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Press Release

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District Utility Regulators Approve Order on Washington Gas Rate Case

(Formal Case 1093)

(Washington, D.C.) The Public Service Commission of the District of Columbia (Commission) has approved its Order in *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.* A summary of the order is attached.

For further questions or additional information, please contact the Commission at 202-626-5100 or visit the PSC's website at http://dcpsc.org/.

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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.

Summary of Order

The Public Service Commission of the District of Columbia (Commission) has approved its Order in *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.*

The Commission gave careful and thorough consideration of the record in this case, including thousands of pages of filed testimony, five days of evidentiary hearings, four community hearings, and numerous responses to data requests from all of the parties.

The Order adopted today affects only the rates and charges that WGL would be allowed to impose to recover its costs for construction and maintenance of the infrastructure for the delivery of natural gas to customers in the District and for distribution related services such as metering, billing, and customer service. Pursuant to legislation enacted by the DC Council, customers may purchase the actual gas commodity from any retail natural gas supplier licensed by the Commission. The price for the actual gas commodity is determined by the competitive market.

Background: On November 2, 2011, the Commission opened an investigation to review the reasonableness of Washington Gas's distribution base rates, because of the time that has elapsed since WGL's last base distribution rate case, the Company's earnings level, and an apparent decrease in WGL's depreciation expense. On February 29, 2012, WGL filed an Application requesting authority to increase its existing firm delivery rates and charges for gas service in the District of Columbia. It sought a $29.0 million increase in the Company's weather-normalized revenues, representing an overall increase of approximately 14% in its District revenues. WGL requested authority to earn an overall 8.91% rate of return, including a return on equity of 10.90%. The Company's requested rates were designed to collect $236.7 million in total revenues. At the close of the evidentiary hearings, WGL reduced its request from $29.0 million to $28.4 million.

A pre-hearing conference was held on April 12, 2012, the evidentiary hearings were held in October, and community hearings were held in September and October, 2012. In addition to The Office of People's Counsel of the District of Columbia ("OPC"), which is a party as of right, the Apartment and Office Building Association of Metropolitan Washington ("AOBA") and the District of Columbia Government ("District Government") were granted intervention as parties in this case.

The various decisions on adjustments to the cost of capital, rate base, and net operating income in the proposed Order will produce the following results:

1. WGL's District of Columbia rate base for the test period is $201,569,048;

2. The allowed overall rate of return is 7.93%, including a return on equity of 9.25%, based on WGL's actual adjusted capital structure;

3. The return requirement when the 7.93% rate of return is applied to the adjusted rate base of $201,569,048 is $15,984,426;

4. WGL's adjusted District of Columbia net operating income of $11,157,313 for the test-year was deficient by the amount of $4,827,113; and

5. The adjustment which will increase WGL's test-year revenue to the level of gross revenue requirements computed in accordance with the findings in this Opinion and Order is $8,381,089 which includes a proper allowance for taxes. This increase represents approximately 29% of the company's original request.

The Order includes the following actions related to contested adjustments regarding rate base, test year revenues and operating expenses:

1. Approval of WGL's adjusted pension and Other Post-Retirement Employee Benefits ("OPEB") related expenses through a five year amortization of the balances, to be recovered through base rates and the termination of the trackers that have been used in the past to determine the amount of the Company's pensions and OPEB expenses to be recovered; WGL's future pension and OPEB costs will be recovered through base rate proceedings without a tracker; the adjustment includes removal of the enhanced employee savings plan costs resulting in a recovery of approximately $21.6 million for pension and $600,854 for OPEB;

2. Approval of WGL's rate base adjustment to include in rate base its new Springfield Center, as well as its projects that were placed in service before the end of the test year, but not yet recorded in plant-in-service, but rejection of $605,000 of construction work in progress projects;

3. Modification of WGL wages and salaries adjustment to use WGL's average employee level of the period from September 2011 through August 2012 to better reflect the Company's decreasing employee level for the rate effective period in this case;

4. Approval of WGL's out-of-test year costs for all but one of its union contract increases;

5. Approval of rate recovery for WGL's short-term incentive compensation for its employees; but denial of recovery for its long-term incentive compensation costs, Supplemental Executive Retirement Plan ("SERP") costs, and executive physical and estate planning costs;

6. Approval of WGL's treatment of the increase in Medicare Part D expenses, which occurred because of changes in tax law, consistent with the principles we approved in *Formal Case No. 1087* (Pepco's last rate case);

7. Approval of a cash working capital allowance modified with flow-through ratemaking adjustments in the amount of $ 15.2 million;

8. Approval of the Company's new depreciation rates and the associated adjustment to the Accumulated Reserve for Depreciation with modifications to net salvage and the service lives of six (6) asset accounts;

9. Approval of the Company's proposed recovery of its Business Process Outsourcing/ Cost to Achieve expense adjustment;

10. Approval of a weather normalization adjustment based on the most recent 30 years of weather data from an independent source;

11. Rejection of the Company's proposed repression adjustment to the test year billing determinants. In addition, because we believe repression adjustments have no continuing viability in a restructured environment such as the District of Columbia, the Commission will no longer recognize repression adjustments as an appropriate adjustment in future rate proceedings;

12. Rejection of the use of ratepayers' funds to support WGL's proposed participation in the Utilization Technology Development ("UTD") and Operations Technology Development ("OTD") programs, because those projects were not shown to directly benefit ratepayers;

13. Approval of OPC's adjustment to remove from rate base the $6.8 million FASB Interpretation No. 48 (or FIN 48) reserve for the Company's uncertain tax positions included in Accumulated Deferred Income Tax;

14. Rejection of WGL's proposed adjustment to implement a fee-free credit/debit card payment plan; however we authorize WGL to implement its fee-free credit/debit card payment plan at its own cost and risk;

15. Rejection of WGL's proposed Accelerated Pipeline Replacement Program because as submitted, it does not contain adequate risk assessment and pipe replacement priorities. We are directing the Company to reassess its risk assessments and priorities for pipeline replacement in the District based on the comments in the Order and report back promptly to the Commission (within three months from the date of this Order) with updates to its risk assessments and pipeline replacement priorities. We have not taken action on WGL's Plant Recovery Adjustment because we conclude the issue is not yet ripe for decision. This rate proceeding has shown that WGL's pipeline replacement in the District has slowed to an unacceptable rate in the last three years. We expect WGL to pick up its pace and continue its normal pipeline replacement activities while it reassesses its Accelerated Pipeline Replacement Program consistent with this Order; and

16. Approval of the continuation of the existing program for replacement/remediation of mechanical couplings in *Formal Case No. 1027*, with no additional funding, the same completion date, and an increased focus on cost control and schedule.

On the issue of rate design, the Order provides for the following:

1. Approval of a rate design that makes moderate progress toward eliminating negative class rates of return, reducing interclass subsidies, reducing the disparities that now exist in class rates of return; and in recognition that WGL is primarily a distribution company whose major costs are fixed costs, recovering more of the revenue increase through increases in the Customer Charge and the remainder through volumetric charges spread across the board;

2. Allows the Company's to collect 63% of its revenue increase from the Residential class, 24.5% from its Commercial and Industrial class of customers, and 12.2% from Group Metered customers, with a small amount from Interruptible Service customers;

3. Approval to increase to the Residential Customer Charge by $1.95, from $7.95 per month to $9.90 per month, for heating/cooling customers, along with a modest increase in the distribution charge—resulting in an average increase to the total bill of around $3.00 per month, on average;

4. The opening of a separate investigation concerning WGL's Interruptible Service customer class, and the operations of WGL's distribution charge adjustment ("DCA"); and

5. A limitation on the amount of base rate funding that can be used to support the Residential Essential Service program that is now funded by the Energy Assistance Trust Fund ("EATF") surcharge and administered by the District's Department of the Environment and approval of the WGL's proposed change to the Purchase Gas Cost.

6. The Commission will seek a legislative change to have the RES program returned to the Commission to allow for a better alignment of responsibility for both designing and funding the RES program. The Commission will urge the Mayor and the City Council to make that change as soon as possible.

The Company was directed to file, in accordance with the decision, revised rate schedules, together with supporting tables, by no later than May 28, 2013. Rates authorized in the opinion and Order shall be effective on or after 12:01 a.m. June 4, 2013, unless otherwise ordered by the Commission.

The final text of the Order will be served electronically and posted on the Commission's website early next week.

The Public Service Commission of the District of Columbia is an independent agency established by Congress in 1913 to regulate electric, natural gas, and telecommunications companies in the District of Columbia.

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