense under its fee free credit/debit card payment program? Has the program served to lower WGL's overall cost of collections and payment processing and should the Company's fee free credit/debit payment processing be continued in its present form, modified, or discontinued?"

725 WGL (2D)-3 at 1 (Tuoriniemi).

726 WGL (O) at 4 (Sluder), Direct Supp. Testimony of Witness Sluder, subsequently adopted by Witness Rodriguez.

727 WGL (O) at 5 (Sluder).

seeking recovery of these costs in its rates and argues that this payment method should be treated in the same manner as all other payment methods offered by WGL, where the transaction costs are recovered through the Company's rates.[728] The adjustment is opposed by AOBA.

283. According to WGL, there are benefits to providing customers with an additional payment option,[729] which is "increasingly popular" with WGL's customers.[730] WGL states that, while the $1.52 credit/debit transaction fee for residential customers is higher than the $0.16 cost for processing of mailed checks and the $0.01 cost per transaction of ACH payments initiated by the customer and sent directly to the Company's bank or third party payment vendor, it is much cheaper than other payment options, such as cash payments, checks, or money orders that are brought in person to a payment office and Customer Service representative-assisted ACH payments all of which are processed for $3.25 per transaction. WGL claims that the program lowers the transaction fee per credit/debit card customer transaction to $1.52. Without the program, customers will have to pay about $4.55 for the same transaction on an individual basis.[731]

284. **OPC.** OPC recommends continuing the program "[i]n light of the limited cost involved."[732] However, OPC recommends that the Commission direct the Company to perform an analysis to measure the impacts of the program on the collection of revenue, collection, costs, and revenue lag.[733]

285. **AOBA.** AOBA opposes the proposed rate recovery of the District's share of the cost for the Fee-Free Credit/Debit Card program. AOBA argues that the costs should not be recovered because the program is used by only 7% of the Company's customers and the processing firm does not track participation by jurisdiction.[734] According to AOBA, over 90% of the Company's system-wide customers continue to use ACH payments or check payments mailed to WGL, which have much lower transaction costs. AOBA further argues that because the increasing number of customers who are paying by credit card are those who had formerly paid by check, instead of lowering WGL's overall processing costs, the program actually increases these costs,[735] thus having an adverse impact on other customers still using the lower-cost payments.[736] Regarding the calculation of the District share of the costs, AOBA states that allocation based on average meters should not be accepted and questions whether the

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[728] WGL (O) at 6 (Sluder); WGL R. Br. at 149.

[729] WGL (O) at 4-6 (Sluder).

[730] WGL (O) at 7 (Sluder).

[731] TR at 1463:5–1464:7.

[732] OPC Br. at 160.

[733] OPC Br. at 160-161.

[734] AOBA Br. at 49.

[735] AOBA Br. at 51.

[736] AOBA Br. at 51.

calculations presented by WGL are truly reflective of all costs associated with the program. Based on these arguments, AOBA submits that WGL "has not justified continuation of its fee-free credit/debit card program or recovery of costs for that program as part of its approved revenue requirements in this proceeding."[737]

286. **WGL Response.** In response to OPC's recommendation that WGL perform analyses on the impact of the program, WGL asserts that the effects of the program are already considered and it is unlikely that WGL has the information needed to perform such a study.[738] WGL also challenges AOBA's opposition to this adjustment, emphasizing that contrary to AOBA's claim, the Company's cost allocation method based on average meters in the District is reasonable and the Company has no other method to assign costs.[739]

DECISION

287. The Commission believes that the Fee-Free Credit/Debit Card program should be treated in the same manner as any other payment methods currently offered by WGL and finds that the Company's proposed expense adjustment is adequately supported. In *Formal Case No. 1093*, WGL alleged that there will be increased customer usage of credit/debit card transactions based on the experiences of other entities, but did not have sufficient data to support its claim.[740] This time, WGL presented evidence that the program has increased in popularity and reduced overall costs per customer transaction. As argued by OPC, the proposed costs are relatively small and the program is gaining increased popularity among customers who prefer this payment option compared to other cheaper but less convenient options. In addition, the Commission agrees with WGL that the program provides customers who are delinquent in paying their bills an additional method for making a timely payment and avoiding service termination.[741] AOBA's claim that WGL's allocation based on average meters should not be accepted is unsupported by record evidence. The Commission finds that average meter allocation is an acceptable method for allocating costs of this multi-jurisdictional program. Therefore, we approve WGL's proposed $161,343.16 adjustment.

288. The Commission is persuaded by WGL that OPC's proposed study to measure the impact of the program on the collection of revenue, collection costs, and revenue lag has somewhat limited value. While WGL appears to exaggerate the complexity of such a study, extracting a quantifiable comparison cost apart from factors, such as economic condition and relative price of fuel, would be difficult, unlikely to present definitive results, and unlikely to be the determinative factor in continuing the program.

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737 AOBA R. Br. at 5.

738 WGL R. Br. at 147.

739 WGL R. Br. at 147-149.

740 *Formal Case No. 1093*, Order No. 17132, ¶ 193.

741 WGL (O) at 7 (Sluder).

G. Default Customer Billing Charges

289. As an initial matter, during the evidentiary hearing, the Commission raised what we have determined is another *pro-forma* adjustment – the 50 cents Default Customer Billing Charges.[742] The Commission questioned WGL's 50 cent charge to competitive suppliers and questioned whether the Company was properly separating its distribution business from its supply business for ratemaking purposes as directed in Order No. 17132. WGL Witness Wagner confirmed that the Company charges $0.50 per account per month for suppliers who utilize the Company's consolidated billing service.[743] The Commission notes that WGL RMA 4D (Gas Procurement Cost) removes the PGC-related expenses, i.e., hedging, purchasing, and billing costs from the distribution cost of service.[744] According to Witness Tuoriniemi, this adjustment removed the District's share of the $772,000 of gas supply expenses from cost of service in this proceeding, which totaled $147.000.[745]

290. With respect to the billing costs for the Default Customers, the Commission is concerned that supply-related costs may not have been entirely eliminated. WGL Witness Tuoriniemi testified that the 50 cent charge is the *incremental cost it charges third party suppliers* for adding the gas commodity to the bills of their customers.[746] However, when questioned about whether Default Customers are charged the same 50 cents per bill for incremental billing costs, Witness Tuoriniemi testified that the cost is "just embedded in the overall cost of service . . . it's embedded in their distribution."[747] Witness Tuoriniemi eventually states that there are no incremental costs for billing Default Customers.[748] Based on the record in this case, we are unable to determine the actual billing costs to default customers with respect to the supply portion of their bills and therefore cannot determine whether there were any incremental billing costs for Default Customers. In *Formal Case No. 1093*, the Commission made it clear that it would like all commodity-related costs to be separated from the distribution costs.[749] It is our goal to ensure that non-distribution costs are not directly or indirectly embedded in the distribution cost of service and also that competitive suppliers 'customers are not paying unnecessarily higher cost of billing services. Therefore, the Commission plans to further investigate whether WGL has removed all incremental costs to providing billing services to WGL's Default Customers and will move this issue to *Formal Case No. 1138*.

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742 Tr. at 986-993.

743 Tr. at 987-990. WGL's October 26, 2016 response to Bench Data Request No. 1-11.

744 WGL (D) at 16 (Tuoriniemi).

745 WGL (D) at 16 (Tuoriniemi).

746 Tr. at 987.

747 Tr. at 989.

748 Tr. at 990.

749 *Formal Case No. 1093*, Order No. 17132, ¶ 139.

291. Another concern the Commission has with respect to the billing for Default Customers is whether the 50 cents charge is the appropriate cost for providing billing services to third party suppliers' customers. This 50 cents charge was approved almost 20 years ago by Order No. 11132, issued on January 20, 1998.[750] With the improvements in technology and billing systems, WGL's cost of including commodity charges on customer bills may have changed significantly. Therefore, the Commission will review this charge in *Formal Case No. 1138*, *In the Matter of the Investigation into WGL's New Billing System and Process and the Potential Impact on Customers and Competitive Natural Gas Suppliers in the District of Columbia*.

292. Additionally, this matter raises fundamental concerns about how WGL separates its distribution costs from commodity costs. Under D.C. Code § 34-1671.06(a), WGL is required to "provide distribution services to all customers and natural gas suppliers on rates, terms, and conditions that are comparable to the gas company's own use of its distribution system. The gas company shall not operate its distribution systems in a manner that favors the natural gas supply of the gas company's affiliates and shall not price its services in a manner that impedes competition."[751] In order to ensure that WGL is treating all distribution customers equally and providing distribution service on a comparable basis between default customers and those served by third party suppliers, the Commission directs WGL within sixty (60) days from the date of this Order to file revised tariffs that fully separate all distribution and sales components of natural gas service in the District.

X. BUSINESS PROCESS OUTSOURCING 2.0 (ISSUE 11)[752]

293. **WGL.** WGL is seeking the Commission's permission to defer and record as a regulatory asset, the costs to achieve ("CTA") associated with the transitioning of certain outsourced support functions currently provided by Accenture, LLC ("Accenture"). Since the Accenture contract expires in June 2017, WGL asserts that it took action three years early to ensure the continuation of services through Business Process Outsourcing ("BPO 2.0"). WGL contends that it undertook an extensive process to ensure that the vendors selected for BPO 2.0 produced high quality products at very competitive market prices. WGL believes that the resulting arrangements are reasonable and appropriate.[753] WGL notes that except for a cost reduction related to bringing limited functions back in-house, no costs related to BPO 2.0 are included in WGL's cost of service in this case, so there is no impact on WGL's revenue requirement related to BPO 2.0.[754]

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[750] *See Formal Case No. GT96-2*, Order No. 11132 at 4-5.

[751] *See* D.C. Code § 34-1671.06(a) (2016).

[752] Issue 11 asks: "Are the Company's new plans for Business Process Outsourcing (BPO 2.0), including its plan for replacing its existing contractual arrangement with Accenture, reasonable and appropriate?"

[753] WGL Br. at 80.

[754] WGL Br. at 81.

294. WGL asserts that it has incurred various CTA to achieve the cost savings and service quality in BPO 2.0. WGL classifies these costs to achieve in three categories. WGL represents that most of the costs to achieve have been incurred, but some costs to achieve have not been finally determined.[755]

295. WGL's first CTA category is for advisory costs. These costs include all consulting costs with the outside consultants who helped find and select the BPO 2.0 vendors. WGL estimates a total of $3 million (with a total of $3.1 as of the filing of rebuttal testimony).[756]

296. The second CTA category is transition and transformation costs, which WGL identifies as costs that are directly related to the transition of portions of the Accenture contract to new vendors. WGL breaks down these costs into three groups: fees charged by the new vendors to plan and implement the transition (around $5 million); fees charged by Accenture for the transition (approximately $2.5 million); and fees charged by the outside consultants to assist in planning and implementation (about $700,000). The total transition and transformation costs are $8.2 million, with $6.1 million being invoiced as of the date of rebuttal testimony.[757]

297. The third CTA category is identified by WGL as wind-down costs, which are severance and other costs paid to Accenture for the transitioning areas. WGL indicates that these costs will only be incurred for IT Infrastructure and Customer Service, with the total estimated costs at $1.6 million. As of the filing of rebuttal testimony, $0.6 million of these costs had been invoiced.[758]

298. WGL asserts that its planning for BPO 2.0 was reasonable and appropriate. WGL asserts that its decision to consider new vendors for the Accenture contract was made after careful examination of all available options. WGL also argues that hiring consultants to examine this transition was appropriate due to the magnitude of this transition.[759]

299. **AOBA.** AOBA is concerned about WGL's ability to use outsourced services in a way that maximizes cost-effective and reliable performance. AOBA believes that the Commission should investigate whether District of Columbia ratepayers are better served by outsourcing contracts that rely on consultants or the re-establishment of in-house functions.[760] In support of its position, AOBA cites hearing testimony that compares the costs in the Accenture contract with the market, as well as discusses performance under the Accenture contract.[761]

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755 WGL Br. at 88.

756 WGL Br. at 88-89.

757 WGL Br. at 89-90.

758 WGL Br. at 90.

759 WGL Br. at 90.

760 AOBA Br. at 72.

761 AOBA Br. at 72-75.

DECISION

300. BPO 2.0 is the second iteration of WGL's outsourcing activities, which began in 2007 with the execution of the Accenture contract for a wide variety of outsourced services. Due to the Accenture contract's expiration in 2017, WGL undertook to evaluate the Accenture contract in 2014 and ultimately concluded that the outsourcing contracts needed to be restructured. The Commission finds that WGL's actions to review the Accenture contract before it ended in sufficient time to make any changes needed were reasonable and prudent.

301. After review, the Commission finds that, except for the costs to achieve, WGL has not included any of the BPO 2.0 costs in the costs of service in this case, so that there is no impact on the revenue requirement in this case because WGL netted the costs to achieve against an equal amount of estimated savings.[762] In addition, the Company testified that the contracts under BPO 2.0 began as early as October 2015, while others may not begin until January 2017. However, in the next base rate case, we plan to review the BPO 2.0 costs, including the costs to achieve, along with any benefits to ratepayers. The Commission and the parties will have the opportunity at that time to review the costs and savings and the cost-effectiveness of WGL's outsourcing plan. The Commission points out to WGL that any costs related to the wind-down of the Accenture contract will be given special scrutiny, as the Commission views these costs as related to the Accenture contract, not BPO 2.0.

A. Are the proposed ratemaking adjustments associated with BPO 2.0 reasonable and appropriate?

302. **WGL.** WGL proposes WGL RMA 30 for BPO 2.0. This adjustment has two components: (1) removal of the remaining amortization of the costs to achieve of the original outsourcing included in the test year expenses, which reduces the test year expenses by $371,000; and (2) a request for authorization to record the costs to achieve related to BPO 2.0 as a regulatory asset and to permit WGL to match the costs with the benefits that they provide by amortizing them over a five-year period with an equivalent offset of savings.[763]

303. Regarding the amortization component for the Accenture contract, WGL indicates that in the last base rate case, the Commission authorized WGL to amortize the CTA for the Accenture contract over 10 years. Since this amortization will end during the rate effective period, WGL does not propose to amortize the existing balance of the costs in rates. WGL contends that this adjustment removes $371,000 from test year expenses.[764]

304. Regarding the second component, the CTA for BPO 2.0, WGL believes that it will realize significant savings as it transitions to new service providers, although these cost savings are beyond the test year. WGL's goes on to provide the amount of total estimated savings and the District's share of those savings.[765] WGL argues that the CTA are known and

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[762] WGL (D) at 63 (Tuoriniemi).

[763] WGL Br. at 91.

[764] WGL Br. at 91.

[765] WGL Br. at 91-92.

measureable, and are an integral part of the initiatives that generate the savings under BPO 2.0. Thus, WGL contends, they are appropriate for inclusion in the cost of savings in a future rate case.[766]

305. **AOBA.** While AOBA agrees with WGL that removal of the costs to achieve for the Accenture contract in this base rate case is appropriate, AOBA disputes the amount of the costs to achieve that WGL would absorb.[767] AOBA cites to Witness Oliver's testimony in *Formal Case No. 1054* that recommended that all elements of any costs to achieve be allocated to specific outsourced functions, so that if any portions of the Accenture agreement were terminated early, then WGL would bear the burden of the unamortized portions of those costs to achieve.[768] Since some portions of the Accenture contract were either terminated early or absorbed in-house, AOBA argues that WGL should be held responsible for those costs to achieve. For services terminated early, AOBA represents that District of Columbia ratepayers should be reimbursed for a prorated share of the Accenture costs to achieve from the date of termination through the original end date of July 2017.

306. **WGL Response.** WGL replies that the Accenture contract should be evaluated in light of the conditions that existed in 2007, when the Accenture contract was signed. WGL argues that it has demonstrated, in this and other proceedings, that the Accenture contract provided significant cost savings to the District.[769] WGL also argues that Accenture has been providing quality services, as evidenced in Exhibit WGL (2D)-2.[770]

DECISION

307. AOBA and WGL agree that removing the remaining amortization of the costs to achieve of the original Accenture contract (i.e. the first portion of WGL's RMA 30 which reduces test year expenses by $371,000) in this base rate case is appropriate. While AOBA criticizes the amount sought by WGL, arguing for a reduction of that amount, it did not quantify the amount of the reduction that it seeks. After review, the Commission approves the first portion of WGL's RMA 30 which increases operating income by $217,015, finding it substantiated in the record.[771] We address the second part of WGL RMA 30, the request to record the BPO 2.0 costs to achieve as a regulatory asset and permit the Company to match the costs with the savings benefits in the section below.

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766 WGL Br. at 92.

767 AOBA Br. at 75.

768 AOBA Br. at 75-76.

769 WGL R. Br. at 129.

770 WGL R. Br. at 130.

771 WGL (D) at 63 (Tuoriniemi); WGL (D)-2, Page 3 of 3.

B. Is WGL's proposal to defer the costs to achieve associated with the Company's BPO 2.0 in a regulatory asset for consideration in a future rate case reasonable and appropriate?

308. **WGL.** WGL seeks to record the costs to achieve for BPO 2.0 in a regulatory asset for consideration in a future base rate case using a five-year amortization period and applying the costs against the savings generated by the new contracts.[772] WGL argues that its proposal is consistent with prior Commission practice. WGL points to the Commission's decision in *Formal Case No. 1093*, in which the Commission found that amortization of the costs to achieve for the Accenture contract was appropriate because these costs "are known and measureable and properly match costs with benefits."[773] WGL also asserts that when it incurs costs to reacquire debt, the Commission routinely allows WGL to defer gains or losses on the reacquisition and to amortize them over the term of the new debt.[774]

309. **OPC.** OPC argues that WGL's request for regulatory asset treatment for the BPO 2.0 costs to achieve should be denied. OPC argues that WGL has not shown that these costs are non-recurring or extraordinary expenses. Instead, OPC contends, these costs are normal costs of operations.[775] OPC claims that granting deferral and regulatory asset treatment for the costs to achieve for BPO 2.0 would unjustifiably enhance WGL's claim for recovery in future proceedings without the costs and benefits being known or reasonable.[776]

310. Contrary to WGL's contentions, OPC argues that the costs to achieve for BPO 2.0 are not known or measurable. For this position, OPC relies on a statement by WGL Witness Kenahan: "while most of the costs to achieve related to BPO 2.0 have now been incurred, not all costs qualifying as costs to achieve have been finally determined."[777] OPC also argues that the costs to achieve for BPO 2.0 exceed original estimates.[778]

311. OPC discusses WGL's contentions that Commission treated the costs to achieve for the Accenture contract as a regulatory asset as part of the Settlement Agreement in *Formal Case No. 1054*. Because of the Settlement Agreement, OPC argues that the master services agreement was not thoroughly investigated by the Commission when first presented, which

772 WGL (D) at 57-58 (Tuoriniemi).

773 WGL Br. at 92, citing *Formal Case No. 1093*, Order No. 17132, ¶ 208.

774 WGL Br. at 92-93.

775 OPC Br. at 142.

776 OPC Br. at 143.

777 OPC Br. at 146, citing WGL (2N) at 2 (Kenahan) (emphasis by OPC omitted).

778 OPC Br. at 146.

typically occurs.[779] Further, OPC contends, the holdings from *Formal Case No. 1054* are not dispositive because of the Settlement Agreement.[780]

312. To the contrary, OPC contends that the costs to achieve for the Accenture contract were not treated as a regulatory asset. OPC contends that WGL was not allowed to seek recovery of the deferred costs to achieve until the first full base rate case after *Formal Case No. 1054*. OPC further argues that even that recovery was limited as only certain costs to achieve were deemed recoverable upon a showing that recovery of costs was synchronized with the realization of affiliated benefits.[781]

313. Finally, OPC contends that the costs to achieve for BPO 2.0 are ordinary business expenses and do not merit regulatory asset treatment. OPC asserts that the Commission has permitted regulatory asset treatment for cost recovery of extraordinary expenses accumulated in unexpected or precarious financial situations experienced by utilities or as permitted by statute.[782] OPC argues that WGL's costs are different from those permitted as regulatory assets in Order No. 17539. Additionally, OPC notes that this is the second time that it has sought regulatory asset treatment for BPO costs, thus rendering these expenses ordinary.[783]

314. **AOBA.** AOBA argues that there are several criteria for treatment of costs as regulatory assets under Accounting Standards Codification ("ASC") 980-340-25-1: costs that must be previously incurred; actually incurred costs must be reviewed by the Commission for reasonableness before recordation in a regulatory asset account; assessment of whether claimed amounts may be more appropriately charged against the Accenture contract; and the benefits derived from properly classified costs to achieve are exceeded by realized benefits that do not reflect the above market pricing of the previous contract. AOBA claims that WGL's costs to achieve do not meet many of these specifications. First, AOBA argues that some of the claimed costs to achieve have not been incurred, so these costs should not be placed in a regulatory asset account.[784] Second, AOBA maintains that termination and wind-down costs for the Accenture contract should not be charged to BPO 2.0.[785] Finally, AOBA argues against WGL's estimated cost savings in BPO 2.0.[786]

315. **WGL Response.** WGL argues that the *Formal Case No. 1054* report for the test year shows that District of Columbia ratepayers have benefited from the Accenture contract.

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779 OPC Br. at 147.

780 OPC Br. at 148.

781 OPC Br. at 148.

782 OPC Br. at 149.

783 OPC Br. at 150.

784 AOBA Br. at 6-7, 77, 78.

785 AOBA Br. at 77, 78-79.

786 AOBA Br. at 77-78, 79-80.

WGL claims further that it removed all costs to achieve related to the Accenture contract from the test year expenses, so that there are no costs to achieve in the proposed rates.[787]

316. WGL counters OPC's and AOBA's arguments that the BPO 2.0 costs to achieve are not known and measureable by citing to Witness Kenahan's latest estimates in his testimony, estimates of $12.8 million on a system basis, with $9.8 million invoiced. WGL argues that Witness Kenahan testified that costs to achieve are not expected to increase substantially from that level. Additionally, WGL argues that only actual costs to achieve will be deferred.[788]

317. WGL objects to OPC's argument that the BPO 2.0 costs to achieve are normal business expenses. To the contrary, WGL argues that it demonstrated that the BPO 2.0 costs to achieve are not part of WGL's normal business costs. WGL argues that the Commission has defined "extraordinary costs" as costs that are "infrequently occurring."[789] WGL contends that arranging for the continued operation of all of the services outsourced in the Accenture contract was a significant undertaking, not merely normal business practices. WGL argues that it incurred substantial consulting costs, incurring significant transition, termination, and wind-down costs.[790] WGL indicates that the system-wide total for these costs is $12.8 million. However, WGL does not anticipate that it will incur costs at this level for continuation of services after BPO 2.0, since it is staggering the terms of these contracts.[791]

318. WGL rejects AOBA's argument that the Commission's review of WGL costs to achieve will be limited in a future rate case. WGL argues that, in *Formal Case No. 1093*, the Commission reviewed and approved the inclusion of deferred costs to achieve in rate base. WGL contends that the Commission has the continuing right to review the costs to achieve for BPO 2.0 in a future rate case, especially to match the costs and benefits over time.[792]

319. Responding to AOBA's concern that the costs and benefits will not be matched, WGL argues that it has already begun to amortize the costs to achieve. However, WGL offset these costs with projected savings to eliminate any rate impact of BPO 2.0 in this proceeding.[793]

320. WGL urges rejection of AOBA's argument that some of the costs to achieve for BPO 2.0, particularly the wind-down costs of transitioning from Accenture to another provider, should be charged against the savings from that Accenture contract, not BPO 2.0. WGL argues that the wind-down costs will only be for the IT Infrastructure and Customer Services portions of the contract, for a total of $1.6 million. WGL also argues that any termination or wind-down

787 WGL R. Br. at 133.

788 WGL R. Br. at 134.

789 WGL R. Br. at 139, citing *Formal Case No. 1093*, Order No. 17132, ¶ 206.

790 WGL R. Br. at 139.

791 WGL R. Br. at 140.

792 WGL R. Br. at 135-136.

793 WGL R. Br. at 136.

costs became knowable only at the time that WGL made the decision about whether to renew its contract with Accenture or transition to a new provider.[794] Additionally, wind-down costs for the Accenture contract were a necessary component of achieving the cost savings under BPO 2.0, so they should be classified as costs to achieve for BPO 2.0.[795]

321. WGL contests AOBA's assertion that some of the costs to achieve for BPO 2.0 were only savings because of the high Accenture contracts. WGL argues that the reasonableness of the Accenture contract costs should be evaluated according to the circumstances under which the Accenture contract was signed in 2007. WGL contends that it has proved that the Accenture contract resulted in significant cost savings. WGL represents that its customers have received cost savings both from the transition to Accenture in 2007 and from the current transition from Accenture to other providers.[796] WGL argues that it acted prudently in evaluating the effectiveness of the Accenture contract and should not be penalized for its actions.[797]

322. **OPC Response.** OPC characterizes WGL's request for regulatory asset treatment as incongruous with the standards for regulatory assets. While WGL is correct in its assertion that gains and losses on the reacquisition of debt are deferred and amortized, OPC argues that such gains and losses are subject to specific FERC accounting rules that are inapplicable to the BPO 2.0 costs to achieve. OPC asserts that these two types of costs are different. OPC contends that WGL's Witness Kenahan admitted that the BPO 2.0 costs to achieve are recurring/ordinary business expenses, so regulatory asset treatment is not appropriate for these costs.[798]

DECISION

323. WGL asks for regulatory asset treatment of the BPO 2.0 costs to achieve, arguing that the Commission approved the recovery of the Accenture Master Service Agreement ("MSA") costs to achieve over the ten-year amortization period based on the costs supported by WGL. OPC and AOBA argue that the BPO 2.0 costs to achieve should not be deemed regulatory assets.

324. WGL and AOBA argue about whether the accounting standard for regulatory assets, ASC 980-340-25-1, would be applicable to the BPO 2.0 costs to achieve. This standard is two-fold:

> Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

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794 WGL R. Br. at 137.

795 WGL R. Br. at 138.

796 WGL R. Br. at 138.

797 WGL R. Br. at 139.

798 OPC R. Br. at 29.

a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, the criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.[799]

The Commission "generally has been cautious about granting 'regulatory asset' treatment for utility expenses"[800] and has decided that when a regulatory asset is created, "it strengthens a utility's claim that the expense was prudently incurred and suggests that there is a 'reasonable assurance' that the utility will be allowed to recover it in rates."[801]

325. Focusing on the Accounting Standards, ASC 980-340, for regulatory assets as identified by WGL, we note that the Company has testified that the company will only defer actual costs incurred in connection with the BPO 2.0 transition and is not proposing any estimated or projected costs.[802] Therefore, we accept WGL's testimony that the costs to achieve it proposes to include as regulatory assets would be actual costs and would have already been incurred, consistent with the requirements of ASC 980-340-20. However, in order to allow regulatory asset treatment, the Commission has to be persuaded that the expenditure will produce, at least, an equivalent amount of benefits or savings for ratepayers. Although WGL's WGL RMA 30 offsets the amortized costs to achieve with an equivalent amount of savings, the Company has testified that the savings are not as concrete as the costs to achieve.[803] The Commission is also concerned that, unlike in the *Formal Case No. 1054* proceeding, there is no detailed comparison of the BPO 2.0 costs with WGL's in-house costs. In addition, the Commission does not have enough information on how cost levels under the new contracts will compare with market price levels. Therefore, given the lack of details about the new contracts, which the Company testified may start as early as October 2015 and as late as January 2017, and the Company's testimony that the estimated savings are not very concrete at this time, we cannot find that it is probable that the Commission would permit future recovery.

326. As noted in Order No. 17132, the Commission permitted, in *Formal Case No. 1054*, the deferral and amortization of costs to achieve associated with the Accenture MSA for accounting purposes only but without regulatory asset treatment. In *Formal Case No. 1054*,

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799 ASC 980-340-25-1.

800 *Formal Case No. 1103*, Order No. 17539, ¶ 42.

801 *Formal Case No. 1103*, Order No. 17539, ¶ 42.

802 WGL (3D) at 88 (Tuoriniemi).

803 WGL (3D) at 89 (Tuoriniemi).

the savings provided by the Company in support of its decision to outsource were estimated and were projected over a 10-year period. Similarly, in this proceeding the savings associated with RMA 30 are based on an estimate, and are not known for certain.[804]

327. Thus, for all the reasons stated earlier, the Commission declines to permit WGL to record the BPO 2.0 costs to achieve as a regulatory asset in this proceeding. However, instead of an outright rejection of the costs to achieve, WGL, for accounting purposes only, may defer and amortize the actual costs to achieve on the Company's books of account over a 5 year period. The Commission's approval of the Company's accounting treatment for these costs shall not constitute either express of implicit approval of their inclusion in customer rates, or express or implicit agreement that these costs constitute a "regulatory asset" for ratemaking purposes. The parties retain their full rights to review, and challenge, if applicable, the recovery of these costs in rates in the Company's next rate case, wherein the Commission expects to review these costs to achieve and the associated savings.

328. Furthermore, in order to facilitate a thorough review of WGL's costs to achieve and associated savings in the next rate case, we are hereby directing WGL to file annual reports on its costs and savings under BPO 2.0. The reports must be detailed enough to demonstrate the District's net savings for each administrative and general ("A&G") function being provided through BPO 2.0, in support of the Company's estimated savings from this proceeding. The Company is hereby on notice that these costs to achieve and the cost to provide the A&G functions under BPO 2.0, along with the associated savings, will be scrutinized from multiple perspectives, including a comparison to market costs in the next general rate case.

329. Finally, contrary to OPC's position, the Commission determines that the BPO 2.0 costs to achieve are not ordinary business expenses. These expenses have been incurred to evaluate and determine what business processes should continue to be outsourced or should be brought in-house. For the business processes that continue to be outsourced, the costs to achieve were expended on finding vendors that could provide high-quality services at cost-effective prices. The costs to achieve are infrequently occurring, not normal business expenses. However, for the reasons already provided, we will not grant regulatory asset treatment of these costs at this time.

C. Were the costs and savings associated with the Accenture Agreement appropriately reflected in the current base rates?

330. **WGL.** Through its report filed in *Formal Case No. 1054*, WGL argues that it has shown that the costs and savings associated with the Accenture agreement are appropriately reflected in base rates. WGL provides the amount of test year savings for District customers from the Accenture contract (as compared to the provision of these services in-house). WGL also asserts that the *Formal Case No. 1054* reports show that, on the whole, Accenture has been providing quality service.[805]

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804 WGL (D) at 60 (Tuoriniemi).

805 WGL Br. at 93.

331. **OPC.** OPC argues that it is not possible to tell whether the costs and savings are appropriately reflected in rates. OPC also contends that the current savings cannot be readily identified in the current cost of service.[806]

332. **WGL Response.** Contrary to OPC's contention, WGL argues that the costs of the Accenture contract, including those for the test year, have been included in the *Formal Case No. 1054* reports. WGL asserts that these same reports include all cost reductions from WGL actions to bring services back in-house during the test year as well as bill credits provided by Accenture for failure to meet metrics in the contracts.[807] WGL contends that all test year savings are in these reports.[808]

DECISION

333. This issue arises from the extraordinary circumstance in which the Settlement Agreement permitted WGL to defer and amortize the costs to achieve of the Accenture contract. However, in *Formal Case No. 1054*, the Settlement included a provision requiring WGL to file reports on the Accenture contract in part to track the Accenture contract costs and savings.[809] These annual reports provided a comparison between performing certain A&G functions under the Accenture Agreement and performing them in-house. The Commission has reviewed both the reports from *Formal Case No. 1054* and the evidence presented in this proceeding, and determines that ratepayers did receive a benefit from the Accenture contract, which relates to performing certain administrative and general functions in-house versus using Accenture. Additionally, contrary to OPC's contentions, WGL has quantified the net savings that were included in the test year. Thus, the costs and savings associated with the Accenture Agreement are appropriately reflected in the current base rates.

XI. JURISDICTIONAL COST ALLOCATION (ISSUE 15)[810]

334. **WGL.** WGL states that its Jurisdictional Cost Allocation Study, which allocates rate base, operating revenues and operating expenses among the three local jurisdictions in which the Company operates, is consistent with the methodology approved by the Commission in its last rate case.[811] In addition, no party has argued against the jurisdictional cost allocation

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[806] OPC Br. at 147.

[807] WGL R. Br. at 140.

[808] WGL R. Br. at 140-141.

[809] *Formal Case No. 1054, In the Matter of the Application of Washington Gas Light Company for Authority to Increase Existing Rates and Charges for Gas Service*, Order No. 14694, Attachment A at 8-9, rel. December 28, 2007.

[810] Designated Issue 15: "Is the jurisdictional cost allocation for WGL's customers in the District of Columbia reasonable and consistent with the Commission's approved methodology and does the Company's methodology produce allocation results that are reasonable and appropriate for setting rates in the District of Columbia?"

[811] WGL Br. at 103. *See* WGL (D)-4 (WGL's jurisdictional cost allocation study) and *Formal Case No. 1093*, Order No. 17132, ¶274.

methodology or suggested any changes.[812] Thus, WGL maintains that "the record supports the approval of the Company's jurisdictional cost allocation methodology and study as reasonable."[813]

DECISION

335. No party opposed or suggested changes to the Company's jurisdictional cost allocations. After examination of the Company's jurisdictional cost allocations, the Commission approves them as reasonable.

XII. INTERRUPTIBLE CUSTOMERS (ISSUE 19)[814]

A. Should WGL's Interruptible Sales Service be terminated?

336. **WGL.** WGL indicates that it currently offers Interruptible Sales Service ("ISS") under Interruptible Sales Service – Rate Schedule No. 3. WGL asserts that any ISS customer is eligible to move to Interruptible Delivery Service – Rate Schedule No. 3A and to purchase gas supplies from any licensed competitive natural gas supplier under the Customer Choice Program.[815] WGL argues that ISS customers have two choices for obtaining their required gas volumes. WGL does not support the elimination of ISS, since elimination would leave ISS customer with only the interruptible delivery service ("IDS") option. WGL asserts that no customer class is harmed by the existence of the ISS option. To the contrary, WGL contends that firm customers benefit from the higher margins charged to ISS customers, which increase the amount of credits provided to firm customers through the margin sharing mechanism.[816]

337. **OPC.** OPC supports the continuation of ISS.[817]

338. **AOBA.** AOBA believes that the termination of ISS is reasonable and appropriate, arguing that market changes have rendered ISS pricing unnecessary. AOBA claims that WGL has used the flexible pricing in ISS to extract inordinately large margins from the limited number of comparatively small ISS customers.[818] AOBA contends that WGL's average distribution margin for ISS during the test year was \$0.6521. AOBA contrasts this figure to WGL's fixed distribution rates for IDS customers of \$0.1700 per therm for the first 70,000 therms per month and \$0.1564 per therm in excess of 70,000 therms per month, which were set in *Formal Case No. 1093*. AOBA calculates that the average test year distribution margins

812 WGL Br. at 103.

813 WGL Br. at 103.

814 Issue 19 asks: "How should the following fundamental issues, related to interruptible customers, be resolve?"

815 WGL Br. at 116-117.

816 WGL Br. at 117.

817 OPC Br. at 165.

818 AOBA Br. at 85.

extracted from the comparatively small ISS customers was 4.67 times the average test year distribution margins WGL obtained from IDS customers.[819]

339. If ISS continues, AOBA argues that value of service pricing should be eliminated for ISS customers. AOBA believes that ISS customers should pay the same fixed distribution charges that IDS customers pay.[820] Contrary to WGL's assertions, AOBA argues that elimination of ISS does not give customers only one choice. Instead, AOBA asserts, there is a viable competitive market for interruptible services, evidenced by the fact that 94% of WGL interruptible customers purchase their gas supply through alternative providers and many have been doing so for more than a decade. AOBA also contends that competitive gas suppliers offer a wide variety of pricing options, so elimination of ISS would not remove an important element of customer choice from ISS customers.[821]

340. AOBA argues that the greatest concern for the Commission regarding ISS should be the gouging of ISS customers. AOBA believes that the solution to this problem would be to ensure that both ISS and IDS customers use a common set of fixed distribution charges.[822]

341. Because of the problems with ISS, AOBA presents three options for modifying the ISS tariff.[823] The first option AOBA presents is to eliminate ISS at a future specified date. AOBA suggests that this date be six months from the close of this proceeding to permit the few customers on ISS the opportunity to find new providers of gas supply services. AOBA suggests that tariff language should be added to existing Rate Schedule No. 3 to specify that any customer that does not arrange for an alternative gas services supplier by the termination date would automatically be transferred to WGL's firm rate schedule.[824]

342. AOBA's second option is to set the distribution service charges at the same fixed levels per therm as those established in Rate Schedule No. 3A. Since ISS customers may transfer to IDS at any time, setting the distribution service charges at the same level for both services would insulate WGL from any potential gain or loss of distribution revenue due to a customer's choice of gas supplier.[825]

343. AOBA's third option is its least favorite. AOBA argues that WGL can adopt the same pricing method for ISS that is does in Virginia. AOBA asserts that the Virginia method does eliminate some price gouging potential, but it does not eliminate value of service pricing

819 AOBA Br. at 86.

820 AOBA Br. at 86.

821 AOBA Br. at 87.

822 AOBA Br. at 88.

823 AOBA Br. at 96.

824 AOBA Br. at 96-97

825 AOBA Br. at 97.

when that type of pricing is unnecessary and unjustified. AOBA proposes the language for this option in its testimony.[826]

344. **WGL Response.** In response to AOBA's concerns about the high charges to ISS customers, WGL argues that it files new ISS rates every month. Additionally, these rates cannot exceed the sales rates charged to firm customers.[827]

345. Contrary to AOBA's claims, eliminating ISS would leave some ISS customers with only one option for service. WGL argues that not all ISS customers want to switch to a competitive natural gas service provider for a variety of reasons. For those customers, WGL contends that elimination of ISS would leave them with only one option for service. WGL also asserts that ISS can choose to move to IDS at the beginning of every month. WGL believes that customers should continue to have both ISS and IDS options.[828]

346. **AOBA Response.** AOBA contests WGL's argument that ISS customers have only two options for service. AOBA points to the evidence showing that there are 13 competitive natural gas suppliers that can offer services to ISS customers. AOBA contends that these offerings are not limited to fixed price offerings. AOBA represents that competitive suppliers can offer any service that WGL can. As proof, AOBA notes that 94% of interruptible customers are served by competitive suppliers, providing 98% of the interruptible service volumes delivered by WGL.[829]

DECISION

347. WGL and OPC believe that ISS should still be offered, while AOBA believes that it should be eliminated. The Commission notes that there are very few ISS customers currently receiving services through Rate Schedule No. 3. In this proceeding, AOBA Witness B. Oliver noted that "during the test year only 5.8% of the Company's average numbers of Interruptible Service customers in the District used Interruptible Sales Service under Rate Schedule 3."[830] Additionally, the Commission notes that ISS customers have more than one choice of natural gas supplier. Given the small number of ISS customers and the choices that they have, the Commission determines that ISS should be eliminated. While the elimination of ISS may impact the amount of margin sharing revenues, this impact should be minimal for two reasons: (1) the small number of ISS customers does not contribute greatly to the margin sharing revenues; and (2) most, if not all, of these ISS customers are likely to convert to IDS and still contribute to margin sharing.

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[826] AOBA Br. at 97.

[827] WGL R. Br. at 169.

[828] WGL R. Br. at 169.

[829] AOBA R. Br. at 11.

[830] AOBA (A) at 169 (B. Oliver). WGL (M)-1, Schedule C, page 1 of 2, also shows that the average number of interruptible customers for the 12 months ending September 30, 2016 was 161.

B. Should WGL's margin sharing of Interruptible Service distribution revenue be adjusted or ended?

348. **WGL.** WGL explains that at the end of each Actual Cost Adjustment ("ACA") period ending in August, new margins from all revenues from interruptible customers are shared between customers and WGL under WGL's interruptible margin sharing mechanism. Under the sharing mechanism, WGL represents that 90% of the net margins are credited to the Distribution Charge Adjustment ("DCA") and returned to firm customers, thus reducing the per therm charges for firm customers. WGL indicates that it retains the remaining 10%.[831] For the ACA period ending August 2015, WGL asserts that firm customers received a credit of $11 million through the DCA mechanism or a credit of $0.0466 per therm to the tariffed rates.[832]

349. WGL opposes termination of its sharing in the interruptible margins. WGL asserts that the purpose of margin sharing of interruptible revenues is to incent WGL to market interruptible service and maximize the margins. WGL argues that margin sharing clearly benefits firm customers. Margin sharing also provides an incentive for WGL to minimize service disruptions, which lead to lost margins. WGL claims that it has overseen interruptible service through strong management and maintenance of its distribution system, motivated by a strong workforce.[833]

350. WGL also notes that the Commission is seeking to modernize the energy distribution system in the District of Columbia through *Formal Case No. 1130*. WGL asserts that it will be seeking new ways of utilizing natural gas, including obtaining new interruptible customers through micro-grids and other new developments in the District of Columbia, including the Walter Reed site. For this reason, WGL argues that the Commission should not adjust or terminate WGL's share of interruptible margins under the margin sharing arrangement.[834]

351. **OPC.** OPC believes that the current margin sharing appears to be a reasonable balance between incenting WGL to pursue interruptible sales and benefiting ratepayers who receive firm service from WGL. OPC argues that this distribution should be continued.[835]

352. **AOBA.** AOBA supports the elimination of WGL's participation in the sharing of distribution revenue margins from interruptible service customers, arguing that it is no longer necessary or justifiable. AOBA asserts that the revenues collected from interruptible service customers are no longer at risk due to competition from alternative fuels. AOBA notes that

[831] WGL Br. at 117.

[832] WGL Br. at 117-118.

[833] WGL Br. at 118.

[834] WGL Br. at 118.

[835] OPC Br. at 166.

WGL's analysis of its costs shows that the interruptible customers are earning WGL a 13.39% rate of return.[836]

353. AOBA argues that margin sharing was originally adopted to provide incentives to utilities to maximize the revenue margin derived from interruptible customers due to competition from fuel oil. However, in today's market, AOBA claims, WGL is using its interruptible distribution service charges to gouge a few small ISS customers. AOBA contends that the vast majority of interruptible volumes for which WGL earns a share of revenue margins are billed at fixed IDS rates. At those volumes, AOBA asserts, margin sharing does not provide either effective incentives to WGL or sufficient compensation for cost recovery risk. AOBA argues that there is no compelling reason to continue margin sharing.[837] Instead, AOBA argues, firm customers should receive 100% of the margin.[838]

354. AOBA contests WGL's argument that, without margin sharing, it would be underfunded in its attempts to add new interruptible customers. AOBA argues that, in response to a data request, WGL indicated that interruptible margin sharing was revenue allocation not related to funding. AOBA claims that WGL also asserted in the same data request response that costs related to add new firm or interruptible customers would be collected in the cost of service.[839]

355. AOBA also seeks an adjustment, AOBA Adjustment 4, Taxes on Company Revenue Sharing Retentions, arguing that earnings are "net" revenue amounts, the entire amount retained by the Company should be considered taxable income, and the taxes associated with those amounts should be computed at the full applicable state and federal tax rates.[840]

356. **WGL Response.** Contrary to AOBA's argument, WGL asserts that the current margin sharing incents WGL to aggressively market interruptible services, which adds net margins that benefit both ratepayers and WGL. WGL notes that OPC agrees with WGL.[841] WGL claims that it is actively trying to develop more customers in general, including interruptible customers, and that the margin sharing mechanism provides WGL with an incentive to seek out interruptible customers to the benefit of firm customers.[842]

357. WGL also urges the Commission to reject AOBA Adjustment 4. WGL argues that tax allocation has already been made in the preparation of the WGL cost of service.[843]

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836 AOBA Br. at 88-89.

837 AOBA Br. at 89.

838 AOBA Br. at 89-90.

839 AOBA Br. at 90.

840 AOBA (A) at 97 (B. Oliver).

841 WGL R. Br. at 170.

842 WGL R. Br. at 170-171.

843 WGL (3D) at 79 (Tuoriniemi).

358. **AOBA Response.** AOBA notes that with the elimination of margin sharing, 100% of the margins would go to firm customers, instead of 90%. AOBA also notes that while it is technically correct that DCA credits would be lost with the elimination of margin sharing, an equal or greater amount of credits would be provided to firm customers in the form of reduced base rate charges. AOBA also argues that these credits would be built into base rates, providing firm service customers greater certainty in benefiting from the credits than fluctuating DCA amounts.[844]

359. Since 98% of WGL's test year interruptible service volumes were billed under fixed distribution charges, AOBA represents that the margin revenue from these fixed charges will not be affected by a Commission decision to terminate WGL's sharing in interruptible revenue margins.[845]

360. AOBA identifies three sources of interruptible margin revenue: (1) distribution margins from IDS customers (the largest percentage); (2) distribution margins from Special Contract customer (the second largest percentage); and (3) distribution revenue from ISS customers. AOBA claims that interruptible delivery service volumes provided by IDS and Special Contract customers account for approximately 98% of total volumes billed. These two sources also account for over 91% of WGL's billed distribution revenue margins for the test year. Since these volumes are billed at fixed rates, AOBA argues that WGL has little flexibility to maximize distribution charge revenues. Thus, AOBA concludes, margin sharing is not a productive use of funds that could otherwise go to firm customers.[846]

361. AOBA contends that only 2% of WGL's annual interruptible service volumes are billed under ISS. AOBA claims that the number of customers and their average annual usage are comparatively small. To AOBA, this means that the incentives for WGL have limited applicability. AOBA asserts that WGL has obtained a disproportionate share of its test year interruptible margin revenue from a very small set of ISS customers. AOBA contends that there is not enough total margin revenue derived from ISS customers to justify the levels of margins that WGL has been retaining on an annual basis.[847] Thus, WGL should not be retaining 10% of the margin revenue.[848]

362. AOBA argues that WGL's attempts to maximize its distribution margins from ISS customers should not be applauded. AOBA claims that the margins that WGL obtains from these customers are well beyond what is reasonable.[849] AOBA asserts that WGL's actions to maximize interruptible service revenue for the wrong reasons, so it is inconsistent with the Commission's responsibility to ensure that all customers are served at just and reasonable

[844] AOBA R. Br. at 12.

[845] AOBA R. Br. at 13.

[846] AOBA R. Br. at 13-14.

[847] AOBA R. Br. at 14.

[848] AOBA R. Br. at 14-15.

[849] AOBA R. Br. at 15.

rates.[850] AOBA claims that fuel oil options have not limited WGL's pricing of distribution services to ISS customers, so that WGL's current method of interruptible revenue sharing and flexible pricing of ISS do not serve the public interest.[851]

363. AOBA argues that no margin sharing is justifiable on Special Contract revenues. AOBA argues that, for Special Contracts, WGL has foregone substantial revenue margins for interruptible service. AOBA claims that WGL assumed no risk of recovery of revenue margins given up in negotiations and thus should not receive any incentives or benefits for negotiating special contracts that produce negative rates of return.[852]

364. AOBA contends that interruptible margin sharing incentives are not necessary for WGL to attract new interruptible customers. AOBA represents that costs of marketing are paid by firm customers through costs of service. Additionally, AOBA argues competition from alternate fuels is met through competitive natural gas suppliers.[853]

365. AOBA notes that WGL has requested authority to negotiate rates for combined heat and power ("CHP") and distributed generation ("DG") customers who seek interruptible service. AOBA argues that this request is premature, inappropriate, and unjustified. AOBA contends that granting this authority would permit WGL to negotiate additional contracts in which WGL foregoes substantial revenue margins.[854]

DECISION

366. The parties have widely differing views on this issue, with WGL and OPC supporting the continuation of margin sharing as an incentive for WGL, while AOBA adamantly opposes the continuation. After review of the record, the Commission finds that the margin sharing should remain. The Commission agrees with OPC that the current margin sharing provides a reasonable balance between incenting WGL to pursue interruptible sales and benefiting ratepayers who receive firm service from WGL.

367. Further, the Commission rejects AOBA's Adjustment 4. The Commission finds that the Company's exhibits demonstrate that both the revenues for margin sharing and the taxes on those revenues were properly removed. Consequently, no further adjustment is necessary.[855]

368. Due to the changes in the marketplace, the Commission believes that in the next rate case, it should investigate whether interruptible distribution revenues should be included within the cost of service revenues. Thus, in the next base rate case, WGL shall provide a Class

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850 AOBA R. Br. at 15-16.

851 AOBA R. Br. at 16.

852 AOBA R. Br. at 16.

853 AOBA R. Br. at 17.

854 AOBA R. Br. at 17.

855 *See* WGL (3D) at 79 (Tuoriniemi).

Cost of Service Study ("CCOSS") that treats all customers as regulated customers and allocates the interruptible elements of the DCA within the cost of service.

C. Have revenues from the Interruptible Service and Watergate Classes been reasonably included in WGL's class cost of service studies; how does WGL's class cost of service study account for Interruptible Service and Watergate classes in its various class cost of service studies; and how do these studies calculate the costs and class rate of returns for Interruptible Service and Watergate customers?

369. **WGL.** WGL asserts that it has included revenues from service to Watergate and interruptible customer charge amounts through the CCOSS. WGL contends that in Exhibit WGL (M)-3, page 3, Line 28 revenues from Watergate and interruptible customers are included in the "Total Non-Firm" column and reflected in the Return Earned.[856]

370. WGL also asserts that it has properly accounted for interruptible and Watergate customers in the CCOSS. WGL contends that the jurisdictional cost of service study only includes Customer Charge revenue for interruptible customers, along with a matching amount of tax revenues and costs. For Watergate, WGL asserts that the Watergate revenue and a matching expense account have no impact on the jurisdictional cost of service study.[857] WGL represents that the CCOSS includes the revenue from the jurisdictional cost of service study plus all Distribution charge revenue.[858]

371. **OPC.** OPC asserts that WGL's CCOSS treats the interruptible service and Watergate classes in the same way that they were treated in the last rate case. OPC recommends no changes to WGL's treatment of this revenue.[859] OPC also argues that it appears that WGL has treated these classes in the same way that they were treated in *Formal Case No. 1093*. OPC claims that no distribution margins are included in the current case.[860]

372. **AOBA.** Because over 98% of non-Special Contract and non-Interruptible Service customers are being billed under fixed delivery service charges, AOBA argues that there is no justification for WGL's participation in the sharing of these revenues. Nor is there any remaining reason to treat non-Special Contract and non-Interruptible Service revenue any differently than revenue received from any firm service rate class.[861]

373. AOBA argues that WGL's CCOSS does not reasonably or appropriately assess its costs of providing service to interruptible customers. AOBA contends that while WGL presents

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856 WGL Br. at 119.

857 WGL Br. at 119.

858 WGL Br. at 119-120.

859 OPC Br. at 166.

860 OPC Br. at 167.

861 AOBA Br. at 94.

allocations of costs to interruptible customers as part of its CCOSS, these allocations are inadequate. AOBA asserts that the analysis does not recognize distribution charge revenue for interruptible service customers. To AOBA, this omission understates the rate of return for interruptible service. AOBA contends that the understated rate of return leads to distortion of the allocations of Federal and District income taxes in a way that overstates the income tax responsibilities of interruptible customers. This distortion causes a cascading distortion of the income tax responsibilities of firm customers.[862]

374. AOBA criticizes WGL's attempt to develop costs of service for interruptible customers with distribution charge revenues included. AOBA argues that these assessments significantly diminish the reliability of the interruptible cost of service allocations.[863]

375. **WGL Response.** WGL contends that it has included all revenues from service to Watergate and interruptible customer classes in the CCOSS. Contrary to AOBA's contentions, WGL does not include the interruptible revenues from distribution charges because they are not ratemaking revenues; instead, they are credited to firm customers through the DCA.[864]

376. WGL objects to AOBA's apparent request to create a CCOSS for Special Contracts because creating a CCOSS for one or two customers would not provide meaningful information.[865]

DECISION

377. As the Commission has stated, it is considering whether interruptible distribution revenues should be included in the cost of service. Thus, the Commission directs WGL to file an alternative CCOSS in its next rate case that includes all interruptible revenue and costs for one or more interruptible classes within the overall CCOSS instead of an extra or sequential analysis. This alternative CCOSS should consider the value or cost of the distribution system capabilities supported by firm customers but utilized by interruptible customers as well as the appropriate allocation methodology for these capabilities.

378. At least six months prior to the next base rate case, WGL shall file the model, format, and allocation methods necessary to include Special Contract customers, IDS customers, and other potential classes or subclasses. The allocation methods should include one or more methods to reflect how the non-peak capacity used to serve these customers has been allocated to them and/or credited to firm customers. The CCOSS should include space and "switches" to allow the Commission and other parties to select one or more allocation methods for non-peak capacity.

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862 AOBA Br. at 95.

863 AOBA Br. at 95.

864 WGL R. Br. at 171.

865 WGL R. Br. at 172.

D. Should any changes to WGL's tariff, including but not limited to, Rate Schedules Nos. 3 (Interruptible Sales Services), 3A (Interruptible Delivery Service), 5 (Firm Delivery Service Supplier Agreement), and 6 (Small Commercial Aggregation Pilot), be made?

379. **WGL.** WGL argues that there should be no changes to Rate Schedule 3, with the exception of the increased Customer Charge of 25%. WGL asserts that it is proposing the same 25% Customer Charge increase on all customer classes, including the interruptible customer classes.[866]

380. WGL argues that there should be no changes to Rate Schedule No. 3A, with the exception of the proposed 25% increase for the Customer Charge and a decrease in the Delivery Charge. WGL also proposes a reduction in the Distribution Charges to reduce the class return to the cost of capital requested in this case.[867] WGL contends that this reduction is overall decrease of approximate 9% in the interruptible rates, through reductions to the two-part distribution rates.[868]

381. WGL does not propose any changes to Rate Schedule No. 5 at this time. WGL represents that it recently proposed changes to this Rate Schedule in *Formal Case No. 1128* and *GT2014-03*, which were approved by the Commission in Order No. 18282.[869]

382. WGL recommends the elimination of Rate Schedule No. 6 because there are no customers on this rate schedule.[870]

383. **OPC.** OPC has no changes to recommend.[871]

384. **AOBA.** AOBA has significant concerns with Rate Schedule No. 3, the ISS tariff. AOBA is concerned about the pricing of ISS, which it views as exorbitant, and is concerned about the inappropriate and unnecessary use of flexible pricing for ISS.[872]

DECISION

385. As noted above, the Commission finds that elimination of Rate Schedule No. 3 (Interruptible Sales Service) is appropriate at this time. WGL shall file a compliance plan (or transition plan), within 30 days of the date of this order, to achieve this purpose. Also at this time, the Commission accepts WGL's position that there is no need to modify Rate Schedule

[866] WGL Br. at 120.

[867] WGL Br. at 120.

[868] WGL Br. at 120-121.

[869] WGL Br. at 121.

[870] WGL Br. at 122.

[871] OPC Br. at 167.

[872] AOBA Br. at 96.

No. 3A (Interruptible Delivery Service), except for the increase in the Customer Charge from $80 to $100 per customer. No party has opposed this increase. Rate Schedule No. 5 (Firm Delivery Service Supplier Agreement) was just modified in Order No. 18282, and no further changes are necessary. Rate Schedule No. 6 (Small Commercial Aggregation Pilot) should be discontinued as there are no customers on this service.

XIII. REVENUE REQUIREMENT

386. The Commission concludes that, as a result of the findings and conclusions set forth in this Opinion and Order, that WGL's District of Columbia test-year distribution rate base is $255,674,210 upon which the Company is authorized to earn a 7.57% rate of return, which equates to $19,354,538 annually. The Company's net test-year operating income including allowance for funds used during construction ("AFUDC") is $12,944,307, which is deficient by the amount of $6,410,231. When tax payments are accounted for, along with the AOC Special Contract, the Commission finds that an $8,510,251 revenue increase is appropriate for WGL and will still allow the Company to earn its authorized rate of return. WGL's revenue increase is on an annual basis. The specific RMAs that led to the $8,510,251 revenue increase are in the table below and also included in the Attachments, C. Schedule 3 to this Order.

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA

Docket No. FC 1137
Schedule 3

Washington Gas Light Company
Twelve Months Ending September 30, 2015
Approved Ratemaking Adjustments and Impact on Revenue Deficiency

Line		Description	Approved Amount (A)
1		Company's Initial Revenue Deficiency	$ 17,408,063
2		**Company's Revised Revenue Deficiency**	$ 17,240,931
3		**Impact of Approved Rate of Return**	(3,006,659)
4		**Impact of Approved Ratemaking Adjustments**	
5	RMA-1	Adjust Cash Working Capital for Adjustments	(71,853)
6	RMA-2	Remove PROJECTpipes CWIP, Transfer VMCR to Regulatory Asset (WGL #24 and #25; OPC #1, OPC #2)	(791,758)
7	RMA-3	Modify Amount and Amortization of Abandoned Peaking Plant Regulatory Asset (WGL #31; OPC #3)	(249,109)
8	RMA-4	Impact of Modified Depreciation Rates (WGL #25; OPC #5)	(709,938)
9	RMA-5	Eliminate SERP (WGL #15; OPC #6)	(846,303)
10	RMA-6	Eliminate Executive Long Term Incentive Compensation (OPC #7)	(2,517,672)
11	RMA-7	Eliminate UDT and ODT R&D Funding (WGL #36; OPC-YM; AOBA)	(182,247)
12	RMA-8	Modify Short-Term Incentive Compensation to Exclude Non-Utility EBIT and Utility ROE Goals (OPC #8)	(254,050)
13	RMA-9	Interest Synchronization (WGL #28; OPC #10)	(101,092)
14		**Approved Revenue Deficiency**	$ 8,510,251

XIV. CUSTOMER CLASS DISTRIBUTION OF THE RATE INCREASE AND RATE DESIGN

387. The Commission must determine how to distribute WGL's $8,510,251 revenue increase for the District among the Company's customer classes and then a rate design to charge each class member.

388. As proposed by WGL at the direction of the Commission, WGL's customers are broken up into four broad classes. The three firm service categories of customers are: (1) the

Residential class, (2) Commercial and Industrial ("C&I") class, and (3) Group Metered Apartments ("GMA"). The fourth non-firm class is the Interruptible class ("Non-Firm"). To enable appropriate rate design for different usage characteristics and service costs, each of these broad classes are broke up into several sub-groups. The Residential class is comprised of: (1) Residential Heating and/or Cooling ("Residential HTG/CLG" or "RES-H/C"), Residential Non-heating and Non-cooling/Individually Metered Apartments ("Residential NON H/C-IMA" or "RES-NON H/C-IMA"), and Residential Non-heating and Non-cooling/Other ("Residential NON H/C-Other" or "RES-NON H/C-Other"). The C&I class is comprised of: (1) C&I/non-heating and non-cooling ("C&I-NON H/C"), C&I Heating and/or Cooling/3,075 therms or more ("C&I-H/C ≥ 3,075"), and C&I Heating and/or Cooling/less than 3,075 therms ("C&I-H/C < 3,075"). The GMA class is comprised of: (1) GMA non-heating and non-cooling ("GMA-NON H/C"), GMA Heating and/or Cooling /3,075 therms or more ("GMA H/C ≥ 3,075"), and GMA Heating and/or Cooling/less than 3,075 therms ("GMA-H/C < 3,075"). Finally, as discussed above in Section XIII, the Interruptible class is comprised of: (1) ISS, (2) IDS, and (3) Special Contracts.

A. Class Cost of Service Study (Issue 16)[873]

389. **WGL**. WGL has presented a class cost of service study ("CCOSS") that the Company believes followed reasonable, appropriate approaches to allocating the revenue requirement among the customer classes.[874] WGL's states that its CCOSS "allocates the components of rate base, revenues and operating expenses among the Company customer classes . . . and generally relies on the same allocation principles used in the Jurisdictional Allocation Study."[875] The Company acknowledges that the alignment of the CCOSS and the allocations used in the Jurisdictional Allocation Study is a modification of the CCOSS approved in *Formal Case No. 1093*. WGL also notes that where jurisdictional allocations could not be readily aligned (distribution plant) the Company used allocation factors used in prior cases with the exception of the allocation of income taxes, which are consistent with Exhibit WGL (D)-6, which reconciles the effective tax rate in the District.[876]

390. The Company's CCOSS shows that while its District of Columbia jurisdictional average ROR is 4.41%, the residential classes are currently earning much lower or negative class RORs.[877] Specifically, WGL's Residential classes includes: negative 13.24% (Residential NON H/C-IMA); negative 8.95% (Residential NON H/C-Other); and 0.15% (Residential HTG/CLG).[878] Whereas, WGL's non-residential classes, particularly the non-heating and non-cooling classes, are earning class RORs well above the system average. These include class

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873 Designated Issue 16 asks: "Are the data allocation methods used in WGL's class cost of service study reasonable, appropriate, and complete?"

874 WGL Br. at 103.

875 WGL Br. at 103.

876 WGL Br. at 103-104.

877 WGL (M)-3, Attachment 1, page 1 of 44.

878 WGL (M)-3, Attachment 1, page 1 of 44.

RORs of: (1) 32.94% (C&I-NON H/C); (2) 22.84% (GMA-NON H/C); (3) 22.55% (C&I-H/C ≥ 3,075); (4) 21.25% (GMA H/C ≥ 3,075); (5) 28.29% (GMA-H/C < 3,075); and (6) 12.97% (C&I-H/C < 3,075).[879] The Company submits that it is appropriate to use its CCOSS as a basis for moving these widely varying class RORs gradually toward more equalized class RORs.[880]

391. Lastly, WGL asserts that AOBA is the only party that has raised any concerns about the Company's CCOSS.[881] AOBA's concerns deal with the Weather Normalization Study, which WGL argues that it has addressed and demonstrated that they are without merit and should be dismissed.[882]

392. **AOBA.** AOBA recognizes that many elements of the Company's CCOSS have been litigated and accepted by the Commission in past proceedings. Nevertheless, AOBA highlights three elements of the CCOSS that are problematic.[883] First, the CCOSS provided by WGL relies on the estimates of Normal Weather therms and associated revenue and are therefore impacted by AOBA's alleged problems with the Normal Weather Study. AOBA argues that the impact must be expected to have uneven impacts on the revenue and therm use by rate classes, which generate the results in the CCOSS. Although the impact on the residential class is comparatively small, according to AOBA, other classes have double-digit impacts and corrected therm use estimates could noticeably alter the relative magnitudes of the ROR computed by WGL.[884]

393. Second, AOBA is concerned with WGL's treatment of distribution revenues for non-firm customers. AOBA believes that there are a "grossly inappropriate and [an] inequitable allocation of Federal and District income tax responsibilities among all rate classes (firm, interruptible and Special Contracts)."[885]

394. Third, AOBA contends that WGL's analysis of the costs of serving Non-Firm (interruptible) customers is impeded by WGL's failure to separately examine the costs of service for customers served under Rate Schedules No. 3 and 3A (Interruptible Sales and Delivery Service) and its costs for providing service to Special Contract customers. AOBA indicates that this is more fully covered under Issue 19(c), addressed in Section XII, C.[886]

879 WGL (M)-3, Attachment 1, page 1 of 44.

880 WGL Br. at 105.

881 WGL R. Br. at 150.

882 WGL R. Br. at 150-151.

883 AOBA Br. at 98.

884 AOBA Br. at 99-100.

885 AOBA Br. at 99.

886 AOBA Br. at 99.

DECISION

395. The Commission accepts WGL's CCOSS as a useful guide for revenue allocation. The Company's CCOSS generally relies on the same allocation principles used in the Jurisdictional Allocation Study. This represents a modification to the CCOSS approved by the Commission in *Formal Case No. 1093*. Where jurisdictional allocations could not be readily extended to a class cost of service allocation, such as for distribution plant, the Company allocated the cost components using factors that were used in class cost of service studies in prior cases, with one notable exception related to the allocation of income taxes.[887] However, we notice that the Interruptible class along with Special Contracts have not been integrated into the CCOSS. Although the Commission believes that improvements can be made to the study in the future, we find that the data and allocation methods used in the Company's CCOSS provide a reasonable basis for allocating WGL's revenues requirements among customer classes.

396. The Company's CCOSS provides the Commission with an opportunity to compare the class rates of return with the overall return to determine which customer classes are providing higher and lower than system average rates of return. The current study shows that the residential classes are continuing to earn rates of return that are lower than the system average while at the same time the non-residential classes are earning rates of return that are almost double the system average. With respect to AOBA's concerns, the Commission has already determined that the Company's Normal Weather Study is reasonable and we are not persuaded to address it again. With the exception of the situation of the Interruptible class and Special Contract Customers, as discussed infra in Sections XII, C and D, the Commission finds that no party demonstrated changed circumstances or set forth any good reason warranting a change to the established methodology that the Company used to develop its CCOSS study in the present case.[888]

B. Allocating WGL's Revenue Requirement (Issue 16(a))[889]

397. **WGL.** WGL contends that the Company's proposal results in a gradual movement towards parity of return among customer classes and asserts that the Company's proposal is reasonable and should be adopted.[890] WGL uses a two-step process to allocate revenue to move the rate of return for each customer class towards the system average return.[891] The first step assigns a revenue increase to the residential classes (with negative or low class returns) and a revenue decrease to all non-residential firm classes. The second step allocates the

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887 WGL Br. at 103-104.

888 *See*, *e.g.*, *Formal Case No. 989*, Order No. 12589, ¶¶ 363, 364 (party challenging one of the Commission's established rate making methodologies bears a significant burden to show changed circumstances or persuasive good new reasons for overthrowing the *status quo*).

889 Designated Issue 16 (a) asks: "What are the reasonable and appropriate approaches to allocating WGL's revenue requirement among customer classes and is the allocation of revenues among customer classes reasonable and appropriate?"

890 WGL Br. at 109.

891 *See* WGL (M) at 8:2-12 (Wagner).

remaining required revenue increase to all classes based on their adjusted base rate revenue.[892] As for the interruptible customers, WGL proposes to increase the Customer Charge by 25% and decrease the interruptible Distribution Charges to lower the class return to the Company's cost of capital.[893] WGL states that if the full rate increase is not approved, "the Company recommends that the proposed increases to Customer Charges remain the same, and any decrease in the revenue requirement be reflected in the residential Distribution Charges and the C&I and GMA Distribution and Peak Usage Charges using the methodology used by the Company."[894]

398. **AOBA.** AOBA requests that the Commission adopt its revenue increase distribution methodology as illustrated in Exhibit AOBA (B)-2.[895] AOBA highlights that WGL's gradual approach to eliminating negative rates of return for Residential classes is not working and encourages the Commission to make one-time adjustments to class revenue requirements to eliminate negative rates of return at the end of this proceeding. If the Commission does not choose to make that adjustment, then AOBA recommends that the Commission should order WGL to submit a plan to eliminate negative rates of return by the end of WGL's next base rate proceeding and that plan should also ensure that no class has a return more than twice the system average return.[896]

399. **GSA**. GSA supports WGL's proposed allocation of the requested revenue increase among customer classes because they believe it is necessary to move residential rates of return closer to the system average (closer to the cost of service).[897] GSA states that moving rates to the cost of service will help to accurately track assigned cost responsibility.[898] GSA further advises that if the Commission grants less than the requested increase, any reductions should first be applied to nonresidential firm customer classes to reduce the rate of return for each class (if possible) to no more than twice the system average rate of return. Any remaining reduction in WGL's requested increase should be spread among all classes on an across-the-board basis.[899]

400. **WGL Response.** WGL rejects AOBA's proposal of a "one-time" adjustment to class revenue requirements to eliminate negative rates of return and states that it would be inconsistent with the principle of "gradualism".[900] The Company maintains that the proposed

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[892] WGL Br. at 107.

[893] WGL Br. at 108.

[894] WGL Br. at 109.

[895] AOBA Br. at 100.

[896] AOBA Br. at 100.

[897] GSA Br. at 14.

[898] GSA Br. at 15.

[899] GSA Br. at 16.

[900] WGL R. Br. at 151.

methodology continues the principles of gradualism and should be approved.[901] WGL believes that AOBA's alternative recommendation to develop and submit a plan to eliminate negative rates of return, and to ensure that no customer pays more than twice the system average rate of return, by the end of the next base rate case, is unrealistic and should be rejected.[902]

DECISION

401. The Commission enjoys wide discretion in setting customer class revenue requirements.[903] Traditionally, in setting class revenue requirements for WGL, we have considered the class cost of service for each class, as well as a broad range of other factors.[904] The Commission has found that WGL's customer class rates of return need not be equal considering only class cost of service.[905] The options submitted by the parties for setting class revenue targets in the present case varied from: (a) WGL's proposal to move gradually toward more equal class RORs, which would allocate approximately 75% of WGL's proposed rate increase to the Residential classes, and an accompanying rate design that proposed increasing WGL's Customer Charges by 25%, among other things; (b) AOBA's proposal to totally eliminate negative rates, among other things; and (c) GSA's support of WGL's allocations but asserts that if the increase is less than the WGL's request then GSA wants the difference to be applied first to nonresidential customers.

402. In *Formal Case No. 1016*, the Commission announced that its policy is to move gradually toward more equal class rates of return and to eliminate any negative class rates of return.[906] In *Formal Case No. 1093*, the Commission assigned more than an across-the-board amount of responsibility for that increase and approved the Company's proposal to collect 63% of its revenue increase from the Residential class, 24.5% from its C&I class of customers, and 12.2% from the GMA class with a small amount from Interruptible Service customers.[907] The Company's CCOSS shows that wide disparities still exist in customer class rates of return, including some negative class rates of return for WGL's Residential customers. However, the Commission, among other things, is concerned with the impact a significant increase in charges would have on residential customers' gas bills that are on a fixed income. We have weighed these considerations and believe that our stated policy to move toward greater parity in class rates of return requires the Commission to continue on the same path of gradualism articulated in

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901 WGL R. Br. at 151.

902 WGL R. Br. at 152.

903 *See, e.g.*, *Washington Gas Light Co. v. Public Service Commission*, 450 A.2d 1187 (D.C. 1982).

904 *See, e.g.*, *Washington Gas Light Co. v. Public Service Commission*, 450 A.2d 1187, 1202-1208 (D.C. 982).

905 *See, e.g.*, *Washington Gas Light Co. v. Public Service Commission*, 450 A.2d 1187, 1207; *Apartment House Council of Metropolitan Washington, Inc. v. Public Service Commission*, 332 A.2d 53, 57 (D.C. 1975) ("equal return from customer classes is not required").

906 *See Formal Case No. 1016*, Order No. 12986, ¶¶ 306-308 (noting "the interest in moving in the direction of having [WGL's low-earning] subclasses pay their costs of service and avoid earning a negative class rate of return").

907 *Formal Case No. 1093*, Order No. 17132, ¶ 288.

our decision in *Formal Case No. 1093*.[908] Therefore, to decrease the disparities and make the class rates of return more equal, the Commission will assign more than an across-the-board amount of responsibility for WGL's $8,510,251 rate increase to those classes with negative or low class rate of return below the District's jurisdictional average rates of return. With these principles in mind, the Commission modifies the revenue allocation adopted in *Formal Case No. 1093* and will allow an increase to the Residential class RORs.[909] The prior case allocates 59.5%, 2.2% and 1.2% of total revenue increase to Residential Heating & Cooling, Residential Non-Heating and Non-Cooling Individual Metered Apartments and Residential Non-Heating/Non-Cooling (other) respectively and in this case the allocation percentage is further increased by adding an additional percentage to the negative ROR classes.[910] The allocation percentage for the Residential Heating and Cooling stays the same, 59.5%, while the allocation percentages for the negative classes become 7.2% and 2.4% respectively. The resulting Customer Charge becomes $13.10, $9.50 and $10.70 for these three classes, respectively. The following table summarizes the Unitized Rate of Return ("UROR") before and after such a move:

	UROR (current)	**UROR (after)**
Residential Heating/Cooling	0.034	0.324
Residential non-heating/non-cooling (IMA)	(3.002)	(0.501)
Residential non-heating/non-cooling (Other)	(2.030)	(1.037)

The incremental revenue necessary to move the three classes toward system average will reduce the revenue allocation to the firm non-residential customers. Interruptible Service customers will receive the revenue increase commensurate with a 25% increase in the class Customer Charge from $80 to $100 per month. The impact of these rulings moves all customer classes gradually toward greater parity in class rates of return, consistent with our stated policies.

403. While we assign more than an across-the-board amount of responsibility for WGL's $8,510,251 rate increase to those classes with negative or low class rates of return below the District's jurisdictional average rate of return, the Commission believes after restructuring, WGL is primarily a natural gas distribution company whose major costs are fixed costs that should be recovered through fixed charges like the fixed monthly Customer Charge. The Company showed that its current Customer Charges are well below the actual fixed costs of serving each customer class.[911] Increasing WGL's Customer Charges will better match the Company's revenues with its costs and will reduce the volatility of customers' bills. Accordingly, we agree with WGL's proposal to collect its District of Columbia revenue increase

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908 *See Formal Case No. 1016*, Order No. 12986, ¶ 329.

909 The Commission notes that this marginal increase will be partially offset for low-income customers enrolled in the Residential Essential Service ("RES") program, by the Commission's decision to restructure the RES and provide a discount equal to 55% of the distribution portion of a customer's bill. *See Formal Case No. 1127*, Notice of Final Tariff, published in D.C. Register on February 3, 2017.

910 This adopts a concept proposed by AOBA. *See* AOBA (B) at 20 (T. Oliver).

911 WGL (K)-2; WGL (M) at 13 (Wagner).

in significant measure through increases in the Customer Charge.[912] Therefore, we order that the revenue allocation to the Residential classes and the Interruptible classes be implemented as an increase in the Customer Charge. For the firm non-residential classes the revenue allocation should first adopt WGL's proposed Peak Usage Charges, then increase the Customer Charge and then to the extent necessary increase the Distribution Charge to cover the remainder of the class revenue targets for the C&I, and GMA classes.[913]

404. Based on the above, the Commission adopts the Revenue Allocation and Customer Charge by Class as identified in the table below:

Approved Revenue Allocation and Customer Charge by Class

Class	Revenue Allocation $	New Customer Charge $
RES-HTG/CLG	5,061,758	13.10
RES-NON H/C-IMA	606,600	9.50
RES-NON H/C-Other	207,700	10.70
C&I-H/C <3,075	313,400	22.70
C&I-H/C ≥3,075	1,130,800	55.80
C&I-NON H/C	283,900	22.70
GMA-H/C <3,075	47,350	22.70
GMA-H/C ≥3,075	701,500	55.80
GMA-NON H/C	117,800	22.70
NON-FIRM	39,443	100.00
Total	**8,510,251**	

C. Rate Design and Tariff Changes (Issue 17)[914]

405. **WGL.** The Company is proposing to continue the current two-part rate structure for the Residential classes which consists of a Customer Charge and a Distribution Charge, and the three-part rate structure for C&I and GMA classes which consists of a Customer Charge, a Distribution Charge and a Peak Usage Charge.[915] In addition, WGL proposes to separate the rate schedules that serve the C&I and GMA classes. The Company proposes to designate Rate Schedule 2 and 2A as applicable to Firm C&I Sales Service and Firm C&I Delivery Service, respectively, and creating a new Rate Schedule Nos. 2B and 2C applicable to Firm GMA Sale Service and Firm GMA Delivery Service, respectively.[916] WGL asserts that separating these rate

[912] *See Formal Case No. 1093*, Order No. 17132, ¶ 294.

[913] The Commission addresses WGL's request to create a new tariff for CHP and Distributed Generation in Section XIV, B. Rate Design and Tariff Changes.

[914] Designated Issue 17 asks: "Are the proposed rate design and tariff changes, including but not limited to Rate Schedules 3 and 3A (interruptible customers), the proposed Rate Schedules 7 and 7A (combined heat and power/distributed generation facilities), the Multi-Family Piping Program, and the treatment of group-metered apartment customers under proposed Rate Schedules 2B and 2C reasonable in this case?"

[915] WGL Br. at 106.

[916] WGL Br. at 106.

schedules will enable the Company to move all customer classes towards parity of return in the future.[917] The Company notes that the tariffs are identical with the exception that WGL has proposed different Distribution Charges for the two classes based on the relative returns for the two customer classes and subclasses.[918]

406. The Company states that its proposed rate design is reasonable and should be adopted by the Commission because the "proposed rate design . . . [is meant] to establish rates that are more accurately aligned with cost incurrence, *i.e.*, customer-based versus throughput-based, in order to send more accurate price signals to customers, and implement a gradual movement towards parity of return among all customer classes."[919] WGL contends that the Company has proposed moderate rate changes consistent with the Commission's decision in *Formal Case No. 1093* requiring gradual movement to avoid rate shock to any customer class.[920]

407. WGL is proposing to increase the Customer Charges by 25% for all customer classes, including Interruptible customers, to recover more fixed costs[921] and move away from collecting revenues on a volumetric basis.[922] The Company contends that the proposed increase in Customer Charges provides important rate design benefits, among other things, it: (a) better matches WGL's cost incurrence to cost recovery through rates sending better price signals; and (b) spreads a larger percentage of costs evenly throughout the year which reduces bill volatility and customers' winter heating bills.[923] WGL notes that no changes were proposed for any of the miscellaneous charges.

408. The Company intends to use a two-step process to collect any balance of the proposed revenue requirement through adjustments to Distribution Charges applicable to the residential customers and to Distribution and Peak Usage Charges applicable to the non-residential classes to move customers closer to the system average return.[924] This process will gradually move class returns towards parity by assuring that classes earning below or above the system average receive a larger or smaller share of the increase, respectively.[925]

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917 WGL Br. at 106.

918 WGL Br. at 106-107.

919 WGL Br. at 105-106.

920 WGL Br. at 106 and 109.

921 WGL Witness Wagner highlighted that about 18% of revenues come from fixed customer charge, whereas 85% of casts are fixed. *See* Tr. at 1692.

922 WGL Br. at 107-108.

923 WGL Br. at 107.

924 WGL Br. at 107-108.

925 WGL Br. at 108.

409. Although WGL plans on increasing the Customer Charge for interruptible customers, the Company proposes to "decrease [ ] the interruptible distribution charges to lower the interruptible class return to the Company's cost of capital requested in this case."[926]

410. WGL asserts that its rate design proposal: (a) gradually moves towards parity of returns among customer classes; (b) collects more fixed cost through monthly Customer Charges; and (c) is consistent with the manner the majority of WGL's costs are incurred in the provision of safe and reliable gas service to its customers.[927] The Company states that if the Commission is not inclined to approve the full amount of the requested rate increase, the Company recommends that "the proposed increases to the Customer Charge remain the same and that any decrease in revenue requirement be reflected in the Residential Distribution Charges and the C&I and GMA Distribution and Peak Usage Charges using the methodology used by the Company."[928]

411. **WGL Tariff Changes.** The Company asserts that the proposed tariff provisions should be approved because they are reasonable and appropriate and in the public interest.[929] More specifically, WGL proposes revisions to several tariffs or entirely new tariffs, as supported by WGL Witness Wagner, including: (a) new Firm Group Metered Apartment ("GMA") Sales Service – Rate Schedule No. 2B and new Firm Group Metered Apartment Delivery Service – Rate Schedule No. 2C to provide separate firm sales and delivery service rate schedules for the GMA classes, along with modifications to General Service Provision ("GSP") No. 1 – Classes of Service to provide separate definitions for the C&I and GMA customer classes; (b) new GSP No. 29 – Revenue Normalization Adjustment to implement the RNA; and (c) proposed changes to implement proposed new rates applicable to existing rate schedules.[930]

412. In addition, the Company proposes revision to GSP No. 16 – Purchase Gas Charge ("PGC") which WGL Witness Tuoriniemi supports. The proposed revision to the PGC is to recover costs related to the Commission ordered independent audit of the PGC. WGL contends that this is a non-distribution related costs appropriately recovered from sales customers through the PGC.[931] The Company states that if recovery is not allowed through the PGC mechanism, then WGL requests that the cost be deferred into a regulatory asset for recovery in the next base rate case.[932]

413. The Company also notes WGL Witness Lawson's support for several proposed tariff revisions, including: (a) Sales Service for Combined Heat and Power/Distributed

[926] WGL Br. at 108.

[927] WGL Br. at 109.

[928] WGL Br. at 109.

[929] WGL Br. at 110.

[930] WGL Br. at 109-110.

[931] WGL Br. at 110.

[932] WGL Br. at 111.

Generation Facilities – Rate Schedule No. 7 and Delivery Service for Combined Heat and Power/Distributed Generation Facilities – Rate Schedule 7A; and (b) a change to GSP No. 14 – Economic Evaluation of Facilities Extension, in support of the Company's Multi-Family Piping Program ("MPP"), "which would authorize WGL to provide contributions to multi-family projects of up to 80% of the net present value ("NPV") of any project to offset the cost of installing gas piping in the project."[933]

414. With respect to Rate Schedule 7 and 7A, WGL states that these schedules: (a) are designed to foster increased use of natural gas-fired CHP and distributed generation technologies; (b) would be available for sales or delivery service on both a firm and interruptible basis per a customer's choice (at a negotiated rate at least equal to incremental cost to serve the customer as determined under existing GSP No. 14 – Economic Evaluation of Facilities Extension); and (c) are only available to customers who operate natural gas-fired electric generation units for base gas load consumption who can demonstrate the ability to operate at a 50% minimum load factor.[934]

415. The Company believes that DG and CHP technologies can provide significant benefits to WGL customers and all District residents and help achieve environmental benefits and cost savings while increasing energy efficiency and resiliency.[935] However, the Company argues that its existing rate structure doesn't support these uses for natural gas since "the minimum load factor for eligibility under these rate schedules is higher than the average load factor for the existing customer classes which distinguishes these potential customers for the existing customer base . . ."[936] Through proposed Rate Schedule 7 and 7A, the Company provides a more flexible approach to setting rates for DG and CHP technologies. WGL asserts that increased uses of these technologies in the District are in the public interest and should be approved.[937]

416. In addressing the proposed MPP, WGL states that the program is necessary to promote natural gas use in multi-family facilities by being flexible with the upfront costs of installing gas piping and venting throughout a multifamily building.[938] The Company asserts that the change to GSP No. 14 would "authorize contributions to builders and developers of multifamily projects in the District of Columbia (calculated on a project-specific basis) if, under life cycle cost/benefit analysis reflected in GSP No. 14, a project has a positive net present value."[939] WGL states that: (a) the contributions are to only offset the cost of internal gas piping and venting in an individually metered family building; (b) the amount of the contribution to the

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933 WGL Br. at 111.

934 WGL Br. at 112.

935 WGL Br. at 112.

936 WGL Br. at 112.

937 WGL Br. at 113.

938 WGL Br. at 113.

939 WGL Br. at 113-114.

builder/developer would be limited to the lesser of 80% of the positive economic value, or the actual documented cost of the internal piping and venting for the project; and (c) the cost of contributions would be amortized over 30 years with the unamortized balance included in future rate baste.[940]

417. Lastly, the Company asserts that the MPP provides benefits to existing customers by adding new natural gas customers who provide positive net benefits to the system which reduces rates over time since the rate base would not be stagnant or declining. WGL maintains that expanding the customer base is beneficial to all customers especially since the accelerated pipe replacement program is ongoing and provides the Company an opportunity to expand the customer base by providing the MPP access to a clean and low cost energy source.

418. **OPC.** OPC states that it does not have any specific concerns with the various rate schedules or the MPP, nor the two-part rate structure for residential customers (fixed monthly Customer Charge and a per-Mcf Distribution Charge) or the three-part rate structure for non-residential customers (Fixed monthly Customer Charge, a per-Mcf Distribution Charge, and a Peak Usage Charge).[941] However, OPC urges the Commission to be mindful of its concern that the reduction in the recommended size of the overall revenue increase proposed by OPC could help to mitigate the amount of residential customer charge increase and the need for the proposed RNA should be lessened to the extent that charges are shifted to a fixed rather than a volumetric basis.[942]

419. **AOBA.** AOBA takes issue with WGL's Peak Usage Charge tariff revisions. AOBA asserts that the current language is "internally inconsistent and includes extraneous editorial language."[943] AOBA points to the first sentence of the tariff which describes "Peak Usage" "as a measure of the amount of gas delivered to a customer **'on the coldest days of the year.'**"[944] AOBA asserts that this is an inaccurate description and notes that in the next paragraph the tariff provides the actual measure of "Peak Usage" employed in the tariff as "[t]he maximum billing month is defined as the month in which the **maximum average daily consumption** (total therms/cycle billing days) occurs."[945] AOBA argues that: (a) the maximum average daily consumption may or may not represent the usage on the coldest days of the year for any individual customer; (b) the month of maximum daily consumption may not be the same as class peak or system peak; and (c) the maximum daily consumption can be impacted by the number of billing days in a cycle and the dates that the billing cycle starts and ends.[946] To avoid

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940 WGL Br. at 114.

941 OPC Br. at 162-163.

942 OPC Br. at 163-164.

943 AOBA Br. at 115.

944 AOBA Br. at 114.

945 AOBA Br. at 114.

946 AOBA Br. at 115.

confusion, AOBA recommends eliminating the first paragraph from each of the non-residential class tariffs where peak usage charge is applied.[947]

420. AOBA urges the Commission to approve WGL's separate rate classifications for C&I and GMA customers.[948] AOBA raises a concern about the increases to Peak Usage Charges for C&I and GMA customers because WGL's Normal Weather Study developed Peak Usage Charge revenues using peak month usage data assuming that peak usage for all classes occurred in January as opposed to a calculation based on each customer's peak usage.[949] AOBA rejects WGL's use of a proxy to estimate peak usage when estimating Normal Weather and states that the estimation method is highly simplistic and that the Company failed to perform necessary and appropriate analysis of its historic peak usage charge data before adopting the simplistic estimation approach.[950] AOBA notes that 57% of C&I customers had peak usage in a month that was not the same as the class peak month in the test year.[951]

421. AOBA asserts that negotiated rates for CHP customers is not appropriate and recommends that the Commission reject the proposal.[952] AOBA notes that the C&I Non Heating class has a load factor of 51%, which exceeds the 50% load factor WGL expects to set as a minimum level for CHP/DG rate schedules (Rate Schedules 7 and 7A).[953] AOBA questions if the Company's need for such flexibility is driven by the class rate of return that is more than four times the Company's requested return in this proceeding.[954] AOBA contends that easily identifiable cost based rates would facilitate evaluation by potential customers.[955] AOBA goes on to note that the SEU has the responsibility to encourage sustainable energy development, energy efficiency, and energy conservation programs.[956] AOBA argues that Special Contracts are not explicitly considered within overall revenue requirements determinations. AOBA emphasizes that the availability of negotiated rates would make WGL a *de facto* gatekeeper for any CHP/DG projects, lead to the expectation that more favorable rates are available, may be limited by WGL's ability to negotiate within a timely period, all leading to more uncertainty.[957] AOBA alleges pricing for gas supply services should be determined by the competitive market

947 AOBA Br. at 115.

948 AOBA Br. at 102.

949 AOBA Br. at 103.

950 AOBA Br. at 103-104.

951 AOBA Br. at 104.

952 AOBA Br. at 105, 108.

953 AOBA Br. at 105.

954 AOBA Br. at 105.

955 AOBA Br. at 106.

956 AOBA Br. 106-107.

957 AOBA Br. at 107.

and the Commission should reject WGL's proposal for the establishment of Rate Schedules 7 and 7A.[958]

422. In addition, AOBA requests that the Commission reject WGL's proposed MPP arguing that the addition of more subsidized residential class customers will further hinder the Commission's efforts to eliminate negative rates of return.[959] AOBA argues that the Company's NPV determination is uneconomic because it assumes that all revenues are marginal and does not account for underlying plant, operations and maintenance, and overhead costs over the 30 year period.[960] AOBA rejects the Company's assertion that GSP No. 14 would ensure that new customers earn a return different from the customer class they would join.[961] AOBA states that the Company's support for MPP in Maryland was based on the residential class in Maryland earning "substantially positive returns."[962] AOBA asserts that 80% of the NPV will be used for the MPP over a 30 year period and compares the comparatively known and certain project costs to speculative future costs and rates.[963] AOBA argues that the Commission should deny the Company's request to recover costs for the MPP from ratepayers because the program would require subsidization which would further hinder the Commissions efforts to eliminate negative rates of return.[964]

423. With respect to tariff changes, AOBA does not support WGL's proposal for the RNA but offers changes to GSP No. 29 should the RNA be accepted.[965] The recommended changes would, among other things, correct the peak usage adjustment, place a cap on rate adjustments for all classes, require the development of separate rate adjustments for each heating and non-heating classifications, and require that monthly RNA rate adjustments be shown as a separate line item on a customers' monthly bill.[966] In addition, AOBA recommends that the first paragraph describing Peak Usage Charges be eliminated to alleviate unnecessary confusion and provides a redlined version because the present description is not accurate.[967]

424. Lastly, with respect to Asset Optimization and Revenue Sharing, AOBA argues that the current mechanism (*i.e.*, 50/50 split) should be reconsidered since: (a) the ratepayers

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958 AOBA Br. at 108.

959 AOBA Br. at 109-110.

960 AOBA Br. at 110.

961 AOBA Br. at 110. AOBA states that "GSP 14 is the Company's Line Extension provision and is the basis of evaluation the Company proposes to use [sic] for its Multifamily Piping Program." AOBA Br. at 110 n. 208.

962 AOBA Br. at 111.

963 AOBA Br. at 109.

964 AOBA Br. at 112.

965 AOBA Br. at 112.

966 AOBA Br. at 113.

967 AOBA Br. at 114.

carry 100% of the annual costs of the assets subject to optimization (management); and (b) WGL has no investment in assets utilized for optimization and that providing greater revenue sharing than is necessary to incent the Company to maximize ratepayer benefits is counter-productive.[968] Therefore, AOBA argues that the Commission should reconsider the percentage of net Asset Optimization revenues the Company should be permitted to retain.[969] On a related matter, AOBA contends that WGL's revenue sharing is income to WGL and subject to DC and federal taxes, which need to be removed as proposed in AOBA Adjustment 4.[970]

425. **DCG.** DCG argues that ratepayers should not be required to provide financial support for the MPP, an incentive program, especially since there are more efficient sources of energy.[971] DCG asserts that WGL Witness Lawson conceded there are at least several energy technologies such as CHP and rooftop solar installations that could provide multi-family households with greater energy efficiency than natural gas.[972] DCG also raises the issue that the 30 year payback by ratepayers would continue even if the owner of a multi-family building switched to a more efficient energy source than natural gas within the payback period.[973] DCG states that "the proposed MPP is unreasonable because ratepayers should only be required to pay WGL's costs to distribute natural gas, not to fund incentives for WGL to acquire new customers through a program that could end up costing ratepayers and undermine, not advance the District's sustainability goals."[974]

426. **DCCA**. DCCA states that the Commission should reject WGL's MPP because: (a) it would subsidize the installation of gas service to individual units in new multifamily residences contrary to DC sustainability goals; (b) it reduces the efficiency of energy use; (c) pre-empts future investments that would benefit District ratepayers; and, (d) renders moot the outcome of the ongoing *Formal Case No. 1130*.[975] DCCA highlights that the efficiency of split system electric heat pumps is increasing and larger central systems especially water or ground source heat pumps have higher efficiencies.[976] Centralized natural gas-fired CHP systems can efficiently produce electricity and usable waste heat, which can increase efficiency and lower greenhouse gas emissions. DCCA highlights that developers have little incentive to install high-efficiency appliances that are assumed in the comparisons provided by WGL.[977] DCCA focuses

968 AOBA Br. at 115-116.

969 AOBA Br. at 116.

970 AOBA (A) at 97 (B. Oliver).

971 DCG Br. at 10.

972 DCG Br. at 11.

973 DCG Br. at 12

974 DCG Br. at 112.

975 DCCA Br. at 3-9.

976 DCCA Br. at 5.

977 DCCA Br. at 6.

on the opportunities that present themselves for the use of centralized renewable energy systems in multifamily opportunities.[978]

427. **WGL Response.** In response to the parties' concerns about the MPP, WGL argues that AOBA's objection, that any benefit of the program would be "inconsequential" and that the program would have detrimental impact on eliminating negative rates of return, is contradicted by WGL Witness Lawson's contention that additional customers added would benefit existing customers and the 80% NPV limit would lead to enhanced class rates of return and spread costs across a larger customer base.[979] Lawson observed there would be no more risk for MPP customers than for other new customers as all customers are evaluated under the same cost benefit analysis under GSP No. 14.[980]

428. As to DCG's energy efficiency objection to the MPP, WGL asserts that it is contradicted by Witness Lawson's testimony that if electric generation is primarily fueled by natural gas and coal that "to the extent natural gas is going to be used, it's better to be used **at the source** [emphasis added]."[981] WGL rejects DCG's concern that the owner of a building might switch to an alternate fuel before the MPP amortization is complete by equating the risk of exit as equal for any customer and is borne by all customers.[982]

429. WGL argues that DCCA's energy efficiency objection to the MPP should also be rejected because, among other things, WGL Witness Lawson contends that natural gas is a major fuel source for producing electricity and because households with gas appliances costs 33% less to operate than an electric unit with equivalent appliances.[983] WGL dismisses DCCA's gas appliance subsidy argument and contends that the MPP applies only to the piping and not to procurement of natural gas appliances[984] WGL goes on to state that the decision to use centralized systems or individually metered appliances is made at the building design stage.[985] The Company dismisses DCCA's equipment efficiency concerns and argues that building efficiency can be estimated but does not necessarily reflect actual customer usage and that individual metering allows residents more control over their energy usage.[986] WGL also takes issue with DCCA's argument that MPP would pre-empt investment in high efficiency appliances and states that new appliances are installed in new buildings.[987] In addition, WGL spurns

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[978] DCCA Br. at 8.

[979] WGL R. Br. at 153-154.

[980] WGL R. Br. at 154.

[981] WGL R. Br. at 155-156.

[982] WGL R. Br. at 156.

[983] WGL R. B. at 157.

[984] WGL R. Br. at 157-158.

[985] WGL R. Br. at 158.

[986] WGL R. Br. at 158-159.

[987] WGL R. Br. at 159.

DCCA's contention that the approval of the MPP would prejudge the outcome of *Formal Case No. 1130* and cites to the Commission's Designated Issue 6 (Capital Projects) in this case.[988]

430. With respect to proposed Rate Schedule No. 7 and 7A (Sales/Delivery Service for CHP/DG), WGL reiterates that "the purpose of the proposed negotiated rates is to assist in the development of a market for CHP and DG technologies . . ."[989] WGL rejects AOBA's contention that customers eligible for negotiated rates are no different than those currently served under the C&I Non-Heating rate and argues that the Company's current rate structure has not generated a significant increase in CHP and DG.[990] The Company then cites to WGL Witness Lawson's testimony differentiating between the existing rate class that has a load factor of 51% versus the target CHP and DG customer requirement for a minimum of 50%, noting that the new CHP/DG rate class would be higher than the minimum load factor.[991] WGL reiterates that it has slowly been moving rates towards parity rates of return for a number of customer classes.[992] In addition, WGL contends its filing of the negotiated rates with the Commission, along with the requirement that the rates be at least at the incremental cost, offsets AOBA's concern about increasing special contract services not considered in the overall revenue allocation process.[993]

431. WGL argues that AOBA has not demonstrated the need for its proposed revision of the Peak Usage Charge tariff language (*i.e.*, striking the first paragraph of the tariff).[994] Moreover, WGL states that "[t]he first paragraph is necessary because it provides the rationale for the Peak Usage Charge, while the second paragraph provides detail on the calculation of the charge."[995] Therefore, AOBA's recommendation to modify the Peak Usage Charge provision should be rejected.

432. With respect to AOBA's recommendation that the Commission "re-consider the percentage of net Asset Optimization revenues that WGL is permitted to retain," WGL argues that the issue is under review in *Formal Case No. 1129* and should not be reviewed in this proceeding.[996] Regarding AOBA's related tax argument, WGL contends that Exhibit WGL Exhibit Nos, WGL (D)-3 (WGL RMA Nos. 6D, 7Dm and 8D), WGL (D)-2, and WGL (3D)-6,

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988 WGL R. Br. at 159-160.

989 WGL R. Br. at 161.

990 WGL R. Br. at 161-162.

991 WGL R. Br. at 161-162.

992 WGL R. Br. at 162.

993 WGL R. Br. at 162-163.

994 WGL R. Br. at 167.

995 WGL R. Br. at 167.

996 WGL R. Br. at 167.

demonstrates that both the asset sharing revenues and the taxes on those revenues were properly removed.[997]

433. **AOBA Response.** AOBA maintains that WGL's negotiated rate proposal for the interruptible and Special Contract customers is ill-advised and poorly supported.[998] AOBA argues that: (a) the load characteristics of CHP and DG customers are reasonably assessed to align with the C&I Non-Heating/Cooling class; (b) there is no understanding of the reaction CHP and DG customers may have on the minimum load factor requirements; (c) negotiation of rates introduces uncertainty, provides no clear price signals for developers, and could slow down the deployment of CHP and DG; (d) WGL perceives that its negotiated rates are needed because the C&I firm service class rates of return are excessive; and (e) WGL negotiation track record should be questioned based on the -16.17% ROR for the AOC and GSA Special Contracts.[999] AOBA also notes that the MPP in Virginia and Maryland does not expand service to classes that have extremely low or negative rates of return.[1000]

434. **DCG Response.** In response to WGL's arguments, DCG reiterates its assertions that ratepayers would be responsible for the recovery of the MPP incentives even if the project did not meet the lifecycle revenues. Moreover, DCG agrees with AOBA's argument that the MPP NPV is speculative and relies on forecasting benefits 30 years in the future.[1001] Lastly, DCG supports DCCA's assessment that the MPP would promote greater use of natural gas which is inconsistent with the District's sustainable energy and environmental goals.[1002]

435. **DCCA Response.** In response to WGL's position, DCCA reiterates its initial position on brief, and goes on to assert that WGL's Initial Brief did not address any of critical weaknesses of the MPP as identified by DCCA, AOBA, OPC, or DCG.[1003] DCCA argues that the MPP experience in Maryland highlights not one of the 47 buildings installed centralized hot water or space heating which means that the MPP would effectively close off the option of central heating systems in new building that uses the program.[1004]

DECISION

436. **Rate Design.** The issue of "rate design" concerns the design of the component parts of each individual class rate which, when added together, collect the class revenue target and produce a class rate of return. WGL has requested a revenue increase that the Company

997 WGL (3D) at 77-80 (Tuoriniemi).

998 AOBA R. Br. at 18.

999 AOBA R. Br. at 18-19.

1000 AOBA R. Br. at 20.

1001 DCG R. Br. at 5.

1002 DCG R. Br. at 9.

1003 DCCA R.Br. 1.

1004 DCCA R. Br. at 2.

proposes to recover in substantial measure through increased Customer Charges, increased Peak Usage Charges, along with higher Distribution charges. The Company's proposal is consistent with prior Commission decisions that have allowed WGL to recover more of its fixed costs in Customer Charges.[1005] The Commission recognizes that WGL is primarily a natural gas distribution company whose major costs are fixed and that those costs should be recoverable through fixed charges like the fixed monthly Customer Charge. WGL has demonstrated that its current Customer Charges are well below the actual fixed costs of serving each customer class.[1006] And only about 18% of total revenue is collected through customer charge.[1007] Therefore, the Commission finds that increasing WGL's Customer Charges will better align the Company's revenues with its costs which should have the effect of reducing customer bill volatility. Accordingly, we agree with WGL's proposal to collect its District of Columbia revenue increase in significant measure through increases in the Customer Charges and we direct the Company to increase the Customer Charges for the Residential, the Non-Residential Firm Customers, the Interruptible Service class, the low-earning Residential Non-heating and Non-cooling, and the small Non-Residential classes, as prescribed in this Order.[1008] In the case of the Residential classes the entire revenue allocation should be collected by an increase in the Customer Charge. This is in keeping with the fixed nature of the Company's distribution costs. The Company should increase its firm non-residential classes' Customer Charge to the level noted. In addition, to better reflect WGL's costs, the Commission has determined that the Company's peak usage charge should be increased by a uniform percentage increase for those classes that have peak usage charges in the amount of $400,098 as requested by WGL.[1009] Next, the revenue increase will be allocated to customer charge. And then any further revenue allocated to the firm non-residential classes should be recovered in the Distribution Charge.

437. With respect to the Company's request to decrease the Interruptible Customers distribution charges to lower the interruptible class return to the Company's cost of capital, we do not find WGL's request to be reasonable and therefore deny the request. The Commission does not believe such a decrease in revenue for interruptible customers while increasing revenue for all the other classes with above average class returns as WGL proposed is reasonable or

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[1005] *See, e.g.*, *Formal Case No. 1016*, Order No. 12986, ¶¶ 309-333 (approves increased Customer Charges as the most appropriate means both to collect WGL's revenue increase and to recover a greater proportion of WGL's fixed costs through fixed price charges); *See also*, *Formal Case No. 1093*, Order No. 17132, ¶¶ 294-297.

[1006] *See* WGL (K)-2, page 2, line 46. The chart shows, for example, that $47.58 per month is the current fixed actual cost of serving WGL's D.C. Residential Heating or Cooling customers (WGL's largest class of residential customers), while WGL's current Customer Charge for these customers is only $9.90 per month).

[1007] Tr. at 1692.

[1008] *See* WGL (M) at 15 (Wagner) (if the Commission grants an amount other than WGL's requested rate increase, then WGL recommends the same increases to Customer Charges, with any variation in revenue requirements assigned to the residential Distribution Charges and non-residential Distribution and Peak Usage Charges).

[1009] *See* WGL (M)-1, Schedule B page 4:9.

warranted.[1010] For the interruptible class, the increase for these customers will be a 25% increase in the customer charge.

438. The Commission notes AOBA's request to reconsider the Company's Asset Optimization revenue sharing mechanism which provides the Company with a 50/50 split of revenue from assets subject to optimization (management). However, the Commission has opened *Formal Case No. 1129*, for the purpose of auditing the components of the PGC, inclusive of the Asset Optimization mechanism. Therefore, we will deny AOBA's request to review it in this case. Further, after reviewing WGL Exhibit Nos, WGL (D)-3 (WGL RMA Nos. 6D, 7D, and 8D), WGL (D)-2, and WGL (3D)-6, the Commission finds that any associated revenues and taxes on those revenues were properly removed and we reject AOBA Adjustment 4.

439. Based on the policies and principles discussed in this Order and Opinion, the class revenues allocations and the Customer Charges from the rate design discussed above are set out in the chart in paragraph 404, above. The typical bill, for a residential heating/cooling customer using 811 therms of natural gas per year, which is equal to $82.54 per month, would increase by $3.20 per month or 3.9%.

440. **Tariffs.** The Commission accepts the Company's new Firm GMA Sales tariff (proposed Rate Schedule No. 2B) and GMA Delivery tariff (proposed Rate Schedule No. 2C) which separates the GMA customers from the C&I customers to avoid confusion with the existing C&I Schedules Nos. 2 and 2A. To avoid confusion WGL is ordered to file these two rate schedules using a number separate from the C&I schedules. In addition, to address AOBA's concern that these tariffs are internally inconsistent, and in certain cases, the meters do not measure daily loads, the Commission amends the definition describing Peak Usage Charges in 2, 2A, 2B, and 2C by modifying the first paragraph as follows:

> "Peak usage" is a measure of the amount of gas delivered to the customer ~~on the coldest days of the year~~ for which the Company must incur substantial cost for investment, operation and maintenance of gas ~~production~~ <u>distribution facilities</u>, and additional distribution facilities to accommodate customers' increased gas deliveries ~~on those days~~. Increased usage or decreased usage by a customer ~~on the coldest days~~ has a corresponding increase or decrease on the Company's costs and therefore on the level of the "peak usage charge" the Company must bill a customer.[1011]

Because we have accepted the Company's tariffs separating the C&I and GMA classes, it is appropriate for the Commission to allow the requested modifications to the GSP No. 1- Classes of Service to provide separate definitions for the C&I and GMA customer classes. For the foregoing reasons, we accept these new or amended tariff provisions as reasonable.

[1010] Compare CCOSS results WGL (M)-3 page 1:28 versus Non Firm on WGL (M)-3, Attachment 2, Page 1, non-firm column line 28 at 7.72% compared to C&I classes at 12.97% up to 32.94%.

[1011] The strikethrough language indicates deleted language while the underlined language indicates additions.

441. With respect to WGL's request to revise GSP No. 16, Purchase Gas Charge, to reflect the PGC audit costs, the Commission finds the revisions to be reasonable and accepts the revisions. We are persuaded that WGL has appropriately categorized these costs as non-distribution related costs which should be recovered from sales customers through the PGC.

442. WGL's proposed tariff GSP No. 29 – Revenue Normalization Adjustment is denied based on our earlier rejection of the Company's proposed RNA in Section VII, B. above.

443. The Company's Rate Schedules Nos. 3 (Interruptible Sales Services), 3A (Interruptible Delivery Service), 5 (Firm Delivery Service Supplier Agreement), and 6 (Small Commercial Aggregation Pilot) were addressed in Section XIII, D above.

444. After careful review of the record, the Commission rejects the Company's Combined Heat and Power Tariffs – Rate Schedule No. 7 (Sales Service for Combined Heat and Power/Distributed Generation Facilities) and Rate Schedule No. 7A (Delivery Service for Combined Heat and Power/Distributed Generation Facilities). The Commission is not convinced that negotiated rates for CHP customers are reasonable or warranted at this time. Our determination is based on the Company's failure to develop a record that analyzes the returns of its various special contract customers. We question the Company's need for such flexibility and note, as AOBA argues, that these special contracts have not been explicitly considered within the Company's overall revenue requirements determinations.[1012]

445. Although the Commission wants to encourage CHP and distributed generation, the Commission is concerned that: (a) non-utility services could be part of any special contract; (b) there may be cross subsidization from other classes; and (c) the UROR could be less than 1.00 with favorable rate offerings. To address our concerns, the Commission directs WGL to submit a new high load factor rate proposal (*i.e.* C&I) with a UROR equal or greater than 1.0 while at a fixed rate rather than negotiated rates. In addition, WGL shall include that rate as a new and separate CCOSS class. In our review, we have determined that a new rate schedule would have no revenue impact on this case as there are no associated customers or revenue. We note that AOBA Witness Timothy Oliver has provided examples of fixed rates in his testimony.[1013]

446. The Company asserts that its Multifamily Piping Program ("MPP") would require a change to GSP No. 14 – Economic Evaluation of Facilities Extension tariff. AOBA, DCG, and DCCA oppose approval of the MPP for various reasons ranging from it would hinder efforts to eliminate negative rates of return to the existence of more efficient sources of energy. While WGL contends, among other things, that the MPP will benefit existing customers because it adds new natural gas customers which provide net benefits to the system and reduces rates over time.

[1012] The only such special contract currently in existence is the AOC Special Contract. This contract is a special case because the AOC special contract: (a) was an existing Interruptible Customer; (b) has unique delivery service requirements; (c) does not adversely impact the reliability of the delivery system; (d) is cost neutral; (e) does not have a negative revenue impact; and (f) does not shift cost or risk to other ratepayers. *See Formal Case* No. 1133, Washington Gas Light Company's Application for Approval of Special Contract, Order No. 18185, ¶ 17, rel. April 27, 2016.

[1013] AOBA (B) at 31 (T. Oliver).

The Commission has reviewed the record and considered the various arguments for and against the program. Consistent with the District and the Commission's goal of encouraging energy efficiency, we are persuaded that the MPP could provide net benefits to the system and approve the MPP as a pilot program for 2 years, with review of the program in the next rate case.

D. Residential Essential Service ("RES") Changes (Issue 18)[1014]

447. **WGL.** WGL explains that "[i]n Formal Case No. 1093, the Commission approved the current RES Credit amount of $511,032 for funding the RES program."[1015] Subsequently, in Formal Case No. 1127 the Commission established a new surcharge for funding the RES Program costs and "[t]o reflect this change . . . the Company has excluded the $511,032 from the proposed base rates in this case."[1016] Due to the different implementation dates for the distribution rates in this case and the new RES surcharge, WGL "will reconcile any variance in the collection of RES credit amounts through the new surcharge mechanism and the amount continued to be collected in current base rates in a filing with the Commission in Formal Case No. 1127 so that there will be no 'double collection' of RES credit amounts."[1017]

448. WGL points out that the only party to comment on the Issue 18 and the RES program was the District Government, which "did not comment on, or object to, the changes to base rates proposed by the Company in this case to reflect the change in approach to funding the [RES] Program approved in Formal Case No. 1127" but only "argues that the Company's proposed [RNA] provision should not be applicable to RES customers."[1018] WGL notes it addresses the District Government's concerns as part of Issue 9.

<u>DECISION</u>

449. The Commission agrees that WGL has appropriately removed the $511,032 in funding for the RES program from base rates and that due to the different implementation dates for the distribution rates in this case and the new RES surcharge the reconciliation process in *Formal Case No. 1127* is the appropriate docket to ensure there is not "double collection" of RES credit amounts. WGL as part of its next rate case should include a recommendation about whether the 55% distribution rate credit should remain as the appropriate credit level. WGL should also assess whether there are any other changes needed in the RES Program due to changes in the natural gas market.

[1014] Designated Issue 18 asks: "Are the proposed changes to Residential Essential Service reasonable and appropriate?" OPC. AOBA. DCCA. DCG. GSA did not file comments on this issue.

[1015] WGL Br. at 115, citing *Formal Case No. 1093*, Order No. 17132, ¶ 128.

[1016] WGL Br. at 116, citing WGL (D) at 28 (Tuoriniemi).

[1017] WGL Br. at 116.

[1018] WGL R. Br. at 168.

XV. FINDINGS OF FACT & CONCLUSIONS OF LAW

450. Based upon the evidence on the record in this proceeding, the Commission makes the following findings of fact and conclusions of law:

(a) That the twelve month period, starting October 1, 2014, and ending September 30, 2015, is the appropriate test year to use in determining WGL's revenue requirement based upon WGL's actual historical data for that period;

(b) That an appropriate capital structure of WGL for ratemaking purposes is: 39.65% long-term debt; 3.09% short-term debt, 1.55% preferred stock, and 55.70% for common equity;

(c) That WGL's cost of long term debt is 5.83%, its cost of short term debt is 1.06%; and its cost of preferred stock is 4.79%;

(d) That a reasonable return for WGL on common equity is 9.25% (the higher end of the range of reasonableness from 8.75% to 9.25%);

(e) That a fair rate of return (including capital costs and capital structure) is 7.57%;

(f) That WGL adjusted its rate base, revenues and expenses to a Distribution Only basis with the following uncontested adjustments that are approved as reasonable:

- WGL RMA 1D, Purchased Gas Costs (reduces test year revenue by $80,438,740 and reduces test year expenses by $87,707,658);
- WGL RMA 2D, Uncollectible Gas Accounts (reduces test year expenses by $2,431,435);
- WGL RMA 3D, GAC Revenues (reduces test year revenue by $2,431,435);
- WGL RMA 4D, Gas Procurement Costs (reduces test year expenses by $147,462);
- WGL RMA 5D, Carrying Costs on Storage Gas Inventory (reduces test year revenue by $4,541,037);
- WGL RMA 6D, Asset Optimization Revenues (reduces test year revenue by $7,398,542);
- WGL RMA 7D, Other Income Taxes (reduces test year expenses by $1,180,891);
- WGL RMA 8D, Federal Income Taxes (reduces test year expenses by $3,730,166);
- WGL RMA 9D, Storage Gas Inventory (reduces test year rate base by $16,898,289);
- WGL RMA 10D, Supplier Refunds and Interest (increases test year rate base by $115,785 and reduces test year expenses by $282);
- WGL RMA 11D, Interest on Debt (increases test year expenses by $46,672);
- WGL RMA 12D, Cash Working Capital (reduces test year rate base by $2,343,091);

- WGL RMA 13D, Gas Supplier Balancing (reduces test year revenue by $7,268,918);

(g) That WGL's District of Columbia Distribution rate base for the test period is $255,674,210;

(h) That WGL's test-year Distribution operating revenues, as adjusted, are $154,242,733;

(i) That WGL's test-year Distribution operating expenses, as adjusted, are $141,409,087;

(j) That WGL's test-year Distribution revenues less test-year Distribution operating expenses and AFUDC, as adjusted, indicate the net operating income for WGL's District of Columbia service territory was $12,944,307;

(k) That the revenue required to produce the authorized level of return when the 7.57% rate of return is applied to the adjusted rate base of $255,674,210 is $19,354,538;

(l) That the Company's adjusted District of Columbia net operating income of $12,944,307 for the test year was deficient by the amount of $11,151,251;

(m) That the appropriate adjustment which would increase test-year revenue to the level of gross revenue requirements computed in accordance with the findings in this Opinion and Order and the schedules attached hereto is $8,510,251, which includes the appropriate allowance for taxes and uncollectibles and recognizes the AOC Special Contract Revenues of $2,641,000;

(n) That the following uncontested adjustments to WGL's rate base when calculating the test-year rate base are approved as reasonable:

- WGL RMA 9, Accumulated Deferred Income Tax (reduces rate base by $11,645,633 and operating income by $3,106,580);
- WGL RMA 23, Cash Working Capital (flow through based on the Commission's approved return on debt and approved adjustments reduces rate base by $71,853);
- WGL RMA 29, Environmental Costs (increases rate base by $217,991 and operating income by $30,572);

(o) That WGL's VMCR Program and PROJECTpipes project costs that are closed to service and are providing service to customers and included in rate base in this proceeding, the Commission rejects OPC Adjustment 1, Reduction to Plant in Service-PROJECTpipes and OPC Adjustment 2, Reduction to Plant In Service-Mechanically Coupled;

(p) The Commission rejects WGL's request to move CWIP for the VMCR Program and PROJECTpipes occurring in the test year into base rates (reduces rate base by $4,949,851 and increases operating income by $80,434);

(q) That WGL has expended the $28 million identified in the Settlement Agreement for the VMCR Program, and the Commission chooses to end the VMCR surcharge. The unrecovered amounts of CWIP for the VMCR Program totaling $1,764,443 will be moved into a new regulatory asset account for recovery;

(r) That the surcharge for PROJECTpipes will not end at this time, the PROJECTpipes CWIP will remain in the PROJECTpipes surcharge until the next base rate proceeding., and the Company's request to include PROJECTpipes CWIP totaling $4,812,395 into rate base is denied;

(s) The Commission's modification to WGL RMA 24 reduces rate base by $4,949,851, increases operating income by $80,434, and reduces the revenue deficiency by $791,758;

(t) That the Commission rejects OPC Adjustment 1, ADIT Flow Through-PROJECTpipes and OPC Adjustment 2, ADIT Flow Through-Mechanically Coupled;

(u) That the Commission rejects WGL's request to defer costs of the Integrity Management Cost Deferral program in a regulatory asset because WGL has failed to establish that the costs associated with the Program will be incurred outside of the normal course of business;

(v) The Commission finds that WGL's long-term capital expenditures for projects are reasonable an appropriate, and support goals to provide a safe, reliable, efficient and cost effective delivery of energy in the District;

(w) That the Commission rejects OPC Adjustment 5, Accumulated Depreciation and denies OPC's recommendation to use "remaining-life depreciation to adjust any reserve imbalance;

(x) That the Commission accepts OPC's service lives and rejects WGL's proposed lives and curve shapes, accepts WGL's request to amortize ENSCAN equipment, and determines that WGL's appropriate deprecation rate is 2.43% (reduces rate base by $801,047 and increases operating income by $468,743);

(y) That WGL will file a new depreciation study at least 90 days before WGL's next rate case. WGL will revisit its policy to allocate 16.5% of the cost of main and service replacements to cost of removal in developing its new depreciation study;

(z) That the Commission finds WGL's Peak Usage Charge calculations reasonable and accepts WGL's proposed billing determinants for Peak Usage and rejects AOBA's recommendation to re-compute peak usage revenue;

(aa) That the Commission finds WGL's Revenue and Other adjustments associated with flow-through District of Columbia Delivery Tax (WGL RMA 5), SETF (WGL RMA 3), EATF (WGL RMA 4), DC Rights-of-Way Fee (WGL RMA 6) East Station revenue sharing, to be just and reasonable which result in total Distribution Operating Revenues of $154,242,733;

(bb) That the Commission finds that WGL has properly reflected the Architect of the Capital Special Contract revenue as a $2.6 million reduction in its revenue deficiency calculations; and rejects OPC Adjustment 11 and AOBA Adjustment 1, Removal of AOC Special Contract Firm Service Revenue;

(cc) That the Commission finds WGL's use of composite rates to be reasonable for calculating late payment charge revenue and therefore rejects AOBA Adjustment 2, Removal of Late Payment Charge;

(dd) That the Commission finds that WGL used the most recent 30 years of data from an independent source to determine normal weather and accepts WGL's weather normalization methodology and Normal Weather Study and denies AOBA's request to reject the Company's Normal Weather Study;

(ee) That the Commission rejects WGL's proposed RNA;

(ff) That the Commission approves as reasonable the following uncontested adjustments to WGL's test year expenses:

- WGL RMA 2, Uncollectible Gas Accounts (increases operating expense by $415,733);;
- WGL RMA 3, Sustainable Energy Trust Fund (increases net income by $42,667);
- WGL RMA 4, Energy Assistance Trust Fund (increases net income by $21,724);
- WGL RMA 5, D.C. Delivery Tax (increases net income by $252,028);
- WGL RMA 6, D.C. Rights-of-Way Fees (reduces net income by $109,156);
- WGL RMA 7, Other Income Taxes (reduces operating expense by $948,759);
- WGL RMA 8, Federal Income Taxes (reduces operating income by $421,074);
- WGL RMA 11, Other Post-Employment Benefits ("OPEB") Costs (increases net income by $824,558);
- WGL RMA 12, Pension Expense (reduces net income by $264,128);
- WGL RMA 13, 401K Expense (reduces net income by $27,519);
- WGL RMA 16, OPEB and Pension Carrying Cost (reduces net income by $4,276,866);
- WGL RMA 17, Medical Plan Inflation (reduces net income by $53,487);
- WGL RMA 18, Executive Fringe Benefits (increases net income by $30,384);

- WGL RMA 19, Trade Dues (increases net income by $7,943)
- RMA 20, AGA (American Gas Association) Dues (increases net income by $54,204);
- WGL RMA 21, General Advertising (increases net income by $206.273);
- WGL RMA 22, Community Affairs (increases net income by $17,420);
- WGL RMA 27, Tax Depreciation (reduces current tax deductions by $698,076);
- WGL RMA 29, Environmental Costs (reduces net income by $30,572);
- WGL RMA 32, Regulatory Commission Expense (reduces net income by $464,735);
- WGL RMA 33, Insurance Expense (reduces net income by $87,666);
- WGL RMA 34, Interest on Customer Deposit (reduces net income by $27,136);
- WGL RMA 35, Revolver and Lines of Credit Fees (increases net income by $45,294); and
- WGL RMA 37, Audit Fees (decreases net income by $25,740).

(gg) That WGL RMA 31, Abandoned Peaking Plant, is modified. The Commission will allow WGL to recover $1,504,114, the District's portion of the abandoned peaking plant through amortization over a fifteen year period consistent with the average service life of the plant equipment, however, the Commission denies WGL's request to include the unamortized portion of the adjustment in rate base, and accepts a modified version of OPC Adjustment 3, Unrecovered Peaking Facility (reduces rate base by $1,504,114 and increases operating income by $29,337);

(hh) That the Commission accepts a modified WGL RMA 7 Wages and Salaries with adjustments to Short Term Incentive Compensation and Long Term Incentive Compensation;

(ii) That the Commission approves a modified WGL's Short Term Incentive Compensation (STIP) recovery request reduced by 20%, and rejects OPC Adjustment 8, Reduction in Short Term Incentive Compensation Expense eliminating all STIP (increase operating income by $146,039);

(jj) That the Commission rejects WGL's LTIP and accepts OPC Adjustment 7 that excludes all LTIP expenditures from ratepayer recovery (increases operating income by $1,447,269);

(kk) That the Commission accepts FICA/Medicare Taxes methodology as updated to reflect the modifications to STIP and LTIP;

(ll) That the Commission rejects WGL RMA 15, Supplemental Executive Compensation (SERP) consistent with past precedent (increases operating income by $486,492);

(mm) That the Commission accepts WGL's Pension and OPEB Trackers and carrying costs because they are consistent with Order No. 17132 and rejects OPC's requests to re-establish trackers to track the amortization amounts and to have carrying charges based on the cost of debt only;

(nn) That the Commission rejects WGL's Research and Development initiatives (WGL RMA 36) and accepts OPC Adjustment 12, Remove R&D and AOBA Adjustment 5, Elimination of GTI Funding removing these costs (increases operating income by $104,764);

(oo) That the Commission approves WGL's expense adjustment for the Company's Fee Free Credit Card in the amount of $161,343.16. AOBA Adjustment Elimination of "Fee-Free" credit/Debit Card Bill Payments is rejected;

(pp) That the Commission accepts WGL's interest synchronization methodology updated to reflect the Commission approved rate base and cost of debt, which increases operating income by $56,112;

(qq) That the Commission has concerns with respect to WGL's Default Customer Billing Charges that may not have been eliminated from costs it charges third party suppliers for adding the gas commodity to the bills of their customers and directs WGL to revise its tariffs to fully separate all distribution and sales components of natural gas service in the District;

(rr) That WGL has not included any of the BPO 2.0 costs in the costs of service in this case, so that there is no impact on the revenue requirement in this case;

(ss) That the Commission approves WGL RMA 30, Business Process Outsourcing, test year expense reduction of $371,000;

(tt) That WGL, for accounting purposes only, may defer and amortize the actual costs to achieve for BPO 2.0 on the Company's books of account over a five year period;

(uu) That the costs and savings associated with the Accenture Agreement are appropriately reflected in the current base rates;

(vv) That the Company's Jurisdictional Cost Allocation Study is reasonable and the Commission accepts WGL's jurisdictional cost allocations;

(ww) That WGL's interruptible service margin sharing should remain and AOBA Adjustment 6, Elimination of Interruptible Margin Sharing is denied;

(xx) That WGL shall provide a CCOSS that treats all customers as regulated customers and allocates the interruptible elements of the DCA within the cost of service at least six months before the next base rate case;

(yy) That the Commission accepts WGL's CCOSS as it provides a reasonable basis for allocating WGL's revenue requirements among customer classes;

(zz) That WGL's embedded CCOSS shows the relative positions of WGL's customer classes, and provides a reasonable basis upon which the Commission can allocate class revenue responsibilities, and set class rate of returns and rate designs in this case;

(aaa) That WGL's jurisdictional revenue increase should be distributed to WGL's customer classes in a manner that will reduce the wide disparities that now exist in the rate of return of WGL's customer class, assigning more revenue responsibility to those classes with negative or low (below D.C. jurisdictional average) class rates of return, and recovering WGL's $8,510,.251 D.C. revenue increase in significant part through increased Customer Charges, as described in this Opinion and Order;

(bbb) That the Commission finds that increasing WGL's Customer Charges will better align the Company's revenues with its costs and agree with the Company's proposal to collect its District of Columbia revenue increase in significant measure through increases in the Customer Charge and we direct the Company to increase the Customer Charge for the Residential, the Non-Residential Firm Customers, the Interruptible Service class as directed herein;

(ccc) That in the case of the Residential classes the entire revenue allocation should be collected by an increase in the Customer Charge;

(ddd) That the Commission accepts the Company's request to increase the peak usage charge by a uniform percentage increase for those classes that have peak usage charges in the amount of $400,098, and that the revenue increase will then be allocated to the customer charge and that any further revenue allocated to the firm non-residential classes should be recovered in the Distribution Charge;

(eee) That the Company's request to decrease the Interruptible Customers distribution charges to lower the interruptible service class return to the Company's cost of capital is unreasonable and therefore denied;

(fff) That the Commission denies AOBA's request to reconsider WGL's Asset Optimization revenue sharing mechanism and rejects AOBA Adjustment 4, Removal of Income Taxes on WGL Retained DC Revenue Sharing;

(ggg) That the Commission accepts the Company's new or amended Rate Schedules 2 (C&I Firm Sales Service), 2A (C&I Firm Delivery Service), 2B (new Firm GMA Sales tariff), 2C (new Firm GMA Delivery tariff), Rate Schedule No. 3A (Interruptible Delivery Service); and GSP No. 1 (Classes of Service); GSP No. 16 (Purchase Gas Charge);

(hhh) That the Commission rejects Rate Schedule No. 7 (Sales Service for Combined Heat and Power/Distributed Generation) and Rate Schedule No. 7A (Delivery Service for Combined Heat and Power/Distributed Generation);

(iii) That the Commission approves the elimination of Rate Schedule No. 3 (Interruptible Sales Service) and the discontinuance of Rate Schedule No. 6 (Small Commercial Aggregation Pilot);

(jjj) That WGL is directed to file a compliance plan (or transition plan) for the elimination of Rate Schedule No. 3 within 30 days of the issuance of this Order;

(kkk) That the Commission rejects the new GSP No. 29 (Revenue Normalization Adjustment);

(lll) That WGL has appropriately removed the $511,032 from base rates and that due to the different implementation dates for the distribution rates in this case and the new RES surcharge the reconciliation process in *Formal Case No. 1127* is the appropriate docket to ensure there is not "double collection" of RES credit amounts; and

(mmm)That WGL's other miscellaneous tariff proposals, which are undisputed, are approved as reasonable.

THEREFORE IT IS ORDERED THAT:

451. The Application of the Washington Gas Light Company filed February 26, 2016, seeking to increase rates for gas distribution service by $17,408,063 is hereby denied;

452. A rate increase in the amount of $8,510,251 based on a rate of return of 7.57% on WGL's jurisdictional test year rate base of $255,674,210 and a net operating income of $12,833,646 is hereby granted;

453. WGL is authorized to file revised tariffs that increase gas distribution rates by no more than $8,510,251pursuant to a rate design that shall be consistent with the findings of this Order;

454. WGL is directed to file revised rate schedules, together with supporting exhibits in compliance with our directives in this Opinion and Order and the schedules attached hereto, no later than March 17, 2017. Rates authorized in this Order shall be effective on or after March 24, 2017, at 12:01 A.M.;

455. WGL shall file a new depreciation study at least 90 days before WGL's next rate case, and shall revisit its policy to allocate 16.5% of the cost of main and service replacements to cost of removal in developing its new depreciation study;

456. WGL has included VMCR Program and PROJECTpipes project costs that are closed to service and are providing service to customers, so these costs are included in rate base in this proceeding;

457. The VCMR surcharge will cease on the effective date of new rates. The unrecovered amounts of CWIP for the VMCR Program totaling $1,764,443 will be moved into a new regulatory asset account for recovery;

458. The PROJECTpipes surcharge will continue;

459. Consistent with the Commission's tariff approvals in this Opinion and Order, WGL is directed to file new or revised tariff provisions for Rate Schedules Nos. 2 (C&I Firm Sales Service), 2A (C&I Firm Delivery Service), 2B (new Firm GMA Sales tariff), 2C (new Firm GMA Delivery tariff), Rate Schedule No. 3A (Interruptible Delivery Service); GSP No. 1 (Classes of Service); and GSP No. 16 (Purchase Gas Charge);

460. The Commission approves the elimination of Rate Schedule No. 3 (Interruptible Sales Service) and the discontinuance of Rate Schedule No. 6 (Small Commercial Aggregation Pilot);

461. The Commission rejects WGL's proposed tariff GSP No. 29 (Revenue Normalization Adjustment);

462. WGL is directed to file a compliance plan (or transition plan) for the elimination of Rate Schedule No. 3 within 30 days of the issuance of this Order;

463. Within 60 days of the date of this Order, WGL shall submit a new high load factor rate proposal (*i.e.* C&I) with a UROR equal to or greater than 1.0, based on a fixed rate rather than negotiated rates, to replace Rate Schedule No. 7 (Sales Service for Combined Heat and Power/Distributed Generation) and Rate Schedule No. 7A (Delivery Service for Combined Heat and Power/Distributed Generation);

464. WGL shall include this high load factor class as a separate class in its CCOSS in future rate cases;

465. The Commission approves temporary changes to GSP No. 14 (Economic Evaluation of Facilities Extension) to accommodate our approval of WGL's Multi-Family Piping Program, as a 2 year pilot program, with review of the program in the next base rate case;

466. The $0.50 Default Billing Charge will be reviewed in *Formal Case No. 1138, In the Matter of the Investigation into WGL's New Billing System and Process and the Potential Impact on Customers and Competitive Natural Gas Suppliers in the District of Columbia* to determine whether a charge should be assessed and the amount of any such charge;

467. WGL shall, within 60 days from the date of this Order, file revised tariffs that fully separate all distribution and sales components of natural gas service in the District of Columbia, as directed in this Order;

468. WGL in its next rate case should include a recommendation about whether the 55% distribution rate credit remains the appropriate credit level as well as assess if there are any other changes needed in the Residential Essential Service ("RES") Program given any changes identified in the natural gas market;

469. The motions of OPC, WGL, and DCCA to correct the transcripts are granted; and

470. WGL shall comply with all other directives included in this Order in the manner and time periods set forth herein.

A TRUE COPY:

BY DIRECTION OF THE COMMISSION:

CHIEF CLERK:

BRINDA WESTBROOK-SEDGWICK
COMMISSION SECRETARY

ATTACHMENTS: SCHEDULES

A. Schedule 1

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA

Docket No. FC 1137
Schedule 1

Washington Gas Light Company
Twelve Months Ending September 30, 2015
Revenue Requirements

Line	Description	WGL Application (A)	WGL Revised 5/31/16 (B)	Adjustments (C)	Approved Total (D)
1	**Rate Base**				
2	Gas Plant in Service	$ 736,119,551	$ 736,119,551	$ (6,576,838)	$ 729,542,713
3	Unrecovered Plant - Peaking Facility	1,504,114	1,504,114	(1,504,114)	(0)
4	Construction Work in Progress	-	(0)	-	(0)
5	Regulatory Asset - Mechanically Coupled Pipe (FC1027)	-	-	1,764,443	1,764,443
6	Unamortized LCP Cost (net of deferred taxes)	(1)	(1)	-	(1)
7	Unamortized East Station (net of deferred taxes)	352,283	352,283	-	352,283
8	Unamortized Environmental Cost (net of deferred taxes)	-	-	-	-
9	Materials and Supplies	3,404,253	3,404,253	-	3,404,253
10	Cash Working Capital	17,481,485	17,471,946	(545,634)	16,926,312
11	Reserve for Depreciation	(366,803,372)	(366,803,372)	663,591	(366,139,782)
12	Accumulated Deferred Income Taxes	(113,667,501)	(113,667,501)	-	(113,667,501)
13	Gains/Losses on Reacquired Debt	(230,226)	(230,226)	-	(230,226)
14	Customer Deposits	(16,108,528)	(16,108,528)	-	(16,108,528)
15	Deferred Tenant Allowance	(169,756)	(169,756)	-	(169,756)
16	Total Rate Base	$ 261,882,302	$ 261,872,762	$ (6,198,552)	$ 255,674,210
17	**Rate of Return**	8.23%	8.23%		7.57%
18	**Return Requirement**	$ 21,552,913	$ 21,552,128	$ (2,197,591)	$ 19,354,538
19	**Operating Revenues**				
20	Revenues	$ 154,242,733	$ 154,242,733	-	$ 154,242,733
21	Total Operating Revenues	$ 154,242,733	$ 154,242,733	$ -	$ 154,242,733
22	**Operating Expenses**				
23	Operation	$ 60,752,585	$ 63,184,020	$ (3,694,341)	$ 59,489,679
24	Maintenance	14,223,895	14,223,895	-	14,223,895
25	Depreciation	15,517,901	15,517,901	(938,503)	14,579,398
26	Amortization	3,750,939	3,750,939	(50,137)	3,700,802
27	Interest on Customer Deposits	59,601	59,601	-	59,601
28	Interest on Supplier Refunds	-	-	-	-
29	General Taxes	44,044,515	44,044,515	(38,917)	44,005,598
30	Other Income Tax	(1,579,614)	(1,822,126)	457,036	(1,365,090)
31	Federal Income Tax	(4,745,542)	(5,511,589)	1,443,673	(4,067,916)
32	Investment Tax Credit Adjustments	(264,990)	(264,990)	-	(264,990)
33	Deferred Income Taxes	11,048,111	11,048,111	-	11,048,111
34	Total Operating Expenses	$ 142,807,402	$ 144,230,276	$ (2,821,189)	$ 141,409,087
35	**Net Operating Income**	$ 11,435,331	$ 10,012,457	$ 2,821,189	$ 12,833,646
36	AFUDC	110,661	110,661		110,661
37	Net Operating Income-Adjusted	$ 11,545,992	$ 10,123,118	$ 2,821,189	$ 12,944,307
38	**Income Deficiency**	$ 10,006,921	$ 11,429,010	$ (5,018,780)	$ 6,410,231
39	Revenue Conversion Factor (Before Bad Debt)	1.70893	1.70893		1.70893
40	Revenue Deficiency Before Uncollectibles	$ 17,101,098	$ 19,531,343	$ (8,576,728)	$ 10,954,615
41	Allowance for Uncollectible Accounts	306,965	350,588	(153,953)	196,635
42	**Total Revenue Deficiency**	$ 17,408,063	$ 19,881,931	$ (8,730,681)	$ 11,151,251
43	AOC Special Contract-FC 1133		(2,641,000)	-	(2,641,000)
44	Revenue Deficiency After AOC Special Contract		$ 17,240,931	$ (8,730,681)	$ 8,510,251
45	Percent of Original Request				48.89%

B. Schedule 2

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA

Docket No. FC 1137
Schedule 2

Washington Gas Light Company
Twelve Months Ending September 30, 2015
Rate of Return Calculation

Line	Description	Ratio	Cost %	Weighted Cost %
		(A)	(B)	(C)
1	Long-Term Debt	39.654%	5.83%	2.31%
2	Short-Term Debt	3.094%	1.06%	0.03%
3	Preferred Stock	1.552%	4.79%	0.07%
4	Common Equity	55.700%	9.25%	5.15%
5	Total	100.00%		7.57%

C. Schedule 3

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA

Docket No. FC 1137
Schedule 3

Washington Gas Light Company
Twelve Months Ending September 30, 2015
Approved Ratemaking Adjustments and Impact on Revenue Deficiency

Line		Description	Approved Amount (A)
1		Company's Initial Revenue Deficiency	$ 17,408,063
2		**Company's Revised Revenue Deficiency**	$ 17,240,931
3		**Impact of Approved Rate of Return**	(3,006,659)
4		**Impact of Approved Ratemaking Adjustments**	
5	RMA-1	Adjust Cash Working Capital for Adjustments	(71,853)
6	RMA-2	Remove PROJECTpipes CWIP, Transfer VMCR to Regulatory Asset (WGL #24 and #25; OPC #1, OPC #2)	(791,758)
7	RMA-3	Modify Amount and Amortization of Abandoned Peaking Plant Regulatory Asset (WGL #31; OPC #3)	(249,109)
8	RMA-4	Impact of Modified Depreciation Rates (WGL #25; OPC #5)	(709,938)
9	RMA-5	Eliminate SERP (WGL #15; OPC #6)	(846,303)
10	RMA-6	Eliminate Executive Long Term Incentive Compensation (OPC #7)	(2,517,672)
11	RMA-7	Eliminate UDT and ODT R&D Funding (WGL #36; OPC-YM; AOBA)	(182,247)
12	RMA-8	Modify Short-Term Incentive Compensation to Exclude Non-Utility EBIT and Utility ROE Goals (OPC #8)	(254,050)
13	RMA-9	Interest Synchronization (WGL #28; OPC #10)	(101,092)
14		**Approved Revenue Deficiency**	$ 8,510,251

D. Schedule 4

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA

Docket No. FC 1137
Schedule 4

Washington Gas Light Company
Twelve Months Ending September 30, 2015
Approved Ratemaking Adjustments

Line	Description	WGL Revised 5/31/16	Adjustment 1	Adjustment 2	Adjustment 3	Adjustment 4	Adjustment 5	Adjustment 6	Adjustment 7	Adjustment 8	Adjustment 9	Adjustment Subtotal	Approved Totals
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
	Reference Schedule		Schedule 3.1	Schedule 3.2	Schedule 3.3	Schedule 3.4	Schedule 3.5	Schedule 3.6	Schedule 3.7	Schedule 3.8	Schedule 3.9		
1	Rate Base												
2	Gas Plant in Service	$ 736,119,551		$ (6,576,838)								$ (6,576,838)	$ 729,542,713
3	Unrecovered Plant - Peaking Facility	1,504,114			(1,504,114)							(1,504,114)	(0)
4	Construction Work in Progress	(0)										-	(0)
5	Regulatory Asset - Mechanically Coupled Pipe (FC 1027)	-		1,764,443								1,764,443	1,764,443
6	Unamortized LCP Cost (net of deferred taxes)	(1)										-	(1)
7	Unamortized East Station (net of deferred taxes)	352,283										-	352,283
8	Unamortized Environmental Cost (net of deferred taxes)	-										-	-
9	Materials and Supplies	3,404,253										-	3,404,253
10	Cash Working Capital	17,471,946	(545,634)									(545,634)	16,926,312
11	Reserve for Depreciation	(366,803,372)		(137,456)		801,047						663,591	(366,139,782)
12	Accumulated Deferred Income Taxes	(113,667,501)										-	(113,667,501)
13	Gains/Losses on Reacquired Debt	(230,226)										-	(230,226)
14	Customer Deposits	(16,108,528)										-	(16,108,528)
15	Deferred Tenant Allowance	(169,756)										-	(169,756)
16	Total Rate Base	$ 261,872,762	$ (545,634)	$ (4,949,851)	$ (1,504,114)	$ 801,047	$ -	$ -	$ -	$ -	$ -	$ (6,198,552)	$ 255,674,210
17	Rate of Return	8.23%	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%
18	Return Requirement	$ 21,552,128	$ (41,305)	$ (374,704)	$ (113,861)	$ 60,639	$ -	$ -	$ -	$ -	$ -	$ (469,230)	$ 19,354,538
19	Operating Revenues												
20	Revenues	$ 154,242,733										$ -	$ 154,242,733
21	Total Operating Revenues	$ 154,242,733	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 154,242,733
22	Operating Expenses												
23	Operation	$ 63,184,020					$ (831,380)	$ (2,437,926)	$ (179,034)	$ (246,002)		$ (3,694,341)	$ 59,489,679
24	Maintenance	14,223,895										-	14,223,895
25	Depreciation	15,517,901		(137,456)		(801,047)						(938,503)	14,579,398
26	Amortization	3,750,939			(50,137)							(50,137)	3,700,802
27	Interest on Customer Deposits	59,601										-	59,601
28	Interest on Supplier Refunds	-										-	-
29	General Taxes	44,044,515						(35,350)		(3,567)		(38,917)	44,005,598
30	Other Income Tax	(1,822,126)		13,711	5,002	79,904	82,930	246,709	17,859	24,894	(13,973)	457,036	(1,365,090)
31	Federal Income Tax	(5,511,589)		43,311	15,798	252,400	261,958	779,298	56,411	78,636	(44,139)	1,443,673	(4,067,916)
32	Investment Tax Credit Adjustments	(264,990)										-	(264,990)
33	Deferred Income Taxes	11,048,111										-	11,048,111
34	Total Operating Expenses	$ 144,230,277	$ -	$ (80,434)	$ (29,337)	$ (468,743)	$ (486,492)	$ (1,447,269)	$ (104,764)	$ (146,039)	$ (58,112)	$ (2,821,189)	$ 141,409,088
35	Net Operating Income	$ 10,012,456	$ -	$ 80,434	$ 29,337	$ 468,743	$ 486,492	$ 1,447,269	$ 104,764	$ 146,039	$ 58,112	$ 2,821,189	$ 12,833,645
36	AFUDC	$ 110,661										$ -	110,661
37	Net Operating Income-Adjusted	$ 10,123,118	$ -	$ 80,434	$ 29,337	$ 468,743	$ 486,492	$ 1,447,269	$ 104,764	$ 146,039	$ 58,112	$ 2,821,189	$ 12,944,307

Adjustment 1 Adjust Cash Working Capital for Adjustments
Adjustment 2 Remove PROJECTpipes CWIP, Transfer VMCR to Regulatory Asset (WGL #24 and #25; OPC #1, OPC #2)
Adjustment 3 Modify Amount and Amortization of Abandoned Peaking Plant Regulatory Asset (WGL #31; OPC #3)
Adjustment 4 Impact of Modified Depreciation Rates (WGL #25; OPC #5)
Adjustment 5 Eliminate SERP (WGL #15; OPC #6)
Adjustment 6 Eliminate Executive Long Term Incentive Compensation (OPC #7)
Adjustment 7 Eliminate UDT and ODT R&D Funding (WGL #36; OPC-YM; AOBA)
Adjustment 8 Modify Short-Term Incentive Compensation to Exclude Non-Utility EBIT and Utility ROE Goals (OPC #8)
Adjustment 9 Interest Synchronization (WGL #28; OPC #10)

E. Annual Depreciation Rates[1019]

FC 1137 Commission DR 4-1
Attachment 4-1D
Page 1 of 2

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Statement A
Comparison of Current and SFAS 143 Accrual Rates
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.32 Percent

	Current			SFAS 143		
Account Description	Investment	Net Salvage	Total	Investment	Net Salvage	Total
A	B	C	D=B+C	E	F	G=E+F
STORAGE AND PROCESSING PLANT						
Allocated Property						
361.00 Structures and Improvements						
Maryland (Rockville)	2.75%	0.89%	3.64%	2.39%	0.76%	3.15%
Virginia (Ravensworth)	2.63%	0.51%	3.14%	2.47%	0.50%	2.97%
Total Account 361.00	2.69%	0.71%	3.40%	2.43%	0.63%	3.06%
362.00 Gas Holders						
Maryland (Rockville)	1.67%	0.56%	2.23%	1.69%	0.57%	2.26%
Virginia (Ravensworth)	1.75%	0.33%	2.08%	1.79%	0.34%	2.13%
Total Account 362.00	1.70%	0.46%	2.17%	1.73%	0.47%	2.20%
363.50 Other Equipment						
Maryland (Rockville)	2.89%		2.89%	5.37%	0.11%	5.48%
Virginia (Ravensworth)	-0.57%	6.10%	5.53%	1.97%	1.54%	3.51%
Total Account 363.50	2.05%	1.48%	3.53%	4.55%	0.46%	5.00%
Total Allocated Property	1.87%	0.57%	2.44%	2.02%	0.50%	2.52%
Total Storage and Processing Plant	1.87%	0.57%	2.44%	2.02%	0.50%	2.52%
TRANSMISSION PLANT						
Assigned Property						
365.20 Rights of Way						
366.00 Meas. and Reg. Station Structures						
367.10 Mains - Steel	1.02%	0.15%	1.17%	0.50%	0.10%	0.60%
369.00 Measuring and Regulating Equipment	1.91%	0.21%	2.12%	1.09%	0.20%	1.29%
Total Assigned Property	1.50%	0.18%	1.69%	0.82%	0.15%	0.97%
Allocated Property						
365.20 Rights of Way						
District	1.76%		1.76%	0.33%		0.33%
Maryland	1.68%		1.68%	1.60%		1.60%
Virginia	1.29%		1.29%	1.15%		1.15%
Total Account 365.20	1.55%		1.55%	1.45%		1.45%
366.00 Meas. and Reg. Station Structures						
Maryland	1.98%		1.98%	0.33%	1.24%	1.57%
Virginia	2.04%	0.20%	2.24%	1.33%	0.02%	1.35%
Total Account 366.00	2.01%	0.12%	2.13%	1.00%	0.44%	1.44%
367.10 Mains - Steel						
District	0.98%	0.15%	1.13%	1.05%	0.10%	1.15%
Maryland	1.56%		1.56%	1.44%	-0.03%	1.41%
Virginia	1.54%	0.25%	1.79%	1.47%	0.10%	1.57%
Total Account 367.10	1.50%	0.11%	1.61%	1.42%	0.03%	1.45%
369.00 Measuring and Regulating Equipment						
District	1.67%	0.21%	1.88%	-0.18%	0.20%	0.02%
Maryland	1.92%	0.29%	2.21%	0.29%	2.40%	2.69%
Virginia	1.61%	0.48%	2.09%	0.55%		0.55%
Total Account 369.00	1.82%	0.35%	2.17%	0.36%	1.66%	2.02%
Total Allocated Property	1.63%	0.18%	1.81%	1.07%	0.56%	1.63%
Total Transmission Plant	1.61%	0.18%	1.79%	1.03%	0.50%	1.53%
DISTRIBUTION PLANT						
Assigned Property						
375.00 Structures and Improvements						
376.10 Mains - Steel	1.28%	0.37%	1.65%	0.87%	0.39%	1.26%
376.20 Mains - Plastic	1.61%	0.46%	2.07%	1.53%	0.57%	2.10%
376.30 Mains - Cast Iron	0.47%	1.16%	1.63%	-1.78%	1.14%	-0.64%
376.40 Mains - Copper						
377.00 Compressor Station Equipment						
378.00 Measuring and Regulating Equipment	1.19%	0.11%	1.30%	1.08%	0.11%	1.19%
380.10 Services - Steel	1.67%	1.53%	3.20%	1.18%	0.91%	2.09%
380.20 Services - Plastic	1.52%	0.88%	2.40%	1.42%	0.73%	2.15%
380.30 Services - Copper	1.07%	1.40%	2.47%	-1.86%	1.46%	-0.40%

[1019] The following tables are from Commission Exhibit No. 9 (WGL's Response to Commission Data Requests, Question No. 4-1.)

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Statement A

Comparison of Current and SFAS 143 Accrual Rates
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.32 Percent

	Current			SFAS 143		
Account Description	Investment	Net Salvage	Total	Investment	Net Salvage	Total
A	B	C	D=B+C	E	F	G=E+F
381.10 Meters - Tin Case	0.64%	-0.01%	0.63%	-6.42%		-6.42%
381.20 Meters - Hard Case	3.96%	-0.01%	3.95%	3.13%		3.13%
381.30 Meters - Electronic Devices	4.49%		4.49%	2.39%		2.39%
381.50 Meters - Electronic Demand Recorders	2.57%		2.57%	-0.33%		-0.33%
382.00 Meter Installations	1.08%	0.12%	1.20%	1.42%	0.12%	1.54%
383.00 House Regulators	2.33%	1.03%	3.36%	1.76%	1.52%	3.28%
384.00 House Regulator Installations	1.18%	0.01%	1.19%	1.51%		1.51%
385.00 Industrial Meas. and Reg. Station Equip.						
387.00 Other Equipment	1.92%	2.46%	4.38%	-0.10%	2.49%	2.39%
Total Assigned Property	1.57%	0.60%	2.18%	1.38%	0.57%	1.96%
Allocated Property						
375.00 Structures and Improvements						
District						
Maryland						
Virginia						
Total Account 375.00						
377.00 Compressor Station Equipment						
District						
Maryland						
Virginia						
Total Account 377.00						
378.00 Measuring and Regulating Equipment						
District						
Maryland	3.68%	-0.08%	3.60%	3.85%	-0.10%	3.75%
Virginia	6.89%	1.11%	8.00%	5.21%	0.55%	5.76%
Total Account 378.00	4.29%	0.15%	4.44%	4.11%	0.02%	4.13%
Total Allocated Property	4.29%	0.15%	4.44%	4.11%	0.02%	4.13%
Total Distribution Plant	1.57%	0.60%	2.18%	1.38%	0.57%	1.96%
GENERAL PLANT						
Allocated Property (Depreciable)						
390.00 Structures and Improvements						
District	2.39%	1.73%	4.12%	2.14%	0.21%	2.35%
Maryland	2.51%	0.10%	2.61%	2.27%	0.14%	2.41%
Virginia	1.88%	0.20%	2.08%	1.96%	0.20%	2.16%
Total Account 390.00	1.97%	0.21%	2.18%	2.00%	0.19%	2.19%
Total Allocated Property (Depreciable)	1.97%	0.21%	2.18%	2.00%	0.19%	2.19%
Assigned Property (Amortizable)						
303.05 Software - 5 year	17.69%		17.69%	← 5 Year Amortization →		17.69%
303.10 Software - 10 year	10.00%		10.00%	← 10 Year Amortization →		10.00%
391.11 Office Furniture and Equipment	4.93%		4.93%	← 20 Year Amortization →		4.93%
391.21 Computer Equipment	12.78%		12.78%	← 7 Year Amortization →		12.78%
393.00 Stores Equipment	4.99%		4.99%	← 20 Year Amortization →		4.99%
394.00 Tools, Shop & Garage Equipment	4.78%		4.78%	← 20 Year Amortization →		4.78%
395.00 Laboratory Equipment	4.69%		4.69%	← 20 Year Amortization →		4.69%
397.10 Communication Equipment - Telephones	6.65%		6.65%	← 15 Year Amortization →		6.65%
397.20 ENSCAN Equipment*	3.84%		3.84%	← 18 Year Amortization →		4.31%
397.30 TRACE - AMR Devices						
398.00 Miscellaneous Equipment	6.59%		6.59%	← 15 Year Amortization →		6.59%
Total Assigned Property (Amortizable)	8.40%		8.40%	8.58%		8.58%
Total General Plant	6.96%	0.05%	7.01%	7.10%	0.04%	7.15%
TOTAL JURISDICTION	2.09%	0.53%	2.62%	1.91%	0.52%	2.43%

*Currently Depreciable.

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA

Statement B

Comparison of Current and SFAS 143 Accruals
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.32 Percent

	12/31/14	Current			SFAS 143			
Account Description	Plant	Investment	Net Salvage	Total	Investment	Net Salvage	Total	Difference
A	B	C	D	E=C+D	F	G	H=F+G	I=H-E
STORAGE AND PROCESSING PLANT								
Allocated Property								
361.00 Structures and Improvements								
Maryland (Rockville)	$792,097	$21,783	$7,050	$28,833	$18,931	$6,020	$24,951	($3,882)
Virginia (Ravensworth)	733,454	19,290	3,741	23,031	18,116	3,667	21,783	(1,248)
Total Account 361.00	$1,525,551	$41,073	$10,791	$51,864	$37,047	$9,687	$46,734	($5,130)
362.00 Gas Holders								
Maryland (Rockville)	$4,690,563	$78,332	$26,267	$104,599	$79,271	$26,736	$106,007	$1,408
Virginia (Ravensworth)	3,464,888	60,636	11,434	72,070	62,021	11,781	73,802	1,732
Total Account 362.00	$8,155,451	$138,968	$37,701	$176,669	$141,292	$38,517	$179,809	$3,140
363.50 Other Equipment								
Maryland (Rockville)	$517,723	$14,962		$14,962	$27,802	$569	$28,371	$13,409
Virginia (Ravensworth)	165,263	(942)	10,081	9,139	3,256	2,545	5,801	(3,338)
Total Account 363.50	$682,986	$14,020	$10,081	$24,101	$31,058	$3,114	$34,172	$10,071
Total Allocated Property	$10,363,988	$194,061	$58,573	$252,634	$209,397	$51,318	$260,715	$8,081
Total Storage and Processing Plant	$10,363,988	$194,061	$58,573	$252,634	$209,397	$51,318	$260,715	$8,081
TRANSMISSION PLANT								
Assigned Property								
365.20 Rights of Way								
366.00 Meas. and Reg. Station Structures								
367.10 Mains - Steel	2,062,079	21,033	3,093	24,126	10,310	2,062	12,372	(11,754)
369.00 Measuring and Regulating Equipment	2,446,498	46,728	5,138	51,866	26,667	4,893	31,560	(20,306)
Total Assigned Property	$4,508,577	$67,761	$8,231	$75,992	$36,977	$6,955	$43,932	($32,060)
Allocated Property								
365.20 Rights of Way								
District	$534	$9		$9	$2		$2	($7)
Maryland	912,211	15,325		15,325	14,595		14,595	(730)
Virginia	455,454	5,875		5,875	5,238		5,238	(637)
Total Account 365.20	$1,368,199	$21,209		$21,209	$19,835		$19,835	($1,374)
366.00 Meas. and Reg. Station Structures								
Maryland	$450,974	$8,929		$8,929	$1,488	$5,592	$7,080	($1,849)
Virginia	619,365	12,635	1,239	13,874	8,238	124	8,362	(5,512)
Total Account 366.00	$1,070,339	$21,564	$1,239	$22,803	$9,726	$5,716	$15,442	($7,361)

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Statement B

Comparison of Current and SFAS 143 Accruals
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.32 Percent

	12/31/14	Current			SFAS 143			
Account Description	Plant	Investment	Net Salvage	Total	Investment	Net Salvage	Total	Difference
A	B	C	D	E=C+D	F	G	H=F+G	I=H-E
367.10 Mains - Steel								
District	$1,244,633	$12,197	$1,867	$14,064	$13,069	$1,245	$14,314	$250
Maryland	8,088,580	126,182		126,182	116,476	(2,427)	114,049	(12,133)
Virginia	5,584,195	85,997	13,960	99,957	82,088	5,584	87,672	(12,285)
Total Account 367.10	$14,917,408	$224,376	$15,827	$240,203	$211,633	$4,402	$216,035	($24,168)
369.00 Measuring and Regulating Equipment								
District	$84,438	$1,410	$177	$1,587	($152)	$169	$17	($1,570)
Maryland	5,490,804	105,423	15,923	121,346	15,923	131,779	147,702	26,356
Virginia	2,374,502	38,229	11,398	49,627	13,060		13,060	(36,567)
Total Account 369.00	$7,949,744	$145,062	$27,498	$172,560	$28,831	$131,948	$160,779	($11,781)
Total Allocated Property	$25,305,690	$412,211	$44,564	$456,775	$270,025	$142,066	$412,091	($44,684)
Total Transmission Plant	$29,814,267	$479,972	$52,795	$532,767	$307,002	$149,021	$456,023	($76,744)
DISTRIBUTION PLANT								
Assigned Property								
375.00 Structures and Improvements								
376.10 Mains - Steel	71,096,875	910,040	263,058	1,173,098	618,543	277,278	895,821	(277,277)
376.20 Mains - Plastic	193,633,686	3,117,502	890,715	4,008,217	2,962,595	1,103,712	4,066,307	58,090
376.30 Mains - Cast Iron	5,968,483	28,052	69,234	97,286	(106,239)	68,041	(38,198)	(135,484)
376.40 Mains - Copper								
377.00 Compressor Station Equipment								
378.00 Measuring and Regulating Equipment	8,448,406	100,536	9,293	109,829	91,243	9,293	100,536	(9,293)
380.10 Services - Steel	19,018,346	317,606	290,981	608,587	224,416	173,067	397,483	(211,104)
380.20 Services - Plastic	200,436,513	3,046,635	1,763,841	4,810,476	2,846,198	1,463,187	4,309,385	(501,091)
380.30 Services - Copper	3,268,329	34,971	45,757	80,728	(60,791)	47,718	(13,073)	(93,801)
381.10 Meters - Tin Case	6,378	41	(1)	40	(409)		(409)	(449)
381.20 Meters - Hard Case	19,330,065	765,471	(1,933)	763,538	605,031		605,031	(158,507)
381.30 Meters - Electronic Devices	1,090,096	48,945		48,945	26,053		26,053	(22,892)
381.50 Meters - Electronic Demand Recorders	852,990	21,922		21,922	(2,815)		(2,815)	(24,737)
382.00 Meter Installations	35,491,868	383,312	42,590	425,902	503,985	42,590	546,575	120,673
383.00 House Regulators	3,324,275	77,456	34,240	111,696	58,507	50,529	109,036	(2,660)
384.00 House Regulator Installations	2,624,230	30,966	262	31,228	39,626		39,626	8,398
385.00 Industrial Meas. and Reg. Station Equip.								
387.00 Other Equipment	102,163	1,962	2,513	4,475	(102)	2,544	2,442	(2,033)
Total Assigned Property	$564,692,703	$8,885,417	$3,410,550	$12,295,967	$7,805,841	$3,237,959	$11,043,800	($1,252,167)

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WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA
Comparison of Current and SFAS 143 Accruals
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.32 Percent

Statement B

Account Description	12/31/14 Plant	Current Investment	Current Net Salvage	Current Total	SFAS 143 Investment	SFAS 143 Net Salvage	SFAS 143 Total	Difference
A	B	C	D	E=C+D	F	G	H=F+G	I=H-E
Allocated Property								
375.00 Structures and Improvements								
District								
Maryland								
Virginia								
Total Account 375.00								
377.00 Compressor Station Equipment								
District								
Maryland								
Virginia								
Total Account 377.00								
378.00 Measuring and Regulating Equipment								
District								
Maryland	205,747	7,571	(165)	7,406	7,921	(206)	7,715	309
Virginia	48,720	3,357	541	3,898	2,538	268	2,806	(1,092)
Total Account 378.00	$254,467	$10,928	$376	$11,304	$10,459	$62	$10,521	($783)
Total Allocated Property	$254,467	$10,928	$376	$11,304	$10,459	$62	$10,521	($783)
Total Distribution Plant	$564,947,170	$8,896,345	$3,410,926	$12,307,271	$7,816,300	$3,238,021	$11,054,321	($1,252,950)
GENERAL PLANT								
Allocated Property (Depreciable)								
390.00 Structures and Improvements								
District	$221,233	$5,287	$3,827	$9,114	$4,734	$465	$5,199	($3,915)
Maryland	1,773,613	44,518	1,774	46,292	40,261	2,483	42,744	(3,548)
Virginia	12,022,761	226,028	24,046	250,074	235,646	24,046	259,692	9,618
Total Account 390.00	$14,017,607	$275,833	$29,647	$305,480	$280,641	$26,994	$307,635	$2,155
Total Allocated Property (Depreciable)	$14,017,607	$275,833	$29,647	$305,480	$280,641	$26,994	$307,635	$2,155

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WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA

Statement B

Comparison of Current and SFAS 143 Accruals
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.32 Percent

Account Description	12/31/14 Plant	Current Investment	Current Net Salvage	Current Total	SFAS 143 Investment	SFAS 143 Net Salvage	SFAS 143 Total	Difference
A	B	C	D	E=C+D	F	G	H=F+G	I=H-E
Assigned Property (Amortizable)								
303.05 Software - 5 year	$9,259,297	$1,638,058		$1,638,058	$1,638,058		$1,638,058	
303.10 Software - 10 year	6,639,647	663,965		663,965	663,965		663,965	
391.11 Office Furniture and Equipment	2,076,672	102,316		102,316	102,316		102,316	
391.21 Computer Equipment	3,260,870	416,803		416,803	416,803		416,803	
393.00 Stores Equipment	89,491	4,469		4,469	4,469		4,469	
394.00 Tools, Shop & Garage Equipment	2,158,488	103,252		103,252	103,252		103,252	
395.00 Laboratory Equipment	57,909	2,717		2,717	2,717		2,717	
397.10 Communication Equipment - Telephones	6,279,877	417,730		417,730	417,730		417,730	
397.20 ENSCAN Equipment*	18,394,488	706,348		706,348	793,436		793,436	87,088
397.30 TRACE - AMR Devices								
398.00 Miscellaneous Equipment	369,182	24,318		24,318	24,318		24,318	
Total Assigned Property (Amortizable)	$48,585,921	$4,079,976		$4,079,976	$4,167,064		$4,167,064	$87,088
Total General Plant	$62,603,528	$4,355,809	$29,647	$4,385,456	$4,447,705	$26,994	$4,474,699	$89,243
TOTAL JURISDICTION	$667,728,953	$13,926,187	$3,551,941	$17,478,128	$12,780,404	$3,465,354	$16,245,758	($1,232,370)

*Currently Depreciable.

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WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Statement C
Depreciation Reserve Summary - SFAS 143
Vintage Group Procedure
Accretion Rate: 3.32 Percent
December 31, 2014

Account Description	Plant Investment	Recorded Reserve Amount	Recorded Reserve Ratio	Computed Reserve Investment	Computed Reserve Net Salvage	Computed Reserve Total	Redistributed Reserve Investment	Redistributed Reserve Net Salvage	Redistributed Reserve Total	Redistributed Reserve Ratio
A	B	C	D=C/B	E	F	G=E+F	H	I	J=H+I	K=J/B
STORAGE AND PROCESSING PLANT										
Allocated Property										
361.00 Structures and Improvements										
Maryland (Rockville)	$792,097			$243,219	$68,811	$312,031	$188,325.30	$53,281	$241,606	30.50%
Virginia (Ravensworth)	733,454			277,458	54,124	331,582	214,837	41,908	256,745	35.00%
Total Account 361.00	$1,525,551	$498,351	32.67%	$520,678	$122,935	$643,613	$403,162	$95,189	$498,351	32.67%
362.00 Gas Holders										
Maryland (Rockville)	$4,690,563			$2,402,695	$708,230	$3,110,925	$2,807,359	$827,510	$3,634,869	77.49%
Virginia (Ravensworth)	3,464,888			1,738,428	363,224	2,101,652	2,031,216	424,398	2,455,614	70.87%
Total Account 362.00	$8,155,451	$6,090,483	74.68%	$4,141,124	$1,071,453	$5,212,577	$4,838,575	$1,251,908	$6,090,483	74.68%
363.50 Other Equipment										
Maryland (Rockville)	$517,723			$38,386	($2,876)	$35,510	$111,542	($8,357)	$103,185	19.93%
Virginia (Ravensworth)	165,263			22,248	(27,173)	(4,925)	64,647	(78,958)	(14,311)	-8.66%
Total Account 363.50	$682,986	$88,874	13.01%	$60,634	($30,049)	$30,585	$176,190	($87,316)	$88,874	13.01%
Total Allocated Property	$10,363,988	$6,677,708	64.43%	$4,722,436	$1,164,340	$5,886,775	$5,417,926	$1,259,782	$6,677,708	64.43%
Total Storage and Processing Plant	$10,363,988	$6,677,708	64.43%	$4,722,436	$1,164,340	$5,886,775	$5,417,926	$1,259,782	$6,677,708	64.43%
TRANSMISSION PLANT										
Assigned Property										
365.20 Rights of Way										
366.00 Meas. and Reg. Station Structures		(617)								
367.10 Mains - Steel	2,062,079	1,056,733	51.25%	562,711	38,170	600,881	1,464,450	38,170	1,502,620	72.87%
369.00 Measuring and Regulating Equipment	2,446,498	1,901,477	77.72%	528,920	52,908	581,828	1,402,065	52,908	1,454,973	59.47%
Total Assigned Property	$4,508,577	$2,957,593	65.60%	$1,091,631	$91,078	$1,182,709	$2,866,515	$91,078	$2,957,593	65.60%
Allocated Property										
365.20 Rights of Way										
District	$534			$478		$478	$520		$520	97.46%
Maryland	912,211			266,156		266,156	289,804		289,804	31.77%
Virginia	455,454			251,610		251,610	273,966		273,966	60.15%
Total Account 365.20	$1,368,199	$564,290	41.24%	$518,244		$518,244	$564,290		$564,290	41.24%
366.00 Meas. and Reg. Station Structures										
Maryland	$450,974			$155,288	($59,729)	$95,559	$409,049	($157,333)	$251,716	55.82%
Virginia	619,365			104,547	22,296	126,843	275,392	58,729	334,121	53.95%
Total Account 366.00	$1,070,339	$585,837	54.73%	$259,835	($37,433)	$222,402	$684,441	($98,604)	$585,837	54.73%
367.10 Mains - Steel										
District	$1,244,633			$339,642	$23,039	$362,681	$477,565	$23,039	$500,603	40.22%
Maryland	8,088,580			2,134,749	89,307	2,224,056	2,946,564	123,270	3,069,834	37.95%
Virginia	5,584,195			1,333,733	527,346	1,861,079	1,840,934	727,888	2,568,822	46.00%
Total Account 367.10	$14,917,408	$6,139,259	41.15%	$3,808,124	$639,692	$4,447,816	$5,265,063	$874,196	$6,139,259	41.15%
369.00 Measuring and Regulating Equipment										
District	$84,438			$18,255	$1,826	$20,081	$90,384	$1,826	$92,210	109.20%
Maryland	5,490,804			1,067,387	(869,009)	198,378	4,901,319	(3,990,391)	910,928	16.59%
Virginia	2,374,502			373,535	146,077	519,612	1,715,229	670,768	2,385,997	100.48%
Total Account 369.00	$7,949,744	$3,389,135	42.63%	$1,459,177	($721,106)	$738,071	$6,706,932	($3,317,797)	$3,389,135	42.63%
Total Allocated Property	$25,305,690	$10,678,521	42.20%	$6,045,380	($118,848)	$5,926,533	$13,220,725	($2,542,204)	$10,678,521	42.20%
Total Transmission Plant	$29,814,267	$13,636,114	45.74%	$7,137,011	($27,770)	$7,109,242	$16,087,240	($2,451,126)	$13,636,114	45.74%

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WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Statement C
Depreciation Reserve Summary - SFAS 143
Vintage Group Procedure
Accretion Rate: 3.32 Percent
December 31, 2014

Account Description	Plant Investment	Recorded Reserve Amount	Recorded Reserve Ratio	Computed Reserve Investment	Computed Reserve Net Salvage	Computed Reserve Total	Redistributed Reserve Investment	Redistributed Reserve Net Salvage	Redistributed Reserve Total	Redistributed Reserve Ratio
A	B	C	D=C/B	E	F	G=E+F	H	I	J=H+I	K=J/B
DISTRIBUTION PLANT										
Assigned Property										
375.00 Structures and Improvements										
376.10 Mains - Steel	71,096,875	57,170,999	80.41%	27,364,113	6,042,025	33,406,137	40,687,883	6,042,025	46,729,908	65.73%
376.20 Mains - Plastic	193,633,686	60,683,917	31.34%	46,431,126	13,394,905	59,826,032	70,292,261	13,394,905	83,687,166	43.22%
376.30 Mains - Cast Iron	5,968,483	6,606,797	110.69%	4,881,808	1,893,148	6,774,956	7,583,946	1,893,148	9,477,093	158.79%
376.40 Mains - Copper										
377.00 Compressor Station Equipment										
378.00 Measuring and Regulating Equipment	8,448,406	6,026,967	71.34%	1,991,875	142,949	2,134,824	2,843,332	142,949	2,986,281	35.35%
380.10 Services - Steel	19,018,346	15,954,188	83.89%	7,552,891	2,702,420	10,255,311	11,643,139	2,702,420	14,345,560	75.43%
380.20 Services - Plastic	200,436,513	136,124,924	67.91%	58,070,051	20,318,197	78,388,247	89,334,576	20,318,197	109,652,773	54.71%
380.30 Services - Copper	3,268,329	5,099,769	156.04%	2,545,066	1,210,642	3,755,708	4,043,000	1,210,642	5,253,642	160.74%
381.10 Meters - Tin Case	6,378	(376,100)	-5896.83%	5,681		5,681	7,947		7,947	124.59%
381.20 Meters - Hard Case	19,330,065	7,955,678	41.16%	7,497,477		7,497,477	10,487,786		10,487,786	54.26%
381.30 Meters - Electronic Devices	1,090,096	186,229	17.08%	628,375		628,375	878,997		878,997	80.63%
381.50 Meters - Electronic Demand Recorders	852,990	561,982	65.88%	622,978		622,978	871,448		871,448	102.16%
382.00 Meter Installations	35,491,868	18,390,423	51.82%	6,474,268	457,086	6,931,354	9,238,783	457,086	9,695,869	27.32%
383.00 House Regulators	3,324,275	864,562	26.01%	1,061,714	601,961	1,663,675	1,725,257	601,961	2,327,218	70.01%
384.00 House Regulator Installations	2,624,230	872,507	33.25%	690,001		690,001	965,203		965,203	36.78%
385.00 Industrial Meas. and Reg. Station Equip.										
387.00 Other Equipment	102,163	112,456	110.08%	60,889	47,177	108,066	103,991	47,177	151,167	147.97%
Total Assigned Property	$564,692,703	$316,235,298	56.00%	$165,878,313	$46,810,509	$212,688,822	$250,707,549	$46,810,509	$297,518,058	52.69%
Allocated Property										
375.00 Structures and Improvements										
District										
Maryland										
Virginia										
Total Account 375.00		($85,280)								
377.00 Compressor Station Equipment										
District										
Maryland										
Virginia										
Total Account 377.00										
378.00 Measuring and Regulating Equipment										
District										
Maryland	205,747			72,286	(8,086)	64,200	(83,370)	9,325	(74,044)	-35.99%
Virginia	48,720			15,338	1,834	17,173	(17,690)	(2,116)	(19,806)	-40.65%
Total Account 378.00	$254,467	($8,570)	-3.37%	$87,624	($6,251)	$81,372	($101,060)	$7,210	($93,850)	-36.88%
Total Allocated Property	$254,467	($93,850)	-36.88%	$87,624	($6,251)	$81,372	($101,060)	$7,210	($93,850)	-36.88%
Total Distribution Plant	$564,947,170	$316,141,448	55.96%	$165,965,937	$46,804,258	$212,770,195	$250,606,489	$46,817,719	$297,424,208	52.65%
GENERAL PLANT										
Allocated Property (Depreciable)										
390.00 Structures and Improvements										
District	$221,233			$62,959	$23,916	$86,875	$97,608	$23,916	$121,524	54.93%
Maryland	1,773,613			476,458	(51,886)	424,572	666,489	(72,581)	593,909	33.49%
Virginia	12,022,761			575,033	34,608	609,641	804,380	48,411	852,791	7.09%
Total Account 390.00	$14,017,607	$3,867,727	27.59%	$1,114,450	$6,638	$1,121,087	$1,568,478	($254)	$1,568,224	11.19%
Total Allocated Property (Depreciable)	$14,017,607	$3,867,727	27.59%	$1,114,450	$6,638	$1,121,087	$1,568,478	($254)	$1,568,224	11.19%

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WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Statement C

Depreciation Reserve Summary - SFAS 143
Vintage Group Procedure
Accretion Rate: 3.32 Percent
December 31, 2014

	Plant	Recorded Reserve		Computed Reserve			Redistributed Reserve			
Account Description	Investment	Amount	Ratio	Investment	Net Salvage	Total	Investment	Net Salvage	Total	Ratio
A	B	C	D=C/B	E	F	G=E+F	H	I	J=H+I	K=J/B
Assigned Property (Amortizable)										
303.05 Software - 5 year	$9,259,297	$3,919,232	42.33%	$4,105,140		$4,105,140	$4,105,140		$4,105,140	44.34%
303.10 Software - 10 year	6,639,647	4,630,328	69.74%	4,410,623		4,410,623	4,410,623		4,410,623	66.43%
391.11 Office Furniture and Equipment	2,076,672	(5,994,959)	-288.68%	812,931		812,931	812,931		812,931	39.15%
391.21 Computer Equipment	3,260,870	1,752,577	53.75%	1,716,212		1,716,212	1,716,212		1,716,212	52.63%
393.00 Stores Equipment	89,491	40,010	44.71%	51,069		51,069	51,069		51,069	57.07%
394.00 Tools, Shop & Garage Equipment	2,158,488	369,372	17.11%	1,110,582		1,110,582	1,110,582		1,110,582	51.45%
395.00 Laboratory Equipment	57,909	50,803	87.73%	38,845		38,845	38,845		38,845	67.08%
397.10 Communication Equipment - Telephones	6,279,877	379,565	6.04%	2,209,364		2,209,364	2,209,364		2,209,364	35.18%
397.20 ENSCAN Equipment*	18,394,488			11,761,433		11,761,433	11,761,433		11,761,433	63.94%
397.30 TRACE - AMR Devices										
398.00 Miscellaneous Equipment	369,182	152,492	41.31%	99,964		99,964	99,964		99,964	27.08%
Total Assigned Property (Amortizable)	$48,585,921	$5,299,420	10.91%	$26,316,163		$26,316,163	$26,316,163		$26,316,163	54.16%
Total General Plant	$62,603,528	$9,167,147	14.64%	$27,430,613	$6,638	$27,437,250	$27,884,641	($254)	$27,884,387	44.54%
TOTAL JURISDICTION	$667,728,953	$345,622,417	51.76%	$205,255,996	$47,947,465	$253,203,462	$299,996,296	$45,626,121	$345,622,417	51.76%

*Currently Depreciable.

		$325,308,595							$325,308,595	
General										
Depreciable	$14,017,607	($17,149,016)		$1,114,450		$1,121,087				
Amortizable	$48,585,921	$26,316,163		$26,316,163		$26,316,163				
Distribution										
Depreciable				$177,639,746		$224,450,255				
Amortizable										
Accross Functions										
Depreciable		$299,086,282		$166,992,763		$213,809,910				
Amortizable				26,316,163						
Distribution plus General		$325,308,595							$325,308,595	

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WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Statement D
Net Salvage Accrual Rates - SFAS 143
Accretion Rate (r): 3.32 Percent

Account Description	12/31/14 Plant	ARC	ARO	ASL	Net Salvage Accrual Rate ARC	Accretion	Total
A	B	C	D	E	F=C/E/B	G=D*r/B	H=F+G
STORAGE AND PROCESSING PLANT							
Allocated Property							
361.00 Structures and Improvements							
Maryland (Rockville)	$792,097			46.05	0.76%		0.76%
Virginia (Ravensworth)	733,454			45.97	0.50%		0.50%
Total Account 361.00	$1,525,551			46.01	0.63%		0.63%
362.00 Gas Holders							
Maryland (Rockville)	$4,690,563			48.61	0.57%		0.57%
Virginia (Ravensworth)	3,464,888			46.32	0.34%		0.34%
Total Account 362.00	$8,155,451			47.61	0.47%		0.47%
363.50 Other Equipment							
Maryland (Rockville)	$517,723			15.78	0.11%		0.11%
Virginia (Ravensworth)	165,263			35.73	1.54%		1.54%
Total Account 363.50	$682,986			18.25	0.46%		0.46%
Total Allocated Property	$10,363,988			42.85	0.50%		0.50%
Total Storage and Processing Plant	$10,363,988			42.85	0.50%		0.50%
TRANSMISSION PLANT							
Assigned Property							
365.20 Rights of Way							
366.00 Meas. and Reg. Station Structures							
367.10 Mains - Steel	2,062,079	20,669	53,246	80.51	0.01%	0.09%	0.10%
369.00 Measuring and Regulating Equipment	2,446,498	67,641	105,907	50.14	0.06%	0.14%	0.20%
Total Assigned Property	$4,508,577	$88,310	$159,153	60.59	0.04%	0.12%	0.15%
Allocated Property							
365.20 Rights of Way							
District	$534			73.48			
Maryland	912,211			60.39			
Virginia	455,454			77.71			
Total Account 365.20	$1,368,199			65.23			
366.00 Meas. and Reg. Station Structures							
Maryland	$450,974			43.01	1.24%		1.24%
Virginia	619,365			50.06	0.02%		0.02%
Total Account 366.00	$1,070,339			46.83	0.53%		0.53%
367.10 Mains - Steel							
District	$1,244,633	$12,475	$32,138	80.51	0.01%	0.09%	0.10%
Maryland	8,088,580			59.98	-0.03%		-0.03%
Virginia	5,584,195			60.04	0.10%		0.10%
Total Account 367.10	$14,917,408	$12,475	$32,138	61.31	0.02%	0.01%	0.03%
369.00 Measuring and Regulating Equipment							
District	$84,438	$2,335	$3,655	50.14	0.06%	0.14%	0.20%
Maryland	5,490,804			45.32	2.40%		2.40%
Virginia	2,374,502			60.39			
Total Account 369.00	$7,949,744	$2,335	$3,655	49.02	1.66%	0.00%	1.66%
Total Allocated Property	$25,305,690	$14,810	$35,794	56.32	0.56%	0.00%	0.56%
Total Transmission Plant	$29,814,267	$103,120	$194,947	56.93	0.48%	0.02%	0.50%
DISTRIBUTION PLANT							
Assigned Property							
375.00 Structures and Improvements							
376.10 Mains - Steel	71,096,875	2,375,415	7,500,721	79.92	0.04%	0.35%	0.39%
376.20 Mains - Plastic	193,633,686	15,068,942	24,822,020	54.84	0.14%	0.43%	0.57%
376.30 Mains - Cast Iron	5,968,483	279,665	1,949,835	83.43	0.06%	1.08%	1.14%
376.40 Mains - Copper							
377.00 Compressor Station Equipment							
378.00 Measuring and Regulating Equipment	8,448,406	112,908	229,610	80.46	0.02%	0.09%	0.11%
380.10 Services - Steel	19,018,346	2,103,286	4,051,934	54.49	0.20%	0.71%	0.91%
380.20 Services - Plastic	200,436,513	18,718,021	33,595,310	54.95	0.17%	0.56%	0.73%
380.30 Services - Copper	3,268,329	305,217	1,280,943	57.48	0.16%	1.30%	1.46%
381.10 Meters - Tin Case	6,378			35.04			
381.20 Meters - Hard Case	19,330,065			23.90			
381.30 Meters - Electronic Devices	1,090,096			19.10			
381.50 Meters - Electronic Demand Recorders	852,990			24.55			
382.00 Meter Installations	35,491,868	632,185	977,783	63.92	0.03%	0.09%	0.12%
383.00 House Regulators	3,324,275	644,492	1,041,243	40.14	0.48%	1.04%	1.52%

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WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Statement D
Net Salvage Accrual Rates - SFAS 143
Accretion Rate (r): 3.32 Percent

Account Description	12/31/14 Plant	ARC	ARO	ASL	Net Salvage Accrual Rate ARC	Accretion	Total
A	B	C	D	E	F=C/E/B	G=D*r/B	H=F+G
384.00 House Regulator Installations	2,624,230			56.63			
385.00 Industrial Meas. and Reg. Station Equip.							
387.00 Other Equipment	102,163	26,409	58,652	44.53	0.58%	1.91%	2.49%
Total Assigned Property	$564,692,703	$40,266,541	$75,508,052	55.16	0.13%	0.45%	0.57%
Allocated Property							
375.00 Structures and Improvements							
District							
Maryland							
Virginia							
Total Account 375.00							
377.00 Compressor Station Equipment							
District							
Maryland							
Virginia							
Total Account 377.00							
378.00 Measuring and Regulating Equipment							
District							
Maryland	205,747			56.30	-0.10%		-0.10%
Virginia	48,720			38.18	0.55%		0.55%
Total Account 378.00	$254,467			51.61	0.02%		0.02%
Total Allocated Property	$254,467			51.61	0.02%		0.02%
Total Distribution Plant	$564,947,170	$40,266,541	$75,508,052	55.15	0.13%	0.45%	0.57%
GENERAL PLANT							
Allocated Property (Depreciable)							
390.00 Structures and Improvements							
District	$221,233	$5,719	$9,341	36.58	0.07%	0.14%	0.21%
Maryland	1,773,613			37.56	0.14%		0.14%
Virginia	12,022,761			49.97	0.20%		0.20%
Total Account 390.00	$14,017,607	$5,719	$9,341	47.70	0.19%	0.00%	0.19%
Total Allocated Property (Depreciable)	$14,017,607	$5,719	$9,341	47.70	0.19%	0.00%	0.19%
Assigned Property (Amortizable)							
303.05 Software - 5 year	$9,259,297			5.00			
303.10 Software - 10 year	6,639,647			10.00			
391.11 Office Furniture and Equipment	2,076,672			20.00			
391.21 Computer Equipment	3,260,870			7.00			
393.00 Stores Equipment	89,491			20.00			
394.00 Tools, Shop & Garage Equipment	2,158,488			20.00			
395.00 Laboratory Equipment	57,909			20.00			
397.10 Communication Equipment - Telephones	6,279,877			15.00			
397.20 ENSCAN Equipment*	18,394,488			18.00			
397.30 TRACE - AMR Devices							
398.00 Miscellaneous Equipment	369,182			15.00			
Total Assigned Property (Amortizable)	$48,585,921			10.41			
Total General Plant	$62,603,528	$5,719	$9,341	12.62	0.04%	0.00%	0.04%
TOTAL JURISDICTION	$667,728,953	$40,375,380	$75,712,339	41.82	0.14%	0.38%	0.52%

*Currently Depreciable.

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA

Statement E

Parameter Summary - SFAS 143
Vintage Group Procedure
Accretion Rate: 3.32 Percent

	Current Parameters						SFAS 143					
	P-Life/	Curve	VG	Rem.	Avg.	Fut.	P-Life/	Curve	VG	Rem.	Fut. Net Sal.	
Account Description	AYFR	Shape	ASL	Life	Sal.	Sal.	AYFR	Shape	ASL	Life	Sf	Sf'
A	B	C	D	E	F	G	H	I	J	K	L	M
STORAGE AND PROCESSING PLANT												
Allocated Property												
361.00 Structures and Improvements												
Maryland (Rockville)	45.00	R3	46.73	25.93	-33.3	-31.0	45.00	R3	46.05	31.91	-31.0	-31.0
Virginia (Ravensworth)	45.00	R4	45.66	29.28	-19.4	-20.0	45.00	R4	45.97	28.58	-20.0	-20.0
Total Account 361.00									46.01	30.31	-25.7	-25.5
362.00 Gas Holders												
Maryland (Rockville)	45.00	R3	48.23	24.46	-32.8	-31.0	45.00	R3	48.61	23.71	-31.0	-31.0
Virginia (Ravensworth)	45.00	R4	45.86	23.18	-19.0	-20.0	45.00	R4	46.32	23.08	-20.0	-20.0
Total Account 362.00									47.61	23.43	-26.3	-26.3
363.50 Other Equipment												
Maryland (Rockville)	15.00	O3	16.78	14.49			15.00	O3	15.78	14.61		
Virginia (Ravensworth)	25.00	L0	26.73	19.75	-33.1	5.0	35.00	L0	35.73	30.92		
Total Account 363.50									18.25	16.63		3.8
Total Allocated Property									42.85	23.32	-24.5	-23.1
Total Storage and Processing Plant									42.85	23.32	-24.5	-23.1
TRANSMISSION PLANT												
Assigned Property												
365.20 Rights of Way												
366.00 Meas. and Reg. Station Structures												
367.10 Mains - Steel	80.00	R3	80.00	40.51	-14.9	-15.0	80.00	R3	80.51	58.54	-15.0	-15.0
369.00 Measuring and Regulating Equipment	50.00	S3	50.14	38.61	-22.5	-15.0	50.00	S3	50.14	39.30	-15.0	-10.2
Total Assigned Property									60.59	45.92	-15.0	-10.3
Allocated Property												
365.20 Rights of Way												
District	60.00	R3	70.08	9.40			60.00	R3	73.48	7.71		0.0
Maryland	60.00	R3	60.26	47.31			60.00	R3	60.39	42.77		-0.2
Virginia	60.00	R3	81.26	33.81			60.00	R3	77.71	34.78		-0.1
Total Account 365.20									65.23	40.53		0.0

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WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Statement E

Parameter Summary - SFAS 143
Vintage Group Procedure
Accretion Rate: 3.32 Percent

		Current Parameters						SFAS 143					
	Account Description	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Fut. Net Sal. Sf	Fut. Net Sal. Sf'
	A	B	C	D	E	F	G	H	I	J	K	L	M
366.00	Meas. and Reg. Station Structures												
	Maryland	43.00	S4	43.01	30.43			43.00	S4	43.01	28.20		-0.1
	Virginia	45.00	R3	45.10	36.92	-9.8	-10.0	50.00	R3	50.06	41.61	-10.0	-10.1
	Total Account 366.00									46.83	35.46	-5.8	-5.9
367.10	Mains - Steel												
	District	80.00	R3	80.00	40.51	-14.9	-15.0	80.00	R3	80.51	58.54	-15.0	-15.0
	Maryland	60.00	R3	60.17	43.73	-0.2		60.00	R3	59.98	44.15		-0.2
	Virginia	60.00	R3	60.44	43.33	-15.7	-15.0	60.00	R4	60.04	45.70	-15.0	-17.7
	Total Account 367.10									61.31	45.66	-6.9	-7.3
369.00	Measuring and Regulating Equipment												
	District	50.00	S3	50.14	38.61	-22.5	-15.0	50.00	S3	50.14	39.30	-15.0	-10.0
	Maryland	45.00	R2	45.31	36.57	-13.5	-11.0	45.00	R2	45.32	36.51	-11.0	-14.8
	Virginia	55.00	L0.5	55.43	46.49	-29.8	-30.0	60.00	L0.5	60.39	50.89	-30.0	-28.5
	Total Account 369.00									49.02	40.03	-16.7	-23.6
	Total Allocated Property									56.32	42.87	-9.5	-12.0
	Total Transmission Plant									56.93	43.30	-9.5	-12.0
DISTRIBUTION PLANT													
Assigned Property													
375.00	Structures and Improvements												
376.10	Mains - Steel	80.00	R3	80.00	44.16	-50.1	-50.0	80.00	R3	79.92	49.16	-50.0	-50.0
376.20	Mains - Plastic	60.00	R3	59.93	48.20	-50.0	-50.0	55.00	R4	54.84	41.69	-50.0	-30.8
376.30	Mains - Cast Iron	70.00	R2.5	83.56	16.44	-50.4	-50.0	70.00	R2.5	83.43	15.19	-50.0	-49.1
376.40	Mains - Copper												
377.00	Compressor Station Equipment												
378.00	Measuring and Regulating Equipment	80.00	L1.5	80.39	61.46	-21.1	-20.0	80.00	L1.5	80.46	61.49	-20.0	-8.5
380.10	Services - Steel	50.00	SC	54.43	33.63	-60.6	-60.0	50.00	SC	54.49	32.85	-60.0	-44.1
380.20	Services - Plastic	55.00	L2	55.00	40.18	-60.1	-60.0	55.00	L2	54.95	39.03	-60.0	-38.6
380.30	Services - Copper	55.00	R3	56.71	15.48	-60.4	-60.0	55.00	R3	57.48	12.72	-60.0	-55.7

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WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Statement E

Parameter Summary - SFAS 143
Vintage Group Procedure
Accretion Rate: 3.32 Percent

		Current Parameters						SFAS 143					
		P-Life/	Curve	VG	Rem.	Avg.	Fut.	P-Life/	Curve	VG	Rem.	Fut. Net Sal.	
	Account Description	AYFR	Shape	ASL	Life	Sal.	Sal.	AYFR	Shape	ASL	Life	Sf	Sf'
	A	B	C	D	E	F	G	H	I	J	K	L	M
381.10	Meters - Tin Case	30.00	L3	33.47	5.32	0.3		30.00	L3	35.04	3.83		0.0
381.20	Meters - Hard Case	23.00	S0.5	22.94	14.13	0.1		24.00	S1	23.90	14.63		-0.1
381.30	Meters - Electronic Devices	18.00	L3	18.52	8.70	0.1		18.00	L3	19.10	8.09		0.0
381.50	Meters - Electronic Demand Recorders	22.00	R3	22.00	11.44			22.00	R3	24.55	6.62		
382.00	Meter Installations	63.00	R0.5	63.00	52.74	-15.0	-15.0	63.00	R0.5	63.92	52.26	-15.0	-15.0
383.00	House Regulators	40.00	R4	40.09	27.53	-52.8	-50.0	40.00	R4	40.14	27.32	-75.0	-59.6
384.00	House Regulator Installations	54.00	O1	54.00	41.68	-0.3		54.00	SC	56.63	41.74		
385.00	Industrial Meas. and Reg. Station Equip.												
387.00	Other Equipment	40.00	R1	43.46	20.60	-159.6	-100.0	40.00	R1	44.53	17.99	-100.0	-91.0
	Total Assigned Property									55.16	38.95	-49.3	-28.9
Allocated Property													
375.00	Structures and Improvements												
	District												
	Maryland												
	Virginia												
	Total Account 375.00												
377.00	Compressor Station Equipment												
	District												
	Maryland												
	Virginia												
	Total Account 377.00												
378.00	Measuring and Regulating Equipment												
	District												
	Maryland	55.00	L1.5	56.04	38.39	-6.0	-1.0	55.00	L1.5	56.30	36.52	-1.0	-1.0
	Virginia	30.00	L0	33.72	21.45	-13.1	-15.0	35.00	L0	38.18	26.16	-10.0	-10.0
	Total Account 378.00									51.61	33.84	-2.7	-3.0
	Total Allocated Property									51.61	33.84	-2.7	-3.0
	Total Distribution Plant									55.15	38.95	-2.7	-28.9

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WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Statement E

Parameter Summary - SFAS 143
Vintage Group Procedure
Accretion Rate: 3.32 Percent

	Current Parameters						SFAS 143					
											Fut. Net Sal.	
Account Description	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Sf	Sf'
A	B	C	D	E	F	G	H	I	J	K	L	M
GENERAL PLANT												
Allocated Property (Depreciable)												
390.00 Structures and Improvements												
District	40.00	S4	38.60	25.32	-60.0	-10.0	40.00	S4	36.58	26.17	-10.0	-16.4
Maryland	37.00	R1	37.60	27.46	-3.0		37.00	R1	37.56	27.47		0.3
Virginia	50.00	R4	49.96	35.61	-10.4	-10.0	50.00	R2	49.97	47.58	-10.0	-9.9
Total Account 390.00									47.70	43.91	-8.7	-7.6
Total Allocated Property (Depreciable)									47.70	43.91	-8.7	-7.6
Assigned Property (Amortizable)												
303.05 Software - 5 year	5.00	SQ	5.00	3.00			5.00	SQ	5.00	2.86		
303.10 Software - 10 year	10.00	SQ	10.00	7.24			10.00	SQ	10.00	3.36		
391.11 Office Furniture and Equipment	20.00	SQ	20.00	7.42			20.00	SQ	20.00	12.17		
391.21 Computer Equipment	7.00	SQ	7.00	3.30			7.00	SQ	7.00	3.32		
393.00 Stores Equipment	20.00	SQ	20.00	9.49			20.00	SQ	20.00	8.59		
394.00 Tools, Shop & Garage Equipment	20.00	SQ	20.00	8.01			20.00	SQ	20.00	9.71		
395.00 Laboratory Equipment	20.00	SQ	20.00	7.98			20.00	SQ	20.00	6.58		
397.10 Communication Equipment - Telephones	15.00	SQ	15.00	6.22			15.00	SQ	15.00	9.72		
397.20 ENSCAN Equipment*	23.00	L1	24.04	15.87			18.00	SQ	18.00	8.36		0.0
397.30 TRACE - AMR Devices												
398.00 Miscellaneous Equipment	15.00	SQ	15.00	6.31			15.00	SQ	15.00	10.94		
Total Assigned Property (Amortizable)									10.41	5.21		
Total General Plant									12.62	7.51	-2.0	1.8
TOTAL JURISDICTION									41.82	29.09	-6.3	-22.5

*Currently Depreciable.