



**FC 1093**

**SUMMARY OF THE  
COMMISSION'S  
WASHINGTON GAS  
RATE CASE DECISION**

# FC 1093 BACKGROUND

- ▶ Investigation into reasonableness of Washington Gas Light Company's (WGL) existing rates opened by Commission Order dated November 2, 2011 (Order No. 16596).
- ▶ WGL filed application to increase rates on February 29, 2012.
- ▶ WGL requested, among other things:
  1. Revenue increase: \$29.0 million;
  2. Percentage increase: 14%
  3. Allowed Rate of Return (ROR): 8.91%
  4. Return on Equity (ROE): 10.90%
  5. Permission to implement the first five years of a 50-year Accelerated Pipeline Replacement Program (APRP) at a cost of \$119 million and recover the costs through a surcharge mechanism called the Plant Recovery Adjustment (PRA) to be billed to customers on a monthly basis.

# BACKGROUND (Cont.)

- ▶ **Parties – WGL, OPC, AOBA, and District Government**
- ▶ **5 Days of Evidentiary Hearings Held in October 2012.**
- ▶ **4 Community Hearings Held in September and October 2012.**
- ▶ **Briefs Submitted in November 2012.**
- ▶ **Record Closed in February 2013.**
- ▶ **Commission Opinion and Order No. 17132 issued May 15, 2013.**

# COMMISSION DECISION

- ▶ **Rate Base (RB): \$201,569,048**
- ▶ **ROR: 7.93%**
- ▶ **ROE : 9.25%**
- ▶ **Return (RB x ROR) = \$15,984,426**
- ▶ **Net Operating Income (adjusted) : \$11,157,313**
- ▶ **Net Operating Income Deficiency: \$4,827,113**
- ▶ **Overall Revenue Increase Allowed : \$8,381,089**

# RATEMAKING STEPS

- ▶ Step 1 – Determine Revenue Requirement (RR)
- ▶ Step 2 – Allocate Revenue Requirement Among Customer Classes
- ▶ Step 3 – Design Rates for Each Customer Class

# REVENUE REQUIREMENT EQUATION

- **The Ratemaking Equation:**

$$RR = O\&ME + ROR (RB - AD)$$

Revenue Requirement = Operating and Maintenance Expenses + Rate of Return x (Rate Base - Accumulated Depreciation)

- ▶ **WGL's Request Expressed as an Equation:**

$$\$236 \text{ million} = \$217.6 \text{ million} + (8.91\% \times \$206.9 \text{ million})$$

Note: The difference between the requested total revenue requirement of \$236 million and the current revenues being collected by WGL of \$207.8 million is the revised \$28.2 million increase requested by the Company.

- ▶ **Commission Decision Expressed as an Equation:**

$$\$216.1 \text{ million} = \$200 \text{ million} + (7.93\% \times \$201.6 \text{ million})$$

The approved revenue increase of \$8.3 million is the difference between the Commission-approved total revenue requirement of \$216.1 million and current revenues being collected by WGL of \$207.8 million.

# COMMISSION ACTIONS

- ▶ Approved WGL's adjusted Pension and Other Post-Retirement Employee Benefits (OPEB) expenses through a five-year amortization of the balances, to be recovered through base rates.
- ▶ Terminated the trackers that have been used in the past to determine the amount of the Company's pensions and OPEB expenses to be recovered.
- ▶ Directed that WGL's future pension and OPEB costs are to be recovered through base rate proceedings without a tracker.

# COMMISSION ACTIONS (Cont.)

- ▶ **Approved inclusion in rate base of WGL's 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.**
- ▶ **Rejected \$605,000 of construction work in progress projects.**
- ▶ **Modified WGL's wages and salaries adjustment to use WGL's average employee level for 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.**
- ▶ **Approved WGL's out-of-test year costs for all but one of its union contract increases .**



# COMMISSION ACTIONS (Cont.)

- ▶ Rejected the use of ratepayers' funds to support WGL's proposed participation in certain Research and Development programs, the Utilization Technology Development (UTD) and Operations Technology Development (OTD) programs, because those projects were not shown to directly benefit ratepayers.
- ▶ Rejected WGL's proposed adjustment to implement a fee-free credit/debit card payment plan; however WGL is authorized to implement its fee-free credit/debit card payment plan at its own cost and risk.
- ▶ Approved rate recovery for WGL's short-term incentive compensation for its employees.
- ▶ Denied recovery for WGL's long-term incentive compensation costs, Supplemental Executive Retirement Plan (SERP) costs, and executive physical and estate planning costs.

# COMMISSION ACTIONS (Cont.)

- ▶ **Approved 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.**
- ▶ **Approved a weather normalization adjustment based on the most recent 30 years of weather data from an independent source.**
- ▶ **Rejected WGL's proposed Accelerated Pipeline Replacement Program (APRP) because as submitted it does not contain adequate risk assessment and pipe replacement priorities.**
- ▶ **Directed WGL to reassess its risks and priorities for pipeline replacement in the District based on the discussion in the Order and report back to the Commission within three months from the date of this Order with updates to its risk assessments and pipeline replacement priorities.**

# COMMISSION ACTIONS (Cont.)

- ▶ Took no action on WGL's Plant Recovery Adjustment Surcharge because the issue is not yet ripe for decision.
- ▶ Because this rate proceeding has shown that WGL's pipeline replacement activities in the District have slowed to an unacceptable rate in the last three years, WGL is expected to pick up its pace and continue its normal pipeline replacement activities while it reassesses its APRP consistent with this proposed Order.
- ▶ Approved WGL to continue its 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.

# COMMISSION ACTIONS – RATE DESIGN

- ▶ Approved a rate design that makes moderate progress toward eliminating negative class rates of return, reducing interclass subsidies, and reducing the disparities that now exist in class rates of return.
- ▶ Recognized that WGL is primarily a distribution company whose major costs are fixed costs, and so it will recover more of the revenue increase through increases in the customer charge and the remainder through volumetric charges spread across all classes of customers.
- ▶ Allowed the Company 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.
- ▶ Approved increase in the customer charge for residential heating/cooling customers by \$1.95, from \$7.95 per month to \$9.90 per month, along with a modest increase in the distribution charge, resulting in an average increase to the total bill of around \$3.00 per month.
- ▶ The Commission will open a separate investigation concerning WGL's Interruptible Service customer class, and the operations of WGL's Distribution Charge Adjustment (DCA).

# COMMISSION ACTIONS – RESIDENTIAL ESSENTIAL SERVICE (RES) PROGRAM

- ▶ Limited the amount of base rate funding that can be used to support the low-income Residential Essential Service (RES) credit program with the remaining funding needs to come from the Energy Assistance Trust Fund (EATF) surcharge administered by the District's Department of the Environment and approval of WGL's proposed change to the subsidy on the Purchase Gas Cost (PGC).
- ▶ 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 D.C. Council to make that change as soon as possible, targeting sometime before the next heating season.

# WHAT'S NEXT?

- ▶ **New rates went into effect on June 4, 2013.**
- ▶ **On June 13 and 14, 2013, AOBA and WGL filed Applications for Reconsideration.**
- ▶ **The Commission is now considering the two Applications.**