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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

November 20, 2025

<u>FORMAL CASE NO. 1180, IN THE MATTER OF THE APPLICATION OF WASHINGTON GAS LIGHT COMPANY FOR AUTHORITY TO INCREASE EXISTING RATES AND CHARGES FOR NATURAL GAS SERVICE</u>, Order No. 22741

Before the Commission:

Emile C. Thompson, Chairman
Richard A. Beverly, Commissioner
Ted Trabue, Commissioner

Appearances:

Regina Speed-Bost, John C. Dodge, Meera Ahamed, Spencer Nichols, Garrett Lent, Alice Wade for Washington Gas Light Company; Sandra Mattavous-Frye, Karen R. Sistrunk, Laurence C. Daniels, Ade Adeniyi for Office of the People's Counsel; Frann G. Francis, for Apartment and Office Building Association of Metropolitan Washington; Brian Caldwell and Shilpa Sadhasivam for the District of Columbia Government, and Timothy Oberleiton for Earthjustice representing Sierra Club.

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I. INTRODUCTION AND EXECUTIVE SUMMARY

1. By this Order, the Public Service Commission of the District of Columbia ("Commission") grants in part and denies in part Washington Gas Light Company's ("WGL" or "Company") Application requesting authority to increase existing rates and charges for gas service in the District of Columbia ("District").[1] The Commission approves a gross revenue increase of $33.4 million, including a $12.5 million PROJECT*pipes* surcharge revenue transfer to base rates. The $33.4 million revenue increase represents an approximately twenty-seven percent (27%) reduction in the revenue requirement from WGL's original $45.6 million gross revenue request.

2. The Commission approves an authorized Return on Equity ("ROE") of 9.65 percent (9.65%) with an overall Rate of Return ("ROR") of 7.43 percent (7.43%), and a capital structure of 52.49 percent (52.49%) equity ratio, 42.88 percent (42.88%) Long-Term Debt, and 4.63 percent (4.63%) Short-Term Debt.

3. The Commission establishes a rate base of $782.9 million that excludes Construction Work in Progress ("CWIP"). The Commission rejects additions to rate base for PROJECT*pipes* projects occurring after the end of the Test Year. The Commission approves a $100.7 million PROJECT*pipes* surcharge net rate base transfer to base rates.[2] The Commission adjusts various components of net rate base and depreciation expense, based on the Commission's decisions to reject the inclusion of any CWIP in rate base, reject plant additions beyond the Test Year, and modify WGL's 2024 Depreciation Study, as noted herein. For cash working capital ("CWC"), the Commission approves the adjusted amount of $39.6 million.

4. The Commission accepts WGL's 2024 Depreciation Study as amended.

5. The Commission adjusts WGL's proposed test-year expenses.

6. The Commission directs WGL to obtain its own Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS") to obtain guidance on the tax treatment of the Deferred Tax Asset for Net Operating Loss Carryforwards ("DTA-NOLC"). We further direct WGL to file with the Commission a copy of the PLR request made to the IRS within sixty (60) days of this Order. In the meantime, the Commission directs WGL to establish a regulatory asset with the same ratemaking impact as WGL's Ratemaking Adjustment ("RMA") 32. The Commission also directs WGL to implement a regulatory liability to track the return collected in rates minus the cost of obtaining the PLR.

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[1] *Formal Case No. 1180, 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. 1180*"), Application, filed August 5, 2024.

[2] The PROJECT*pipes* net rate base transfer reflects the PROJECT*pipes* gas plant in service, plus removal costs less the depreciation reserve and accumulated deferred income tax.

7. Regarding class cost of service, the Commission adopts the revenue allocation methodology proposed by WGL, in which rate classes earning slightly less than a 1.0 Unitized Rate of Return ("UROR") are allocated one hundred ten percent (110%) of the system average increase. Rate classes well below the system average will receive an increase of one hundred twenty-five percent (125%). The remaining rate classes, earning above the system average, are allocated the remainder of the increase.

8. The Commission rejects the proposed modification of the existing thirty (30)-year weather normalization methodology due to the late timing of the proposal in this proceeding. The Commission also rejects the proposed Weather Normalization Adjustment ("WNA"). The Commission establishes a two-part Weather Normalization and Climate Working Group ("WNCWG") to address the weather normalization methodology and identify a ratemaking method that would remove financial disincentives for WGL to invest in gas energy conservation and climate initiatives.

9. The Commission rejects WGL's proposed customer charge increase of twenty-five percent (25%) for all rate classes and instead approves a Customer Charge increase of fifteen percent (15%) for all rate classes. This adjustment is consistent with the ratemaking principle of gradualism and improves gas distribution revenue stability while continuing to preserve usage rate incentives for gas conservation. While the Commission approves a Customer Charge increase of fifteen percent (15%) for all rate classes, low-income customers will remain shielded from the full increase through the Residential Essential Service ("RES") Program. RES customers will continue to receive a WGL bill credit equal to the total winter distribution charge. In other words, RES customers will continue receiving free winter gas distribution services. For the average RES customer, the typical winter month distribution bill savings will be $84.37. Additionally, RES customers will also continue to receive a WGL bill credit equal to half of the monthly distribution customer charge during the summer. For the average RES customer, the summer month distribution bill saving is $9.52.

10. The Commission approves tariff changes to the provisions of General Service Provision ("GSP") No. 4 relating to credit card and debit card payments. The Commission rejects changes to GSP Nos. 11 and 19, as unsupported.

11. The Commission finds that the affiliate cost of service study ("ACOSS") presented by WGL contains the information recommended in the Joint Report on WGL's Affiliate Cost of Service Study ("Joint Report")[3] and provides more transparency in evaluating WGL's affiliate transactions. The Commission finds that WGL's affiliate transactions are reasonable and appropriate.

12. Based on the authorized gross rate increase, the average Residential Heating customer overall bill will increase by approximately $11.24 or 12.87 percent (12.87%) on a total estimated bill of $98.57. This estimate assumes average monthly Residential Heating

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[3] *Formal Case No. 1169*, *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. 1169*"), Joint Report on Washington Gas Light Company's Affiliate Cost of Service Study, filed July 26, 2024.

customer gas usage of approximately fifty-two (52) therms and includes the combined impacts of an increase in the Customer Charge and the volumetric rate, as further discussed herein.

13. The Commission is highly sensitive to the impact that the approved rate increases have on residential customers, particularly low-income households who face a significantly higher energy burden. The Commission is addressing residential affordability concerns through the existing RES program to provide ongoing bill relief and by continuing and improving the WGL Arrearage Management Program ("AMP") in other proceedings. The Commission is considering proposed revisions to the AMP proposal in *Formal Case No. 1164*.

14. The Commission remains committed to using all the regulatory authority at our disposal to ensure the safety and reliability of WGL's distribution system, based on just and reasonable rates for natural gas service, while also ensuring that WGL's gas services assist the District of Columbia in achieving its climate goals, including a reduction in greenhouse gas ("GHG") emissions.

15. Final tariffs consistent with this Order shall be filed by November 28, 2025, with rates becoming effective January 1, 2026, at 12:01 a.m., unless otherwise ordered by the Commission. The rate-effective period will be from January 1, 2026 through December 31, 2026.

16. Schedules 1 through 5 appended to this Order contain all derived results for Commission-approved decisions as discussed in this Order.

II. <u>BACKGROUND</u>

17. On December 22, 2023, by Order No. 21939, the Commission approved WGL's last base rate adjustment.[4] On August 5, 2024, WGL filed an Application requesting authority to increase existing rates and charges for gas service in the District.[5] The requested rates are designed to collect approximately $257.2 million in total revenue, representing a $45.6 million increase in weather-normalized annual revenue. This includes the transfer of $11.7 million in costs associated with natural gas system upgrades previously approved by the Commission ("PROJECT*pipes*"). The net increase in new revenues is $33.9 million, reflecting an approximate 11.9% increase over current rates. The Company also proffered a decoupling mechanism, the WNA, in its proposed rate structure that WGL alleges would benefit customers and the Company.

18. Four (4) parties, in addition to the Office of the People's Counsel for the District of Columbia ("OPC"), a party by right, were granted intervention in this proceeding: Apartment and Office Building Association of Metropolitan Washington ("AOBA"); the

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[4] *Formal Case No. 1169*, Order No. 21939, rel. December 22, 2023 ("Order No. 21939").

[5] *Formal Case No. 1180*, Application, filed August 5, 2024.

District of Columbia Government ("DCG"); General Services Administration ("GSA"); and Sierra Club.[6] After WGL filed Supplemental Direct Testimony on November 4, 2024,[7] OPC,[8] AOBA,[9] DCG,[10] and Sierra Club[11] filed Direct Testimony on January 24, 2025. WGL and OPC filed Rebuttal Testimony on March 25, 2025.[12] OPC, AOBA, and Sierra Club filed Surrebuttal Testimony on May 2, 2025.[13] OPC filed Revised Surrebuttal Testimony on May 5, 2025.[14] WGL filed Rejoinder Testimony on May 19, 2025.[15]

19. Because there were material issues of fact in dispute,[16] the Commission held an evidentiary hearing on August 14, 2025. WGL, OPC, AOBA, DCG, and Sierra Club filed

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6 *Formal Case No. 1180,* Motion for Leave to Intervene Out of Time and Petition to Intervene of the Apartment and Office Building Association of Metropolitan Washington, filed August 26, 2024; District of Columbia Government's Petition to Intervene, filed August 23, 2024; United States General Services Administration Petition to Intervene and Notice of Appearance, filed August 23, 2024; Sierra Club's Petition to Intervene and Notice of Appearance, filed August 23, 2024. *Formal Case No. 1180*, Order No. 22293, rel. September 12, 2024.

7 *Formal Case No. 1180*, Washington Gas Light Company's Supplemental Direct Testimony, filed November 4, 2024.

8 *Formal Case No. 1180*, *Formal Case No. 1180*, Office of the People's Counsel for the District of Columbia's Confidential Direct Testimony and Exhibits of OPC Witness Bion C. Ostrander, filed January 24, 2025.

9 *Formal Case No. 1180*, Direct Testimony of Timothy Oliver and Bruce Oliver on behalf of the Apartment and Office Building Association of Metropolitan Washington, filed January 24, 2025.

10 *Formal Case No. 1180*, Direct Testimony of Dr. Asa S. Hopkins on behalf of the District of Columbia Government, filed January 24, 2025.

11 *Formal Case No. 1180*, Direct Testimony and Exhibits of Karl R. Rábago on behalf of Sierra Club, filed January 24, 2025.

12 *Formal Case No. 1180*, Washington Gas's Rebuttal Testimony and Supporting Exhibits, filed March 25, 2025; Office of the People's Counsel for the District of Columbia's Rebuttal Testimony of Witness David E. Dismukes (Exhibit OPC (2A)), filed March 25, 2025.

13 *Formal Case No. 1180*, Office of the People's Counsel for the District of Columbia's Surrebuttal Testimony and Exhibits, filed May 2, 2025; Surrebuttal Testimony of Timothy Oliver and Bruce Oliver on behalf of the Apartment and Office Building Association of Metropolitan Washington, filed May 2, 2025; Sierra Club's Exhibit SC(2A), Surrebuttal Testimony of Karl R. Rábago, filed May 2, 2025.

14 *Formal Case No. 1180*, Office of the People's Counsel for the District of Columbia's Surrebuttal Testimony and Exhibits (Revised), filed May 5, 2025.

15 *Formal Case No. 1180*, Washington Gas Light Company Rejoinder Testimony and Exhibits, filed May 19, 2025.

16 *See Formal Case No. 1180*, Order No. 22446, rel. June 24, 2024. The date for the evidentiary hearing was set for August 14, 2025 in Order No. 22463. *See Formal Case No. 1180*, Order No. 22463, rel. July 16, 2025.

motions to correct the transcript on August 27, 2025.[17] WGL,[18] OPC,[19] AOBA,[20] DCG,[21] and Sierra Club[22] filed final briefs on September 11, 2025. GSA filed a letter in lieu of a brief on September 11, 2025.[23] With the filing of briefs, the record closed.

20. In its Application, WGL proposes a $45.6 million annual revenue increase, including a transfer of $11.7 million from the PROJECT*pipes* surcharge to base rates. This transfer results in an incremental base rate revenue increase of $33.9 million. WGL argues that its proposed $45.6 million revenue increase is reasonable and supported by the testimony and documents in this proceeding. WGL argues that its current rates do not provide WGL with the opportunity to earn a reasonable rate of return.[24] WGL also proposes an overall rate of return of 7.874% (with a return on common equity of 10.50%), new depreciation rates, and the WNA.[25] WGL contends that it has met its burden of proof to support the proposals in its Application.[26]

21. OPC urges the Commission to reject the Application for several reasons: (1) the requested rate increase is excessive; (2) the WNA is unsupported; (3) WGL performs poorly in pipe replacement activities despite capital expenditures increases; (4) WGL proposes an inflated ROE; (5) the post-period plant adjustments are unsupported; (6) payroll, affiliate, and depreciation expenses are unsupported; (7) reliance on non-precedential IRS

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17 *Formal Case No. 1180,* Motion to Correct the Transcript of Washington Gas Light Company, filed August 27, 2025; Office of the People's Counsel for the District of Columbia's Corrections to the Transcript of the August 14, 2025 Evidentiary Hearing, filed August 27, 2025; Motion to Correct the Transcript of the Apartment and Office Building Association of Metropolitan Washington; filed August 27, 2025; District of Columbia Government's Motion to Correct the Transcript, filed August 27, 2025, Sierra Club's Motion to Correct the Transcript, filed August 27, 2025. There being no opposition, the Commission grants these motions.

18 *Formal Case No. 1180,* Brief of Washington Gas Light Company, filed September 11, 2025 ("WGL Brief").

19 *Formal Case No. 1180,* Brief of the Office of the People's Counsel for the District of Columbia, filed September 11, 2025 ("OPC Brief").

20 *Formal Case No. 1180*, Post-Hearing Brief of the Apartment and Office Building Association of Metropolitan Washington, filed September 11, 2025 ("AOBA Brief").

21 *Formal Case No. 1180*, District of Columbia Government's Post-Hearing Brief, filed September 11, 2025 ("DCG Brief").

22 *Formal Case No. 1180*, Sierra Club's Post-Hearing Brief, filed September 11, 2025 ("Sierra Club Brief").

23 *Formal Case No. 1180,* Letter to Brinda Westbrook-Sedgwick, Commission Secretary, from Lariza Sepulveda, Senior Regulatory Affairs Manager, General Services Administration, filed September 11, 2025.

24 WGL Application at 6; WGL (A) at 4:20-5:2 (Steffes Direct Testimony); WGL Brief at 3.

25 WGL Brief at 1.

26 WGL Brief at 2.

PLR is misplaced; and (8) WGL's proposed Customer Charges are excessive.[27] OPC also argues that WGL overstates its revenue deficiency. With an interest synchronization adjustment, OPC calculates WGL's revenue deficiency to be $10.1 million.[28]

22. AOBA objects to the size of WGL's proposed rate increase, arguing that the revenue requirement should be no more than $34.9 million.[29] AOBA expresses concern about the future affordability of natural gas given the increases requested by WGL, which are driven primarily by large increases in rate base.[30]

23. Given the current competitive and policy environments, DCG argues that WGL's investment decisions and utility planning should not be entitled to a presumption of prudence. DCG asserts that WGL's continued investment in its gas distribution system risks stranding assets. DCG recommends that the Commission clearly indicate to WGL that it will not receive another rate increase until the Company has developed a comprehensive gas system plan that can support WGL's capital and operating expenses. DCG argues that WGL must operate to maintain safety and mitigate the risk of stranded assets.[31]

24. Sierra Club argues that the Commission should reject WGL's rate proposals that conflict with or frustrate the District's clean energy goals, seek to increase WGL's customer base, or pay for distribution assets that could become stranded costs.[32] Sierra Club also requests the Commission reject WGL's proposed ROE and the request to roll $11.7 million of PROJECT*pipes* costs into base rates. Sierra Club seeks disallowance of $238,785 in government affairs labor costs and $14,189 in litigation costs. Finally, Sierra Club requests that the Commission open an investigation into WGL's lobbying, government affairs, and influence practices in the District.[33]

25. In reviewing any utility rate increase application, the Commission is "entrusted with the primary responsibility of arriving at a fair balance between competing consumer and investor interests . . ."[34] Our role as regulators in this case is to ensure that essential natural gas service is available, safe, reliable, provided to all who require it and that the services will be priced at a reasonable level. Pursuant to its statutory and constitutional

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27 OPC Brief at 1-2.

28 OPC (2B) at 5:6-16 (Ostrander Surrebuttal Testimony); OPC Brief at 9.

29 AOBA (A) at 60:4-5 (T. Oliver Direct Testimony).

30 AOBA Brief at 3-5.

31 DCG Brief at 2.

32 Sierra Club (A) at 6:13-17 (Rábago Direct Testimony).

33 Sierra Club Brief at 3-4.

34 *Office of the People's Counsel v. Pub. Serv. Comm'n*, 399 A.2d 43, 45 (D.C. 1979).

rights, the utility is permitted to fully recover the cost of providing this essential service.[35] 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 existing and foreseeable."[36] 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.[37] The rest of the bill consists of gas supply charges, where the Commission regulates only default service provided by WGL,[38] and taxes and surcharges that the Commission does not regulate. Other factors, among many that the Commission is required to consider in its utility rate deliberations, are set forth in D.C. Code § 34-808.02, which requires the Commission to "consider the public safety, the economy of the District, the conservation of natural resources, and the preservation of environmental quality, including effects on global climate change and the District's public climate commitments."[39] Based on these overarching principles, we address WGL's Application.

26. In this proceeding, as in all base rate proceedings, the utility has the ultimate burden of proof to demonstrate that its proposed changes are just, reasonable, and in the public interest.[40] Included in that burden "is a responsibility to develop a record sufficiently complete to support a Commission order in their favor on any contested issue."[41] Additionally, "there must be enough evidence, rationally related to the rate order (through

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35 *See Fed. Power Comm'n v. Hope Nat. Gas Co*., 320 U.S. 591, 603 (1944) ("*Hope")*.

36 *Office of the People's Counsel v. Pub. Serv. Comm'n*, 399 A.2d 43, 45, *citing In re Permian Basin Area Rate Cases*, 390 U.S. 747, 792 (1968).

37 *See generally* D.C. Code § 34-301. *See also*, *Formal Case No. 1127*, *In the Matter of the Commission's Establishment of a Discount Program for Low-Income Natural Gas Customers in the District of Columbia*, Technical Conference Report, ¶ 11, filed April 8, 2016.

38 *See* D.C. Code § 34-1671.06 (b)(2). "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."

39 D.C. Code § 34-808.02.

40 *See* D.C. Code § 2-509(b) ("[T]he the proponent of a rule or order shall have the burden of proof."); *see also Washington Pub. Interest Org. v. Pub. Serv. Comm'n*, 393 A.2d 71, 77 (D.C. 1978) ("Included in that burden is a responsibility to develop a record sufficiently complete to support a Commission order in [WGL's] favor on any contested issue."), *supplemental opinion and dissent*, 404 A.2d 541 (D.C. 1979), *cert. denied*, *sub nom Potomac Elec. Power Co. v. Pub. Serv. Comm'n*, 444 U.S. 926 (1979); *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*, Order No. 10044, at 53, rel. June 26, 1992 ("When any party or Staff proposes that the Commission change its policy, they have a substantial burden of proof to overcome.").

41 *Washington Pub. Interest Org. v. Pub. Serv. Comm'n*, 393 A.2d at 77.

clearly articulated criteria), to justify the Commission's decision."[42]

27. If another party challenges an issue or information presented by the utility, that party must provide sufficient evidence or argument to create a "serious doubt" on the issue.[43] Further,

> where some other participant in the proceeding creates a serious doubt as to the prudence of an expenditure, then the applicant has the burden of dispelling these doubts and proving the questioned expenditure to have been prudent.[44]

Thus, the burden of proof remains on the utility.

28. To determine whether WGL has met its burden of proof on the issues presented in its Application, the Commission has analyzed the evidentiary record, which contains the conformed testimony of all of the parties, the transcript of the evidentiary hearing, and the cross-examination exhibits that were introduced into the evidentiary record at the evidentiary hearing. To the extent that an issue raised by a party was not addressed in the evidentiary hearing, since it did not present a material issue of fact in dispute, the Commission makes its policy and legal determinations based on the testimony and exhibits in the evidentiary record.

III. <u>COMMUNITY COMMENTS</u>

29. Traditionally, 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. In this proceeding, three community hearings were held on: April 10, 2025, at Benning (Dorothy I. Height) Neighborhood Library; April 21, 2025, at Petworth Neighborhood Library; and April 29, 2025, in the Commission Hearing Room.

30. Several District residents and organizations testified at these community hearings. Affordability concerns were raised by ANC 3A Commissioner Ann Mladinov, the Board of Directors of 1415 Girard Street, Northwest, Cooperative Association ("1415 Girard Street Board"), Lucy Arthur-Paratley, Ronald Bethaid, Ari Brown, Ayla Frost, Christina Herman, Aidan Jacketta, Wesley Lindamood, Thomas Luby, Samantha Saker, Charles Spring, and Michael Steffes.[45] Barbara Briggs, John Capozzi, the Chesapeake Climate

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[42] *Washington Pub. Interest Org. v. Pub. Serv. Comm'n*, 393 A.2d at 77.

[43] *Washington Pub. Interest Org. v. Pub. Serv. Comm'n*, 393 A.2d at 77; *Potomac Electric Power Company v. Pub. Serv. Comm'n*, 661 A.2d 131, 140 (D.C. 1995).

[44] *Potomac Electric Power Company v. Pub. Serv. Comm'n*, 661 A.2d at 140.

[45] *Formal Case No. 1180*, Transcript of the April 21, 2025 Community Hearing ("April 21 Tr.") at 17-18 (Charles Spring), 34-36 (Lucy Arthur-Paratley), 55-56 (Ronald Bethaid), 59-60 (Michael Steffes), 62-62

Action Network ("CCAN"), Green New Deal for D.C., Beth Landry, and the Ward 3 Democratic Committee expressed concerns about the affordability and WGL's compliance with District climate directives.[46] The Public Interest Research Group ("PIRG") questioned the rationale for a WGL rate increase when WGL is not seeking to transition from fossil fuel use.[47] Christina Herman and Teresa Hobgood expressed climate concerns.[48] Aaron Knishkowy, Wesley Lindamood, and Jeremiah Monk support electrification.[49] Karen Gladding and Peter Weiss addressed equity, the environment, and accountability in their testimony.[50] Max Broad, Kathryn Blanco, John Capozzi, Ann Cauman, Bethany Costello, Anthony Inhorn, K.C. Payne Hirsch, Zachary Israel, Deirdre Joy, Lara Levison, Hannah Lipstein, Lan Margosis, Jeremy Neff, Riley Polka, Harrison Pyros, Rachel Samuels, Anne Scanley, Matt Sehrsweeny, Carol Spring, Zoe Swaine, Juan Torres, and the Washington Interfaith Network ("WIN") expressed affordability and climate concerns.[51] ANC 3A Commissioner Ann Mladinov, Ayla Frost, Christina Herman, Aaron Knishkowy, Lara Levinson, Jim McTarnaghan, Jeremiah Monk, and Matt Sehraweeny opposed the WNA.[52] John Capozzi proposed a meeting between AltaGas, Ltd. ("AltaGas") and WGL executives and environmental and civic leaders to discuss WGL's service to District customers.[53] Anne deBuys and Dev Samant expressed concerns about WGL's rate case customer

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(Ari Brown); *Formal Case No. 1180*, Transcript of the April 29, 2025 Community Hearing ("April 29 Tr."), at 12-13 (Charles Spring), 19-21 (Aidan Jacketta), 24-25 (Wesley Lindamood), 45-48 (Ayla Frost), 56-57 (Samantha Saker), 101-103 (Christina Herman), 107-111 (1415 Girard Street Board). Testimony of ANC 3A Commissioner Ann Mladinov at 1-3, filed May 2, 2025; Testimony of Thomas Luby at 1, filed May 1, 2025.

[46] *Formal Case No. 1180*, April 21 Tr. at 10-13 (Green New Deal for D.C.), 14 (John Capozzi), 18-23 (CCAN); April 29 Tr. at 9-12 (Barbara Briggs), 30-32 (Beth Landry), 51-53 (Ward 3 Democratic Committee). Testimony of Chesapeake Climate Action Network at 1-3, filed April 24, 2025.

[47] *Formal Case No. 1180*, Testimony of PIRG at 1-2, filed April 30, 2025.

[48] April 29 Tr. at 53-56 (Teresa Hobgood), 103-105 (Christina Herman).

[49] April 21 Tr. at 61-62 (Jeremiah Monk); April 29 Tr. at 24-25 (Wesley Lindamood); 48-51 (Aaron Knishkowy).

[50] *Formal Case No. 1180*, Testimony of Karen Gladding at 1-2, filed April 25, 2025; April 21 Tr. at 23-26 (Peter Weiss), 27-31 (Karen Gladding).

[51] *Formal Case No. 1180*, Testimony of John Capozzi at 1, filed April 11, 2025; Testimony of John Capozzi at 1-2, filed April 30, 2025; Testimony of Lan Margosis at 1-2, filed April 28, 2025; Testimony of Anne Scanley at 1-2, filed May 1, 2025; April 21 Tr. at 26-27 (Carol Spring), 32-34 (Deirdre Joy), 36-40 (Matt Sehrsweeny), 40-42 (Harrison Pyros), 42-44 (Juan Torres), 47-48 (Jeremy Neff), 49-51 (Max Broad), 52-54 (Zachary Israel), 56-59 (Riley Polka); April 29 Tr. at 14-16 (Rachel Samuels), 16-19 (Lara Levison), 22-24 (Anthony Inhorn), 25-27 (Zoe Swaine), 28-29 (Kathryn Blanco), 34-37 (Anne Scanley) 51-53 (Ann Cauman), 53-56 (WIN), 56-58 (K.C. Payne Hirsch), 65-68 (Hannah Lipstein), 72-75 (Bethany Costello).

[52] *Formal Case No. 1180*, Testimony of Ann Lane Mladinov at 2, filed May 2, 2025; April 21 Tr. at 38-39 (Matt Sehrsweeny), 62 (Jeremiah Monk); April 29 Tr. at 18-19 (Lara Levison), 46 (Ayla Frost), 49 (Aaron Knishkowy), 77 (Jim McTarnaghan), 103 (Christina Herman).

[53] April 21 Tr. at 16-17 (John Capozzi); Testimony of John Capozzi at 1, filed April 11, 2025; Testimony of John Capozzi at 2, filed April 30, 2025.

communications and the proposed rate increase itself.[54] Nancy Birdsall, PIRG, the Public Ward 3 Democratic Committee and WIN expressed concerns about pipe replacement.[55] ANC 3A Commissioner Ann Mladinov and ANC 4A Chair Paula Edwards also sought an evidentiary hearing.[56] Karthnik Kaudinya expressed the need for balancing retaining existing energy sources and reliability with the need to increase investments in green energy.[57] Samantha Saker discussed health concerns related to natural gas.[58]

31. In contrast, Francis Development, LLC, testified that natural gas is a continuing essential utility service, so WGL should be able to recover the costs of its investments.[59] Miller Pipeline argued that the operational constraints involved in gas line maintenance justify WGL's proposed rate increase. Miller Pipeline also supported the WNA.[60] Yianni Karabatis supported preserving the safety of WGL's system.[61] Genevieve Boisvert supported WGL's Application so that energy choice is retained, and gas service remains reliable and affordable.[62] Step Afrika! expressed its appreciation for WGL's long-standing partnership.[63]

32. Many District residents and organizations also submitted written comments to the Commission. Michael Aiello, Catharine Ferguson, Blake McCarren, Alan Propp, Patricia Stamper, and Jessica Steele opposed the proposed rate increase.[64] Michael Aiello, Senay Emmanuel, Stefanie Evans, Venus Little, and Derecka Purnell questioned affordability, PROJECT*pipes* costs, customer service, climate, and WGL's Short Term

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54 *Formal Case No. 1180*, April 29 Tr. at 7-9 (Anne deBuys), 37-45 (Dev Samant); Testimony of Anne deBuys at 1-3, filed May 1, 2025; Testimony of Dev Samant at 1-4, filed May 1, 2025.

55 April 29 Tr. at 52 (Ward 3 Democratic Committee), 53-56 (WIN); 68-72 (PIRG), 82-85 (Nancy Birdsall).

56 April 29 Tr. at 107 (ANC 4A Chair Paula Edwards), Testimony of ANC 3A Commissioner Ann Mladinov at 1, filed May 2, 2025.

57 April 29 Tr. at 59-61 (Karthnik Kaudinya).

58 April 29 Tr. at 58-59 (Samantha Saker).

59 *Formal Case No. 1180*, Testimony of Francis Development, LLC filed April 17, 2025.

60 *Formal Case No. 1180*, April 29 Tr. at 61-64 (Miller Pipeline); Testimony of Miller Pipeline at 2, filed April 28, 2025.

61 April 29 Tr. at 64 (Yianni Karabatis).

62 April 29 Tr. at 32-34 (Genevieve Boisvert).

63 *Formal Case No. 1180*, Testimony of Step Afrika! at 1, filed April 28, 2025.

64 *Formal Case No. 1180*, Comments of Michael Aiello at 1, filed April 15, 2025; Comments of Catharine Ferguson at 1, filed April 8, 2025; Comments of Blake McCarren at 1, filed April 23, 2025; Comments of Alan Propp at 1, filed April 25, 2025; Comments of Patricia Stamper at 1, filed April 25, 2025; Comments of Jessica Steele at 1, filed April 21, 2025.

Incentives ("STI") plan.[65] Levi Eckman opposed the rate increase, sought disallowance of PROJECT*pipes* costs, and encouraged rejection of the WNA.[66] Forrest Cinelli, Juan Cuellar, Maya DeHart, Tamara J. Duggleby, Matthew Fleck, Claire Hacker, and Lara Levison expressed affordability and climate concerns.[67] Maya DeHart, Senay Emmanuel, and Tamara Duggleby also opposed the WNA.[68] Deidre Joy argued that natural gas is neither clean nor affordable.[69] Cynthia Lee and Blake McCarren expressed affordability concerns.[70] Madeline Riley expressed concern about WGL's customer service, the proposed rate increase, and the District's climate.[71] Jon Ettinger expressed concerns about affordability and WGL's service quality.[72]

33. In contrast, the Restaurant Association of Metropolitan Washington and John Snedden supported WGL's rate increase as necessary to provide safe and reliable natural gas, particularly in the restaurant industry.[73]

34. **WGL.** WGL responded to many of the community comments. In response to those customers who expressed affordability concerns, WGL argues that it seeks to control costs and operate efficiently, including adjustments to its operations. WGL also has programs to assist customers, especially low-income customers, with their bills. However, WGL also asserts that the proposed rate increase is needed to serve its customers by providing safe and reliable natural gas service, funding good jobs, and accessing capital at a reasonable cost.[74]

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65 *Formal Case No. 1180*, Comments of Michael Aiello at 1; Comments of Senay Emmanuel at 1, filed May 1, 2025; Comments of Stefanie Evans at 1, filed April 8, 2025; Comments of Venus Little at 1, filed May 1, 2025; Comments of Derecka Purnell at 1, filed April 29, 2025.

66 *Formal Case No. 1180*, Comments of Levi Eckman at 1, filed April 23, 2025.

67 *Formal Case No. 1180*, Comments of Forrest Cinelli at 1, filed April 15, 2025; Comments of Juan Cuellar at 1, filed April 22, 2025; Comments of Maya DeHart at 1, filed April 29, 2025; Comments of Tamara J. Duggleby at 1, filed April 29, 2025; Comments of Matthew Fleck at 1, filed April 22, 2025; Comments of Claire Hacker at 1, filed April 28, 2025; Comments of Lara Levison at 1-2, filed May 12, 2025.

68 Comments of Maya DeHart at 1; Comments of Senay Emmanuel at 1; Comments of Tamara J. Duggleby at 1.

69 *Formal Case No. 1180*, Comments or Deirdre Joy at 1, filed April 22, 2025.

70 *Formal Case No. 1180*, Comments of Cynthia Lee at 1, filed May 12, 2025; Comments of Blake McCarren at 1.

71 *Formal Case No. 1180*, Comments of Madeline Riley at 1, filed April 23, 2025.

72 *Formal Case No. 1180*, Comments of Jon Ettinger at 1, filed April 28, 2025.

73 *Formal Case No. 1180*, Comments of the Restaurant Association of Metropolitan Washington at 1-2, filed April 22, 2025; Comments of John Snedden at 1, filed April 23, 2025.

74 WGL (4A) at 6:5-20 (Steffes Rejoinder Testimony).

35. Regarding the climate concerns expressed by many commenters, WGL argues that these concerns should not modify the cost recovery sought in this proceeding. WGL also contends that many of the comments did not address WGL's obligation to provide safe and reliable natural gas service or the fact that some customers desire natural gas service.[75]

36. While many people testifying at the community hearings had opinions on the future of natural gas in the District, WGL claims that these comments do not address the fact that WGL is currently serving customers in the District. WGL contends that issues regarding the future of natural gas are not relevant to this proceeding.[76]

37. WGL also notes that there was a great deal of testimony regarding the WNA. In contrast to concerns raised by community members, WGL asserts that the WNA would neither inhibit nor encourage energy efficiency actions taken by consumers. WGL also asserts that since the WNA would be applied volumetrically, high use gas customers would benefit more from the WNA.[77] Because the WNA does not affect commodity prices, which are charged on a volumetric basis, WGL argues that conservation efforts would serve to reduce commodity costs.[78] WGL also represents that the WNA benefits customers by providing rapid refunds in cases of over-collection, but slower collections in the case of under-collection. The WNA also reduces bill volatility.[79] According to WGL, the WNA mitigates risks for both WGL and its customers. WGL contends that weather normalization adjustments and decoupling mechanisms are common throughout the utility industry.[80] Based on the community comments, WGL believes that many concerns about the WNA can be addressed through consumer education.[81]

38. The Commission appreciates the comments from the public concerning WGL's rate increase request. We acknowledge the myriad concerns that the public has presented for the Commission's consideration, including affordability and climate considerations. We have carefully considered all the comments from community witnesses in adjudicating WGL's Application.

IV. TEST YEAR

39. To allow the Company a reasonable opportunity to recover its costs, the Commission adopts a proposed Test Year to: (1) ensure that rate levels and the revenues they

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[75] WGL (4A) at 7:1-10 (Steffes Rejoinder Testimony).

[76] WGL (4A) at 7:15-24 (Steffes Rejoinder Testimony).

[77] WGL (4O) at 3:7-14 (Lawson Rejoinder Testimony).

[78] WGL (4O) at 4:17-25 (Lawson Rejoinder Testimony).

[79] WGL (4O) at 5:6-16 (Lawson Rejoinder Testimony).

[80] WGL (4O) at 5:19-24 (Lawson Rejoinder Testimony).

[81] WGL (4O) at 6:2-12 (Lawson Rejoinder Testimony).

produce have a reasonable correlation to the revenue requirements of the Company; and (2) determine costs and investments as accurately as possible.[82]

40. WGL proposed a Test Year of actual results for the twelve (12) months ending March 31, 2024. WGL asserts that the use of this Test Year is reasonable and consistent with Commission policies and rules.[83] WGL proposes a rate-effective period of August 1, 2025 through July 31, 2026.[84]

41. For the Test Year, WGL proposes ten (10) Distribution-Only Adjustments that remove items unrelated to distribution rates, so that the revenue requirement contains only those costs and revenues incurred by WGL in providing natural gas distribution service. The Company asserts that these Adjustments are reasonable and consistent with Commission precedent. WGL contends that the following seven (7) Distribution-Only Adjustments are uncontested:

- Adjustment 1D – Purchased Gas Revenues and Costs and Gas Supplier Balancing Charges;
- Adjustment 2D – Uncollectible Gas Costs and Gas Administrative Charge Revenues;
- Adjustment 3D – Gas Procurement Costs;
- Adjustment 4D – Storage Gas Inventory and Storage Carrying Costs;
- Adjustment 5D – Asset Optimization Revenues;
- Adjustment 6D – Supplier Refunds; and
- Adjustment 7D – Purchase of Receivables.[85]

WGL asserts that while the following three (3) Distribution-Only Adjustments are not challenged, these adjustments will be resolved as the Commission makes determinations on other issues in this proceeding.

- Adjustment 8D – Interest on Debt;
- Adjustment 9D – Cash Working Capital; and
- Adjustment 10D – District of Columbia and Federal Income Taxes.[86]

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[82] *See Formal Case No. 610*, *The Application of Washington Gas Light Company for Authority to Increase Existing Rates, Tolls, Charges and Schedules for Gas* Service ("*Formal Case No. 610*"), Order No. 5685 at 6, rel. January 23, 1975 ("Order No. 5685"). *See also*, *Formal Case No. 1156*, Order No. 20755, ¶ 179, rel. June 8, 2021.

[83] WGL Application at 5; WGL Brief at 19.

[84] WGL Application at 5.

[85] WGL Brief at 22-23.

[86] WGL Brief at 23-24.

Decision

42. 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.[87] Under Section 200.4 of the Commission's Rules, a utility may choose a historical test year or a proposed test year that incorporates up to six months of forecasted data.[88] The Commission has the responsibility of "select[ing] a test year that appears likely to be representative of the future."[89] In this instance, WGL's proposed historical Test Year is uncontested. The Commission concludes that WGL's proposed Test Year ending March 31, 2024, 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, and we address each party's proposals accordingly.

43. For the seven uncontested *pro forma* "Distribution-Only" adjustments, the Commission is persuaded that each of these adjustments are just and reasonable because they remove non-distribution items from the Company's books, consistent with the Commission's directive in Order Nos. 17132[90] and 18712.[91] Therefore, we approve these adjustments that reduce the rate base by $16 million and net operating income by $71.4 million.[92]

44. Due to the timing of this Order, the rate-effective period will be from January 1, 2026 through December 31, 2026.

V. AFFILIATE TRANSACTIONS – COST ALLOCATION MANUAL ("CAM") AND AFFILIATE COST OF SERVICE STUDY ("ACOSS")

45. In *Formal Case No. 1169* and in this proceeding, several of the parties have focused on concerns relating to WGL's affiliate transactions. In Order No. 21939, the Commission directed WGL to file an ACOSS to provide further detail on affiliate transactions.[93]

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87 *See, e.g.*, *Formal Case No. 610*, Order No. 5685 at 6.

88 15 DCMR § 200.4 (1987).

89 *Potomac Elec. Power Co. v. Pub. Serv. Comm'n*, 402 A.2d 14, 19 (D.C. 1979).

90 *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").

91 *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*"), Order No. 18712, ¶ 15, rel. March 3, 2017 ("Order No. 18712").

92 Exhibit WG (D)-2 at 1-3 (Tuoriniemi Direct Testimony).

93 Order No. 21939, ¶ 10.

46. **WGL.** AltaGas, WGL's corporate parent, indicates that it provides business oversight and development and exercises corporate governance functions, ensuring that WGL has access to capital.[94] WGL contends that AltaGas' services are necessary. WGL claims that in Order No. 21939, the Commission found that AltaGas' activities were traditional corporate parent support activities. WGL claims that there have been no changes in the scope of service provided by AltaGas since that time.[95] WGL asserts that the provision of corporate services by AltaGas benefits customers by creating governance efficiencies and providing equity capital.[96] WGL claims that none of the AltaGas corporate services are performed by WGL employees.[97] Additionally, certain AltaGas corporate costs are not allocated to WGL.[98] For the corporate costs that are allocated to WGL, the Modified Massachusetts Formula ("MMF") is used to calculate the allocation.[99]

47. WGL explains that it provides and obtains services from affiliated companies in accordance with its 2023 CAM and Service Agreements approved by the Virginia State Corporation Commission. WGL asserts that its policy is to directly assign costs to its affiliates when possible. When multiple affiliates benefit, WGL allocates costs based on underlying cost drivers or the MMF.[100] For services that WGL provides to its affiliates, WGL argues that these services are provided at costs equivalent to market prices. These costs include labor, labor-related, and overhead costs. WGL asserts that these costs are excluded from WGL's cost of service and not included in the per book Test Year.[101]

48. As required by Order No. 21939, WGL filed an ACOSS in this proceeding. WGL represents that the ACOSS provides additional transparency by demonstrating whether the affiliate service charges affected WGL's operating expenses or were pass-through charges not hitting WGL's income statement. WGL indicates that the ACOSS also includes Federal Energy Regulatory Commission ("FERC") accounts and subaccounts impacted by WGL's affiliate transactions and the pool and allocation factors for each allocation.[102] Documentation of the data and computations used to create each allocation factor are also

94 WGL (K) at 3:5-20 (Block Direct Testimony).

95 WGL (K) at 9:10 – 10:2 (Block Direct Testimony).

96 WGL (K) at 10:6-18 (Block Direct Testimony).

97 WGL (K) at 11:21 – 12:2 (Block Direct Testimony).

98 WGL (K) at 13:12-18 (Block Direct Testimony).

99 WGL (K) at 13:21-22 (Block Direct Testimony).

100 WGL (J) at 5:4-13 (Quenum Direct Testimony).

101 WGL (J) at 5:18 – 6:2 (Quenum Direct Testimony).

102 WGL (J) at 8:14-25 (Quenum Direct Testimony).

included.[103]

49. **OPC.** OPC criticizes the ACOSS as confusing. OPC also contends that the ACOSS incorrectly commingles both balance sheets and income statement accounts for the same transactions. Further, OPC contends that the ACOSS is not organized to show the effect of affiliate transactions on the revenue requirement.[104]

50. **AOBA.** AOBA argues that the ACOSS does not provide sufficient information to evaluate WGL's affiliate transactions. Instead of providing both the costs that WGL incurs to have services provided by other affiliates and the costs that WGL expends to provide services to affiliates, AOBA argues that the ACOSS and WGL Witness Testimony only discuss the costs that WGL incurs by having other affiliates perform services for WGL.[105] AOBA also represents that the data presented in this proceeding are presented in aggregated form, preventing analysis of specific transactions.[106]

51. AOBA argues that the Service Agreement between WGL and SEMCO Energy Gas Company ("SEMCO") contains provisions that are not found in other agreements. In particular, AOBA claims that the WGL-SEMCO Service Agreement gives SEMCO executives broad authority over WGL operations.[107] AOBA represents that WGL has not explained why SEMCO's executives are providing extensive oversight over WGL, particularly when WGL has its own executive leadership.[108] Further, AOBA asserts that WGL has not identified any problems with its executive leadership that require SEMCO executive leadership or cost efficiencies for SEMCO to provide this leadership.[109] Absent such demonstrated deficiencies, AOBA asserts that the costs of SEMCO executive leadership should not be borne by ratepayers.[110] If there are demonstrated deficiencies in WGL's executive leadership, then the costs for WGL executive leadership should be reduced to account for the need for SEMCO executive leadership.[111]

52. AOBA asserts that the WGL-SEMCO relationship is inconsistent with Term

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103 WGL (J) at 9:1 – 10:11 (Quenum Direct Testimony).

104 OPC (B) at 126:3-8 (Ostrander Direct Testimony).

105 AOBA (A) at 38:1-4 (T. Oliver Direct Testimony).

106 AOBA (A) at 38:16 – 39:2 (T. Oliver Direct Testimony).

107 AOBA (A) at 44:13-16 (T. Oliver Direct Testimony).

108 AOBA (A) at 45:13-19 (T. Oliver Direct Testimony).

109 AOBA (A) at 45:19 – 46:7; 47:10-14; 52:17 – 53:2 (T. Oliver Direct Testimony).

110 AOBA (A) at 53:16-21 (T. Oliver Direct Testimony).

111 AOBA (A) at 54:1-7 (T. Oliver Direct Testimony).

No. 18 of *Formal Case No. 1142* Settlement Agreement.[112] Additionally, AOBA contends that having the oversight of WGL by other AltaGas affiliate executives is inconsistent with WGL's separation from other AltaGas affiliates.[113] Having WGL act as a service company also erodes the ring fencing protections in the Merger Settlement Agreement, AOBA claims.[114] Further, oversight by non-WGL executive leadership contradicts AltaGas' promises of local control.[115] AOBA recommends that the WGL-SEMCO Service Agreement be terminated. Additionally, AOBA urges the Commission to find that WGL has not justified the costs that SEMCO has allocated to providing management services.[116]

53. Because WGL is performing functions for AltaGas' regulated and unregulated affiliates, AOBA contends that WGL is commingling regulated and unregulated funds, making it difficult to determine costs for WGL's regulated utility business.[117] Instead of shifting costs for WGL Holdings' unregulated businesses to other unregulated AltaGas affiliates, AOBA asserts that WGL Holdings still relies on WGL services. Further, AOBA argues, many other unregulated AltaGas affiliates now rely on WGL's services.[118] AOBA maintains that having WGL perform services for regulated and unregulated affiliates is very unusual in the industry. Typically, parent companies establish service companies to provide such services.[119]

54. AOBA identifies Accounts Payable service as particularly problematic. First, AOBA finds no evidence that SEMCO provided Accounts Payable services to WGL during the Test Year.[120] AOBA finds no evidence in WGL's testimony to support why WGL would be transferring Accounts Payable services to SEMCO, particularly when WGL is claiming these expenses in its Non-Labor Costs.[121] In contradiction to the provisions of Order No. 21420, AOBA claims that WGL provides no justification for using SEMCO for Accounts

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112 *Formal Case No. 1142*, *In the Matter of the Merger of AltaGas Ltd. and WGL Holdings, Inc.* ("*Formal Case No. 1142*"), Order No. 19396, Appendix A, Term No. 5, rel. June 29, 2018 ("Order No. 19396"). In *Formal Case No. 1142*, the proceeding relating to the AltaGas-WGL Merger, the Commission approved a Settlement Agreement containing several Terms with which AltaGas and WGL were obligated to comply. Throughout this Order, the Terms of the Settlement Agreement will be referred to as "Term No."

113 AOBA (A) at 52:11-15 (T. Oliver Direct Testimony).

114 AOBA (A) at 48:10-19 (T. Oliver Direct Testimony).

115 AOBA (A) at 54:12-19 (T. Oliver Direct Testimony).

116 AOBA (A) at 58:10-15 (T. Oliver Direct Testimony).

117 AOBA (A) at 49:13-19 (T. Oliver Direct Testimony).

118 AOBA (A) at 50:8-15 (T. Oliver Direct Testimony).

119 AOBA (A) at 50:20-21 (T. Oliver Direct Testimony).

120 AOBA (A) at 55:3-4 (T. Oliver Direct Testimony).

121 AOBA (A) at 55:16-23 (T. Oliver Direct Testimony).

Payable in its testimony.[122]

55. To remedy these problems, AOBA recommends that the Commission direct WGL to start terminating its role as a "service provider" for AltaGas affiliates. AOBA suggests that WGL should complete this termination within six (6) months of the issuance of the final order.[123] Alternatively, should WGL continue to perform services for affiliated companies, AOBA recommends that AltaGas pay for an annual audit of WGL's books for regulatory purposes.[124]

56. AOBA claims that WGL's MMF model in the ACOSS uses different factors than are used in the CAM.[125] This discrepancy hinders a comparison of costs in the ACOSS and the CAM.[126] AOBA questions the extensive use of the MMF model in the ACOSS since it is typically used to assign costs as a last resort, not as a way to assign the majority of the costs, as is done in the ACOSS.[127] Further, AOBA claims that WGL makes retroactive adjustments that hinder clarity.[128] AOBA presents a concern that the costs attributed to WGL would be a function of the earnings of non-utility affiliates.[129]

57. Notwithstanding the provision of the ACOSS, AOBA contends that its concerns about the subsidization of AltaGas affiliates by WGL ratepayers remain.[130] AOBA asserts that the CAM shows that WGL is providing a wide variety of services to over thirty (30) AltaGas affiliates.[131] In AOBA's view, these activities mean that WGL is acting as a "service company" to its affiliates. AOBA claims that none of the costs for these services appear on WGL's books, leaving AOBA to allege that there are two separate books: one set that includes affiliate transactions; and one that does not.[132] AOBA argues that WGL's activities as a "service company" must be carefully scrutinized in light of its revenue

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122 AOBA (A) at 56:10-17 (T. Oliver Direct Testimony).

123 AOBA (A) at 57:1-4; 58:7-10 (T. Oliver Direct Testimony).

124 AOBA (A) at 57:8-11 (T. Oliver Direct Testimony).

125 AOBA (A) at 38:13-16 (T. Oliver Direct Testimony).

126 AOBA (A) at 40:15-16 (T. Oliver Direct Testimony).

127 AOBA (A) at 40:23 – 41:7 (T. Oliver Direct Testimony).

128 AOBA (A) at 38:7-12 (T. Oliver Direct Testimony).

129 AOBA (A) at 40:20-22 (T. Oliver Direct Testimony).

130 AOBA (A) at 39:15-22 (T. Oliver Direct Testimony).

131 AOBA (A) at 42:15-21 (T. Oliver Direct Testimony).

132 AOBA (A) at 43:1-8 (T. Oliver Direct Testimony).

requests.[133] AOBA asserts that there is nothing in the record that supports the proposition that the Test Year revenue requirements reflect the allocations and assignments of Test Year costs to affiliates as the CAM requires.[134]

58. **WGL Rebuttal.** In Order No. 21939, WGL argues that the Commission found that WGL's affiliate transactions costs were transparent.[135] WGL contends that none of its accounting practices have changed, so the findings in Order No. 21939 are still accurate. With the addition of the ACOSS, WGL argues that affiliate transaction costs are even more transparent.[136]

59. During the discussions that led to the filing of the Joint Report that summarized the proposed contents of an ACOSS, WGL argues that OPC did not present any proposed information to be included in the ACOSS. Contrary to OPC's assertion, WGL argues that the ACOSS separates income statement and balance sheet information.[137]

60. Contrary to AOBA's contentions, WGL argues that it did not deviate from the use of FERC accounts.[138] WGL also denies that any costs for services to affiliates remain in the Test Year's cost of service.[139] Also, WGL argues that AOBA's claim that WGL has two sets of books is incorrect.[140]

61. In response to AOBA's arguments, WGL asserts that AOBA has presented no new evidence or changed circumstances that would require the Commission to change the decisions made in Order No. 21939. WGL also asserts that AOBA's testimony disregards the Joint Report,[141] that WGL contends resolved AOBA's concerns with the original ACOSS[142] filed before this proceeding.[143] WGL argues that the Joint Report contains

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133 AOBA (A) at 43:18-22 (T. Oliver Direct Testimony).

134 AOBA (A) at 44:1-6 (T. Oliver Direct Testimony).

135 WGL (2J) at 4:2-14 (Quenum Rebuttal Testimony).

136 WGL (2J) at 5:1-12 (Quenum Rebuttal Testimony).

137 WGL (2J) at 12:4-6 (Quenum Rebuttal Testimony).

138 WGL (3D) at 26:12-22 (Gibson Rebuttal Testimony).

139 WGL (3D) at 27:3-9 (Gibson Rebuttal Testimony).

140 WGL (3D) at 27:17-21 (Gibson Rebuttal Testimony).

141 Joint Report on Washington Gas Light Company's Affiliate Cost of Service Study.

142 *See Formal Case No. 1169*, Washington Gas Light Company's Affiliate Class Cost of Service Study, filed May 15, 2024. After the filing of this original ACOSS, AOBA filed a motion to reject this filing. The Commission then directed the parties to meet and develop a joint report to determine the contacts of an ACOSS. *See Formal Case No. 1169*, Order No. 22011, rel. June 28, 2024.

143 WGL (2J) at 2:7-15; 3:14-18; 5:1-12 (Quenum Rebuttal Testimony).

AOBA's proposed revisions to the ACOSS, and that the ACOSS presented in this proceeding is consistent with the Joint Report.[144] During the ACOSS discussions that resulted in the Joint Report, WGL argues that AOBA did not identify any other information to be included in the ACOSS.[145] Regarding the contents of the ACOSS, WGL argues that the existence of corrections and adjustments is a strength, not a weakness.[146]

62. WGL disagrees with AOBA's contention that WGL shared services have increased since the AltaGas-WGL Holdings Merger.[147] Contrary to AOBA's contentions regarding WGL's allegedly unusual corporate structure, WGL argues that the Commission found that there was no predominant corporate structure across the industry in Order No. 21939.[148]

63. WGL contends that AOBA has not presented any argument in favor of terminating the shared services agreements. Instead, AOBA acknowledges that the shared services agreement leads to lower rate impacts.[149] WGL argues that the shared services agreements have been managed in this manner for many years, providing many advantages, and have been subject to regulatory scrutiny. WGL asserts that these services have been conducted in a manner consistent with local statutes and regulations.[150]

64. Contrary to AOBA and OPC's contentions, WGL claims that it has used the same version of the MMF to allocate common costs that are not directly assigned for several years.[151] While AltaGas has used a different version of the MMF to allocate common costs, WGL asserts that it used its version of the MMF to allocate common costs.[152] WGL requests that the Commission reject AOBA's arguments regarding the use of the MMF.[153]

65. Contrary to OPC's unsupported contention, WGL asserts that it has shown that the services provided to WGL by AltaGas and SEMCO are necessary.[154]

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144 WGL (2J) at 7:18-21 (Quenum Rebuttal Testimony).

145 WGL (2J) at 10:16 -11:2 (Quenum Rebuttal Testimony).

146 WGL (2J) at 10:6-10 (Quenum Rebuttal Testimony).

147 WGL (2J) at 5:13-15 (Quenum Rebuttal Testimony).

148 WGL (2J) at 6:17-23 (Quenum Rebuttal Testimony).

149 WGL (2J) at 8:18-21 (Quenum Rebuttal Testimony).

150 WGL (2J) at 9:7-14 (Quenum Rebuttal Testimony).

151 WGL (2J) at 15:4-13 (Quenum Rebuttal Testimony); WGL (2K) at 6:3-5 (Block Rebuttal Testimony).

152 WGL (2J) at 15:4-13 (Quenum Rebuttal Testimony).

153 WGL (2J) at 16:10-11 (Quenum Rebuttal Testimony).

154 WGL (2L) at 25:21 – 26:6 (Baryenbruch Rebuttal Testimony).

66. WGL also requests that the Commission reject AOBA's recommendations to terminate the SEMCO Service Agreement and disallow recovery for SEMCO executive expenses. WGL argues that it has shown that the SEMCO Service Agreement results in cost savings to WGL customers. Further, WGL contends that the Commission rejected a similar argument in Order No. 21939. WGL also argues that AOBA relies on the wrong service agreement in its arguments.[155] WGL claims that SEMCO only charged $6,900 in services during the Test Year.[156] WGL argues that it has demonstrated that these costs were lower than had WGL attempted to obtain these services from other sources.[157] WGL argues that AOBA has not provided any reason for finding that the SEMCO expenses should be disallowed.[158]

67. WGL alleges that AOBA makes several mistakes in its testimony about SEMCO expenses. WGL claims that AOBA first erroneously argues that SEMCO did not provide Accounts Payable services to SEMCO in the Test Year.[159] WGL asserts that SEMCO, not Accenture, provided all Accounts Payable services during the Test Year, as these duties had been transitioned from Accenture to SEMCO in 2022.[160] Further, WGL contends that AOBA misrepresented the associated cost savings and mischaracterizes the methodology used to account for costs related to SEMCO's Account Payable services.[161] WGL argues that Witness Tuoriniemi indicated that SEMCO's Account Payable services were recorded in FERC Accounts 921 and 923.[162] Further, WGL asserts that AOBA erroneously argues that the cost savings for the transfer of Accounts Payable services to SEMCO will be realized in the future, not during the Test Year.[163] Contrary to AOBA's arguments, WGL contends that it showed that SEMCO's Accounts Payable services were less expensive than outside services. Using SEMCO's Accounts Payable services also permitted WGL to eliminate three FTE positions.[164] WGL claims that AOBA does not dispute WGL's evidence regarding the reasonableness of the costs for services provided by affiliates and does not present any lower-cost options.[165]

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155 WGL (2J) at 12:15-23 (Quenum Rebuttal Testimony).

156 WGL (2J) at 14:6-14 (Quenum Rebuttal Testimony).

157 WGL (2J) at 14:15-17 (Quenum Rebuttal Testimony).

158 WGL (2J) at 14:18-20 (Quenum Rebuttal Testimony).

159 WGL (2L) at 3:18-19 (Baryenbruch Rebuttal Testimony).

160 WGL (2L) at 4:1-9 (Baryenbruch Rebuttal Testimony).

161 WGL (2L) at 3:19 – 4:1 (Baryenbruch Rebuttal Testimony).

162 WGL (2L) at 4:15-19 (Baryenbruch Rebuttal Testimony).

163 WGL (2L) at 5:3-5 (Baryenbruch Rebuttal Testimony).

164 WGL (2L) at 5:11-19 (Baryenbruch Rebuttal Testimony).

165 WGL (2L) at 6:3-9 (Baryenbruch Rebuttal Testimony).

68. **AOBA Surrebuttal.** AOBA contends that the CAM contains often undocumented assignments, reassignments, and allocations of costs, hindering oversight of affiliate transactions and costs.[166] AOBA argues that WGL did not respond to AOBA's criticisms of the application of the MMF differently to various AltaGas affiliates or provide quantitative analyses supporting the MMF allocations in its Rebuttal Testimony.[167] AOBA alleges that the ACOSS does not provide sufficient documentation to support the allocation of shared costs.[168] To protect District residents, AOBA claims that additional reporting requirements and additional documentation of affiliate transactions are necessary, particularly if WGL is to act as a service company for AltaGas affiliates and others.[169]

69. AOBA argues that WGL did not present a detailed demonstration of the use of the MMF in the ACOSS and the derivation of data used to allocate costs to WGL's affiliates using the MMF in WGL's Rebuttal Testimony. Thus, AOBA contends, the Commission has no basis for finding that the MMF allocations in the ACOSS have been made on a comparable basis.[170]

70. Since WGL presents no new enhancements to its affiliate reporting in its Rebuttal Testimony, AOBA contends that SEMCO-related expenses should be disallowed. Further, AOBA argues that its call for consistent and auditable affiliate cost allocations remains valid.[171]

71. **WGL Rejoinder.** Contrary to AOBA's contentions, WGL claims that it provided full documentation to support its computation of the MMF. WGL also contends that it provided several files with its Application specifically to address AOBA's concerns.[172]

72. WGL contends that AOBA did not produce any documentation to support its assertions regarding WGL's affiliate transactions. In contrast, WGL claims that its documentation regarding affiliate transactions is consistent with that produced in previous proceedings and is sound and accurate. WGL claims that it provided additional transparency in the ACOSS. WGL asserts that its affiliate transactions have been audited by an independent auditor. WGL notes that the Commission found that there was no imprudence with WGL's affiliate transactions in Order No. 21939. According to WGL, there have been

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166 AOBA (2A) at 10:1-4 (T. Oliver Surrebuttal Testimony).

167 AOBA (2A) at 12:9-14 (T. Oliver Surrebuttal Testimony).

168 AOBA (2A) at 10:7-10; 12:18 – 13:3 (T. Oliver Surrebuttal Testimony).

169 AOBA (2A) at 10:11-19 (T. Oliver Surrebuttal Testimony).

170 AOBA (2A) at 11:18 – 12:54 (T. Oliver Surrebuttal Testimony).

171 AOBA (2A) at 13:8-12 (T. Oliver Surrebuttal Testimony).

172 WGL (3J) at 2:14 – 3:15 (Quenum Rejoinder Testimony).

no new facts that would alter that conclusion.[173]

73. **WGL Brief.** WGL argues that its CAM complies with the directives in Order No. 21939. WGL claims that its approach for the CAM follows National Association of Regulatory Utility Commissioners' ("NARUC") guidance.[174] WGL also claims that it has used the MMF methodology challenged by AOBA for decades. WGL contends that the Commission approved the use of this methodology in *Formal Case No. 1142*.[175] WGL also argues that its affiliate transactions are subject to an independent audit.[176] Responding to OPC's recommendation for increased oversight, WGL asserts that its oversight system is rigorous, with significant variances reviewed annually by the controller and the MMF allocators review.[177]

74. Regarding the ACOSS, WGL represents that it establishes reasonable and appropriate requirements for the allocation and assignment of affiliate transaction costs.[178] WGL argues that the ACOSS complies with the Commission's requirements and includes revisions sought by AOBA and other stakeholders.[179] WGL asserts that it provided additional information regarding affiliate transactions that were covered by the ACOSS.[180] WGL reiterates that the ACOSS does not commingle balance sheet and income statement amounts.[181] WGL argues that none of the criticism of WGL's affiliate arrangements justifies a finding that these arrangements are unreasonable or that Commission action is required.[182]

75. WGL responds to several AOBA criticisms of the ACOSS. Contrary to AOBA's contentions, WGL asserts that the ACOSS discusses costs for outbound services. WGL argues that AOBA raised these arguments, as well as arguments about WGL's role as a service company and WGL's arrangements with SEMCO, in *Formal Case No. 1169*, where they were rejected by the Commission.[183] WGL argues that AOBA has presented no new

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173 WGL (3J) at 3:19 – 4:7 (Quenum Rejoinder Testimony).

174 WGL Brief at 272.

175 WGL Brief at 273.

176 WGL Brief at 283.

177 WGL Brief at 273.

178 WGL Brief at 188.

179 WGL Brief at 265.

180 WGL Brief at 266.

181 WGL Brief at 270.

182 WGL Brief at 264.

183 WGL Brief at 266-267.

evidence to revise that decision.[184]

76. Regarding inbound services provided by WGL's affiliates, WGL argues that both the services and the charges for these services are reasonable. WGL argues that the Commission found in Order No. 21939 that the services provided by AltaGas encompass traditional corporate parent support activities. WGL asserts that none of these services have changed. WGL also asserts that it presented a study evaluating the necessity of inbound services and the reasonableness of the charges for those services.[185] Even though OPC challenged the Lower of Cost or Market ("LCM") study's methodology, WGL represents that this methodology has been accepted by other jurisdictions. WGL also maintains that OPC makes incorrect arguments relating to calculations of hourly rates for SEMCO personnel.[186] Responding to challenges regarding the use of the MMF methodology, WGL argues that it provided evidence showing that the high-level drivers of variances in corporate costs, identifying updates to the MMF allocation factors as the largest cost driver.[187] Additionally, WGL demonstrated that affiliate services provided to WGL were either at or lower cost than market value.[188] WGL also contends that it has control over affiliate transactions charges.[189] WGL argues that these corporate services mitigate risk for WGL, are non-duplicative, and reasonable.[190]

77. WGL also argues that its outbound services provided to affiliates and the costs for these services are reasonable. WGL contends that these costs are mostly equivalent to market value and excluded from the cost of service. WGL maintains that these transactions are coded appropriately in software that adheres to the FERC Uniform Systems of Accounts ("USOA").[191] WGL represents that it has provided documentation to support its claims.[192]

78. WGL argues that affiliate transactions benefit ratemaking and result in cost savings because they provide cost efficiencies, are based on economies of scale since they avoid overlap and optimize the utilization of employees and resources.[193]

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184 WGL Brief at 268.

185 WGL Brief at 274-275.

186 WGL Brief at 277.

187 WGL Brief at 280-281.

188 WGL Brief at 275-276.

189 WGL Brief at 279.

190 WGL Brief at 276.

191 WGL Brief at 281.

192 WGL Brief at 282-283.

193 WGL Brief at 267-268.

79. WGL also contends that it has demonstrated that: the SEMCO Service Agreement benefits ratepayers; the services provided by WGL to affiliates by are reasonable; and the services provided to WGL by affiliates and the charges for these services are reasonable.[194]

80. **AOBA Brief.** AOBA argues that WGL's growing role within the AltaGas corporate structure raises questions of transparency regarding the activities of regulated utilities and unregulated affiliates.[195] AOBA alleges that WGL now performs a "service company" role in the AltaGas organization. AOBA contends that such a role complicates WGL's accounting, obscures cost assignments, and fosters cross-subsidization. AOBA argues that WGL's 2024 CAM indicates that WGL provides services for more than thirty (30) AltaGas-affiliated entities.[196] AOBA claims that WGL's rate filings do not fully reflect the costs or revenues associated with these transactions.[197] AOBA submits that these arrangements do not benefit District ratepayers.[198] AOBA recommends that the Commission direct WGL to cease its service company role within six (6) months of the conclusion of this proceeding.[199]

81. AOBA argues that the SEMCO Service Agreement, which assigns oversight of WGL operations, customer service, and business activities to SEMCO, contradicts the Merger Agreement. AOBA also questions paying for SEMCO executive oversight when WGL has its own senior management. Instead of continuing its service company role, AOBA argues that WGL should focus on serving District ratepayers.[200] AOBA recommends that the Commission terminate the SEMCO Service Agreement immediately and disallow costs for SEMCO executive management.[201]

82. AOBA criticizes the ACOSS, since the ACOSS focuses on the costs WGL incurs for services received from affiliates, not the costs that WGL incurs to provide services to affiliates. AOBA also claims that the ACOSS does not contain a cost-benefit analysis of the affiliate transactions. To AOBA, these deficiencies prevent the Commission from fully accounting for WGL's affiliate relationships.[202]

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194 WGL Brief at 188-189, 268.

195 AOBA Brief at 21.

196 AOBA Brief at 22, 28.

197 AOBA Brief at 22.

198 AOBA Brief at 32.

199 AOBA Brief at 32.

200 AOBA Brief at 22-23, 29-31.

201 AOBA Brief at 32.

202 AOBA Brief at 24.

83. AOBA objects to the use of the MMF to assign costs, arguing that the MMF is designed to be used as a last resort by a parent company to assign costs to affiliates. AOBA argues that WGL uses the MMF as its primary means to allocate costs. Additionally, AOBA notes that WGL is not a parent company and does not have subsidiaries. AOBA also argues that WGL uses the MMF inconsistently.[203]

84. AOBA argues that it raised the same objections in *Formal Case No. 1169*. AOBA asserts that the same problems regarding lack of transparency exist in this proceeding.[204] In AOBA's view, the ACOSS does not demonstrate that costs to provide services to AltaGas affiliates are excluded and so does not remedy the problems found in previous cases. AOBA contends that the Commission should disallow costs allocated to WGL by affiliates unless WGL demonstrates through transaction-level documentation that these costs have a direct relationship to utility operations in the District, provide cost savings to customers, and are in the public interest. AOBA concludes that WGL has not met its burden to show that its affiliate transactions are cost-based and reasonable.[205]

85. AOBA argues that WGL's functions as a service company erode transparency, as does WGL's deviation from FERC accounting. AOBA also notes that WGL is delisted from SEC oversight. To restore transparency, AOBA contends that WGL should reduce the number and magnitude of affiliate transactions, rely on public debt markets, and adhere to FERC-based accounting.[206] AOBA also recommends annual audits of the CAM, with the costs borne by shareholders. AOBA contends that the Commission should reaffirm the Merger Terms that preserve local control, prevent cross-subsidization, and protect District ratepayers from affiliate risk. [207]

Decision

86. Affiliate transactions are regulated by the Commission to protect consumers and competitors from unfair competition by utilities and their affiliates. Chapter 39 of the Commission's Rules prohibits a utility from providing preferential treatment to its affiliate or customers of affiliates but does not prohibit WGL from providing services to its affiliates as AOBA contends.[208] To demonstrate that WGL is not providing preferential treatment to its affiliates, WGL is required to file a CAM annually outlining how it assigns, allocates, and

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203 AOBA Brief at 25-26.

204 AOBA Brief at 26.

205 AOBA Brief at 27.

206 AOBA Brief at 28-29.

207 AOBA Brief at 56.

208 15 DCMR § 3901.5 (2011).

bills shared services.[209] The CAM explains the Company's cost allocation process and procedures, while noting that the Company uses a fully distributed cost process, consistent with regulatory and industry best practice, for both direct and indirect expenses, as well as overheads.

87. In Order No. 21939, the Commission directed WGL to file an ACOSS to support additional transparency regarding the Company's affiliate transactions.[210] After discussions with interested parties to *Formal Case No. 1169*, WGL filed a Joint Report outlining agreement on the contents of an ACOSS.[211] The Joint Report indicated that the following items should be in an ACOSS:

1. Inbound and outbound charges shown separately.
2. Payroll Overheads and other allocations will have the original and target FERC Accounts and will also have the Washington Gas portion shown separately.
3. Detail Support for the Benefit Overhead rate for each of the benefit allocations.
4. Detail Support for each of the quarterly MMF factors for Washington Gas and all the affiliates. (Average Invested Capital, Adjusted Net Revenue, Direct and assigned Labor).
5. PeopleSoft System data that presents the amounts billed to each affiliate and amounts collected.
6. PeopleSoft System data for the "Pool Total" amounts for Time & Labor Charged to Affiliates.
7. PeopleSoft System data showing the calculation for Building Service and Phone allocations.[212]

88. The Commission finds that the Joint Report provides a comprehensive list of information for inclusion in an ACOSS, providing sufficient detail to track all costs included in the Company's cost of service in this proceeding.[213] The Commission finds that the ACOSS filed by WGL in this proceeding includes comprehensive information on the issues agreed upon by the parties in the Joint Report, including the impact of affiliate transactions on WGL books by FERC account and subaccounts and the pool and allocation

[209] 15 DCMR § 3904.1 (2011). Adherence to the CAM is also required by Term No. 24. *See* Order No. 19396, Appendix A, Term No. 24.

[210] Order No. 21939, ¶ 465.

[211] Joint Report. The Commission notes that the Joint Report was filed by WGL on behalf of WGL, AOBA, DCG, GSA, and the D.C. Water and Sewer Authority.

[212] Joint Report, Attachment A.

[213] Commissioner Beverly criticizes the ACOSS because it does not include individual inbound and outbound charges. Dissent at 3. Inbound charges are in the cost of service and are included in the ACOSS. However, outbound charges do not impact the cost of service. *See* Exhibit WG (J)-5.

factors used in the computation for each allocation.[214] The Commission finds that this supplemental detail in the ACOSS provides additional transparency regarding WGL's affiliate transactions. Contrary to AOBA's contention, the Commission has reviewed the ACOSS in detail and finds that it provides data for costs being sought for recovery by the Company in this proceeding.[215] The Commission finds that the information provided by WGL in the ACOSS is sufficient to evaluate WGL's affiliate transactions and hence accepts the ACOSS as filed.

89. AOBA criticizes WGL's use of the MMF to assign costs, arguing that the MMF is designed to be used as a last resort by a parent company to assign costs to affiliates and has been applied inconsistently in this case. The Commission observes that the MMF is not designed as a last resort by a parent company to assign costs to affiliates. Rather, it is a deliberate and structured method to allocate shared costs across affiliated entities and based on the record evidence, the Commission is convinced that the MMF is a common and well-accepted method in the industry.[216] Furthermore, the Company's use of the MMF, a component of its CAM, to allocate costs has been consistently reviewed and approved by the Commission in prior rate cases. AOBA has not introduced new arguments or altered circumstances since our decision in the last rate case regarding the MMF, nor has the Company modified its approach in applying the MMF methodology. The Commission also notes that in transactions with AltaGas and its affiliates, WGL continues to comply with Term No. 24, which requires the Company to comply with its CAM (including the use of the MMF methodology). Therefore, the Commission finds the use of the MMF methodology reasonable and approves its use in this proceeding.

90. The Commission accepts WGL's affiliate transactions and costs, given that the Company has continued using the same accounting processes as it has in previous rate cases and has supplemented this case with an ACOSS, which provides additional detail to substantiate the affiliate transactions. Further, the Commission requires a biennial independent limited engagement review of WGL's compliance with Commission standards for the CAM, and Chapter 39 of the Commission's regulations, as well as confidential schedules reflecting the amounts WGL allocated or assigned to its affiliates for the applicable 12 month period. The most recent limited engagement review indicated that WGL complied with the Commission's policies.[217] The Commission determines that WGL's affiliate transactions data and costs in *Formal Case No. 1180* are accurate and reasonable. This matter was extensively discussed during the *Formal Case No. 1180* Evidentiary Hearing but

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214 Exhibit WG (J)-3.

215 WGL (3D) at 27:7-9 (Gibson Rebuttal Testimony).

216 *See* WGL (2J) at 16:6-7 (Quenum Rebuttal Testimony); https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2023/cost-allocations.pdf at 7.

217 The most recent review was completed by SB & Company LLC in a filing made on October 14, 2025 for the 12 months ended December 31, 2024. *See WGIA2025-01*, Washington Gas – Limited Engagement Report, filed October 14, 2025.

AOBA could not identify particular problematic transactions.[218] After thorough review of the ACOSS and all supporting documentation, the Commission is not persuaded that AOBA presented a serious doubt that WGL's affiliate transactions are questionable, unsupported, or deficient..

91. The Commission determines that AOBA has not presented a new argument regarding WGL's arrangements with SEMCO. Specifically, AOBA contends that oversight of WGL's operations by a SEMCO executive contradicts the commitment to local management outlined in the Merger Settlement. AOBA further asserts that any costs recoverable in the revenue requirement for SEMCO oversight should be offset by a corresponding reduction in WGL Senior Management costs to avoid impacting District ratepayers. The Commission finds that during the Test Year, WGL incurred approximately $6,900 in salaries and benefits for utility management and strategy services provided by a retired SEMCO Strategic Advisor and President. The Company has submitted record evidence in this proceeding demonstrating that the costs for these services were at the lower end of market value compared to what WGL would have paid for similar services from external providers. Moreover, no other costs were attributed to WGL by SEMCO officers during the Test Year. The Commission finds the costs referenced by AOBA have been reasonably reflected by the Company in its cost of service in this proceeding. The Commission also notes that the current Service Agreements between WGL and its affiliates, filed in WGL's CAM, are appropriate because they contain standard procedures that are structured to provide benefits to District ratepayers for services at a lower cost compared to market value. Therefore, the Commission rejects AOBA's request to immediately terminate the SEMCO Service Agreement and disallow costs for SEMCO executive management.

92. AOBA has not raised a serious doubt about the accuracy of WGL's affiliate transactions or the CAM used to allocate costs to affiliates. Nor has AOBA quantified the level of subsidization it claims. The Commission has examined the claims of subsidization that AOBA argues exists and could not find definitive evidence of subsidization. The Commission determines that AOBA, asserting that the issues are not clear, does not provide a basis for concluding that a subsidy exists. Moreover, during the evidentiary hearing, AOBA did not articulate how the information WGL provided regarding its affiliate transactions was deficient.[219]

93. The Commission rejects AOBA's recommendations regarding affiliate transactions because they are not negatively impacting the transparency of the Company's rate-making cost determinations in this proceeding. AOBA acknowledges that certain corporate synergies may lead to reduced operational and corporate costs.[220] The Commission determines that this admission is equivalent to recognizing that the theory of economies of scale and scope applies to affiliate transaction matters. The Commission also does not agree

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218 *See* Tr. at 268-314.

219 Tr. at 295-309.

220 AOBA (A) at 39:19-20 (T. Oliver Direct Testimony).

with AOBA's recommendation that the Company's existing service agreements are increasing the costs of services for ratepayers. Instead, the Commission finds that these service agreements enhance economies of scale and scope for WGL, which serves to reduce the costs of these services for ratepayers.

VI. RATE OF RETURN

94. The Commission must determine a reasonable ROR 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*.[221] 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* ("*Bluefield*")[222] and *Federal Power Commission v. Hope Natural Gas Co.* ("*Hope*"). In *Bluefield* and *Hope*, the Court held that a public utility is entitled to earn a fair and reasonable rate of return on its capital investments comparable to that of investments of similar corresponding risks;[223] which is a return sufficient to assure confidence in the financial integrity of the public utility such that it will be able to maintain its credit and attract investment capital.[224]

95. The Commission determines the Company's authorized overall ROR[225] 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 ROR. 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

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221 *Washington Gas Light Co. v. Pub. Serv. Comm'n*, 450 A.2d 1187, 1209-1215 (D.C. 1982) (review of *Formal Case No. 686*). *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. Pub. Serv. Comm'n*, 455 A.2d 391, 397-398 (D.C. 1982) (review of *Formal Case No. 685*).

222 *Bluefield Waterworks & Improvement Co. v. Pub. Serv. Comm'n of the State of W. Va.*, 262 U.S. 679 (1923) ("*Bluefield")*.

223 *Bluefield*, 262 U.S. at 692-693.

224 *Hope*, 320 U.S. at 603.

225 "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 (*citing* Garfield and Lovejoy, Public Utility Economics, at 116, (1964)).

capital. The sum of these weighted costs then becomes the utility's overall ROR, which is multiplied by the company's rate base to determine the company's required return.[226] With these standards forming the backdrop for our consideration of the cost of capital, we turn to its various components and the record of this proceeding.

A. PROPOSED OVERALL RATE OF RETURN AND COST OF CAPITAL

96. **WGL.** WGL argues that a reasonable overall ROR is 7.874%[227] and describes the cost of capital components as follows:[228]

WGL Proposed Cost of Capital

Debt	Capitalization ($000)	Ratio	Cost	Return
Long-Term Debt	1,915,107	42.881%	4.840%	2.075%
Short-Term Debt	206,956	4.634%	6.202%	0.287%
Total Debt	2,122,063	47.514%		2.363%
Common Equity	2,344,085	52.486%	10.500%	5.511%
TOTAL	$4,466,148	100.000%		7.874%

WGL argues that its ROR is reasonable and supported by the record.[229]

97. **OPC.** OPC proposes a 6.58% overall ROR.[230] For ROE, OPC recommends no more than 8.22%, which is based on the proxy group and current market trends.[231] OPC criticizes WGL's proposed cost of capital as unreasonable and recommends a rate of 6.58% for the overall cost of capital.[232] OPC argues that WGL's proposed capital structure includes more common equity than peer utility groups and is not reflective of the capital structure at the holding company level. OPC also contends that if the Commission adopts WGL's proposed capital structure, the ROE should be adjusted downward along with the overall ROR to account for lower financial risk.[233]

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226 *See generally*, *Washington Gas Light Co. v. Pub. Serv. Comm'n*, 450 A.2d 1187, 1209, n.30 (D.C. 1982).

227 WGL (B) at 2:9 (Burrows Direct Testimony).

228 WGL (B) at 2:11-18; Exhibit WG (B)-1 (Burrows Direct Testimony).

229 WGL Brief at 102-103.

230 OPC (D) at 8:9-10 (Rothschild Direct Testimony).

231 OPC (D) at 8:3 (Rothschild Direct Testimony).

232 OPC (D) at 8:1-10; Exhibit OPC (D)-3 (Rothschild Direct Testimony).

233 OPC (D) at 8:11-17 (Rothschild Direct Testimony).

98. **AOBA.** AOBA proposes 7.24% for the overall cost of capital and ROR[234] as compared to WGL's requested 7.874% overall cost of capital. AOBA's proposed capital structure and ROE recommendations produce a $6.9 million reduced adjustment to WGL's requested revenue increase, which results in $34.9 million proposed revenue requirement, without any consideration for other revenue requirement issues.[235] AOBA contends that the current market conditions could justify a larger adjustment but proposes a gradual adjustment to the ROE for greater continuity in regulatory determinations.[236]

B. CAPITAL STRUCTURE

99. 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 three components: (1) long-term debt; (2) short-term debt; and (3) common equity. Each component earns a different ROR, with the highest return being for common equity.

100. **WGL.** WGL proposes using the actual capital structure from the Test Year, as approved by the Commission in prior rate cases.[237] WGL recommends a capital structure of 52.486% equity, 4.634% short-term debt, and 42.881% long-term debt.[238] WGL asserts that its proposed capital structure is based on its estimation of actual costs for financing the provision of safe and reliable gas to its customers in the District.[239] In calculating the capital structure, WGL Witness Burrows incorporates WGL Witness D'Ascendis' recommended return on equity.[240] In addition, WGL Witness Burrows used the same peer group that WGL Witness D'Ascendis used in WGL's ROE analysis.[241] WGL asserts that this capital structure: has been proposed independently of its parent company, is consistent with its commitment to maintain a common equity ratio between 48% and 55%, and is consistent with Term Nos. 32, 35, 36, and 37.[242]

101. **OPC.** OPC proposes using a capital structure of 49.76% equity, 45.61% long-

234 AOBA (A) at 36:1-3; Exhibit AOBA (A)-3 (T. Oliver Direct Testimony).

235 AOBA (A) at 7:1-4 (T. Oliver Direct Testimony).

236 AOBA (A) at 36:15-18 (T. Oliver Direct Testimony).

237 WGL (B) at 13:25-14:3 (Burrows Direct Testimony).

238 Exhibit WG (B)-1 (Burrows Direct Testimony).

239 WGL (B) at 15:20-22(Burrows Direct Testimony).

240 WGL (B) at 20:8-10 (Burrows Direct Testimony).

241 WGL (B) at 16:22-24 (Burrows Direct Testimony).

242 WGL (B) at 5:22 - 6:3 (Burrows Direct Testimony).

term debt, and 4.63% short-term debt.[243] OPC's proposed capital structure is based on the average common equity ratios of the companies in the Rothschild Gas Proxy Group (consisting of Atmos Energy Corporation, New Jersey Resource Corporation, NiSource, Inc., Northwest Natural Holding Company, ONE Gas, Inc., and Spire, Inc.) with a mean common equity ratio of 45.9% and a median common equity ratio of 46.2%.[244] OPC states that a capital structure with 49.76% common equity is on the high side of reasonableness.[245] OPC argues that WGL has not provided evidence to support the need for a different capital structure and that the capital structure he recommends aligns with the proxy group and is just and reasonable in considering the needs of the utility, investors, and ratepayers.[246]

102. OPC argues that WGL's capital structure recommendation is inappropriate because it includes the capital structure ratios of regulated subsidiaries of the peer group holding companies in the peer comparison.[247] OPC believes this is an issue because the capital structure ratio of the holding company reflects the actual percentages of capital chosen by the companies to raise capital, while capital structure ratios at the operating level are subject to manipulation.[248] OPC also notes that WGL does not show that increasing the common equity ratio results in any net savings to ratepayers. OPC is skeptical that WGL will experience a bond downgrade as asserted by WGL Witness Testimony.[249] As equity costs more than debt, a higher common equity ratio is not worth the extra cost, according to OPC.[250]

103. **AOBA.** AOBA proposes that WGL's capital structure should be 50% common equity and 50% total debt with no specification on the ratio of short-term to long-term debt.[251] AOBA argues that WGL does not offer a quantitative basis for assessing the reasonableness of the costs that result from the Company's proposed capital structure.[252] In addition, AOBA contends that the WGL does not offer any sensitivity analysis to demonstrate how financing costs or access to financial markets would change with revisions

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243 OPC (D) at 92:6-8 (Rothschild Direct Testimony).

244 OPC (D) at 92:8-11; Exhibit OPC (D)-7 (Rothschild Direct Testimony).

245 OPC (D) at 92:8-11 (Rothschild Direct Testimony).

246 OPC (D) at 92:11-14 (Rothschild Direct Testimony).

247 OPC(D) at 90:5-11 (Rothschild Direct Testimony).

248 OPC (D) at 90:5-11 (Rothschild Direct Testimony).

249 OPC (D) at 90:14-18 (Rothschild Direct Testimony).

250 OPC (D) at 90:12-18 (Rothschild Direct Testimony).

251 AOBA (A) at 23:9-10; AOBA (A)-3 (T. Oliver Direct Testimony).

252 AOBA (A) at 15:3-4 (T. Oliver Direct Testimony).

to planning assumptions or market conditions.[253] AOBA states that WGL and its parent AltaGas have undergone substantial changes in their financial profiles and WGL's provision of affiliate services for AltaGas subsidiaries indicates that the independent nature of WGL's financial profile has eroded.[254] Therefore, AOBA urges the Commission to ensure that WGL's capital structure is not leveraged by AltaGas and does not result in increased costs to District ratepayers. AOBA proposes that WGL should be required to balance two important considerations: a capital structure that exceeds the equity percentage that is employed by Alta Gas and additional debt that WGL will need to issue to fully fund its plans for significant capital spending in the jurisdictions where it provides service.[255] AOBA asserts that these considerations would provide information on the reasonableness of WGL's capital requirements and assist with determining if WGL is taking steps to minimize the costs imposed on District ratepayers.[256]

104. AOBA asserts that the capital structure in Exhibit WG (B)-2 does not actually reflect the Company's actual capital structure for any calendar quarter but rather it uses an annual average amount of short-term debt ("STD") instead of the actual amount of STD in each quarter.[257] AOBA states that large fluctuations in actual average daily STD balances can be observed and these fluctuations decrease the weight the Commission should place on the Company's average STD presentation.[258] Additionally, AOBA asserts that these fluctuations demonstrate the Company utilizes an operational capital structure that is noticeably different from the capital structure utilized for ratemaking purposes.[259]

105. AOBA also has concerns with the WGL's practice of using private placement debt issuances because they are opaque, not market-based, and negatively impact District ratepayers.[260] AOBA raises the concern that private placements impede the Commission's ability to enforce the Merger Terms that restrict increases in the cost of debt.[261] AOBA states that Exhibit AOBA (A)-2 demonstrates that AltaGas' capital structure leverages WGL's capital structure to improve AltaGas' overall debt ratio.[262] AOBA suggests that WGL should be required to issue long-term debt ("LTD") in the public debt markets based

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253 AOBA (A) at 15:5-8 (T. Oliver Direct Testimony).

254 AOBA (A) at 15:13-20 (T. Oliver Direct Testimony).

255 AOBA (A) at 15:20-16:6 (T. Oliver Direct Testimony).

256 AOBA (A) at 16:11-15 (T. Oliver Direct Testimony).

257 AOBA (A) at 19:13-20:7 (T. Oliver Direct Testimony).

258 AOBA (A) at 20:2-4 (T. Oliver Direct Testimony).

259 AOBA (A) at 20:4-6 (T. Oliver Direct Testimony).

260 AOBA (A) at 20:11-17 (T. Oliver Direct Testimony).

261 AOBA (A) at 21:4-6 (T. Oliver Direct Testimony).

262 AOBA (A) at 23:16-18 (T. Oliver Direct Testimony).

on its credit rating on a stand-alone basis.[263]

106. **Sierra Club.** Sierra Club argues that WGL's requested change to its capital structure should be rejected because the Company failed to consider key aspects that minimize WGL's business risk.[264] Sierra Club argues that through this failure, WGL has not justified the requested change to capital structure.[265] Sierra Club argues that the combination of the proposed capital structure and proposed ROE results in an increase to the revenue requirement by $3.76 million.[266]

107. **WGL Rebuttal.** WGL criticizes the intervenors' use of a hypothetical capital structure rather than the actual capital structure supported by WGL.[267] WGL argues that the hypothetical capital structures proposed by OPC and AOBA are not indicative of the Company's current credit metrics, the cost of debt, or actual operating experience.[268] WGL argues that its proposed equity capital structure is well within the range of its peer group, and the peer group's average common equity ratio is 53.23% while the median common equity ratio is 53.38%.[269] WGL argues that using an actual capital structure, rather than a hypothetical one, allows the Company to more accurately reflect its true cost of capital in its rates, which can help to ensure that the rates are fair and reasonable for both the Company and its customers.[270] WGL criticized AOBA's approach to capital structure, arguing that AOBA's stated criteria for capital structure are shortsighted and do not address the complexities of WGL's financing strategy because the criteria exclusively seek to minimize financing costs.[271] WGL criticized OPC's approach to capital structure, arguing that no evidence supports the assertion that a hypothetical lower equity ratio demonstrates a better outcome for customers compared to a potential downgrade of the Company's credit rating, which would result in increased cost.[272]

108. **OPC Surrebuttal.** OPC re-states its concern that WGL's capital structure may be subject to manipulation. OPC argues that the Company has an incentive to maximize its common equity ratio because equity financing results in higher allowed earnings under a

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263 AOBA (A) at 21:9-13 (T. Oliver Direct Testimony).

264 Sierra Club (A) at 41:13-42:5 (Rábago Direct Testimony).

265 Sierra Club (A) at 45:10-14 (Rábago Direct Testimony).

266 Sierra Club (A) at 41:7-11 (Rábago Direct Testimony).

267 WGL (2B) 4:9-16 (Burrows Rebuttal Testimony).

268 WGL (2B) 2:17-19 (Burrows Rebuttal Testimony).

269 WGL (2B) 5:10-16 (Burrows Rebuttal Testimony).

270 WGL (2B) 7:4-13 (Burrows Rebuttal Testimony).

271 WGL (2B) 9:17-22 (Burrows Rebuttal Testimony).

272 WGL (2B) 16:2-5 (Burrows Rebuttal Testimony).

rate-regulated model, which creates an inherent incentive for the Company to finance operations in a way that inflates its equity ratio.[273] OPC also argues that WGL has not justified its counterintuitive assertion that the Company requires a higher equity ratio than its parent holding company that owns both regulated and unregulated business.[274]

109. **AOBA Surrebuttal.** AOBA agrees with OPC's position that WGL's requested capital structure exceeds the reported equity ratio of its parent company, AltaGas Ltd., and argues that WGL has not provided compelling justification for adopting this capital structure.[275] AOBA argues that WGL's proposed capital structure is equity-heavy for ratemaking purposes, which imposes a greater cost on District ratepayers, and prefers a 50/50 capital structure to provide adequate financial flexibility without overburdening customers.[276]

Decision

110. A balanced utility capital structure (consisting of an optimized ratio of debt and equity) is essential to maintaining a strong investment grade credit rating in both favorable and unfavorable capital market conditions. As of June 30, 2025, the credit rating of the Company's senior unsecured LTD is A- by S&P, and A by Fitch.[277] As of June 30, 2025, both S&P and Fitch have assigned a "Negative" outlook to WGL.[278] These investment-grade credit ratings were still in effect at the close of the record in this case. The Commission recognizes that WGL's investment-grade credit rating is affected by its parent company's lower rating. However, robust ring-fencing protections mandated by the Merger Terms, which help protect WGL (the utility) from the credit implications of a lower-rated corporate parent (AltaGas), also support maintaining WGL's investment-grade credit ratings.

111. 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 allowed ROR. However, the Commission also strives to balance this goal by ensuring District ratepayers are charged reasonable rates of return, using the appropriate capital structure. In assessing WGL's proposed capital structure, the Commission starts by examining WGL's actual capital structure. The Commission next

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273 OPC (2D) 44:6-14 (Rothschild Surrebuttal Testimony).

274 OPC (2D) 45:1-5 (Rothschild Surrebuttal Testimony).

275 AOBA (2A) 8:10-14 (T. Oliver Surrebuttal Testimony).

276 AOBA (2A) 8:12-18 (T. Oliver Surrebuttal Testimony).

277 Washington Gas Light Company Quarterly Financial Report For the Quarter Ended June 30, 2025, https://www.washingtongas.com/about/corporate-governance#financial-report.

278 AltaGas' S&P credit rating remains at BBB- (minus) and its Fitch rating is BBB (*See* AltaGas 2024 Annual Information Form for the year ended December 31, 2024, published on March 6, 2025, https://www.altagas.ca/invest/financials). On November 5, 2025, S&P issued a revised outlook for WGL, changing its opinion from negative to stable.

reviews the same risk-comparable peer groups presented by the parties to determine both the common equity ratio and the cost of common equity, ensuring internal consistency across our decision-making. The Commission also considers the capital structure and cost of equity for utilities with reasonably comparable investment-grade credit ratings.

112. In Order No. 18712, the Commission found that WGL's actual capital structure continued to be a significant outlier when compared to the capital structure of its peer group and warranted a reassessment of the utility's actual capital structure for rate-setting purposes. For that reason, the Commission was compelled to depart from our policy of using the actual capital structure and consider a hypothetical capital structure.[279] The Commission found that a just and reasonable common equity ratio for WGL was 55.7% after analysis of the facts.

113. The Commission also directed WGL to provide information demonstrating how its proposed capital structure and proposed ROE compare to those of its peer group of companies in future rate cases. WGL was to provide, at a minimum: the capital structure components, the ROEs, the credit ratings, and other similar credit metrics of the peer group. The Commission found that this information would assist the Commission and parties in reviewing WGL's cost of capital proposal.[280]

114. Additionally, in Order No. 19396, the Commission approved WGL's commitment in Merger Term No. 32 to maintain a separate capital structure from AltaGas and to maintain "a 12-month rolling average common equity ratio of not less than 48 percent and no more than 55 percent, provided that this range is consistent with future orders that address capital structure for Washington Gas."[281] The *Formal Case No. 1162* Settlement Agreement eliminated the STD and increased the LTD component from 43.21% to 47.90%, while maintaining the LTD cost of 4.66%. The *Formal Case No. 1162* Settlement Agreement also used a targeted equity ratio of 52.10%, with an overall 7.05% ROR.[282]

115. Beginning with WGL's current actual capital structure, the Commission notes that at year-end 2024, WGL had an equity ratio of 53.2% [283] The Commission notes that WGL's current equity ratio and proposed equity ratio are higher than the expected equity range of 51% to 52% between 2023 and 2026, stated in *Formal Case No. 1174*.[284] The Commission acknowledges that WGL's proposed equity ratio is lower than the actual capital

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[279] Order No. 18712, ¶ 42.

[280] Order No. 18712, ¶ 44.

[281] Order No. 19396, Appendix A, Term No. 32.

[282] Order No. 20705, ¶ 30.

[283] *See Formal Case No. 1142*, WGL - Commitment Nos. 32 and 35 – Quarterly Report, filed March 20, 2025.

[284] *Data Request No. 1174,* WGL's Response to Commission Staff Data Request No. 1-5 at 9, filed November 10, 2022.

structure at year-end 2024. WGL's proposed capital structure is also higher than the equity ratio of 52% approved in *Formal Case No. 1169* and the equity ratio of 52.10% approved in the *Formal Case No. 1162* Settlement Agreement. As noted earlier, the Commission seeks to approve a capital structure that will help the Company maintain its current investment grade credit ratings and is generally consistent with the Company's financing plans in *Formal Case No. 1174*.

116. In *Formal Case No. 1169*, the Commission modified the proxy group to include Atmos Energy Corporation, New Jersey Resources Corporation, Northwest Natural Holding Company, ONE Gas, Inc., and Spire Inc. (Alabama and Missouri).[285] We determined that the most appropriate peer group for WGL should primarily consist of firms focused on regulated gas distribution operations with reasonably comparable credit ratings.[286] The Commission also held that this appropriate peer group excludes the Non-Price Regulated Proxy Group ("NPRPG") from the analysis of the ROE.[287] The Commission notes that no party objected to WGL's six (6) initial companies in the Gas Proxy Group in the ROE analysis, and no objections were raised to WGL's inclusion of Southwest Gas Holding. In furtherance of the *Formal Case No. 1169* determination and principles stated to determine the appropriate peer group, the Commission accepts WGL's proposed Gas Proxy Group, after having considered the applicable current common equity ratios for the following companies:

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285 Order No. 21939, ¶ 58.

286 Order No. 21939, ¶ 91.

287 Order No. 21939, ¶ 91.

WGL Peer Group Average Equity Ratios[288]	
Gas Distribution Company	**Equity Ratio %**
Atmos Energy Corporation	60.7%
New Jersey Resources Corporation	43.3%
NiSource, Inc	46.0%
Northwest Natural Holding Company	45.2%
ONE Gas, Inc.	56.5%
Southwest Gas Holding	45.9%
Spire Alabama Inc.	55.31%
Spire Missouri Inc.	56.91%
Average	**51.2%**
Median	**50.7%**

117. There is a twelve (12) basis point difference between the Gas Proxy Group average equity ratio of 51.2% and WGL's proposed equity ratio of 52.49%. Additionally, WGL is requesting an increase to its capital ratio approved in its previous rate case. However, the Commission finds that this difference from the Gas Proxy Group and slight increase in capital structure equity ratio is reasonable because it is consistent with the 48%-55% common equity ratio required by Term No. 32. The Commission also notes that this slight increase in the common equity ratio matches national trends in the average authorized equity ratio for gas utilities for the period of 2023 to 2025, which is 52.77%.[289]

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[288] ValueLine Data compiled October 23, 2025, https://research-valueline-com.dclibrary.idm.oclc.org/secure/research. S&P Global Regulatory Research Associates Data for Spire Inc (Spire Alabama and Spire Missouri).

[289] Regulatory Research Assocs., S&P Capital IQ, *Major Energy Rate Case Decisions in the U.S.: January–June 2024* (2024), available in S&P Capital IQ database.

Gas Authorized Equity Ratios – All Cases and Fully Litigated Rate Cases[290]

Year	All Cases		Fully Litigated Cases	
	Average Equity Ratio	Number of Cases	Average Equity Ratio	Number of Cases
2023	52.19	38	53.37	19
2024	51.97	41	50.91	17
2025	51.40	27	52.07	7

118. The Commission determines that WGL's proposed 52.49% common equity ratio is within the range of actual capital structures in the peer group and is within Term No. 32 range. Therefore, the Commission finds that WGL's proposed 52.49% common equity ratio is appropriate and reasonable and approves it.

C. RETURN ON EQUITY

119. **WGL.** WGL proposes an ROE of 10.50%.[291] To support this ROE, Witness D'Ascendis developed a proposed ROE that is derived from the results of several cost of equity models applied to two proxy groups: the Utility Proxy Group, consisting of six (6) natural gas distribution companies, and the NPRPG, consisting of fifty-two (52) non-price regulated companies.[292] The six natural gas companies selected were Atmos Energy Corporation, New Jersey Resources Corporation, NiSource Inc., Northwest Natural Gas Company, ONE Gas, Inc., and Spire Inc.[293] WGL applied the Discounted Cash Flow ("DCF") model, the Risk Premium Model ("RPM"), and the Capital Asset Pricing Model ("CAPM") to both groups.[294] WGL argues that its reliance on multiple methods to determine ROE is in line with the behavior of reasonable investors and provides insight to the Company on investors' views on risk and return.[295] WGL also notes that using multiple methods for estimating the cost of equity is in line with Commission precedent.[296]

120. In support of its proposed ROE, WGL argues that it has faced a severe earning deficiency due to a lack of timely recognition of costs in rates and argues that the

290 Data compiled October 23, 2024. Source: Regulatory Research Associates, a group within S&P Global Commodity Insights.

291 WGL (C) at 3:2-4 (D'Ascendis Direct Testimony).

292 WGL (C) at 13:12-18, 40:10-12 (D'Ascendis Direct Testimony).

293 WGL (C) at 13:12-18 (D'Ascendis Direct Testimony).

294 WGL(C) at 4:3-24 (D'Ascendis Direct Testimony).

295 WGL (C) at 15:22-25 (D'Ascendis Direct Testimony).

296 WGL (C) at 16:12-14 (D'Ascendis Direct Testimony).

Commission's reliance on historical ratemaking does not recognize the mismatch between cost incurrence and the way customers are charged for service in rates.[297] WGL argues that despite the increase in rates granted in *Formal Case No. 1169*, the Company has not achieved its authorized ROE in 2024, and the historical trends in per book and ratemaking ROEs have trended downward.[298] WGL argues that forward-looking rate adjustments are necessary to provide WGL the opportunity to earn its authorized ROE.[299]

121. **OPC.** OPC proposes an ROE of 8.22% and recommends an ROE range of 6.73% to 8.22% based on Witness Rothschild's proposed capital structure.[300] OPC argues that if the Commission uses WGL's requested capital structure, OPC recommends reducing the ROE to 8.11% to account for the lower financial risk of a capital structure with more equity.[301] OPC further argues that if the WNA mechanism is approved, the recommended ROE of 8.22% and overall ROR should be adjusted downward.[302]

122. OPC argues that WGL's authorized ROE should be based on investors' expectations rather than the opinions of a small range of financial analysts or institutions.[303] OPC compares WGL's proposed ROE with the ROE expectations published by major financial institutions on American companies with the highest market value. Using this comparison, OPC asserts that ROE expectations for these large companies, ranging from 6% to 8.5%, would be expected to be higher than those for utility stocks.[304] OPC also argues that the cost of equity that WGL has to pay investors is based on capital markets and capital markets are unpredictable, making it impossible to rely on forecasts. OPC suggests that current market prices provide the best information on investors' expectations regarding future capital markets.[305] Therefore, OPC concludes that WGL's proposed ROE of 10.50% is unreasonable because it is significantly higher than financial professionals expect to earn on investments in highly competitive markets.[306]

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297 WGL (D) at 8:8-19 (Tuoriniemi Direct Testimony). WGL notes that Witness Gibson adopts Witness Tuoriniemi's testimony, as Witness Tuoriniemi retired from WGL during this proceeding. *See* WGL (2A) at 4:9-12 (Steffes Rebuttal Testimony).

298 WGL (D) at 9:19-10:13 (Tuoriniemi Direct Testimony).

299 WGL (D) at 18:11-14 (Tuoriniemi Direct Testimony).

300 OPC (D) at 9:3-12 (Rothschild Direct Testimony).

301 OPC (D) at 8:11-14 (Rothschild Direct Testimony).

302 OPC (D) at 8:15-17 (Rothschild Direct Testimony).

303 OPC (D) at 9:16 – 10:1 (Rothschild Direct Testimony).

304 OPC (D) at 10:1 – 11:1 (Rothschild Direct Testimony).

305 OPC (D) at 54:4-6 (Rothschild Direct Testimony).

306 OPC (D) at 11:1-4 (Rothschild Direct Testimony).

123. OPC argues that WGL's DCF model is flawed because Witness D'Ascendis uses analysts' five-year earnings per share growth rate forecasts as the sole basis for the growth rate component of the analysis.[307] OPC argues that the overly simplistic nature of WGL's DCF model, along with the failure to show that short-term earnings per share growth rates are consistent with WGL's practices and opportunities, leads to an upward bias in WGL's DCF model results.[308] OPC contends that its DCF model results are more reliable than WGL's because OPC uses sustainable growth rates that reflect the Company's true capacity to grow.[309]

124. OPC also found issues with WGL's CAPM Analysis, finding that the result was unreasonably high and the market risk premium component is higher than current capital market data and not justified by WGL's sources.[310] OPC argues that WGL does not use an appropriate risk-free rate in the CAPM because it is based on economists' projections rather than investors' expectations indicated by market yields.[311] OPC also argues that the use of five (5)-year historical beta coefficients was improper as those betas are still influenced by the Covid-19 pandemic when utility betas spiked.[312] OPC states that the Company's equity risk premium component is inflated because the proposed rate is unsupported by the Company's sources and other prominent sources.[313]

125. OPC found issues with WGL's RPM analysis because it contradicts the investor return expectations indicated in OPC's DCF and CAPM, leading to an unreliable and significantly overstated cost of equity for WGL.[314] OPC also refutes WGL's business risk claims, stating that there is evidence indicating that investors do not demand a higher expected ROE to invest in small companies and WGL's business risk claims should not be used as justification for any upward ROE adjustments.[315] OPC argues that WGL's use of a NPRPG should not be considered because the selected companies do not have comparable risk with WGL.[316]

126. OPC states that its proposed ROE of 8.22% is sufficient for WGL to raise

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[307] OPC (D) at 26:5-7 (Rothschild Direct Testimony).

[308] OPC (D) at 27:3-9 (Rothschild Direct Testimony).

[309] OPC (D) at 30:1-5 (Rothschild Direct Testimony).

[310] OPC (D) at 30:16-31:4 (Rothschild Direct Testimony).

[311] OPC (D) at 33:12-14 (Rothschild Direct Testimony).

[312] OPC (D) at 34:17-35:3 (Rothschild Direct Testimony).

[313] OPC (D) at 36:3-9 (Rothschild Direct Testimony).

[314] OPC (D) at 39:14 - 40:4 (Rothschild Direct Testimony).

[315] OPC (D) at 40:16-42:7 (Rothschild Direct Testimony).

[316] OPC (D) at 43:6-13 (Rothschild Direct Testimony).

capital based on how capital market factors influence the cost of equity.[317] Recent changes in inflation and interest rate expectations will likely put downward pressure on WGL's cost of equity because gas utility stocks have outperformed the overall market in the past year.[318] More specifically, OPC asserts: (1) the relative risk of cost of equity for gas utility stocks remains below that of the overall market;[319] (2) the rise in price-to-earnings ratios for the overall market demonstrates that the cost of equity has been declining and the utility sector has higher than average price-to-earnings ratios;[320] and (3) stock price volatility expectations have decreased which indicates a lower cost of equity.[321]

127. **AOBA.** Witness T. Oliver proposes an ROE of 9.50%, arguing that the currently authorized ROE is above market return expectations and the Company's failure to meaningfully reduce hazardous leaks does not justify an increase in equity return for WGL's only shareholder, AltaGas.[322] AOBA performed its own DCF and CAPM analysis using the same proxy group as WGL to determine a reasonable ROE.[323] The average of the DCF results is 9.81%, the average of the CAPM results is 9.22%, and the average of the two results combined is 9.52%.[324] By rounding the average of the CAPM and DCF analysis results, AOBA recommends an ROE of 9.50%.[325]

128. AOBA notes that WGL's proposed ROE eschews the principles of gradualism and is eighty-five (85) basis points above the most recently authorized ROE in base rate cases in both Virginia and the District.[326] AOBA also has concerns regarding the proxy group WGL uses to support the Company's ROE recommendations. AOBA notes that the proxy group contains utility holding companies with investment portfolios that include significant non-utility and non-price-regulated business activities.[327] This proxy group skews the ROE analysis by incorporating risks greater than that of a stand-alone gas

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317 OPC (D) at 46:16 - 47:2 (Rothschild Direct Testimony).

318 OPC (D) at 48:1-4 (Rothschild Direct Testimony).

319 OPC(D) at 48:5-7 (Rothschild Direct Testimony).

320 OPC (D) at 49:1-14 (Rothschild Direct Testimony).

321 OPC (D) at 50:1-5 (Rothschild Direct Testimony).

322 AOBA (A) at 24:6-21; Exhibit AOBA (A)-3 (T. Oliver Direct Testimony).

323 AOBA (A) at 33:5-11 (T. Oliver Direct Testimony).

324 AOBA (A) at 34:15-21; Exhibit AOBA (A)-1 (T. Oliver Direct Testimony).

325 AOBA (A) at 34:22-35:3 (T. Oliver Direct Testimony).

326 AOBA (A) at 24:7-12 (T. Oliver Direct Testimony).

327 AOBA (A) at 25:11-16 (T. Oliver Direct Testimony).

distribution operation.[328]

129. AOBA also found issues with the cost of equity analyses performed by WGL. AOBA argues that WGL's DCF analysis is unduly influenced by the information provided by Value Line and should not be relied upon.[329] AOBA argues that Value Line has significantly different earnings growth projections than those offered by other financial information providers.[330] In addition, AOBA argues that the CAPM analysis lacks transparency by failing to discuss the differences in beta coefficients used and includes other forms of risk that a regulated utility would be insulated from.[331] Regarding WGL's RPM analysis, AOBA argues that it is based on a premise that incorrectly assumes utility equity return requirements over time are related to changes in the costs of risk-free investments.[332] AOBA urges the Commission to consider the limitations of the RPM analysis and WGL's lack of detail on the assumptions and inputs for the analysis prior to relying on the results.[333]

130. **Sierra Club.** Sierra Club opposes the proposed ROE and capital structure, stating that these proposals alone increase the revenue requirement by $3.76 million.[334] Sierra Club asserts that WGL's recommendations on ROE and capital structure are deficient in key aspects.[335] First, Witness Rábago argues that WGL fails to consider that its relatively small size and lack of competition in the District give it an advantage to achieve a transition away from fossil fuels.[336] Witness Rábago also asserts that the District's climate and clean energy policies should be considered risk reducing because of the District's holistic approach to an energy transition.[337] Witness Rábago states that businesses in other jurisdictions face higher risk related to a clean energy transition.[338] Witness Rábago also states that the Company failed to fully account for its relationship with AltaGas and that AltaGas' midstream methane gas business negatively impacts WGL.[339] Additionally, as an insulated

[328] AOBA (A) at 25:13-19 (T. Oliver Direct Testimony).

[329] AOBA (A) at 28:9-13 (T. Oliver Direct Testimony).

[330] AOBA (A) at 28:9-13 (T. Oliver Direct Testimony).

[331] AOBA (A) at 29:18-30:11 (T. Oliver Direct Testimony).

[332] AOBA (A) at 32:3-17 (T. Oliver Direct Testimony).

[333] AOBA (A) at 32:18-22 (T. Oliver Direct Testimony).

[334] Sierra Club (A) at 41:7-11 (Rábago Direct Testimony).

[335] Sierra Club (A) at 41:13-15 (Rábago Direct Testimony).

[336] Sierra Club (A) at 43:8-20 (Rábago Direct Testimony).

[337] Sierra Club (A) at 43:3-12 (Rábago Direct Testimony).

[338] Sierra Club (A) at 43:14-17 (Rábago Direct Testimony).

[339] Sierra Club (A) at 43:21 - 44:1-2 (Rábago Direct Testimony).

core subsidiary of AltaGas, Sierra Club believes WGL should have evidence that accounts for the reduced and differentiated risk of WGL.[340] Witness Rábago also states that WGL does not evaluate the impact of regulatory mechanisms in the District which leads to the erroneous assessments that a decoupling mechanism may decrease WGL's business risk.[341] Finally, Witness Rábago argues that WGL has generated additional unnecessary risk by slowly complying or resisting compliance with District policy.[342] For these reasons, Sierra Club argues that WGL's requested ROE should be rejected.[343]

131. **WGL Rebuttal.** In its rebuttal testimony, WGL updated its ROE analysis to the period ending January 15, 2025, including Southwest Gas Holdings in the proxy group, removed Yahoo Finance's growth estimates, yet maintained its 10.50% ROE recommendation.[344] WGL generally criticized each of the opposing parties' analyses and suggestions for ROE. WGL stated that OPC's recommendation is inadequate because it violates established legal precedent, is a flawed analysis that is inaccurate due to reliance on derivatives, does not recognize capital market conditions, involves the misapplication of both the DCF model and CAPM, and fails to recognize WGL's unique risks.[345] With regard to AOBA's recommendation, WGL argues that the methodology of the proposed downward adjustment to ROE is flawed, the relative risk of the proposed proxy group is dissimilar to WGL, and involves the misapplication of both the DCF and CAPM methods.[346] WGL disagreed with all of the Sierra Club's assertions regarding ROE and capital structure, stating that all the proxy group companies are impacted by climate and clean energy policies, so the ROE does not need to be adjusted to account for that.[347]

132. **OPC Surrebuttal.** OPC responded to WGL's criticism of certain findings and recommendations OPC made in the direct testimony regarding a recommended ROE. OPC argues that WGL's statement that its 8.22% ROE recommendation is flawed because it dismisses the relevance of investor return expectations from major financial institutions and mischaracterizes academic sources that support Witness Rothschild's recommendation.[348] Witness Rothschild also demonstrates that market conditions have shifted and gas utility

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340 Sierra Club (A) at 44:4-7 (Rábago Direct Testimony).

341 Sierra Club (A) at 45:5-8 (Rábago Direct Testimony).

342 Sierra Club (A) at 45:22 - 46:1-4 (Rábago Direct Testimony).

343 Sierra Club (A) at 46:7-8 (Rábago Direct Testimony). Sierra Club does not recommend a ROE and capital structure in its filed testimony and solely recommends that the Commission reject any increase to the ROE and equity ratio.

344 WGL (2C) at 5:4-21 (D'Ascendis Rebuttal Testimony).

345 WGL (2C) at 14:6-14 (D'Ascendis Rebuttal Testimony).

346 WGL (2C) at 88:15-18 (D'Ascendis Rebuttal Testimony).

347 WGL (2C) at 111:3-20 (D'Ascendis Rebuttal Testimony).

348 OPC (2D) at 2:8-14 (Rothschild Surrebuttal Testimony).

stocks now outperform the broader market; this suggests that investors currently review gas utilities as lower-risk and not demanding higher returns.[349] Witness Rothschild also argues that the application of the DCF model and the CAPM are grounded in academic research, consistent with investor behavior, and better aligned with current market conditions than the methods employed by WGL.[350]

133. **AOBA Surrebuttal.** AOBA argues that the Commission should not accept WGL's arguments in its rebuttal testimony with respect to the Company's required ROE because WGL's proposed 10.5% ROE remains an outlier compared to the Commission's prior ROE determinations and does not align with the Commission's stated preference for gradualism.[351] Witness T. Oliver argues that WGL fails to adequately account for the general decline in utility bond yields, which contradicts the rationale for an upward adjustment.[352] AOBA also argues that WGL's risk premium analysis overstates the risk associated with natural gas distribution utilities and lacks a credible link between theoretical capital market conditions and Washington Gas' actual risk profile.[353] Witness T. Oliver also argues that tariff-driven volatility in markets does not alter the fundamental risk profile of WGL's District Operation, and the influence of market volatility on investor expectations should already be captured in WGL's modeling.[354]

134. **Sierra Club Surrebuttal.** Sierra Club argues that WGL's rebuttal testimony failed to rebut Sierra Club's conclusions from their direct testimony because WGL provided no analysis regarding the policy environment faced by the proxy group companies beyond a general assertion that the proxy group companies are impacted by climate and clean energy policies.[355] Sierra Club also asserts that WGL failed to rebut their assertion that the District's climate laws and clean energy policies offer WGL a pathway to transformation and reduction of climate transition risks, which should function to lower WGL's overall risk profile.[356]

135. **WGL Rejoinder.** Through the rejoinder testimony, Witness D'Ascendis offers critiques of OPC's assessment of WGL's cost of common equity analysis, OPC's cost of common equity analysis, the adequacy of OPC's recommended ROE, and current capital

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349 OPC (2D) at 2:15-20 (Rothschild Surrebuttal Testimony).

350 OPC (2D) at 3:1-22 (Rothschild Surrebuttal Testimony).

351 AOBA (2A) 4:3-8 (T. Oliver Surrebuttal Testimony).

352 AOBA (2A) 2:21-3:2 (T. Oliver Surrebuttal Testimony).

353 AOBA (2A) 4:8-11 (T. Oliver Surrebuttal Testimony).

354 AOBA (2A) 5:8-11, 6:1-2 (T. Oliver Surrebuttal Testimony).

355 Sierra Club (2A) 9:7-16 (Rábago Surrebuttal Testimony).

356 Sierra Club (2A) 10:4-6 (Rábago Surrebuttal Testimony).

market conditions.[357] Witness D'Ascendis states that AOBA provided no evidence to support the claim that the Commission has a preference for gradualism.[358] Generally, WGL maintains its argument that the witnesses for OPC and AOBA have a flawed approach to cost of common equity analysis that results in an excessive ROE recommendation. [359]

Decision

136. The District of Columbia Court of Appeals, in *Metropolitan Board of Trade v. Public Service Commission of the District of Columbia*, set out the standards for setting the cost of capital as follows:

> 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."[360] (Citations omitted)

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.[361] It should be noted that the Commission previously approved an authorized ROE of 9.65% in Order No. 21939, with an effective date of January 19, 2024.[362] Prior to the Commission's decision in *Formal Case No. 1169*, WGL's authorized ROE was 9.25%.

137. Historically, the Commission has relied primarily on the DCF method to

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357 WGL (3C) 3:3-7 (D'Ascendis Rejoinder Testimony).

358 WGL(3C) 20:12-17 (D'Ascendis Rejoinder Testimony).

359 WGL (3C) 2:12-15 (D'Ascendis Rejoinder Testimony).

360 *See Metropolitan Board of Trade v. Pub. Serv. Comm'n*, 432 A.2d 343, 350 (D.C. 1981) (citing *Fed. Power Comm'n v. Natural Gas Pipeline Co.*, 315 U.S. 575, 585 (1942); *Washington Public Interest Organization v. Pub. Serv. Comm'n*, at 76 (D.C. 1978.

361 *See* D.C. Code § 34-1101. S*ee also, Hope*; *Bluefield*; *Washington Gas Light Co. v. Pub. Serv. Comm'n of D.C.*, 450 A.2d 1187, 1209-1215 (D.C. 1982).

362 Order No. 21942.

determine a utility's appropriate cost of common equity because the Commission consistently found that the DCF method produces more reasonable results than other calculation methods.[363] The DCF analysis attempts to estimate the return that investors require from an equity investment in WGL. This return may be expressed as the investor-expected stock dividend yield plus the anticipated stock dividend growth rate. While the Commission prefers the DCF method, the Commission has made clear that our reliance on the DCF method does not foreclose the parties from advocating the use of other methods in future rate proceedings.[364] The Commission will continue to consider alternate approaches presented by intervening parties. Additionally, the Commission may also consider actions taken by other commissions and recent changes in the law.[365]

138. There are considerable differences in the methodology of the ROE analysis by different parties; however, all parties agreed on the gas proxy group for the ROE analysis. WGL, AOBA, and OPC have the same gas proxy group in their direct testimonies. Parties did not agree with WGL's proposed inclusion of the NPRPG. WGL presented an updated analysis in Rebuttal Testimony with the addition of Southwest Gas Holding Company; no party objected to the inclusion of the company in the gas proxy group.

139. The Commission notes that there are different assumptions and methodological biases in each of the parties' analyses that lead to different ROE results. For example, WGL's use of the Empirical Capital Asset Pricing Model ("ECAPM") model and the use of forecasted interest rates, among other factors, lead to upward biases in the ROE. OPC's use of option-based expectations leads to a downward bias in the ROE. AOBA's analysis lacks support for the adoption of the market risk premium.

140. WGL and OPC disagree on whether the market required return is lower than the authorized return, given that market value exceeds book value. They also disagree on how the recommended ROE compares to expected market returns published by investment

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363 *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.

364 Order No. 10646 at 38. *See also* Order No. 17132, ¶ 18.

365 *See, e.g.*, 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).

professionals.[366] The Commission notes that utilities' market values are often higher than book value because authorized returns can exceed market returns, making utilities relatively attractive investments. However, the Commission is not persuaded by the argument that investors do not rely on expected returns published by investment professionals.[367] Investors may rely on a wide range of market information, including previous, actual, and expected returns.

141. WGL and AOBA disagree on the relative risk profile of WGL.[368] The Commission generally agrees with AOBA's assertion that utility holding companies tend to have higher risks due to non-regulated business. However, the Commission notes that all companies in the proxy group have high shares of regulated utility operations. There is no method to adjust for the difference in relative risks, and it is unconventional to do so.

142. WGL and OPC also disagree on the impact of the derivative-based analysis within OPC's recommendation.[369] However, in its rebuttal testimony, WGL concluded that it may agree with some of OPC's assessment of market conditions.[370] The Commission takes no issue with the use of derivative-based analysis in a party's ROE recommendation. If we were to consider such an analysis as the basis for the authorized ROE, the Commission would be required to rely on a more thorough and transparent analysis. The Commission notes that inflation and interest rates have increased since the Application was filed in this proceeding, while the Federal Reserve has lowered the federal funds rate target. Long-term yields, such as the 30-year T-bond yields, have also increased and remained high. This suggests that there is a separation between short- and long-term interest rates as they are affected by different factors, and the short- and long-term interest rates may respond differently to monetary policy. The Commission also notes that utility stock prices are less volatile than the overall market, but the utility proxy group's relative risk has continued to increase and is now higher than it was before the Covid-19 Pandemic.

143. The Commission considers WGL's support for earnings per share ("EPS") growth projection to be insufficient because WGL does not provide persuasive evidence about how investors make EPS adjustments to their expectations due to its relatively short-term nature. The Commission determines that this creates an upwards bias, which resulted in higher estimates of the ROE presented by WGL's witness. The Commission understands the sustainable growth method to be inherently circular when applying the DCF method.

144. The Commission evaluated OPC's application of the DCF model and agrees

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366 WGL (2C) at 18:11-19:15 (D'Ascendis Rebuttal Testimony).

367 WGL (2C) at 25:1-15 (D'Ascendis Rebuttal Testimony).

368 AOBA (A) at 5:8-11 (T. Oliver Surrebuttal Testimony); WGL (2C) at 89:19 - 90:5 (D'Ascendis Rebuttal Testimony).

369 WGL (2C) at 27:10-13 (D'Ascendis Rebuttal Testimony).

370 WGL (2C) at 38:9-13 (D'Ascendis Rebuttal Testimony).

with WGL's conclusion that the assumptions built into the model regarding the five-year holding period and expected sales price ignore and discount the complexities of market dynamics.[371]

145. The Commission considers a long-term interest rate, such as a 30-year T-Bond yield, to be persuasive when used in CAPM analysis. The Commission believes that short-term analysis closely focuses on the Federal Reserve's decisions and is cyclical, which obscures the typical return of the long-term investment in the utility industry. The Commission understands that while interest rates are ultimately unpredictable, the current interest rate should be indicative of what the market is expecting the future interest rate to be. The Commission also considers raw and unadjusted betas to be inappropriate to determine the authorized ROE because they can lead to misleadingly low or high ROE estimates.

146. The Commission reviewed WGL's application of the ECAPM and rejects this model in this proceeding because the weights used in the ECAPM are largely *ad hoc*, the ECAPM approach lacks support on the record, and the ECAPM has been rarely relied upon by jurisdictional authorities to establish the market required return in rate proceedings. The Commission does not support the use of the ECAPM analysis in the estimate of the market required returns, as the ECAPM method is not empirically supported and biases the ROE estimates upward. The Commission also notes that utility commissions in general do not accept ECAPM as a method of estimate the ROE.[372]

147. The Commission notes that only WGL proposed a specific RPM-derived ROE recommendation of 10.82%.[373] OPC and AOBA used the DCF and CAPM methods to derive their ROE recommendation as noted above.

148. With regard to national trends, the Commission considers the results of fully litigated rate cases around the country to assist in the determination of what a just and reasonable authorized ROE should be. Per Regulatory Research Associates ("RRA") – a subsidiary affiliate of S&P Global, the average authorized ROE for regulated natural gas distribution operations in the Mid-Atlantic region for the period of 2022-2024 was 9.58% and the median was 9.60%. According to RRA, the national average ROE authorized for all gas utility rate cases decided in the first half of 2025 was 9.71%, largely in line with the 9.72% national average for all gas utility rate cases decided during Calendar Year ("CY")

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[371] WGL (2C) at 46:9-48:15 (D'Ascendis Rebuttal Testimony).

[372] FERC has consistently prescribed the use of the traditional CAPM model rather than the ECAPM in its authorized ROE determinations. *See, e.g.*, Opinion Nos. 569, 569-A, and 569-B. Similarly, several state commissions have rejected the use of the ECAPM model. For instance, the Illinois Commerce Commission declined to adopt ECAPM in Docket No. 11-0767, Illinois-American Water Company, Order (September 19, 2012) at 109, and again in Docket No. 21-0098, Northern Illinois Gas Company d/b/a Nicor Gas Company, Final Order (November 18, 2021) at 94. The California Public Utilities Commission also declined to rely on ECAPM, finding that the model produces inflated results for low-beta utilities. Decision D.99-06-057 (PG&E, SDG&E, and Edison, 2003).

[373] WGL (C) at 4:14-25 (D'Ascendis Direct Testimony).

2024. For fully litigated cases, the authorized national average ROE in 2024 was 9.78%.

Gas Authorized ROEs – All Cases and Fully Litigated Rate Cases tracked by RRA

	All Cases		Fully Litigated Cases	
Year	Average ROE (%)	# of Rate Cases	Average ROE (%)	# of Rate Cases
2023	9.64	43	9.77	21
2024	9.72	44	9.78	18
H1'25	9.71	17	9.83	3

149. The Commission also considers rate case outcomes in neighboring jurisdictions. We find that the average authorized ROE for gas utilities in neighboring jurisdictions is approximately 9.65%, with the range being 9.45% to 9.9%.

Gas Utility Rate Case Outcome of Neighboring States as Tracked by RRA: 2023-2025

		Increase Authorized			
State	Company	Date	Decision Type	Return on Equity (%)	Common Equity to Total Capital (%)
Delaware	Chesapeake Utilities Corp.	6/18/2025	Settled	9.60	52.00
Maryland	Baltimore Gas & Electric Co.	12/14/2023	Fully Litigated	9.45	52.00
Maryland	Columbia Gas of Maryland Inc	4/22/2025	Fully Litigated	9.80	52.17
Maryland	Washington Gas Light Co.	12/14/2023	Fully Litigated	9.50	52.60
New Jersey	Elizabethtown Gas Co.	11/21/2024	Settled	9.60	55.00
New Jersey	New Jersey Natural Gas Co.	11/21/2024	Settled	9.60	54.00
New Jersey	Public Service Electric Gas	10/9/2024	Settled	9.60	55.00
Virginia	Columbia Gas of Virginia Inc	5/15/2025	Settled	9.75	43.17
Virginia	Roanoke Gas Co.	4/10/2025	Settled	9.90	58.18
Average				9.64	52.68
Average - Fully Litigated				9.66	53.74

150. The Commission also considers the impact of federal monetary policy on utilities, as well as utility investor behavior and expectations, to determine the reasonableness of the authorized ROE. In September 2025, the Federal Open Market Committee reduced

its target federal funds rate by 25 basis points.[374] This action reflects a shift toward a more accommodative monetary stance in response to signs of softening labor markets and slowing economic momentum. The rate cut has implications in utility rate cases as lower interest rates generally reduce the risk-free benchmark, which in turn can lower the cost of equity estimates for regulated utilities. However, the implications of the Federal Reserve's monetary policy on interest rates can be complicated due to the possible differentiated impact on short- and long-term interest rates, as well as its effects on economic conditions. investors compare regulated returns to alternatives, a decline in prevailing interest rates generally makes it necessary for the allowed return to appear higher in relation to risk. At the same time, utility debt costs and credit spreads may compress, moderating the need for an excessive equity premium. Therefore, when the Federal Reserve eases its monetary policy, it tends to ease pressure on required returns. The 30-year Treasury bond yield, which serves as a benchmark for long-term investor return expectations, has declined from approximately 5% to 4.5%, signaling possible declines in the market's expectations for the required return.

151. The Commission has considered the range of ROE results presented by WGL, AOBA, and OPC, the latest economic and capital market conditions, as well as decisions made nationally and in neighboring jurisdictions in setting authorized ROEs for gas utilities. The Commission authorizes a 9.65% ROE in this proceeding. This authorized ROE takes into account a combination of ROE data points discussed above, including the range of DCF-derived ROE estimates, the range of overall CAPM-derived ROE estimates, the RPM-derived ROE estimates, along with a review of currently authorized ROEs for peer group and regional firms. The Commission notes that WGL has raised over $200 million in debt financing[375] during the Test Year and is authorized to issue up to $475 million by December 31, 2026.[376] The Commission recognizes that WGL must maintain its current investment-grade credit rating while maintaining its position as an attractive investment opportunity in volatile capital market conditions. Therefore, the Commission approves an ROE of 9.65% which strikes a balance, given the parties' disputes about the calculations and applicability of the three (3) cost of equity methods noted above.

D. COST OF DEBT

1. <u>Cost of Long-Term Debt</u>

152. **WGL.** WGL made a series of adjustments to account for the impact of $400 million of debt issuances, unamortized debt reacquisition gains and losses, unamortized amounts of debt issuance expenses, issuance discounts and premiums, and hedge losses and

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[374] Federal Reserve, Federal Reserve Issues FOMC Statement, Sept. 17, 2025, https://www.federalreserve.gov/newsevents/pressreleases/monetary20250917a.htm.

[375] WGL (B) at 6:6-23 (Burrows Direct Testimony). *See generally Formal Case No. 1174,* Washington Gas's Report on Debt Securities, filed on October 27, 2023.

[376] *See generally Formal Case No. 1177, In the Matter of Washington Gas Light Company's Application for Authority to Issue Debt Securities*, Order No. 22258, rel. August 7, 2024.

gains.[377] When accounting for these adjustments, WGL's average cost of long-term debt was 4.84%.[378]

153. **OPC.** OPC calculated the same cost of long-term debt as WGL – 4.84%.[379]

154. **AOBA.** AOBA accepted WGL's cost of debt and requested that the Commission require WGL to issue long-term debt in the public debt market based on its credit rating on a standalone basis.[380]

Decision

155. In reviewing long-term debt, the Commission looks to Term No. 38, which provides:

> Washington Gas shall demonstrate that customers of Washington Gas are held harmless from adverse rate impacts due to an increase in Washington Gas's cost of debt that is caused by the Merger with AltaGas, or the ongoing affiliation with AltaGas and its affiliates after the Merger. Nothing in this condition will restrict the Commission's authority in setting Washington Gas's rates or Washington Gas's responsibility to support its cost of capital.[381]

156. The Commission also reviewed the three-year trend in WGL's embedded average cost of long-term debt. The Commission notes that since *Formal Case No. 1169*, the Company has issued a series of long-term debt. On December 29, 2022, WGL issued $25 million aggregate principal amount of its 5.25% Series 2022-A Notes due December 29, 2042 ("PP-2042"), and $175 million aggregate principal amount of its 5.33% Series 2022-B Notes due December 29, 2052 ("PP-2052"). On October 19, 2023, WGL issued a total of $200 million of long-term debt consisting of $150 million aggregate principal amount of its 6.06% Series 2023-A Notes due October 14, 2033 ("PP-2033"), and $50 million aggregate principal amount of its 6.43% Series 2023-B Notes due October 15, 2053 ("PP-2053"). On October 1, 2024, WGL issued $100 million of 5.40% notes due October 1, 2054, which was the first tranche of a note purchase agreement to issue $200 million in private placement notes. On April 1, 2025, WGL issued the second tranche in the amount of $100 million at an interest rate of 4.84%, due April 1, 2035.

157. WGL's long-term debt cost of 4.84% reflects the higher cost of the latest

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377 WGL (B) at 18:12-23 (Burrows Direct Testimony Testimony).

378 WGL (B) at 18:12; Exhibit WG (B)-1 (Burrows Direct Testimony Testimony).

379 OPC (D) at 6:7-8 and 8:6-10; Exhibit OPC (D)-3 (Rothschild Direct Testimony).

380 AOBA (A) at 20:11-13, 21:9-13 (T. Oliver Direct Testimony).

381 Order No. 19396, Appendix A, Term No. 38.

issuances. The Commission finds that WGL's embedded cost of long-term debt is reasonable. The methods used to determine the long-term debt costs are consistent with Commission precedent, and no party challenged WGL's cost of debt in this proceeding.

158. Furthermore, the Commission is not persuaded by AOBA's argument that WGL's private placement of debt issuance is inappropriate. Therefore, the Commission denies AOBA's request to require WGL to issue long-term debt in the public debt market on a standalone basis. The Commission continues to monitor the ongoing requirements related to ring-fencing and Term No. 38, which require the Company to maintain transparency in the issuance of debt or other activity that may impact its bond/credit rating.

2. Cost of Short-Term Debt

159. **WGL.** WGL's financing strategy utilizes short-term debt by issuing commercial paper supported by back-up credit facilities through bank revolving lines of credit.[382] WGL's calculation for the cost of short-term debt includes the interest expense as well as the origination and maintenance fees for the revolving credit agreements with banks.[383] WGL asserts that the adjusted average cost of commercial paper issued during the three months ending March 31, 2024, was 5.693%.[384] When this interest rate is combined with the line of credit expenses, it results in a total cost of short-term debt of 6.202%.[385]

160. **OPC.** OPC calculated the same rate as WGL for the cost of short-term debt – 6.20%.[386]

Decision

161. The Commission also conducted a review of the three-year trend for WGL's embedded average cost of short-term debt. In *Formal Case No. 1169*, WGL's initial cost of short-term debt was 0.44% based on prevailing short-term debt market conditions during the CY 2021 Test Year.[387] During 2022, 2023, and 2024, the Federal Reserve executed a series of monetary actions that resulted in significant increases in interest rates. The CY 2022 average short-term interest rate for WGL was 4.25%,[388] and the short-term interest rate for the latest three-month period ending March 31, 2024, was 6.202%.[389] No party contested

382 WGL (B) at 19:14-17 (Burrows Direct Testimony).

383 WGL (B) at 19:18-23 (Burrows Direct Testimony).

384 WGL (B) at 20:1-3 (Burrows Direct Testimony).

385 WGL (B) at 20:3-5 (Burrows Direct Testimony).

386 OPC (D) at 8:6-10; Exhibit OPC (D)-3 (Rothschild Direct Testimony).

387 Order No. 21939, ¶ 103.

388 Order No. 21939, ¶ 103.

389 Exhibit WG (B)-3 at 1, 2.

WGL's proposed cost of short-term debt.

162. We agree with WGL that its proposed short-term debt cost accurately reflects the higher short-term borrowing costs due to changes in the capital market and economic conditions. Therefore, the Commission finds WGL's proposed cost of short-term debt of 6.202% to be reasonable because the methods used to determine the cost of the debt are uncontested, produce accurate reflections of market conditions, and are consistent with the provisions of Term No. 38.[390] Thus, the Commission approves WGL's proposed cost of short-term debt.

E. COST OF CAPITAL

163. Based on the above findings, we determine that the appropriate overall cost of capital for WGL is 7.43% as follows:

Overall Cost of Capital (Rate of Return)

Description	Ratio	Cost	Weighted Cost
Long-Term Debt	42.88%	4.840%	2.075%
Short-Term Debt	4.63%	6.202%	0.287%
Common Equity	52.49%	**9.65%**	5.091%
Total	**100.0%**		**7.43%**

VII. RATEMAKING ADJUSTMENTS

A. UNCONTESTED RATEMAKING ADJUSTMENTS

164. WGL proposes thirty-two (32) Ratemaking Adjustments ("RMAs"). WGL contends that the following 20 RMAs are uncontested:

- RMA 2 – Construction Work in Progress ("CWIP");
- RMA 6 – Long-Term Incentive Compensation Elimination;
- RMA 7 – Other Post-Employment Benefits ("OPEB") Expense;
- RMA 8 – Pension Expense;
- RMA 9 – 401(k) Expense;
- RMA 10 – Employee Fringe Expense Elimination;
- RMA 11 – Medical Plans Inflation;
- RMA 15 – Covid-19 Regulatory Asset Amortization;
- RMA 16 – Regulatory Commission Expenses;
- RMA 17 – Environmental Costs;
- RMA 18 – Insurance Expense;

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390 Order No. 19396, Appendix A, Term No. 38.

- RMA 19 – Interest on Customer Deposits;
- RMA 20 – Commission Mandated-Fees;
- RMA 22 – Trade Dues, Business Memberships, and Community Affairs Elimination;
- RMA 23 – General Advertising Expense Elimination;
- RMA 24 – Elimination of Contributions in Aid of Construction & Non-Includable Accumulated Deferred Income Taxes ("ADIT");
- RMA 25 – Legal Expense;
- RMA 26 – Prior Period Adjustments.
- RMA 27 – Transition Cost Amortization/Merger Cost to Achieve; and
- RMA 28 – Credit/Debit Card Transaction Fees Elimination.

WGL argues that these adjustments are supported by witness testimony and consistent with Commission precedent.[391]

Decision

165. After review, the Commission finds the uncontested RMAs reasonable, supported by witness testimony, and consistent with Commission precedent. Thus, the Commission approves these RMAs.

B. CONTESTED RATEMAKING ADJUSTMENTS

166. WGL identifies twelve (12) contested RMAs:

- RMA 1 – Test Year Revenues;
- RMA 3 – PROJECT*pipes* Gas Plant in Service ("GPIS") and Construction Work in Progress ("CWIP");
- RMA 4 – New Depreciation Rates;
- RMA 5 – Wages and Salaries Expense;
- RMA 12 – Payroll Taxes Adjustment;
- RMA 13 – Involuntary Separation Program ("ISP") Labor Expense Adjustment;
- RMA14 – ISP Cost to Implement Amortization;
- RMA 21 – Non-Labor Inflation;
- RMA 29 – Interest on Debt;
- RMA 30 – Cash Working Capital;
- RMA 31 – District and Federal Income Taxes; and
- RMA 32 – Deferred Tax Asset-Net Operating Loss Carryforwards ("NOLC") Tax Normalization-PLR.[392]

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391 WGL Brief at 24-27.

392 WGL Brief at 27-29.

167. OPC proposes fourteen (14) ratemaking adjustments ("BCO"):[393]

- BCO-1 – Adjust GPIS, CWIP, Depreciation Reserve, ADIT and Cost of Removal Related to PROJECT*pipes*;
- BCO-2 – Reduce Depreciation Expense on Reduced Plant Balances at Adjustment BCO-1 and for Revising WGL's Proposed Depreciation Rates;
- BCO-3 – NOLC/PLR/Treasury Single Account Issues;
- BCO-4 – Adjust Pay Raises;
- BCO-5 – Reduce Payroll for Phase 2 Employee Reduction;
- BCO-6 – Remove Amortization of Costs Incurred to Implement Involuntary Separation;
- BCO-7 – Adjust Overtime to Normalized Level;
- BCO-8 – Remove Non-Labor Inflation Adjustment;
- BCO-9 – Adjust Administrative and General ("A&G") expenses/Affiliate Costs;
- BCO-10 – Adjust A&G Uncollectibles;
- BCO-11 – Reduce Call Center Expense;
- BCO-12 – Adjust Short-Term Incentives;
- BCO-13 – Adjust Payroll Tax Expense; and
- BCO-14 – Adjust CWC and Interest Synchronization.[394]

168. All of WGL's contested RMAs and OPC's BCOs are addressed in subsequent sections.

VIII. RATE BASE

169. Rate base represents the investment the Company makes in plant and equipment in order to provide service to its customers. Rate base is the value of a company's property used and useful in providing service minus accrued depreciation.[395] In its Application, WGL proposed an adjusted net average Test Year rate base of $760,992,964, including $72.4 million in net rate base associated with PROJECT*pipes* test year average amounts. In its Rebuttal Testimony, WGL revised the rate base to include a new PROJECT*pipes* rate base of $128.8 million based on the December 31, 2024 end of period balance, increasing the net rate base claim to $817,368,031. WGL asserts that this adjustment is consistent with *Formal Case No. 1169.*[396] Since *Formal Case No. 1169*, WGL contends that it has experienced significant growth in rate base, including non-PROJECT*pipes* rate growth. However, WGL claims that it did not include any out-of-test-

393 "BCO" stands for OPC Witness Bion C. Ostrander.

394 Exhibit OPC (B)-3. *See also*, WGL Brief at 30-31.

395 *Potomac Electric Power Co. v. Pub. Serv. Comm'n*, 380 A.2d 126, 133, n.8 (D.C. 1977).

396 WGL Brief at 103.

year adjustments to rate base in this proceeding, with the exception of the PROJECT*pipes* amounts.[397]

170. The plant-related rate base adjustments comprise three elements: (1) removal from rate base of the test year average balance of CWIP; (2) adjustments to reflect the transfer of PROJECT*pipes* amounts from the surcharge to base rates; and (3) the incorporation of new depreciation rates reflected in the 2024 Depreciation Rate Study sponsored by WGL as adjusted by the Commission.[398] The adoption of the new depreciation rates affects the depreciation expense, accumulated depreciation, and ADIT impacts of the PROJECT*pipes* transfer from the surcharge to base rates.[399]

A. RATE BASE ADJUSTMENTS

171. WGL proposes several adjustments that relate to rate base, which are addressed below. If OPC proposes an adjustment on the same subject matter, then OPC's adjustments are also discussed in the same section.

1. <u>Gas Plant in Service ("GPIS") and Construction Work in Progress ("CWIP")</u>

WGL RMA 2 GPIS and CWIP
OPC BCO 1 GPIS and CWIP and OPC Witness Fitzhenry's Disallowances

172. In some jurisdictions, utilities can include CWIP in the rate base before the plant is finished, which allows them a return on their investment. The Commission has traditionally included GPIS in rate base, while CWIP has traditionally been excluded from rate base unless certain criteria are met. In this case, WGL has excluded non-PROJECT*pipes* CWIP but included PROJECT*pipes* CWIP as a placeholder only.

173. **WGL.** WGL represents that the Company has made significant investments in plant since the prior test year.[400] In RMA 2, CWIP includes \$66.2 million, representing the Test Year average balance of CWIP excluding the \$13.1 million of CWIP related to PROJECT*pipes*.[401]

174. WGL includes \$1.34 billion of depreciable GPIS rate base in this proceeding, including investments directly incurred in the District as well as system assets that serve the

[397] WGL Brief at 103-104.

[398] WGL (D) at 49:4-12 (Tuoriniemi Direct Testimony).

[399] WGL Brief at 104, *citing* WGL (D) at 49:8-12 (Tuoriniemi Direct Testimony).

[400] WGL (A) at 10:4-10 (Steffes Direct Testimony).

[401] WGL (D) at 50:1-4 (Tuoriniemi Direct Testimony).

District.[402] These investments are related to directly-assigned capital for New Business (new construction and conversion to natural gas) as well as System Betterment (replacements and emergency or expedited field work). The largest cost categories in depreciable GPIS are costs related to transmission mains, distribution mains, and distribution services.[403] These three categories also account for the largest growth in depreciable GPIS from the level of rate base approved in *Formal Case No. 1169* and the current case. WGL is requesting inclusion of approximately $108.6 million in transmission mains (a 17% increase); $561.6 million in distribution mains (a 43% increase); and $416.3 million in distribution services (a 37% increase).[404]

175. WGL asserts that it explained how the costs for transmission mains, distribution mains, and distribution services are necessary to provide safe, reliable gas service that is compliant with District and federal regulations at a reasonable cost.[405] WGL also argues that many of the cost drivers for capital projects in the District are outside WGL's control.[406]

176. WGL explains its project development cycle. For the Test Year, WGL asserts that most capital projects fell into one of three categories: PROJECT*pipes*; new business and market enhancements; and safety and maintenance.[407] To identify the PROJECT*pipes* projects, WGL uses complex risk analysis and threat models for each individual asset.[408] WGL claims that many safety and maintenance projects are identified by external entities, including the District Department of Transportation ("DDOT"), and include work in the public rights-of-way.[409] Other safety and maintenance projects include those identified in the PROJECT*pipes* process that do not qualify under PROJECT*pipes*, are requested by customers, or are necessitated to repair damage to the WGL network caused by others.[410] Each year, WGL allocates its capital funds among the three categories of projects, based on safety, reliability, and other value-driven considerations.[411]

177. **OPC.** In addition to adjusting PROJECT*pipes* to a 13-month average

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402 WGL (I) at 10:9-14 (Morrow Direct Testimony).

403 WGL (I) at 11:12-15 (Morrow Direct Testimony).

404 WGL (I) at 11:15-21 (Morrow Direct Testimony).

405 WGL Brief at 106-107.

406 WGL Brief at 106.

407 WGL (P) at 7:2-5 (Murphy Supplemental Direct Testimony).

408 WGL (P) at 8:20-24 (Murphy Supplemental Direct Testimony).

409 WGL (P) at 19:15-20 (Murphy Supplemental Direct Testimony).

410 WGL (P) at 10:16-21 (Murphy Supplemental Direct Testimony).

411 WGL (P) at 13:10-21 (Murphy Supplemental Direct Testimony).

balance, OPC recommends removing CWIP and "excessive" gas plant costs, reducing the rate base by $33.4 million.[412] While WGL has excluded non-PROJECT*pipes* gas plant CWIP from rate base, WGL has included PROJECT*pipes* CWIP, in conflict with previous Commission orders,[413] and OPC recommends additional reductions to Other Gas Plant GPIS costs based on OPC Witness Fitzhenry's testimony.[414] Witness Ostrander's suggested adjustment also removes 50% of costs as a "very conservative approximation" of a 13-month average, noting that this may be understated.[415]

178. OPC Witness Fitzhenry conducted a peer comparison of leak rates analysis across other jurisdictions' gas utilities by evaluating the number of leaks per mile in order to determine a leak rate instead of showing the number of leaks per system.[416] The survey demonstrated that WGL has a higher gas leak rate per mile of mains and services than several other utilities in the peer group, which OPC argues shows WGL's safety and reliability metrics are below average to other peer utilities with similar distribution systems.[417] Moreover, OPC states WGL's costs for replacement significantly exceed even national averages.[418] Witness Fitzhenry argues that he identified several projects where the cost variance between estimated and actual costs was excessive, and the Company did not provide sufficient evidence that the cost increases were prudent expenditures.[419] Therefore, OPC recommends the Commission not allow $5.6 million of cost variances associated with non-PROJECT*pipes* projects.[420]

179. **DCG.** For safety and maintenance projects, WGL testified that prioritization for projects is driven by coordination with third parties' timelines, or using the same process for accelerated pipe replacement, identifying projects through risk analysis.[421] With new business projects, WGL states selection is driven by the need for timely responses to customer requests, and prioritized on customer schedule and available crew resources.[422] DCG argues WGL has failed to provide evidence throughout discovery to support its

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412 OPC (B) at 7:11-14 (Ostrander Direct Testimony).

413 *See, e.g.,* Order No. 21939.

414 OPC (B) at 14:7-12 (Ostrander Direct Testimony).

415 OPC (B) at 14:12-15 (Ostrander Direct Testimony).

416 OPC (C) at 5:11-15 (Fitzhenry Direct Testimony).

417 OPC (C) at 6:1-7:2 (Fitzhenry Direct Testimony).

418 OPC (C) at 20:10-21 (Fitzhenry Direct Testimony).

419 OPC (C) at 23:1-25:15 (Fitzhenry Direct Testimony).

420 OPC (C) at 26:1-5 (Fitzhenry Direct Testimony).

421 DCG (A) at 19:15-28 (Hopkins Direct Testimony).

422 DCG (A) 20:1-5 (Hopkins Direct Testimony).

prioritization process.[423] Additionally, the most important qualitative difference between non-PROJECT*pipes* and safety projects and other distribution capital projects is the extent to which WGL can plan for the projects.[424] Prudently-incurred expenses must be the product of a prudent planning, project selection, and execution process.[425] DCG states WGL appears to making decisions based only on very near-term forecasts, and DCG argues that capital investment decisions grounded in inaccurate forecasts are more likely to be made imprudently.[426]

180. In addition, DCG asserts WGL has failed to provide evidence that it has considered Non-Pipe Alternatives ("NPAs"), when the Company should be offering options to pipe replacement or repair, such as incentives to electrify instead of replacing a leak-prone service line.[427] DCG asserts that failure to consider NPAs demonstrates that WGL has imprudently ignored opportunities to reduce both rates and risk.[428] DCG recommends that the Commission refuse to approve any capital investments into rate base or cost of service if the investments have not been shown to be consistent with an approved long-term planning methodology.[429]

181. **WGL Rebuttal.** WGL provides explanations for cost variances for nine (9) non-PROJECT*pipes* projects contested by OPC.[430]

182. WGL also criticizes OPC's peer analysis as reliant on stale information from 2017, before Covid-19 and inflation.[431] WGL argues that this study is based on 2014 American Gas Association ("AGA") guidelines, with which WGL was in compliance.[432] In comparing main replacement costs, WGL stresses the importance of comparing replacement costs in dense, urban areas such as Manhattan that are similar to the District, since gas

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423 It should be noted that DCG is once again arguing these projects do not follow a risk ranking approach, although both WGL and the Commission have clarified that the PROJECT*pipes* 2 project selection is not based on that system, unlike the approach that has been suggested for the District SAFE program in *Formal Case 1179*.

424 DCG (A) at 20:18-24 (Hopkins Direct Testimony).

425 DCG (A) at 23:5-11 (Hopkins Direct Testimony).

426 DCG (A) at 24:4-7 (Hopkins Direct Testimony).

427 DCG (A) at 28:10-24 (Hopkins Direct Testimony).

428 DCG (A) at 29:12-13 (Hopkins Direct Testimony).

429 DCG (A) at 32:5-13 (Hopkins Direct Testimony).

430 WGL (3I) at 33:14 – 42:9 (Morrow Rebuttal Testimony).

431 WGL (3I) at 9:8-18 (Morrow Rebuttal Testimony).

432 WGL (3I) at 9:19 – 10:1 (Morrow Rebuttal Testimony).

infrastructure replacement is more expensive in urban areas.[433]

183. **OPC Surrebuttal.** OPC disputes WGL's criticism of his peer analysis, asserting that Manhattan's scale, density and urban structure show it cannot be compared to the District.[434] OPC also disputes WGL's explanations of non-PROJECT*pipes* project cost overruns, arguing the Company is still responsible for any extended time or having to work under challenging conditions to complete projects.[435]

184. **WGL Brief.** WGL objects to OPC's proposal to disallow several non-PROJECT*pipes* projects and/or project costs from rate base.[436] Contrary to OPC's contentions, WGL argues that it has demonstrated that the costs for these projects were prudently incurred. WGL notes that the Commission has determined that if WGL demonstrates that the decision to undertake a project and incur costs for the project is "reasonable when made, it is prudent;"[437] the Commission does "not determine prudence based on 20-20 hindsight."[438] WGL asserts that OPC is using the wrong standard for evaluating the prudence of WGL's capital projects, meriting rejection of OPC's arguments.[439]

185. For each of the projects identified by OPC, WGL asserts that the cost variances resulted from emergent circumstances that were not known or knowable when WGL created the project budget. WGL represents that it was required to address these circumstances to maintain the safety of its workforce and the public, and system integrity and reliability.[440] WGL provides detailed justifications for the cost variances associated with these projects and argues that these cost variances were unknown at the beginning of the projects.[441] WGL argues that OPC's criticisms of the costs for these projects reflect an evaluation of the projects using 20-20 hindsight and do not address whether the additional

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433 WGL (3I) at 11:7-17 (Morrow Rebuttal Testimony).

434 OPC (2C) at 6:4-15 (Fitzhenry Surrebuttal Testimony).

435 OPC (2C) at 9:1-11:16 (Fitzhenry Surrebuttal Testimony).

436 WGL notes that OPC originally objected to nine projects, but subsequently withdrew objections to three of these projects, while objecting to an additional project. WGL Brief at 111.

437 WGL Brief at 107, *citing Formal Case No. 869, In the Matter of the Application of Potomac Electric Power Company for an Increase in the Retail Rates for the Sale of Electric Energy*, Order No. 9216 at 60, rel. March 3, 1989.

438 WGL Brief at 107-108, *citing Formal Case No. 1087, In the Matter of the Application of Potomac Electric Power Company for Authority to Increase Existing Retail Rates and Charges for Electric Distribution Service*, Order No. 16930, ¶ 163, rel. September 27, 2012.

439 WGL Brief at 107-108.

440 WGL Brief at 108.

441 WGL Brief at 108-112.

costs were necessary to preserve safety and reliability. Additionally, WGL asserts that OPC makes several errors in incorporating these disallowances into OPC's proposed revenue requirement. For these reasons, WGL urges the Commission to reject OPC's cost adjustments and find that WGL has met its burden of proof to show that its non-PROJECT*pipes* GPIS is based on reasonable and prudent capital expenditures.[442]

186. WGL argues that it rebutted allegations about capital projects made by OPC and DCG. Contrary to DCG's argument that risks are not being reduced by WGL's investments in aged infrastructure, WGL contends that there was a 28% decrease in leaks between 2019 and 2023.[443]

187. WGL also asserts that it uses NPAs, particularly abandonments, where necessary and where service to customers is unaffected. Since WGL does not have a Commission-approved program regarding electrification-focused NPAs, WGL asserts that it could not include electrification NPAs in a case that relies on a historic test year. WGL also argues that pipe repair is less safe and cost-effective than pipe replacement.[444]

188. Contrary to DCG claims, WGL argues that it presented evidence showing that WGL follows its prioritization process.[445] WGL represents that their standard for projects is whether they are just and reasonable for service to the public, not whether they are least cost.[446]

189. Regarding costs, WGL argues that it presented evidence of cost drivers for capital projects. WGL contends that its costs would be lower if WGL were allowed to work more productively.[447] WGL contends that OPC's cost comparisons to other utilities' capital investments are faulty, since they are based on pre-Covid data or geographic areas not similar to the District. WGL also contests OPC's contention that reliance on external work crews drives up costs. To the contrary, WGL maintains that reliance on external work crews permit flexibility to meet workload needs and pass risk associated with work variability to external contractors rather than ratepayers.[448]

190. WGL argues that its budget planning process has been validated by several audits, which found that WGL has completed projects prudently. WGL claims that it engages in substantial oversight of projects. WGL maintains that its procedures are tested and permit

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442 WGL Brief at 112-113.

443 WGL Brief at 232.

444 WGL Brief at 233.

445 WGL Brief at 234.

446 WGL Brief at 235.

447 WGL Brief at 235.

448 WGL Brief at 236.

necessary changes while closely monitoring costs.[449] WGL argues that OPC and DCG were unable to provide evidence disputing the sufficiency of WGL's planning process or project selection. WGL argues that its practices comply with District policy and Commission directives.[450]

191. Regarding specific projects to which OPC objects, WGL contends that it explained all of the variances. WGL argues that it prudently plans projects, but variances arise. In WGL's view, the fact that a variance was needed does not imply imprudence. WGL notes that OPC has not objected to variances in PROJECT*pipes* projects. WGL also argues that OPC overstates increasing costs.[451] WGL argues that OPC and DCG did not demonstrate that variances and cost trends are due to WGL management issues.[452]

192. **OPC Brief.** OPC seeks to remove what it characterizes as Other Gas Plant GPIS costs. However, OPC is not opposed to WGL's revision of OPC Witness Ostrander's calculation of OPC Witness Fitzhenry's rate base adjustment.[453]

193. OPC criticizes WGL's treatment of leak-prone pipe. While approximately 99% of leak-prone cast iron mains have been removed from service nationwide, OPC argues that WGL's system still contains 393 miles of cast iron (32%) and 20 miles of bare steel (1.6%). Given the composition of the gas distribution network, OPC claims that it is not surprising that WGL's system has numerous leaks.[454] OPC claims that its peer analysis shows that WGL has a higher gas leak rate per mile of mains than four of five other utilities, and a higher per mile service leak rate than three of five other utilities.[455] Additionally, OPC alleges that WGL's leak rate in the District is six (6) times worse than its leak rate in Maryland.[456] OPC argues that the peer review is particularly troubling given WGL's large increase in expenditures to repair pipe. OPC argues that WGL's large capital expenditures have not resolved continued leak performance problems, so WGL does not demonstrate safe, reliable, just, and reasonable performance.[457]

194. OPC argues that it identified several non-PROJECT*pipes* projects in which

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449 WGL Brief at 237.

450 WGL Brief at 239.

451 WGL Brief at 238.

452 WGL Brief at 238.

453 OPC Brief at 37.

454 OPC Brief at 164.

455 OPC Brief at 165.

456 OPC Brief at 166.

457 OPC Brief at 166-167.

cost variances between estimated and actual costs were excessive. OPC argues that WGL did not explain the reasons for the cost variances. Even though these projects are used and useful, OPC proposes cost disallowances to account for the fact that some of project costs were not prudently incurred.[458] OPC seeks disallowance of $3.88 million for four projects.[459]

195. **DCG Brief.** DCG argues that the presumption of the prudence of investments can be overcome by substantive evidence demonstrating serious doubt about this prudence. DCG notes that the prudence review is a retrospective review that takes place in the context of the competitive and policy environment in which these decisions are made. Since WGL does not take into account its reductions, sales, and customer accounts while still investing in infrastructure, DCG argues that WGL's capital investments activities are imprudent.[460]

196. DCG argues that WGL has not demonstrated that it executes the capital project and prioritization process and selection process that WGL claims to have in place.[461] Had WGL followed this process, DCG contends that WGL should have identified more projects for potential investment than WGL actually executed. DCG claims that WGL admitted that it did not rank advanced pipeline replacement projects by risk, which DCG contends WGL should have done if it followed its identified processes. Further, DCG argues that there is a lack of information concerning accounting and tracking of pipe leaks. This lack of information leads DCG to question whether WGL makes adequately prudent capital investment decisions.[462]

197. DCG argues that WGL does not have an accurate inventory of the GPIS in its system. DCG contends that WGL does not track abandoned meters or lines, so that these assets are included in rate base even though they are not in use.[463]

Decision

198. In Order No. 21939, the Commission reaffirmed its previous decisions to exclude CWIP from rate base because WGL did not provide sufficient information to deviate from the Commission's long-standing precedent. The Commission finds that, in this proceeding, WGL followed Order No. 21939's directives and removed the CWIP that it was using as a placeholder in its Rebuttal Testimony.

199. In Order No. 21939, the Commission also denied WGL's proposed post-test-

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458 OPC Brief at 176.

459 OPC Brief at 177-182.

460 DCG Brief at 7.

461 DCG Brief at 8.

462 DCG Brief at 10.

463 DCG Brief at 23-24.

year GPIS.[464] The Commission finds that WGL followed this precedent and did not include post-test-year GPIS in this proceeding.

200. Regarding prudency, the D.C. Court of Appeals, citing the D.C. Circuit's decision in *Anaheim, Riverside v. FERC,* stated

> [U]tilities seeking a rate increase are not required to demonstrate in their cases-in-chief that all expenditures were prudent.... However, where some other participant in the proceeding creates a serious doubt as to the prudence of an expenditure, then the applicant has the burden of dispelling these doubts and proving the questioned expenditure to have been prudent.[465]

The D.C. Court of Appeals has held that applicable statutory and case law in this jurisdiction precludes any other approach.[466]

201. The Commission has previously stated:

> a prudency review must determine whether the utility's actions, based upon what it knew at the time of construction of plant, were reasonable and prudent in light of the circumstances that then existed. *See, e.g.*, *Re Central Vermont Pub. Service Corp.*, 83 PUR 4th 532, 573 (Vermont Public Service Board, 1987); *Re Western Massachusetts Electric Co.*, 80 PUR 4th 479, 502 (Massachusetts Department of Public Utilities, 1986). Therefore, a determination of prudency based on the facts known at the time of the prudency review are likely to be a better indication of prudency than a hindsight evaluation at the time of a rate case. Consequently, any showing that the prior prudency determination is incorrect would have to be supported by strong evidence. In any case that determination would have to be made at the time of the rate case. Of course, the reasonableness of the costs of the plant will be determined in the rate case, not in this proceeding.[467]

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464 Order No. 21939, ¶ ¶ 130, 131.

465 *Potomac Electric Power Co. v. Public Serv. Comm'n of the District of Columbia*, 661 A.2d 131, 140 (1995) (*citing Anaheim, Riverside, Banning, Colton and Azusa, Cal. V. FERC*, 669 F.2d 799, 809 (D.C. Cir. 1991) (internal quotations and citations omitted)).

466 *Potomac Electric Power Co. v. Public Serv. Comm'n of the District of Columbia*, 661 A.2d at 140 (1995) (*citing* D.C. Code § 2-509(b) and *People's Counsel v. Public Serv. Comm'n*, 474 A.2d 835, 837 (1984) (the proponent of an order bears the burden of persuasion in a contested administrative case); *Washington Gas Light Co. v. Pub. Serv. Comm'n*, 450 A.2d 1187, 1227 n. 55 (1982) ("the burden of proof remains in its customary place—on the utility.")).

467 *Formal Case No. 920, In the Matter of the Investigation of the Construction Program and Budget of the Chesapeake and Potomac Telephone Company*, Order No. 10276 at 9, rel. August 23, 1993. ("However, a prudency review must determine whether the utility's actions, based on what it knew at the time of construction of plant, were reasonable and prudent in light of the circumstances that existed. Therefore, a determination of

The prudency review normally occurs during rate cases.[468]

202. WGL submitted Direct, Supplemental Direct, and Rebuttal Testimony showing substantial growth in Capital Projects in rate base between *Formal Case No. 1169* and this proceeding. This growth drives the large rate base increase requested by WGL. WGL filed Supplemental Direct Testimony, as required by Commission Order No. 22311, providing details on the estimated and actual costs for all Capital Projects added during the Test Year with a cost exceeding $100,000. In addition, WGL complied with Commission rules that require the Company to provide an analysis of plant additions and retirements by plant account for the Test Year.[469] The Company further provided information on the justification for cost variances and project selection for capital investments for both PROJECT*pipes* and non-PROJECT*pipes* projects. The Commission determines that the completed Capital Projects support various purposes within the system, including Safety and Maintenance, New Business and Market Enhancement, and Information Technology. The Commission finds that WGL's Capital Projects are selected following an internal process that considers, reviews, and approves projects to support the system and provide benefits to ratepayers. The Commission also reviewed both estimated and actual costs for Capital Projects added during the Test Year and the submitted explanations for cost variances and the project justification. Based on the Commission's review, we find that the cost estimation methodology generally reflects actual incurred costs and demonstrates a reasonable prediction of incurred costs. We also find that the explanations for cost variances are reasonable based upon the information available to the Company and controllable conditions during construction and implementation. Therefore, the Commission determines that the Capital Projects added during the Test Year for PROJECT*pipes* and non-PROJECT*pipes* were reasonably incurred to support system needs and enhance the safety and reliability of WGL's distribution system. Therefore, we find the costs associated with these Capital Projects to be prudent.

203. The Commission rejects OPC's proposed disallowances of $5.6 million for

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prudency based on the facts known at the time of the prudency review are likely to be a better indication of prudency than a hindsight evaluation at the time of a rate case. Consequently, any showing that the prior prudency determination is incorrect would have to be supported by strong evidence."). *See also, Formal Case No. 869, In the Matter of the Application of Potomac Electric Power Company for an Increase in Its Retail Rates for the Sale of Electric Energy*, Order No. 9216 at 60, rel. March 3, 1989 (citing *Violet v. FERC*, 800 F.2d 280, 282 (1st Cir. 1986)). We note that the Federal Energy Regulatory Commission has maintained, "managers of a utility have broad discretion in conducting their business affairs and in incurring costs necessary to provide services to their customers. In performing our duty to determine the prudence of specific costs, the appropriate test to be used is whether they are costs which a reasonable utility management (or that of another jurisdictional entity) would have made, in good faith, under the same circumstances, and at the relevant point in time." *New England Power Co.*, 31 FERC P61,047, at p. 61,084 (1985) *New England Power Co.*, 31 FERC P61,047, at p. 61,084 (1985), aff'd, 42 FERC P61,016, at p. 61,070, reh'g denied, 43 FERC P61,285 (1988), aff'd sub nom., *Violet v. FERC*, 800 F.2d 280 (1st Cir. 1986).

[468] *See* Order No. 17132, ¶ 81; Order No. 18712, ¶ 100.

[469] 15 DCMR § 206.27 (1996).

the nine (9) non-PROJECT*pipes* projects due to cost variances because we are convinced that the cost variances were due to emergent circumstances that were not known to the Company when WGL developed the project budget. Moreover, OPCs' serious doubts have been overcome by the explanations provided by the Company. The Commission notes that OPC acknowledges that the infrastructure constructed in these projects is used and useful.[470] The Company provided explanations for cost variances citing field conditions and other uncontrollable factors. There were no major material differences between the conditions on projects where OPC sought disallowance and those where it accepted and acknowledged the necessity of field scope and the resulting cost variances as provided by WGL. Therefore, the Commission determines that the costs for these nine (9) projects were prudently incurred and reasonably managed, based on their alignment with WGL's obligations to maintain system safety, reliability, and compliance with applicable Federal and District regulations. These investments addressed infrastructure needs that support continued safe and effective service delivery.

204. Regarding OPC's comparison of the Company's cost per mile of main replaced in 2023 to other natural gas utilities, OPC has used a 2017 Department of Energy Report that presents information based on guidelines published in 2014 that do not adequately capture current economic conditions. The Commission agrees with WGL that this information is too stale to be used as a comparison to 2023 costs. Additionally, the system-wide average cited by OPC does not provide a sufficiently analogous benchmark to the District since the system-wide average includes non-urban areas.

205. On the other hand, WGL's reference to ConEdison's Manhattan-specific costs offers a more appropriate comparison, given the similar urban characteristics of Manhattan and the District. Both areas are densely populated, with aging infrastructure, and present comparable construction challenges, including limited street access, underground utility congestion, and complex permitting and coordination requirements.

206. The Commission accepts Test Year non-PROJECT*pipes* GPIS, since WGL has demonstrated that these costs were prudently incurred. The Commission notes that WGL uses the 13-month balance for these projects, as required by 15 DCMR § 206.5.[471]

2. <u>PROJECT*pipes*</u>

WGL RMA 3 – PROJECT*pipes*
OPC BCO-1 – PROJECT*pipes* and OPC Witness Fitzhenry Disallowances

207. RMA 3 reflects adjustments of Test Year amounts for PROJECT*pipes* projects incurred as of March 31, 2024, from average to end-of-period amounts, the same

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470 OPC Brief at 176.

471 15 DCMR § 206.5 (1996).

approach approved by the Commission in *Formal Case No. 1169*.[472] Since *Formal Case No. 1169*, net additions to GPIS, CWIP and COR related to PROJECT*pipes* totaled $104,035,171 on an average rate base basis. The cumulative PROJECT*pipes* net costs as of the end of the Test Year were $122,826,211; therefore, WGL itemized an $18,791,040 increase to plant in service to reflect PROJECT*pipes* at end of Test Year amounts.[473]

208. In its Application, the Company proposed to include approximately $138.7 million of PROJECT*pipes*-related plant into the development of base rates in this proceeding.[474] Of that amount, $118.5 million of that plant balance was included in the Company's PROJECT*pipes* surcharge, and $20.2 million was not eligible for collection in the PROJECT*pipes* surcharge due to the necessary spend exceeding the Program 10 cap, recovery constraints required by Term No. 72, and the gap between the end of the original approved PROJECT*pipes* 2 Program in 2023 and the start of the PROJECT*pipes* 2 Extension beginning March 1, 2024.[475] WGL also proposed a $231,158 ratemaking level increase to depreciation expense, reflecting the effect of transfers of the PROJECT*pipes* property from the surcharge totaling $107,614,058.[476] Finally, the PROJECT*pipes* adjustment includes an increase in ADIT adjustment of $8,035,220.[477]

209. Subsequently, WGL revised these PROJECT*pipes* Test Year amounts to adjust from average amounts to end-of-period amounts, as permitted by Order No. 21939.[478] The following table represents WGL's revisions from its Rebuttal Testimony:

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472 WGL (D) at 52:9-12 (Tuoriniemi Direct Testimony), *citing* Exhibit WG (D)-5 at 2.

473 WGL (D) at 54:1-4 (Tuoriniemi Direct Testimony).

474 WGL (I) at 6:9-10 (Morrow Direct Testimony).

475 WGL (I) at 6:9-16 (Morrow Direct Testimony).

476 WGL (D) at 54:20-25 (Tuoriniemi Direct Testimony).

477 WGL (D) at 55:23-24 (Tuoriniemi Direct Testimony).

478 WGL Brief at 114.

WGL Revisions to PROJECT*pipes* Surcharge

Account	Test Year – Average Amount	December 31, 2024 – End of Period Amount	Adjustment to Test Year Rate Base
GPIS	$80,506,896	$167,294,480	$86,787,585
CWIP	$13,108,574		$(13,108,574)
Cost of Removal	$10,419,702	$17,329,472	$6,909,770
Accumulated Depreciation	$(5,674,931)	$(9,486,557)	$(3,811,626)
ADIT	$(25,914,685)	$(46,316,773)	$(20,402,088)
PROJECT*pipes* In Service Net Rate Base	**$72,445,556**	**$128,820,622**	**$117,911,069**

WGL represents that the inclusion of amounts as of December 31, 2024 is consistent with Order No. 21939, and the end-of-period balances reflect plant that is used and useful in providing service to customers.[479]

210. The Company asserts that PROJECT*pipes*-related costs transferred into base rates were prudently incurred.[480] WGL has multi-year contracts with contractor crews to perform construction and replacement services, through competitive bidding and negotiated unit pricing to obtain competitive unit prices, and has Company management personnel review all units necessary for each project before payment.[481] WGL also implements a risk reduced per dollar spent methodology when selecting projects for replacement under the PROJECT*pipes* Plan and coordinates with DDOT and other utilities to minimize costs and reduce construction activity to reduce inconveniences to customers.[482] In addition, WGL points to the independent management audit performed by Continuum Capital, which found that "WGL has demonstrated prudence in implementing PROJECT*pipes* 2 projects regarding the reasonableness of actual costs."[483] The Commission acknowledged this finding in Order

479 WGL Brief at 116.

480 WGL (I) at 8:12 – 9:6 (Morrow Direct Testimony).

481 WGL (I) at 8:12-25 (Morrow Direct Testimony).

482 WGL (I) at 9:1-4 (Morrow Direct Testimony).

483 WGL (I) at 9:16-19 (Morrow Direct Testimony), *citing Formal Case No. 1154*, Independent Management Audit of PROJECTpipes 2, page 18, filed December 12, 2023.

No. 22003, stating that

> the Commission accepts the Audit findings that WGL completed the projects prudently, with sound engineering judgment, and constructional integrity. We also accept the Audit Report's finding that the work WGL performed reduced the risk, leaks, and improved safety within the District.[484]

WGL asserts that it demonstrated that RMA 3 is reasonable, reflecting prudent investments in plant used and usefulness in the provision of natural gas service during the Test Year.[485]

211. **OPC.** OPC notes that the Company is proposing to include approximately $138.7 million of PROJECT*pipes*-related plant into the development of base rates in this proceeding, $118.5 million that was collected through the surcharge, and $20.2 million outside the surcharge due to exceeding the Program 10 cap.[486] In 2023, WGL's average cost of main replacement was approximately $8.0 million per mile and average cost of service replacement was approximately $25,000 per replacement. OPC argues these costs are both well above WGL's own historical averages and exceed national averages by significant margins.[487] OPC recommends that the Commission should disallow $16.7 million of PROJECT*pipes* expenditure cost overruns that exceeded historical spending rates.[488]

212. OPC is also concerned with the excessive cost variance between estimated and actual costs of projects, arguing that the Company has not provided adequate explanations demonstrating the cost increases were prudent.[489] Many of the cost overruns come down to poor project planning and insufficient communication. The Commission should not allow the $5,610,514 of cost variances associated with non-PROJECT*pipes* projects.[490]

213. **DCG.** Witness Hopkins notes that WGL has stated the average cost to replace a leak-prone service line is $35,300.[491] One NPA to this cost might be to offer a building owner an incentive of $15,000 to fully electrify the building instead. New York utility

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[484] WGL (I) at 9:20-10:2 (Morrow Direct Testimony), *citing Formal Case No. 1154*, Order No. 22003, Attachment ¶ 1, rel. June 12, 2024.

[485] WGL Brief at 117.

[486] OPC (C) at 19:20-20:3 (Fitzhenry Direct Testimony); OPC Brief at 168.

[487] OPC (C) at 20:8-16 (Fitzhenry Direct Testimony).

[488] OPC (C) at 21:8-10 (Fitzhenry Direct Testimony).

[489] OPC (C) at 24:1-25:8 (Fitzhenry Direct Testimony).

[490] OPC (C) at 26:4-8 (Fitzhenry Direct Testimony).

[491] DCG (A) at 28:16-21 (Hopkins Direct Testimony).

ConEdison has developed a similar electrification program to provide NPAs for more than 40 segments of leak-prone pipe that would otherwise be replaced over the next decade, which allows the utility to retire the pipe segments instead.[492] By failing to consider NPAs, WGL has imprudently ignored opportunities to reduce rates and risk.[493]

214. **Sierra Club.** Witness Rábago states that AltaGas' current strategic priorities of growth in rate base and system expansion are essentially unchanged over the past five years, despite the District's growing policy commitment to decarbonization.[494] Sierra Club notes that AltaGas told investors in 2020 that its utilities business model would grow by using accelerated replacement programs to drive rate base growth.[495] Meanwhile, WGL's rate base growth has outpaced the rate of inflation by a factor of nearly four since AltaGas took control of WGL, while total deliveries, customer count, and sales have been significantly reduced.[496]

215. Additionally, Sierra Club argues that WGL should review its depreciation strategy for PROJECT*pipes* spending in light of a broader strategy to support the District's transition away from fossil fuel use, and recommends the Commission require WGL to recover pipe replacement costs through a separate tracking mechanism.[497]

216. **WGL Rebuttal.** WGL contends that the main cost driver for distribution mains and services is PROJECT*pipes*.[498] WGL asserts that this increased spend was necessary to replace high risk infrastructure to maintain a safe and reliable gas distribution system. WGL claims that this replacement work has resulted in a 28% reduction in main and service emissions since 2019.[499]

217. WGL claims that the primary cost driver for its replacement work is DDOT's restrictive permit work conditions. According to WGL, these conditions restrict WGL work areas and construction spaces, which directly increase the cost of and slow down infrastructure replacement.[500]

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[492] DCG (A) at 28:1-9 (Hopkins Direct Testimony).

[493] DCG (A) at 29:8-13 (Hopkins Direct Testimony).

[494] Sierra Club (A) at 22:8-10 (Rábago Direct Testimony).

[495] Sierra Club (A) at 22:15-23:1 (Rábago Direct Testimony).

[496] Sierra Club (A) at 31:4-10 (Rábago Direct Testimony).

[497] Sierra Club (A) at 47:2-8 (Rábago Direct Testimony).

[498] WGL (3I) at 5:10-19 (Morrow Rebuttal Testimony).

[499] WGL (3I) at 6:2-5 (Morrow Rebuttal Testimony).

[500] WGL (3I) at 6:15 – 7:3 (Morrow Rebuttal Testimony).

218. WGL notes that it uses external work crews to perform many of its infrastructure replacement, using internal crews for emergency work, meter work, and regulatory station work.[501] Contrary to OPC's contentions, WGL argues that it is more efficient for WGL to use external crews for infrastructure replacement, since infrastructure replacement work is more variable.[502] Also contrary to OPC's claims, WGL argues that there is no learning curve for external work crews, since both internal and external work crews must have the same qualifications.[503]

219. WGL contends that OPC's request for an analysis of resource allocation in this proceeding is untimely and imprudent, particularly since the Commission is considering WGL's new District SAFE proposals in *Formal Case No. 1179*.[504]

220. Contrary to OPC and DCG's arguments, WGL claims that its cost management practices are effective. WGL contends that several audits, including for PROJECT*pipes*, have found that WGL's contractor management processes result in reasonable costs.[505] WGL argues that its starting point for containing costs is its practice of using competitively bid, per-unit contracts. These contracts are overseen by management personnel who review and approve any field modifications.[506] WGL has a process in place to evaluate and approve cost increases due to field conditions.[507] WGL identifies several unknown factors that increase WGL costs, including paving, traffic control, additional hauling of materials, and additional excavation due to unknown facilities.[508] Contrary to OPC's argument, WGL contends that these additional costs are not imprudent.[509] WGL also dismisses the contention that WGL pays for the entire amount of the budgeted project, even if costs are lower than budgeted.[510]

221. WGL argues that it is inappropriate to exclude PROJECT*pipes* charges from rate base. Based on the individual circumstances of each project, WGL contends that the costs for each project were prudent, necessary, and supported by WGL's cost management processes. WGL argues that the Continuum Management Audit found that the

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501 WGL (3I) at 15:9-11 (Morrow Rebuttal Testimony).

502 WGL (3I) at 15:9-21 (Morrow Rebuttal Testimony).

503 WGL (3I) at 16:4-11 (Morrow Rebuttal Testimony).

504 WGL (3I) at 17:18-19, 18:3-5 (Morrow Rebuttal Testimony).

505 WGL (3I) at 19:2-4, 26:6-16 (Morrow Rebuttal Testimony).

506 WGL (3I) at 19:12 – 20:6 (Morrow Rebuttal Testimony).

507 WGL (3I) at 21:12-15 (Morrow Rebuttal Testimony).

508 WGL (3I) at 20:13 – 21:2 (Morrow Rebuttal Testimony).

509 WGL (3I) at 22:8-16, 23:9-16 (Morrow Rebuttal Testimony).

510 WGL (3I) at 24:14-18 (Morrow Rebuttal Testimony).

PROJECT*pipes* work was managed and completed reasonably and prudently.[511]

222. Of the thirty-eight (38) projects on the Year 9 Annual Project Reconciliation Report discussed by OPC, WGL contends that the combined variance for those projects was only around one percent (1%). WGL claims that only six (6) of those projects had a variance of more than twelve percent (12%), and three (3) of those projects involved service replacements, for which cost estimates are not required.[512]

223. For three (3) PROJECT*pipes* projects specifically questioned by OPC, WGL provides detailed explanations of the reasons for the cost variance.[513] WGL argues that the cost variances were justified by conditions that could not have been known beforehand. WGL represents that construction managers reviewed the changes and found them to be necessary and prudent.[514] WGL argues that these cost changes were prudent and necessary.[515]

224. **OPC Surrebuttal**. OPC affirmed that it recommends adjusting PROJECT*pipes* to a 13-month average balance; removing all post-test period PROJECT*pipes* costs; and removing excessive gas plant costs.[516] OPC argues WGL's proposed increase in the PROJECT*pipes* post-test period plant additions through December 31, 2024, as proposed in WGL's rebuttal testimony, will significantly increase WGL's revenue deficiency, as well as increasing proposed plant additions by 76% from the previous rate case.[517] OPC argues that the Company has not provided any evidence that demonstrates the prudency of the PROJECT*pipes* plant investments.[518] OPC continues to recommend the Commission reject all proposed post-test period PROJECT*pipes* plant additions through December 31, 2024. Going forward, the Commission should also limit the amount or percent increase in rates that a utility can seek through rebuttal or after direct testimony has been filed.[519] OPC also argues the Commission should reject WGL's arguments that DDOT enforcement policies disproportionally affected cost estimates for PROJECT*pipes*, and recommends that the Commission not allow the $16.7 million in PROJECT*pipes* cost

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511 WGL (3I) at 27:6-14 (Morrow Rebuttal Testimony).

512 WGL (3I) at 27:14-22 (Morrow Rebuttal Testimony).

513 WGL (3I) at 28:10 - 32:14 (Morrow Rebuttal Testimony).

514 WGL (3I) at 32:18 – 33:2 (Morrow Rebuttal Testimony).

515 WGL (3I) at 42:12-16 (Morrow Rebuttal Testimony).

516 OPC (2B) at 6:3-16 (Ostrander Surrebuttal Testimony).

517 OPC (2B) at 3:1-5 (Ostrander Surrebuttal Testimony).

518 OPC (2C) at 8:1 – 15:11 (Fitzhenry Surrebuttal Testimony).

519 OPC (2B) at 18:9-12 (Ostrander Surrebuttal Testimony).

overruns.[520]

225. **Sierra Club Surrebuttal.** Sierra Club states we "are in an era of transition away from dependence on fossil fuels," and therefore WGL's approach to the "used and useful" analysis increases the potential for strandable assets.[521] Sierra Club finds it unreasonable to propose the transfer of PROJECT*pipes* spending to base rates without first determining whether the investments are not only used and useful in delivering gas, but also support the District's climate goals.[522] Sierra Club argues that WGL's rate proposals and failure to align its actions with District climate laws and clean energy policies are "unjust and unreasonable, and unjustly discriminatory," as provided in D.C. Code § 34-1101(a).[523]

226. **WGL Rejoinder.** WGL responds to Sierra Club's Surrebuttal Testimony that WGL has developed a "new test" for used and useful plant, stating that

> [t]he test for used and useful plant has consistently considered whether plant is in service and used to serve the public during the test year as the threshold for the use and useful analysis. Where plant is in service and used to serve the public during the test year it may be included in a utility's rates. It is Witness Rábago who seeks to layer in a further question – i.e., whether plant may have an unspecified chance at an undefined point in the future where it will no longer be used to serve the public – to argue that the Commission should disallow the full cost of plant in service and used by the public now, because it may stop being useful before the end of its "useful" life.[524]

WGL asserts that Sierra Club has failed to show any evidence that the costs incurred during the Test Year were imprudently incurred; conflating the "useful life concept" with depreciable life used for ratemaking purposes in discussions on stranded assets.[525]

227. WGL also rejected OPC's recommendations to "micromanage" the Company's decisions on using internal versus external labor to perform emergency service replacements.[526] Emergency leaks are not consistent throughout the year, and peak in the winter months; the Company must be flexible to use both internal and external resources for

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520 OPC (2C) at 5:10-17 (Fitzhenry Surrebuttal Testimony).

521 Sierra Club (2A) at 3:6 (Rábago Surrebuttal Testimony).

522 Sierra Club (2A) at 2:15-18 (Rábago Surrebuttal Testimony).

523 Sierra Club (2A) at 4:19-20 (Rábago Surrebuttal Testimony).

524 WGL (4A) at 3:9-18 (Steffes Rejoinder Testimony).

525 WGL (4A) at 3:n3 (Steffes Rejoinder Testimony).

526 WGL (4I) at 3:9-13 (Morrow Rejoinder Testimony).

emergency service replacements to maintain a consistent labor force.[527] WGL disputes OPC's recommended disallowances on multiple PROJECT*pipes* projects because of cost variances, stating the additional charges were all necessary to maintain the safety and reliability of the systems.[528] The Company asserts that each instance the cost variance occurred because of field conditions that altered the proposed construction of the project, usually outside of the Company's control. OPC also recommends that the Commission disallow cost recovery of all post-Test Year PROJECT*pipes* plant additions, arguing the Company did not provide sufficient project information, but WGL reiterates that PROJECT*pipes* projects are submitted to the Commission on an annual basis, and are updated regularly.[529]

228. **WGL Brief.** WGL proposes to include $138.7 million of PROJECT*pipes*-related plant in rate base, arguing that PROJECT*pipes* enhances the safety and reliability of the distribution system through the replacement of aging infrastructure to address current and future leaks. WGL contends that these costs are prudently incurred. In WGL's view, the cost drivers for increased costs are largely outside of WGL's control.[530] WGL requests that the Commission permit WGL to recover these capital expenditures in this rate case.[531]

229. WGL contends that OPC's reliance on a 13-month average amount for PROJECT*pipes* net rate base is inconsistent with Order No. 21939. WGL notes that the Commission has treated non-PROJECT*pipes* and PROJECT*pipes* net rate bases differently, so that non-PROJECT*pipes* net rate base is calculated using a 13-month average, while PROJECT*pipes* net rate base is calculated based on end-of-period amounts. Unlike OPC, WGL argues that its treatment of PROJECT*pipes* net rate base is consistent with Order No. 21939.[532] WGL also asserts that accepting OPC's proposal would exacerbate the regulatory lag in the District.[533] Further, WGL contends that the Commission has not used budget variance as a reason for disallowing expenses.[534] WGL claims that it has rebutted OPC's claims regarding its proposed three (3) project disallowances, demonstrating that unknown conditions caused cost increases and showed that its costs were prudent.[535] WGL contests OPC's proposal to disallow $16.7 million due to cost increases that deviate from

527 WGL (4I) at 4:3-10 (Morrow Rejoinder Testimony).

528 WGL (4I) at 5:5-18 (Morrow Rejoinder Testimony).

529 WGL (4I) at 19:16-21 (Morrow Rejoinder Testimony).

530 WGL Brief at 225.

531 WGL Brief at 226, 242.

532 WGL Brief at 118.

533 WGL Brief at 118-119.

534 WGL Brief at 119.

535 WGL Brief at 119-120.

historical costs as being without merit.[536] WGL claims that OPC's assertion that WGL exceeded the Year 9 PROJECT*pipes* budget is wrong.[537] WGL argues that it has shown that RMA 3 is reasonable and appropriate, with the PROJECT*pipes* expenditures to be transferred into rate base prudently incurred.[538]

230. **OPC Brief.** OPC objects to the inclusion of PROJECT*pipes* CWIP in rate base for several reasons. OPC argues that the Commission typically excludes CWIP from rate base unless the Commission's three (3) prong test is met. OPC claims that WGL has not met the test in this instance.[539] Contrary to WGL's assertion, OPC argues that Order No. 21939 did not permit the inclusion of PROJECT*pipes* CWIP in rate base. OPC argues that WGL is seeking different treatment of PROJECT*pipes* CWIP than other CWIP in this case.[540] Further, OPC argues, the costs for PROJECT*pipes* projects are inefficient and imprudent.[541]

231. OPC also proposes to reduce the PROJECT*pipes* GPIS balance from end-of-period to the 13-month average. OPC justifies this adjustment by citing WGL's poor project management, excessive costs, and high leak rates.[542] OPC also argues that other GPIS is subject to the 13-month average.[543] However, OPC is not opposed to accepting WGL's revision of the calculation of the OPC rate base adjustment.[544]

232. OPC argues that all post-test-period PROJECT*pipes* balances requested in WGL Rebuttal Testimony should be removed from rate base. While WGL has made adjustments in rebuttal testimony in prior rate cases, OPC contends that the increase proposed in this rate case is "unusual and extraordinary."[545] OPC contends that rejection of these post-test-period additions is justified because: the costs are unsupported; acceptance of these costs would disincentivize WGL from filing a complete application; and acceptance of these costs is contrary to Commission precedent. OPC notes that some of the additions are nine months outside of the test period. OPC also contends that while proposing the additions in the Rebuttal Testimony, WGL did not include an updated calculation of its revenue

536 WGL Brief at 120.

537 WGL Brief at 121.

538 WGL Brief at 122.

539 OPC Brief at 23-24.

540 OPC Brief at 25.

541 OPC Brief at 26.

542 OPC Brief at 27.

543 OPC Brief at 28.

544 OPC Brief at 29-30.

545 OPC Brief at 30, *citing* OPC (2B) at 14:9-10 (Ostrander Surrebuttal Testimony).

deficiency.[546]

233. OPC argues that the application should contain the substantive portion of the rate case. To prevent utilities from making major substantive revisions to their case in testimony filed subsequent to the application, OPC urges the Commission to put safeguards in place to prevent such revisions in the future.[547]

234. OPC also argues that Order No. 21939 allowed PROJECT*pipes* plant additions for the end of the Test Year, not for post-test-year additions.[548] Unlike Vintage Mechanical Coupling Replacement ("VMCR") costs that were allowed in Order No. 18712 because they were three to four months outside the Test Year, OPC argues that WGL is seeking PROJECT*pipes* plant additions occurring nine months after the Test Year end.[549]

235. In addition to rejecting PROJECT*pipes* post-test-year additions, OPC also argues that the PROJECT*pipes* balances should be adjusted to a 13-month average, instead of end-of-period amounts. OPC justifies this adjustment by arguing that WGL has shown an inability to contain PROJECT*pipes* costs and that WGL has a higher than average leak rate.[550] OPC also cites to WGL's filing of these additions in Rebuttal Testimony without providing adequate support for these additions.[551]

236. OPC also seeks to disallow $16.7 million of accelerated pipe replacement capital expenditures due to cost escalation. The disallowance would equate to a reduction of approximately $2 million per mile for main replacement activity in 2023 and $6,000 per service replacement in 2023. OPC believes that these disallowances would impose cost discipline on WGL and bring spending down to historical rates. OPC argues that these disallowances are justified because WGL has not offered valid reasons for the significant cost increases and failed to demonstrate that its reliance on outside contractors is efficient.[552]

237. OPC argues that WGL's reliance on DDOT regulations to justify cost increases is misplaced, since WGL recognized DDOT regulations as cost factors in *Formal Case No. 1137*.[553] OPC also challenges WGL's argument that DDOT enforces its regulations

546 OPC Brief at 31.

547 OPC Brief at 34.

548 OPC Brief at 34-35.

549 OPC Brief at 35-36.

550 OPC Brief at 36.

551 OPC Brief at 37.

552 OPC Brief at 171.

553 OPC Brief at 171.

selectively.[554] OPC claims that WGL should have known of the DDOT regulations in 2023 and should have factored them into its cost process.[555]

238. Regarding the use of external crews, OPC claims that having internal work crews would be more cost efficient. OPC alleges that by relying on external work crews, WGL is indicating that it is not willing to take on more risk of regulatory lag through payment of internal crews to fix leak-prone pipe. OPC contends that the Continuum Audit in *Formal Case No. 1154* suggested that WGL examine positive and negative impacts of external versus internal crews. OPC argues that WGL has not submitted such an analysis in this proceeding or *Formal Case No. 1179.* To OPC, the Commission has insufficient evidence to determine whether the reliance on external work crews is justified.[556]

239. **Sierra Club Brief.** Sierra Club argues that the Commission should not allow WGL to transfer $11.7 million collected through the PROJECT*pipes* surcharge into base rates because WGL has not met its burden to justify this expenditure. Sierra Club claims that PROJECT*pipes* has not met its stated goals and does not comply with the Commission's climate mandates. Sierra Club alleges that PROJECT*pipes* has encountered performance problems, has been implemented more slowly that WGL's peers' programs, with expenditures that are not cost-effective. Sierra Club claims that WGL has not demonstrated how PROJECT*pipes* is meeting safety and reliability goals, how it is being managed efficiently, and how it can achieve effective emissions reductions.[557] Sierra Club urges the Commission to deny the transfer of the $11.7 into base rates.[558]

240. While WGL appears to argue that safety and reliability are the only factors needed to evaluate PROJECT*pipes*' effectiveness, Sierra Club asserts that WGL did not rebut Sierra Club's argument that additional factors are needed to address climate risk. Sierra Club contends that WGL had not quantified the emissions reduction impacts of PROJECT*pipes*.[559]

Decision

241. The Commission has treated PROJECT*pipes* GPIS differently than other GPIS. In Order No. 18712, the Commission accepted into rate base costs related to the VMCR program and PROJECT*pipes*. The Commission included project costs for those projects closed to service and providing service to customers by the end of the Test Year, not the 13-month balance. The Commission reasoned that "because these assets are providing

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554 OPC Brief at 172.

555 OPC Brief at 173.

556 OPC Brief at 176.

557 Sierra Club Brief at 11.

558 Sierra Club Brief at 10-11.

559 Sierra Club Brief at 12.

useful service for the benefit of District customers[,] they should be included in rate base in this proceeding."[560] Following this precedent, the Commission approved a $39.5 million PROJECT*pipes* surcharge rate base transfer to base rates using end of period balances as of December 31, 2021 in *Formal Case No. 1169*.

242. In this proceeding, WGL seeks to transfer PROJECT*pipes* end-of-period balances as of March 31, 2024, plus plant additions to December 31, 2024. OPC seeks to use the 13-month average to calculate the balance. OPC has not offered any convincing reason for the Commission to deviate from its precedent to use end-of-period balances for PROJECT*pipes* plant. However, the Commission is not convinced that the post-test-year PROJECT*pipes* plant should be transferred in this proceeding. Moreover, the Commission recognizes that WGL will continue to recover the costs associated with post-test-year PROJECT*pipes* investments through the PROJECT*pipes* surcharge. Thus, the Commission determines that the appropriate PROJECT*pipes* net rate base as of March 31, 2024, is $100.7 million in proposed rates on a ratemaking basis. The following table provides a summary of the $100.7 million PROJECT*pipes* surcharge rate base transfer:

Rate Base Transfer from PROJECT*pipes* Surcharge to Base Rates		
End of Period Balances as of March 31, 2024[561]		
	Description of Costs	**EOP Amount**
1	Gas Plant In Service	$129,774,866
2	Cost of Removal	13,692,208
3	**Plant Total**	**$143,467,074**
4	Accumulated Depreciation	(7,140,943)
5	Accumulated Deferred Income Taxes	(35,636,883)
6	**Rate Base**	**$100,689,248**

243. The Commission also determines that the appropriate PROJECT*pipes* surcharge revenue requirement for the Test Year ending March 31, 2024, is $12.5 million. Consistent with Commission precedent, the PROJECT*pipes* surcharge transfer to base rates using updated end-of-period balances as of March 31, 2024, presented in WGL's Rebuttal Testimony, the Commission calculates a $22.2 million adjustment to increase PROJECT*pipes* GPIS and a $5.4 million increase in Cost of Removal. The Commission also calculates a $0.124 million adjustment to reduce the Depreciation Reserve, a $1.69 million adjustment to increase ADIT and a $0.244 million adjustment to reduce depreciation expense. This action results in a net increase of $19 million in rate base and a net increase of $1.76 million in revenue requirement.[562]

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[560] Order No. 18712, ¶ 103.

[561] Exhibit WG (3D)-1 at 12:1-13:13 (Gibson Rebuttal Testimony). *See WGL PROJECTpipes Roll-In Electronic file "Exhibit WG (3D)-1 - Adj# 3 - D.C. PROJECTpipes Average to EOP - Mar 2024 and Dec 2024" for end of period PROJECTpipes Plant balances through March 2024.*

[562] *See* Commission RMA 1, Schedule 3.

244. We have allowed recovery of PROJECT*pipes* costs that were closed to service and were providing service to customers. Thus, because these assets were providing useful service for the benefits of District customers, the Commission has previously determined that these assets could be included in rate base.[563] The Commission is not persuaded to abandon its precedent and approves a $100.7 million PROJECT*pipes* surcharge rate base transfer to base rates as shown in the table below. The revenue requirement would be $12.5 million for the PROJECT*pipes* transfer, an increase from WGL's proposed $11.7 million to take into account the revised higher end-of-period balances provided in Rebuttal Testimony and the Commission's adjustments to the rate of return and ROE.[564]

PROJECT*pipes* Surcharge Transfer to Base Rates as of March 31, 2024		
	Description of Costs	**EOP Amount**
1	**PROJECT*pipes* Surcharge Transfer to Base Rates**	**$100,689,248**
2	**Required Return with taxes**	**$9,451,984**
3	Depreciation Expense	$2,706,400
4	Allowance for Uncollectibles	$328,836
5	**Total PROJECT*pipes* Transfer Revenue Requirement**	**$12,487,220**

245. Regarding the prudency of these costs, in Order No. 22003, the Commission accepted the findings of the Continuum PROJECT*pipes* 2 Audit Report, which found that WGL had completed:

> the projects prudently, with sound engineering judgment, and constructional integrity. We also accept the Audit Report's finding that the work WGL performed reduced the risk, leaks, and improved safety within the District.[565]

246. While the Commission remains concerned by cost escalations and the expense of work in the District compared to surrounding jurisdictions, the Commission determines that cost variance does not inherently indicate imprudent expenditures. Variances may result from reasonable and necessary adjustments due to field conditions, regulatory requirements, or project-specific complexities. Without evidence of mismanagement, or

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563 Order No. 18712, ¶ 103; Order No. 21393, ¶ 283.

564 WGL provided updated PROJECT*pipes* data in Rebuttal Testimony which reflected an increase in plant additions through March 31, 2024.

565 *Formal Case No. 1154, In the Matter of Washington Gas Light Company's Application for Approval of PROJECTpipes 2 Plan*; *Formal Case No. 1175, In the Matter of Washington Gas Light Company's Application for Approval of PROJECTpipes 3 Plan*; and *Formal Case No. 1179, In the Matter of the Investigation into Washington Gas Light Company's Strategically Targeted Pipe Replacement Plan*, Order No. 22003, Addendum, ¶ 1, rel. June 12, 2024.

unjustified scope changes, a cost overrun does not automatically warrant disallowance. As noted above, prudence must be assessed in the context of the conditions and information reasonably available to the utility at the time decisions were made, not with 20-20 hindsight. The blanket disallowance of PROJECT*pipes* expenditures purely on the basis of cost, as recommended by OPC, lacks sufficient corroborating and compelling information to support its recommendation. The Commission reviewed WGL's provided Class 3 cost estimates, risk rankings, project selection criteria, variance explanations for cost overruns, and explanations for scope and schedule modifications for PROJECT*pipes* supporting WGL's engineering, construction and management procedures.[566] Our review supports the conclusion of the PROJECT*pipes* 2 Audit Report that WGL's projects were appropriately managed with sound engineering judgement and were prudently incurred.

247. The parties question whether WGL should hire external crews (rather than use internal personnel) for certain work. The Continuum Audit highlighted the need to analyze internal versus external crews, which is a worthwhile effort for the Company but the Commission notes that this is under consideration in *Formal Case No. 1179*.

248. The Commission notes that DCG has suggested a non-pipeline alternative program that offers an incentive of $15,000 to fully electrify a building. While this rate case is not the proper venue to pursue this idea, there may be merit to exploring a similar program in the future.

249. OPC objects to WGL's inclusion of PROJECT*pipes* adjustments in WGL's Rebuttal Testimony, arguing that this information should have been in the Application. WGL argues that it noted in its Application that it included a placeholder subject to revision in further testimony. The Commission agrees with OPC that a rate base application should contain the substantive portion of the rate case, with sufficient information for the utility to meet its burden of proof in the application. Substantive portions of the rate case should not be altered in testimony filed after the application, with some exceptions. In this proceeding, however, WGL noted in its Application that it included CWIP as a placeholder until more detailed information was available.[567] Thus, the Commission does not reject WGL's revisions because they were properly updated in Rebuttal Testimony.

250. OPC has asked for procedural safeguards to ensure that rate base applications are complete upon filing. The Commission notes that it is currently engaged in a rulemaking to provide additional guidance into the contents of rate case applications.[568]

3. <u>2024 Depreciation Rate Study</u>

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566 *See Formal Case No. 1154*, Washington Gas's Annual Reconciliation Report, filed March 31, 2022; Washington Gas's Amended Year 8 Annual Project Reconciliation Report; filed April 13, 2023; Washington Gas's Annual Project Reconciliation Report, filed April 1, 2024.

567 WGL (3D) at 11:21-25 (Gibson Rebuttal Testimony).

568 *See generally GD-2023-2/RM1-2025-01/RM2-2025-01*.

WGL RMA 4 – Depreciation Rates
OPC BCO 2 – Reduce Depreciation Expense at Reduced Plant Balances at Adjustment BCO-1 and for Revising WGL's Proposed Depreciation Rates

251. A depreciation rate study sets the service life, survivor curve, future net salvage percentage, inflation-based discount rate, and redistributes depreciation reserve. A depreciation study is then used to inform the input values required to calculate the utility's depreciation expense. Depreciation expense is the means by which regulated utilities recoup, over the 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" This "recorded reserve" for depreciation (Accumulated Depreciation) is the total amount of depreciation that has been recorded on a utility company's assets, used to determine the rate base, by subtracting the accumulated depreciation from the original cost of the assets; essentially reflecting the current, depreciated value of the company's assets used to calculate customer rates.

252. **WGL.** WGL requests the approval of new depreciation rates based on the 2024 Depreciation Rate Study filed in this proceeding.[569] The database used in conducting the 2024 study was assembled by appending plant and net salvage transactions recorded from 2020 to 2023 to the database used in a 2020 Virginia depreciation study. This involved updating the D.C. service-life parameters and verifying the results by comparison to ledger activity recorded from 2020 to 2023.[570] The 2024 study was conducted on plant and equipment physically located within the District, as well as assigned plant located in other jurisdictions that solely serve District customers.[571] A net salvage analysis was also conducted on WGL plant and equipment, following Commission directives in *Formal Case No. 1137*.[572]

253. WGL RMA 4 provides an increase in depreciation expense reflecting the application of the proposed depreciation rates from the 2024 Depreciation Rate Study from Witness White.[573] Applying the first part of the adjustment, the 2024 Depreciation Rate Study to plant balances generates a depreciation expense increase of $7,755,586, excluding PROJECT*pipes* from the per book amount of $29,542,876 to the calculated ratemaking level

569 Exhibit WG (G)-2 (White Direct Testimony).

570 WGL (G) at 8:9-12 (White Direct Testimony).

571 WGL (G) at 8:1-21 (White Direct Testimony).

572 WGL (G) at 9 (White Direct Testimony).

573 *See generally* WGL (G) (White Direct Testimony). The 2024 Depreciation Rate Study is provided in Exhibit WG (G)-2.

of $37,298,462.[574] The second part of the adjustment is a $63,921 decrease in depreciation expense related to PROJECT*pipes*.[575]

254. WGL proposes a related adjustment to the reserve for depreciation, which includes a half-year of the depreciation expense, excluding PROJECT*pipes*, plus the total PROJECT*pipes* amount, resulting in a total of $3,813,942.[576] The Company also proposes a related adjustment to ADIT using a composite tax rate of 27.52% resulting in a total increase of $1,049,482.[577]

255. WGL conducted an analysis of computed and recorded depreciation reserves as of December 31, 2023.[578] The recorded reserve was $448,406,676, or 37.3% of the depreciable plant investment. The corresponding computed reserve was $428,284,104, or 35.6% of the depreciable plant investment. WGL states that the proportionate amount of the measured reserve imbalance will be amortized over the composite weighted-average remaining life of each rate category using the remaining-life depreciation rates proposed in the 2024 Depreciation Study.[579] WGL recommends offsetting reserve imbalances to increase depreciation rate stability. WGL states that the depreciation rate study adhered to the currently approved system that is consistent with the goals and objections of depreciation accounting.[580] WGL states that the system is expected to remain appropriate for WGL, provided that depreciation studies are conducted periodically.[581]

256. WGL's 2024 depreciation rate study was developed using the currently approved system.[582] The currently approved system relies on two-part rates using: (1) the straight-line method, vintage group procedure, and remaining-life technique for investment accrual rates; and (2) the present value method in SFAS-143 as directed by the Commission in *Formal Case No. 1093* for net salvage accrual rates.[583] WGL states that the proposed 0.54% increase in the depreciation rate is largely attributable to the settlement of *Formal Case No. 1162*, where the parties agreed to utilize a 2015 depreciation study for depreciation rates, the present value method of accruing for net salvage with no provision for adjusting

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574 WGL (D) at 55:7-11, 57:17-58:10, Exhibit WG (D)-3 at 21 (Tuoriniemi Direct Testimony).

575 WGL (D) at 58:11-13, Exhibit WG (D)-3 at 21 (Tuoriniemi Direct Testimony).

576 WGL (D) at 58:17-59:3, Exhibit WG (D)-3 at 21 (Tuoriniemi Direct Testimony).

577 WGL (D) at 59:3-17, Exhibit WG (D)-3 at 21 (Tuoriniemi Direct Testimony).

578 WGL (G) at 10:10-17 (White Direct Testimony).

579 WGL (G) at 10:10-17 (White Direct Testimony).

580 WGL (G) at 12:12-13:4 (White Direct Testimony).

581 WGL (G) at 12:15-16 (White Direct Testimony).

582 WGL (G) at 12:12-13 (White Direct Testimony).

583 WGL (G) at 11:27-12:3 (White Direct Testimony).

annual accrual rates; and a growth rate of 80% in jurisdictional plant investment over the period of CY 2014 to 2023.[584] WGL explained that the 2024 depreciation rate study covered 50 primary accounts, and Foster Associates recommended rate reductions for 15 accounts, rate increases for 23 accounts, and no change for 12 accounts.[585]

257. WGL asserts that projected service life and the survivor curve, and estimated future net salvage percent were selected for each account using informed judgment, statistical analysis of the observed retirement data, and historic ratios of realized net salvage to associated retirements.[586] WGL's statistical analysis portrays fitting first, second, and third-degree polynomials to the observed retirement data, which are then fitted to the Iowa curve using a weighted least-square procedure.[587] WGL states that recent historic net salvage ratios are impacted by changes in the allocation percentage cost of removal and service replacement for services in mains as directed by the Commission in *Formal Case No. 1137*.[588] Based on the findings and recommendations of an independent contractor review of WGL's pipe replacement process in 2018, WGL adopted a 7.6% cost of removal ratio for mains and a 20.2% ratio for services located in the District.[589] WGL states that future net salvage accrual rates are calculated using the present value method in SFAS-143, accepted by the Commission in *Formal Case No. 1093* with a Handy-Whitman Index inflation-based discount rate of 3.35%.[590] Finally, the 2024 depreciation rate study rebalanced booked depreciation reserve amounts among accounts based on the computed reserve to reduce imbalances and increase depreciation rate stability.[591] The computed reserves are based on the service life, survivor curve, and estimated future net salvage percentage proposed in the depreciation study.[592]

258. **OPC.** OPC states that the 2024 depreciation rate study was conducted in a manner that was consistent with past depreciation studies conducted for WGL and other companies.[593] OPC argues that WGL overstated the depreciation rates for Account 376.20

584 WGL (G) at 2:17-22 (White Direct Testimony).

585 WGL (G) at 3:1-3 (White Direct Testimony).

586 WGL (G) at 8:22 - 9:3, 9:6-12 (White Direct Testimony).

587 WGL (G) at 8:22 - 9:3 (White Direct Testimony).

588 WGL (D) at 57:1-15 (Tuoriniemi Direct Testimony)

589 WGL (G) at 9:16-26 (White Direct Testimony).

590 Exhibit WG (G)-2 at 15 (White Direct Testimony).

591 WGL (G) at 11:12-24 (White Direct Testimony).

592 WGL (G) at 11:12-24 (White Direct Testimony).

593 OPC (E) at 15:17-19 (Andrews Direct Testimony).

(Plastic Mains) and Account 380.20 (Plastic Services).[594] OPC argues that the proposed depreciation rates for these two accounts are excessive and inappropriately burden WGL's present-day customers with an unsupported level of depreciation expense.[595] Witness Andrews notes that the proposed increase in depreciation rates for distribution plant is attributed to the plastic mains and services accounts, which represent 70% of the depreciation increases.[596]

259. OPC argued in favor of an adjustment to reduce depreciation expense on reduced plant balances through a two-part adjustment consisting of Adjustment BCO-2(a) and Adjustment BCO-2(b). For Adjustment BCO-2(a), OPC adjusted WGL's PROJECT*pipes* GPIS from an end-of-period balance to a 13-month average balance, resulting in a reduction of gross plant of $27,107,163 and a reduction to depreciation expense of $231,158. For Adjustment BCO-2(b), OPC used the depreciation rates proposed by OPC Witness Andrews. The impact of the two-part adjustment resulted in a reduction of $7,385,773, which reduces WGL's depreciation expense adjustment from an increase of $7,691,665 to an increase of $305,892.

260. OPC disputes the reasonableness of WGL's methodology for service and survivor curves, stating that the hazard function methodology is not commonly used for public utility companies, the method is unnecessarily complex, and it is no more accurate than a simpler analysis.[597] OPC states that WGL's proposed survivor curves for Account 376.20 and Account 380.20 are not supported by WGL's data and are too short, which results in excessive depreciation rates.[598]

261. For Account 376.20 Distribution Mains-Plastic, OPC recommends the 67-R3.5 survivor curve as a better fit to the data and well within the range of reasonableness for plastic distribution mains.[599] OPC argues that the life analysis conducted by WGL supports an average life substantially greater than the 55 years WGL proposed.[600] OPC asserts that plastic pipes are expected to last longer than steel pipes because corrosion is not an issue for plastic.[601] OPC insists that increasing the life of the plastic distribution mains from 55 years to 67 years is reasonable and may be a conservatively low estimate.[602]

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594 OPC (E) at 16:1-4 (Andrews Direct Testimony).

595 OPC (E) at 16:1-4 (Andrews Direct Testimony).

596 OPC (E) at 14:18-15:13 (Andrews Direct Testimony).

597 OPC (E) at 17:9-12 (Andrews Direct Testimony).

598 OPC (E) at 18:3-6 (Andrews Direct Testimony).

599 OPC (E) at 22:2-6 (Andrews Direct Testimony).

600 OPC (E) at 20:10-21:2 (Andrews Direct Testimony).

601 OPC (E) at 22:14-23:8 (Andrews Direct Testimony).

602 OPC (E) at 22:14-23:8 (Andrews Direct Testimony).

262. For Account 380.20 Services-Plastic, OPC recommends the 65-R2.5 survivor curve because it is a better fit to the data and well within the range of reasonableness for plastic distribution services.[603] OPC argues that the average service life of the 216 data sets is 88 years and WGL's own analysis supports a substantially greater service life than the 55 years WGL proposes.[604]

263. OPC notes that WGL has not implemented any programs that will affect the property in Accounts 376.20 and 380.20.[605] Since WGL's PROJECT*pipes* program is a capital program that is replacing other pipe materials, the expectation is that plastic pipe will last longer than the steel pipe it is replacing.[606] In addition, the pipe being installed for services is the same material as distribution mains.[607] Therefore, OPC is recommending that the Commission approve a depreciation rate that assumes the average service life for distribution services to be similar to the average service life for distribution mains.[608]

264. Finally, OPC argues in favor of a redistribution of the depreciation reserve to account for changes to the survivor curve for Accounts 276.20 and 380.20 and changes to the depreciation rate for Distribution Accounts 375.00 through 387.00 and General Plant accounts 390.00 and 397.20.[609] OPC argues that the changes to the survivor curve also require redistributing the value of the theoretical reserve based on the aforementioned recalculation. OPC states that WGL recalculated the depreciation reserve based on the theoretical reserve calculation, but changing the survivor curves for Accounts 376.20 and 380.20 changes the theoretical reserve.[610]

265. **Sierra Club.** Sierra Club recommends that the Commission require WGL to conduct a separate depreciation study for the assets associated with accelerated pipe replacement in the context of a strategy to transition WGL's business along with the District.[611] Witness Rábago argues that due to the District's transition away from fossil fuel use, WGL should review its depreciation strategy for pipe replacement.[612] Sierra Club argues

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603 OPC (E) at 27:19-22 (Andrews Direct Testimony).

604 OPC (E) at 26:4-5, 26:13-27:4 (Andrews Direct Testimony).

605 OPC (E) at 28:9-11 (Andrews Direct Testimony).

606 OPC (E) at 28:11-29:2 (Andrews Direct Testimony).

607 OPC (E) at 29:2-3 (Andrews Direct Testimony).

608 OPC (E) at 29:3-5 (Andrews Direct Testimony).

609 OPC (E) at 31:2-5 (Andrews Direct Testimony).

610 OPC (E) at 30:13-14 (Andrews Direct Testimony).

611 Sierra Club (A) at 47:14-16 (Rábago Direct Testimony).

612 Sierra Club (A) at 47:10-16 (Rábago Direct Testimony).

that depreciation rates are powerful tool in advancing the ratemaking matching principle and, in ensuring just and reasonable rates for pipe replacement spending is even more important, given that the transition may reduce asset lives for obsolete fossil fuel infrastructure.[613]

266. **DCG.** DCG asserts that WGL has taken a "business as usual" approach to depreciation rates, when a comprehensive plan would allow WGL to explore other approaches to depreciation, such as utilization-based depreciation.[614] This type of depreciation would be more intergenerationally fair because it would allocate costs to the customers who use the assets in proportion to how much they use them.[615]

267. **WGL Rebuttal.** In its rebuttal testimony, WGL testifies that OPC only challenged two accounts since those accounts comprise 67.5% of the investment in the 2024 depreciation rate study.[616] WGL denies OPC's assertion that growth in plant investments is a driver to the recommended adjustments to depreciation rates, stating that the changes are attributable to adjusting projection lives, projection curves, and future net salvage rates.[617] WGL asserts that the 2024 depreciation study used methods that maximize the information of the data and minimize the influence of extraneous events while OPC simply employed a curve fitting analysis.[618] WGL states that the objective of statistical analysis of plant retirements is to estimate the parameters of a function that adequately describe the conditional probabilities of retirement and the underlying forces of retirement.[619] WGL states that there are methodological issues with OPC's approach and that OPC's claim that the survivor curves are not supported by the data is the result of selective omissions in OPC's analysis of the depreciation rate study methodology.[620]

268. WGL recommends no change to the use of the currently approved life and survivor curves of 55-R4 for Account 376.20, distribution mains-plastic, and 55-L2 for Account 380.20, services-plastic.[621] WGL claims there are growing concerns about the uncertainties of the future of the natural gas industry, and the Company does not support intentionally lengthening service lives to reduce depreciation rates, which would shift the

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613 Sierra Club (A) at 47:5-8 (Rábago Direct Testimony).

614 DCG (A) at 38:2-7 (Hopkins Direct Testimony).

615 DCG (A) at 38:10-16 (Hopkins Direct Testimony).

616 WGL (2G) at 1:25-2:6 (White Rebuttal Testimony).

617 WGL (2G) at 4:5-14 (White Rebuttal Testimony).

618 WGL (2G) at 5:2-4, 8:6-9 (White Rebuttal Testimony).

619 WGL (2G) at 7:6-9 (White Rebuttal Testimony).

620 WGL (2G) at 7:26-8:2, 11:4-12 (White Rebuttal Testimony).

621 WGL (2G) at 12:19-20, 13:8-9 (White Rebuttal Testimony).

burden of capital recovery to a future generation of ratepayers.[622]

269. **OPC Surrebuttal.** OPC argues that the WGL's criticism of the life analysis is unwarranted because OPC relied on methodologies that are widely accepted by depreciation professionals and used mathematical curve fitting rather than visual curve fitting as WGL claimed.[623] OPC also argues that truncating observed life data by removing small and insignificant data points, which are not as meaningful or indicative of future trends, is common practice.[624] Finally, OPC asserts that WGL's depreciation rate study workpapers are unnecessarily complex, and OPC had difficulty reviewing WGL's calculations because the necessary data is missing. OPC asserts that this is an uncommon approach to depreciation rates.[625]

270. **Evidentiary Hearing.** At the evidentiary hearing held on August 14, 2025, the Commission heard live testimony from WGL Witness White and OPC Witness Andrews on their life analysis and survivor curve for Accounts 376.20 and 380.20. On cross-examination, WGL Witness White acknowledged recommendations for these accounts from prior rate cases that had longer life analyses than those recommended in this proceeding.[626] WGL Witness White also agreed that the recommendation to retain the service life from the previous Commission approval was based on his analysis that the data is insufficient to recommend a change to the life analysis or survivor curve for these accounts.[627]

271. **WGL Brief.** WGL maintains that the currently approved survivor curves should be approved for the 2024 depreciation rate study.[628] WGL asserts that OPC's life analysis was substantially shallower than WGL's analysis due to differences in the rigor of analysis performed by WGL and OPC.[629] WGL argues that OPC's recommendations do not align with the Company's actual property data or with WGL's understanding of the doctrine of reasonableness.[630] WGL argues that OPC's comparisons and truncation of the survivor curve analysis are improper and were conducted to obtain a desired result.[631]

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622 WGL (2G) at 12:23-28, 13:1-3, 13:8-9 (White Rebuttal Testimony).

623 OPC (2E) at 3:18-4:3 (Andrews Surrebuttal Testimony).

624 OPC (2E) at 5:13-6:2 (Andrews Surrebuttal Testimony).

625 OPC (2E) at 7:1-14 (Andrews Surrebuttal Testimony).

626 Tr. at 243-246.

627 Tr. at 238-239.

628 WGL Brief at 132.

629 WGL Brief at 127.

630 WGL Brief at 129.

631 WGL Brief at 130.

272. **OPC Brief.** OPC claims that WGL's proposed depreciation rates are unreasonable and, absent modifications, will result in excessive depreciation expense that will be recovered in rates.[632] OPC argues that the currently approved survivor curves are no longer reasonable estimates given the influx of investments in new assets using longer-lasting materials.[633] OPC claims that the methodology it employed was sound as the truncation removed older assets that are no longer contributing meaningful value to overall plant in service for Accounts 376.20 and 380.20.[634] OPC argues that the older assets are not indicative of future trends for assets more recently placed in service because the vast majority of plant in service for these two accounts has been installed relatively recently.[635]

Decision

273. Through Order No. 17789 in *Formal Case No. 1115*, the Commission directed WGL to conduct a new depreciation study every four or five years.[636] WGL did not propose a change to depreciation rates in the previous rate case, *Formal Case No. 1169*, approved in December 2023. However, the Commission relied on the uncontested, four-year-old 2019 depreciation rate study filed in *Formal Case No. 1162* to make our decisions in *Formal Case No. 1169*.

274. WGL filed a new depreciation study conducted in 2024.[637] OPC contested the methodologies used in the depreciation study, while AOBA and Sierra Club contested WGL's rationale and approach to conducting a depreciation study. The Commission's decision on WGL's depreciation rates is guided by the depreciation principles announced in *Formal Case No. 1076* and followed in *Formal Case No. 1093*.[638] The Commission notes that we previously held that a depreciation study should be performed every four or five years to prevent the use of a stale depreciation study, which is consistent with industry practice.[639]

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632 OPC Brief at 182.

633 OPC Brief at 189.

634 OPC Brief at 200.

635 OPC Brief at 200.

636 Order No. 17789, ¶ 75.

637 Exhibit WG (G)-2 (White Direct Testimony).

638 Order No. 18712, ¶ 142, citing Order No. 17132, ¶¶ 101-110, citing *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, ¶¶ 234-236, 239, 248-252, 254, rel March 10, 2010. These principles include using inflation-based discount rates.

639 Order No. 17789, ¶ 75, citing *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*, Order No. 16930, ¶116, rel. September 27, 2012.

275. OPC contested the service life and survivor curve for the two largest accounts, Account 376.20 distribution mains-plastic and Account 380.20 services-plastic. The Commission notes that WGL and OPC conducted different life analysis methods of the historical life data for the contested accounts. The Commission agrees with OPC's evaluation that WGL has not implemented any programs that will affect the property in the contested accounts. The Commission is persuaded by OPC's assertion that replacing other pipe materials with plastic should increase the service life of the plant in service in the contested accounts. The Commission also notes that WGL Witness White had previously recommended longer service lives for Accounts 376.20 and 380.20 in prior proceedings before the Commission.[640] The Commission believes that the differing recommendations provided by WGL Witness White for Accounts 376.20 and 380.20 in this proceeding and prior proceedings lend credence to OPC's argument that WGL's methodology may be unnecessarily complex. The Commission shares WGL's concern about the inequities of intentionally lengthening plant service life and how that could push recovery to future ratepayers who may not fully benefit from the older assets. However, we do not consider a modification to the survivor curve supported by the record to be "intentionally lengthening" the service life of these assets. WGL has not sufficiently demonstrated that the retirement patterns are expected to be sooner for these accounts. The Commission notes that both the historic life analysis conducted by WGL and OPC indicate longer lives for the plant in Accounts 376.20 and 380.20.[641] The Commission finds that increasing the life of the plastic distribution mains from 55 years to 67 years and the plastic distribution services from 55 years to 65 years is reasonable and supported by the record. The Commission finds that OPC's proposed 67-R3.5 survivor curve is reasonable for Account 376.20. The Commission finds that OPC's 65-R2.5 survivor curve is reasonable for Account 380.20.

276. Pursuant to Order No. 18712, WGL was directed to revisit its policy to allocate 16.5% of the cost of main and service replacements to the cost of removal in developing its new depreciation study.[642] According to WGL's testimony, WGL hired an independent contractor in 2018 to conduct a review of pipe replacement processes and practices and provide a recommended allocation methodology as directed by the Commission.[643] Due to this independent review, WGL adopted a 7.6% cost of removal ratio for mains and 20.2% ratio for services located in the District; these ratios were adopted at the end of 2019.[644] No party disputed WGL's revised ratios. The Commission conducted its own analysis and determined that the implementation of the revised ratios is in compliance with the Commission's directive in Order No. 18712. Therefore, the Commission finds WGL's proposed percent allocation of the cost of main and service replacement to the cost

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640 Tr. at 244-246.

641 Exhibit OPC (E)-6 at 1-3, Exhibit OPC (E)-7 at 1, Exhibit OPC (E)-13 at 1-3, and Exhibit OPC (E)-14 at 1 (Andrews Direct Testimony).

642 Order No. 18712, ¶ 142.

643 WGL (G) 9:19-26 (White Direct Testimony).

644 WGL (G) 9:19-26 (White Direct Testimony).

of removal to be reasonable.

277. WGL proposed changes to the future net salvage ("FNS") percentages for the accounts listed in the table below.

WGL Proposed Changes to Current Approved Estimated Future Net Salvage Percentages

Account	Description	Current Approved FNS	WGL Proposed FNS	Difference
369.00	Measuring and Regulating Equipment	-15%	-30%	-15%
376.10	Mains-Steel	-50%	-75%	-25%
376.20	Mains-Plastic	-50%	-75%	-25%
376.30	Mains-Cast Iron	-50%	-75%	-25%
380.10	Services-Steel	-60%	-75%	-15%
380.20	Services-Plastic	-60%	-75%	-15%
380.30	Services-Cooper	-60%	-50%	+10%
382.00	Meter Installations	-15%	-10%	+5%
384.00	House Regulator Installations	0%	-10%	-10%

278. No party contested WGL's proposed changes to the estimated FNS percentages for the accounts listed above. The Commission conducted a review of WGL's proposed changes and found the calculations of the FNS percentage to be accurate and consistent with Commission precedent.[645] The Commission finds the proposal to be reasonable and accepts WGL's estimated FNS percentages for the accounts impacted as filed.

279. FNS accrual rates are calculated using the present value method in SFAS-143 accepted by the Commission in *Formal Case No. 1093*, with a Handy-Whitman Index inflation-based discount of 3.35%.[646] No party disputed WGL's calculation and use of the 3.35% Handy-Whitman Index inflation-based discount rate. The Commission has previously approved the use of the Handy-Whitman Index inflation-based discount rate in *Formal Case No. 1093* and *Formal Case No. 1137*.[647] In *Formal Case No. 1076*, the Commission held that the utility should not be allowed to charge current customers for future inflation, nor should the utility be allowed to charge current customers in higher-value

[645] Order No. 15710, ¶ 252.

[646] Exhibit WG (G)-2 at 15 (White Direct Testimony).

[647] Order No. 17132, ¶ 107, *affirmed* in Order No. 17204, ¶ 24-26. Order No. 18712, ¶ 142.

current dollars for a future cost of removal amount that is calculated in lower-value future dollars.[648] The Commission reaffirms the fairness of this approach and finds it appropriate to continue to use the Handy-Whitman Index inflation-based discount rate in this proceeding.

280. Sierra Club and DCG requested a separate or updated depreciation study to reflect the changes in the WGL infrastructure due to the District's transition away from fossil fuels. Neither party provided proposed changes to the depreciation rates in this proceeding. The Commission relies on the FERC definition of depreciation to evaluate the adequacy of a depreciation rate study:

> *Depreciation*, as applied to depreciable gas plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of gas plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities, and, in the case of natural gas companies, the exhaustion of natural resources.[649]

Based on the Commission's review of the record in this proceeding, we are not persuaded that WGL has made or is planning to make any changes to its depreciable gas plant. We also note that WGL has not stated that it is planning any changes to depreciable gas plant from causes which are known to be in current operation and not protected by insurance. WGL stated at the hearing that it does not consider "non-quantifiable concerns" such as stranded assets or greenhouse gas emissions and did not discuss these types of concerns with WGL when preparing the 2024 depreciation rate study.[650] The Commission notes that Witness White addresses the "non-quantifiable concerns" and states that addressing those concerns requires an examination of net revenue itself, as well as, pattern, and timing.[651] These "non-quantifiable concerns" are of import to this Commission and our decision-making. The Commission believes that these "non-quantifiable concerns," especially concerns that relate to the District's implementation of the Clean Energy D.C. Act, are policy matters that are better addressed through other related proceedings, such as *Formal Case No. 1167*. The record supports the argument that it is consistent with best practices to omit these "non-quantifiable concerns" from a depreciation rate study. Therefore, the Commission determines that the 2024 Depreciation Rate Study filed in this proceeding is the appropriate depreciation study for setting reasonable depreciation rates.

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648 Order No. 15710, ¶ 252.

649 FERC Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act (18 CFR part 201), Definition 12.B.

650 WGL (2G) at 12:23-13:5 (White Rebuttal Testimony); Tr. at 252.

651 Tr. at 255.

281. The total impact of adjusting depreciation rates, as described herein and presented as Commission RMA 2,[652] is a $6.2 million reduction to WGL's operating expense, which reduces revenue requirement by $5.9 million. The Commission's decision to adopt Commission RMA 2 requires the rejection of OPC's BCO-1 and BCO-2. The Commission's decision rejecting BCO-1 is discussed in Section 2 - PROJECT*pipes*. BCO-2 is a two-part adjustment, BCO-2(a) and BCO-2(b), that reduces the amount of gross plant in service by changing the methodology for accounting for PROJECT*pipes* GPIS and relies on OPC Witness Andrews' depreciation rate to calculate depreciation expense. The Commission's decision related to OPC's BCO-2(a) is further discussed in Section 4 - PROJECT*pipes* Depreciation Expense. For BCO-2(b), we reject OPC's proposed reduction to depreciation expense of $7,385,773, because the adjustment is based on a 13-month average (a methodology that is inconsistent with Commission precedent) and would result in a depreciation rate different from the one presented in Commission RMA 2.[653] The Commission identified the most reasonable depreciation rate calculations, derived from the 2024 Depreciation Rate Study, and the resulting depreciation expense, as per Commission RMA 2.

282. Based on the determinations above, the Commission approves a depreciation rate of 2.25% as shown in the table below. The Commission's depreciation decision increases rate base by $4,094,452, increases operating income by $6,153,463. Schedule 5, Annual Depreciation Rates, lists the approved depreciation rates by account.

Approved Annual Depreciation Accrual Rates

Function	Current Approved	WGL Proposed	OPC Proposed	Commission Approved
Storage	2.67%	1.90%	1.90%	1.90%
Transmission	1.57%	2.22%	2.22%	2.22%
Distribution	2.01%	2.60%	2.03%	2.03%
General	5.57%	5.56%	5.37%	5.53%
	2.21%	**2.75%**	**2.24%**	**2.25%**

4. <u>PROJECT*pipes* Depreciation Expense</u>

WGL RMA 3 – *PROJECTpipes* Depreciation Expense
OPC BCO 2 – Reduce Depreciation Expense at Reduced Plant Balances at Adjustment BCO-1 and for Revising WGL's Proposed Depreciation Rates

283. As previously stated, 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

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652 *See* Commission RMA 2, Schedule 3.

653 OPC Exhibit (2B)-2 Schedule 1 (Ostrander Surrebuttal Testimony).

to provide service to ratepayers. The costs of this specific depreciation expense are from projects completed during the Test Year that placed depreciable plant in service through PROJECT*pipes*.

284. **WGL.**WGL's general depreciation expense is currently accrued at a composite rate of 2.21% and WGL is recommending an increase of 0.54 percentage points to 2.75%.[654] The 2024 increase in rates and accruals is largely attributable to: (a) settlement of *Formal Case No. 1162* in which the settling parties agreed to retain depreciation rates developed in a 2015 depreciation study; (b) a prescribed "present value method" of accruing for net salvage with no provision for adjusting annual accrual rates; and (c) a growth rate of 80% in jurisdictional plant investment over the period 2014-2023.[655]

285. WGL proposes a $231,158 ratemaking level increase to depreciation expense for PROJECT*pipes*, reflecting the effect of transfers of the PROJECT*pipes* property from the surcharge totaling $107,614,058.[656] The $231,158 increases the PROJECT*pipes* depreciation expense per-book amount of $2,719,002 to the calculated ratemaking level of $2,950,160.[657] The reduction to depreciation expense applying the new depreciation rates on the end-of-period adjustment for PROJECT*pipes* results in an adjustment of $(63,921). The total of the Test Year and PROJECT*pipes* depreciation expense adjustments is $7,691,665.[658]

286. **OPC.** OPC argued in favor of an adjustment to reduce depreciation expense on reduced plant balances through a two-part adjustment consisting of BCO-2(a) and BCO-2(b).[659] For BCO-2(a), OPC proposed adjusting WGL's PROJECT*pipes* GPIS from an end-of-period balance to a 13-month average balance, which would result in a reduction of gross plant of $27,107,163.[660] Witness Ostrander states that this reduction requires a corresponding adjustment to reduce the related depreciation expense by $23,158, as shown in Exhibit WGL D-5, Adjust No. 3, pages 1-3.[661] OPC posits that, should the Commission reject the BCO-1 adjustment, then it would be necessary to also remove this related depreciation expense adjustment.[662] Witness Ostrander states that OPC's depreciation

654 WGL (G) at 2:9-12 (White Direct Testimony).

655 WGL (G) at 2:17-22 (White Direct Testimony).

656 WGL (D) at 54:20-25 (Tuoriniemi Direct Testimony).

657 WGL (D) at 55:1-6 (Tuoriniemi Direct Testimony).

658 WGL (D) at 58:1-15 (Tuoriniemi Direct Testimony).

659 OPC (B) at 23:1-2 (Ostrander Direct Testimony).

660 OPC (B) at 23:3-5 (Ostrander Direct Testimony).

661 OPC (B) at 23:5-9 (Ostrander Direct Testimony).

662 OPC (B) at 23:9-11 (Ostrander Direct Testimony).

expense adjustment reflects a reduction in depreciation expense related to reducing certain PROJECT*pipes* GPIS and Other GPIS costs based on OPC's recommendations for the BCO-1 adjustment.[663]

Decision

287. WGL's proposed RMA 3 of $231,158 increases depreciation expense related to PROJECT*pipes* to reflect a change in the methodology for determining PROJECT*pipes* rate base from the 13-month Test Year average amounts to end-of-period balances. The Company then revised its depreciation accrual rate and expenses in its Rebuttal Testimony, resulting in a decrease in depreciation expense for the end-of-period balance as of March 31, 2024.[664] As stated above in Section 2 – PROJECT*pipes*, the Commission has previously determined that the most reasonable methodology for calculating depreciation expense is to include project costs for those projects closed to service and providing service to customers by the end of the test year, rather than the 13-month balance.[665] To remain consistent with Order No. 18712, the Commission determines that the PROJECT*pipes* end-of-period depreciation expense amount as of March 31, 2024, should be used in order to facilitate a smooth transfer from the surcharge and avoid double recovery of these costs. As stated in Section 2 - PROJECT*pipes*, the Commission found the appropriate PROJECT*pipes* balance to be transferred to rate base to be $100.7 million. Using WGL's updated Rebuttal Testimony PROJECT*pipes* balances through March 31, 2024, the Commission adjusts the PROJECT*pipes* Test Year depreciation expense to an end-of-period balance. This results in a depreciation expense of $2,706,400, representing a $243,759 decrease from WGL's proposed RMA 3.

288. The Commission denied OPC BCO-1 related to PROJECT*pipes* in rate base, and as OPC recommended, we must deny OPC BCO-2(a) in conjunction because BCO-2(a) is dependent on the acceptance of BCO-1.[666] The Commission notes that BCO-2(a) is also inconsistent with Commission precedent because it reflects the PROJECT*pipes* depreciation expense amount as a 13-month average instead of the end-of-period depreciation expense amount as of March 31, 2024 .

5. Cash Working Capital ("CWC")

WGL RMA 30 Cash Working Capital
OPC BCO-14 Cash Working Capital

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[663] OPC (B) at 23:11-15 (Ostrander Direct Testimony).

[664] WGL Exhibit (3D)-1 (Gibson Rebuttal Testimony). WGL supports this exhibit through electronically filed workpapers titled Exhibit WG (3D)-1 – Adjustment #3 – D.C. PROJECT*pipes* Average to EOP – Mar. 2024 and Dec. 2024.

[665] Order No. 18712, ¶ 103.

[666] OPC (B) at 23:9-11 (Ostrander Direct Testimony).

289. **WGL.** WGL proposes a CWC allowance of $40,826,324, an increase of $954,625 to distribution-only per book CWC, based on its lead/lag study.[667]

290. **OPC.** OPC's adjustment is based on other OPC adjustments.[668]

291. **WGL Brief.** WGL notes that no party contested the lead/lag study filed in this proceeding, WGL asserts that its lead/lag study is consistent with the lead/lag methodology established by the Commission.[669] WGL asserts that OPC does not contest the lead/lag study; OPC's proposal to reduce CWC reflects other adjustments that OPC has made. WGL argues that its RMA 30 should be approved for the same reasons that the Commission should approve its other adjustments and reject BCO-14.[670]

292. **OPC Brief**. OPC does not propose any adjustment for CWC. Instead, OPC recommends that the Commission determine CWC in its final decision.[671]

Decision

293. The Commission finds that the lead/lag study filed in this proceeding is consistent with the lead/lag study approved in Order No. 21939 and accepts it. The Commission also agrees with the Company's methodology in calculating CWC. However, the Commission makes adjustments to the Company's proposed CWC of $40.8 million because this amount does not reflect the Commission's final approved operating expense RMAs. Therefore, the Commission makes several adjustments, including adjustments to the following line-item amounts in the Company's CWC: Payroll; other Operation & Maintenance ("O&M"); Income Taxes and interest on long-term debt. The Commission decreases the Company's $40.8 million proposed CWC, resulting in a subsequent decrease in rate base by the same amount. Therefore, the Commission approves a CWC of $39.6 million.[672]

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667 WGL (D) at 82:12-14; WGL Exhibit (D)-3 at 47 (Tuoriniemi Direct Testimony).

668 OPC Exhibit B-5 (Ostrander Direct Testimony);

669 WGL Brief at 132-133.

670 WGL Brief at 133, 184.

671 OPC Brief at 108.

672 *See* Commission RMA 8, Schedule 3.

Decision on Rate Base

294. Based on the above determinations, as summarized in the following table, the Commission approves a Rate Base of $782.9 million.

Reconciliation of WGL's Rate Base as of March 31, 2024 (From *Formal Case No. 1169* to *Formal Case No. 1180*)		
Item No.	**Description**	**Approx. Rate Base ($Millions)**
1	**Rate Base at conclusion of *Formal Case No. 1169***	**$580.4**
2	Transfer of PROJECT*pipes* Net Rate Base	$100.7
4	Post *Formal Case No. 1169* increase in Rate Base from December 31, 2021, to March 31, 2024 (27 months)	$101.8
5	**Rate Base approved in *Formal Case No. 1180***	**$782.9**

295. The approved rate base of $782.9 million includes the PROJECT*pipes* surcharge transfer through March 31, 2024 and excludes WGL's request to include the post-test period PROJECT*pipes* surcharge transfer.

IX. TEST YEAR REVENUES

A. WEATHER NORMALIZATION METHODOLOGY

296. **WGL.** In its Application, WGL proposes using a 30-year normal weather approach, as directed by the Commission in Order No. 21939.[673] WGL describes its methodology in calculating normal weather Heating Degree Days ("HDD").[674] WGL proposes the use of 3,729 HDD.[675]

297. **AOBA.** AOBA claims that WGL's "Normal Weather Study" includes several non-weather related normalization adjustments for several rate classes.[676] AOBA contends that WGL estimates an increase of 8.4 million therms in its normal weather gas use.[677] AOBA claims that WGL's estimates of Base Gas Use for the Small (< 3,075 therm) Commercial and Industrial ("C&I") Heating/Cooling and Large (> 3,075 therm) C&I Heating/Cooling classes have greatly increased since *Formal Case No. 1169*. AOBA asserts that these changes are not due to weather fluctuations; they are due to non-weather-sensitive

673 WGL (A) at 22:18-19 (Steffes Direct Testimony).

674 WGL (N) at 6:1-14 (Raab Direct Testimony).

675 WGL (N) at 7:6-8 (Raab Direct Testimony); Exhibit WG (N)-2.

676 AOBA (B) at 12:5-8 (B. Oliver Direct Testimony); AOBA Brief at 34.

677 AOBA (B) at 13:1-5 (B. Oliver Direct Testimony).

gas use.[678] AOBA also questions the large increases in estimates of Base Gas use for Peak Day Use.[679] AOBA notes that these increases are particularly questionable because Base Gas Use is usually relatively stable.[680] AOBA argues that WGL has not presented any reason for the large increases.[681]

298. AOBA claims that WGL's claims that its witness uses a "simple linear regression calculation" in its weather normalization model is misleading.[682] AOBA contends that WGL uses the simple linear regression calculation for four of the 13 rate classes: Residential Non-Heating – IMA; Residential Non-Heating – Other; Interruptible Services; and Special Contract 2 service.[683] For the other nine rate classes, AOBA represents that WGL uses a variety of multi-variable regression models.[684]

299. While WGL used some historical billing data in its Weather Normalization model, AOBA argues that WGL did not provide any reasons for its adjustments to the historical billing data.[685]

300. AOBA objects to WGL's characterization of a 60-day gas bill as a two-month gas bill and assignment of the same number of HDD to the two months, since HDD in adjacent months are often different, so information is lost. To AOBA, this practice distorts the average gas use per bill for the billing month.[686]

301. Finally, AOBA argues that WGL's Covid-19 variable is not constructed to permit meaningful assessments of the effect of Covid-19 on test year gas use.[687]

302. **Sierra Club.** Sierra Club argues that recent weather patterns should not be normalized through the use of long-term weather patterns.[688]

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678 AOBA (B) at 14:5-13 (B. Oliver Direct Testimny).

679 AOBA (B) at 14:14 – 15:3 (B. Oliver Direct Testimony).

680 AOBA (B) at 15:3-4 (B. Oliver Direct Testimony).

681 AOBA (B) at 19:2-4 (B. Oliver Direct Testimony).

682 AOBA (B) at 16:1-2 (B. Oliver Direct Testimony).

683 AOBA (B) at 17:32 – 18:3 (B. Oliver Direct Testimony).

684 AOBA (B) at 18:3-9 (B. Oliver Direct Testimony).

685 AOBA (B) at 19:12-19 (B. Oliver Direct Testimony).

686 AOBA (B) at 21:1-14 (B. Oliver Direct Testimony).

687 AOBA (B) at 50:5-7 (B. Oliver Direct Testimony).

688 Sierra Club (A) at 30:2-7 (Rábago Direct Testimony).

303. **WGL Rebuttal**. WGL presents different calculations of HDD in its Rebuttal Testimony. WGL believes that the "best" average period for determining normal weather is five years instead of 30 years.[689] Using this five-year time period, WGL calculates 3,325 HDD, 10.8% warmer than WGL's calculations in its Direct Testimony.[690] Using this number of HDD, WGL calculates that therm sales will be 6.61% lower than originally calculated. Breaking out customers by class, WGL estimates that therm sales will be 9.14% lower for residential customers, 6.44% lower for C&I customers, and 7.12% less for Group Metered Apartment ("GMA") customers.[691]

304. WGL represents that the weather normalization methodology used in this proceeding is different than that presented by WGL in *Formal Case No. 1169*, because the Commission rejected the weather methodology proffered by WGL in Order No. 21939.[692] WGL argues that the methodology mandated by the Commission due to Order No. 21939 will lead to gaps in cost recovery.[693] WGL explains that the base gas factors in *Formal Case No. 1169* and this proceeding were different due to the circumstances of the test years. In the 2021 Test Year used in *Formal Case No. 1169*, the stay at home requirement was in effect for approximately half of the Test Year, increasing residential usage and decreasing commercial usage. In the Test Year used in this proceeding, residential usage declined and commercial usage increased.[694]

305. WGL agrees with AOBA in that the WGL regression model used in this proceeding is "technically" a multiple linear regression model.[695] WGL contends that it added variables to its regression analysis to correct biases in the data and prevent incorrect conclusions.[696] Alternatively, WGL used a single linear regression model for weather normalization, omitting the variables.[697] WGL represents that this model shows therm sales that are 0.19% less than WGL's proposed therm sales. Residential sales would be 3.87% more, C&I sales would be 4.37% less, and GMA sales would be 0.36% more.[698]

306. WGL objects to AOBA's request to have the Commission impose a weather

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689 WGL (2N) at 7:14-20 (Raab Rebuttal Testimony).

690 WGL (2N) at 7:23 – 8:2 (Raab Rebuttal Testimony).

691 WGL (2N) at 8:6-12 (Raab Rebuttal Testimony).

692 WGL (2N) at 9:11-14 (Raab Rebuttal Testimony).

693 WGL (2N) at 9:15-17 (Raab Rebuttal Testimony).

694 WGL (2N) at 10:10 – 11:7; 20:3-8 (Raab Rebuttal Testimony).

695 WGL (2N) at 11:14-22 (Raab Rebuttal Testimony).

696 WGL (2N) at 12:4-7; 20:9-15 (Raab Rebuttal Testimony).

697 WGL (2N) at 16:12-18 (Raab Rebuttal Testimony).

698 WGL (2N) at 16:18-24 (Raab Rebuttal Testimony).

normalization methodology on WGL.[699] Contrary to AOBA's contentions, WGL asserts that the Commission has already provided substantive guidance relating to weather normalization methodology through several rate cases.[700] While WGL could identify volumes provided to customers as "throughput" and not "sales," as AOBA recommends, WGL does not believe that this change would be more reflective of future conditions than WGL's current approaches.[701]

307. **OPC Surrebuttal**. OPC objects to WGL's new 5-year weather methodology, arguing that it was introduced in WGL's Rebuttal Testimony, limiting the opportunity for review. OPC argues that the 30-year methodology used in WGL's Application is consistent with the methodology mandated by the Commission in Order No. 21939, while the new methodology is not consistent with Order No. 21939. OPC argues that the new methodology would raise residential rates significantly.[702]

308. **AOBA Surrebuttal.** AOBA contends that WGL's adjustments to the Normal Weather Study appear to be non-weather-related. AOBA argues that these adjustments have inappropriate influence over the class cost of service analysis and rate design proposals, particularly for C&I Heating/Cooling customers.[703] Instead, AOBA proposes to consolidate the rate structure of the C&I and GMA classes and adopt a single set of charges for those rate classes. AOBA asserts that this change would have minimal effects on other rate classes.[704]

309. AOBA contends that WGL's proposed use of a five-year average for calculating heating days is inconsistent with WGL's use of a 30-year average for its revenue requests, CCOSS, and rate design. Thus, AOBA argues, there is no basis upon which the Commission can adopt the five-year average.[705]

310. AOBA argues that it objects to WGL's use of the Covid-19 variable in its modeling because WGL's use of the variable assumes that gas use was impacted uniformly during the pandemic. AOBA asserts that this characterization is inaccurate.[706] AOBA also

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699 WGL (2N) at 4:10-17 (Raab Rebuttal Testimony).

700 WGL (2N) at 5:16-22 (Raab Rebuttal Testimony).

701 WGL (2N) at 5:1-8 (Raab Rebuttal Testimony).

702 OPC (3A) at 3:1-11 (Dismukes Surrebuttal Testimony).

703 AOBA (2B) at 3:3-14 (B. Oliver Surrebuttal Testimony).

704 AOBA (2B) at 3:15-21 (B. Oliver Surrebuttal Testimony).

705 AOBA (2B) at 5:17 – 6:10 (B. Oliver Surrebuttal Testimony).

706 AOBA (2B) at 6:20 – 7:6, 11:10-14 (B. Oliver Surrebuttal Testimony).

takes issue with WGL's use of the Covid-19 variable for only three rate classes.[707] Because WGL has introduced so many variables into its regression analysis, AOBA claims that WGL is no longer using the simple regression analysis mandated by Order No. 18712.[708]

311. Due to the non-weather adjustments in WGL's Normal Weather Study, AOBA argues that it is properly a "Throughput Normalization Study."[709] AOBA contends that the majority of WGL's adjustment is to Base Gas volumes, not Weather Gas volumes.[710] AOBA also claims that WGL improperly assumes that trends in gas usage apply to Base Gas, not Weather Gas.[711]

312. Contrary to WGL's argument, AOBA contends that there is a difference between "throughput" and "sales." AOBA claims that "throughput" refers to gas purchased from alternative gas suppliers while "sales" refers to gas purchased from WGL. Contrary to WGL's contentions, there has been volatility in throughput prices, which is hidden when all gas is classified as "sales."[712]

313. While WGL attempts to address deficiencies in its modeling in its Rebuttal Testimony, AOBA argues that the revisions are still problematic. AOBA claims that WGL fails to align the reported monthly gas use with the degree day data in the periods for which the gas use was experienced.[713] Failure to align the gas use causes problems in the regression models, AOBA contends.[714] AOBA claims that WGL's data cleanup activities to create a better alignment between gas use and HDD measures shift the burden to OPC and the Intervenors to find inaccuracies.[715]

314. **WGL Brief.** WGL argues that its Normal Weather Study complies with Commission precedent. WGL asserts that its proposed 3,729 HDD and calculation of normal weather throughput are reasonable and appropriate.[716]

315. WGL argues that the Commission should reject AOBA's apparent proposal

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707 AOBA (2B) at 11:18 – 12:2 (B. Oliver Surrebuttal Testimony).

708 AOBA (2B) at 7:19-22 (B. Oliver Surrebuttal Testimony).

709 AOBA (2B) at 9:3-9 (B. Oliver Surrebuttal Testimony).

710 AOBA (2B) at 9:16-18 (B. Oliver Surrebuttal Testimony).

711 AOBA (2B) at 10:17-20 (B. Oliver Surrebuttal Testimony).

712 AOBA (2B) at 15:8-18 (B. Oliver Surrebuttal Testimony).

713 AOBA (2B) at 16:18-20 (B. Oliver Surrebuttal Testimony).

714 AOBA (2B) at 17:17-20 (B. Oliver Surrebuttal Testimony).

715 AOBA (2B) at 17:5-9 (B. Oliver Surrebuttal Testimony).

716 WGL Brief at 140.

to impose a weather normalization methodology on WGL, even though there is no uniform weather normalization methodology. WGL contends that AOBA has not shown that WGL's methodology is inconsistent with prior Commission orders.[717]

316. WGL argues that the differences between estimated base gas usage in *Formal Case No. 1169* and this proceeding are primarily based on the fact that the Test Year in *Formal Case No. 1169* occurred during the Covid-19 pandemic, while the Test Year in this proceeding has not.[718] To adjust for Covid-19 effects on base gas usage, WGL argues that it properly used a Covid-19 dummy variable and trend variable.[719]

317. While AOBA is technically correct that WGL uses "multiple regression models" instead of a single regression model, as WGL has posited, WGL argues that this distinction is not important, since WGL's model needed to use multiple explanatory variables to address statistical flaws. WGL contends that the use of the Covid-19 dummy prevents the impact of the pandemic from biasing the determination of the relationship between natural gas use and weather.[720]

318. WGL contends that AOBA's adjustment to proposed revenues is based upon the wrong CCOSS. WGL represents that AOBA's adjustment is also based on criticisms of the GSA and Architect of the Capitol ("AOC") Special Contracts. WGL contends that the Commission considered and rejected these criticisms in Order No. 21939.[721] WGL also asserts that there is no precedent for AOBA's proposal to reduce WGL's revenues since a particular class is underearning.[722]

319. WGL argues that Sierra Club's concern with the determination of "normal weather" underscores the need for the Commission to revisit its decisions regarding normal weather methodology. In this case, WGL argues that the Commission should approve WGL's proposed new normal weather methodology.[723]

320. **AOBA Brief.** AOBA argues that the Normal Weather Study introduced by WGL embeds assumptions that maximize normalized usage to obtain higher revenue requirements.[724] AOBA identifies the following errors in the Normal Weather Study:

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[717] WGL Brief at 150.

[718] WGL Brief at 152.

[719] WGL Brief at 152-153.

[720] WGL Brief at 154.

[721] WGL Brief at 157-159.

[722] WGL Brief at 159.

[723] WGL Brief at 160-161.

[724] AOBA Brief at 33-34.

reliance on billing cycle, instead of billing cycle data; discretionary explanatory variables that inflate usage without empirical grounding; and lack of transparency in the underlying data.[725] In particular, AOBA asserts that WGL's variable for the pandemic does not take into account the fact that Covid-19 affected gas usage by various customer classes differently.[726] AOBA claims that the Normal Weather Study includes significant normalization adjustments to non-weather-sensitive gas use for several rate classes.[727]

Decision

321. The Commission has stated, "[t]he 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."[728] In Order No. 17132, the Commission granted WGL flexibility to propose a weather normalization methodology, stating:

> WGL is free to use its best judgment to refine and improve aspects of its weather normalization adjustment provided that the resulting approach uses the most recent 30 years for determining normal weather.[729]

322. In Order No. 18712, the Commission found that WGL's use of a simple regression calculation for both the weather-sensitive gas therms and Base Gas therms was reasonable since it complied with the Commission's previous rulings.[730] In *Formal Case No. 1169*, WGL proposed another new weather normalization methodology, the ARCH/GARCH methodology. The Commission rejected the ARCH/GARCH methodology and used the 30-year moving average for normal weather proposed by OPC in Order No. 21939. The Commission determined that the 30-year average was easily replicable, consistent with the criteria outlined in Order No. 17132, and used the most recent 30 years of data.[731] The Normal Weather Study in WGL's Application follows the Commission-approved 30-year average methodology established in Order No. 21939. This methodology results in a normal weather estimate of 3,729 HDDs, which the Commission approves.

323. The Commission notes that WGL argues that the methods used by gas utilities to weather normalize gas use volumes are not uniform across the industry. In order to address underearning caused by the use of 30-year normal weather, WGL proposes a shortened

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725 AOBA Brief at 35-37.

726 AOBA Brief at 36.

727 AOBA Brief at 34.

728 *See* Order No. 16930, ¶ 73.

729 Order No. 17132, ¶ 121, citing Order No. 15710, ¶ 39.

730 Order No. 18712, ¶ 186.

731 Order No. 21939, ¶ 177.

period for normal weather in its Rebuttal Testimony. While the Commission agrees with WGL that there may be a need to revisit weather normalization methods, the Commission agrees with OPC and AOBA that WGL's proposed five-year average weather forecast was introduced too late in the proceeding and did not permit sufficient time for parties to review. As a result, the record lacks sufficient evidence for the Commission to assess the impact of adopting a five-year average, including any implications to revenue requirements, cost allocations, and rate design. Therefore, the Commission rejects WGL's five-year average weather forecast methodology at this time.

324. To address the two weather normalization issues raised by WGL in this proceeding, the Commission establishes a Weather Normalization and Climate Working Group ("WNCWG"). The WNCWG will examine weather normalization calculations and recommend improvements to the approved weather normalization methodology. The goals of the WNCWG are to:

1. Examine the existing gas distribution weather normalization calculation based on 30 years of data in comparison to alternative calculations as presented by WGL Witness Raab in Rebuttal Testimony.
2. Identify possible improvements to the existing weather normalization calculation.
3. Consider a modification to the General Service Provision ("GSP") on Classes of Service. Specifically, the commercial and industrial ("C&I") and group metered apartments ("GMA") have language that modifies the threshold for incurring a certain customer charge, based on 3,075 therms of normal weather usage.

We direct the Commission Staff to convene the WNCWG within 90 days of the date of this Order. The Commission directs WGL to file a joint report with recommendations and a discussion of the goals outlined above and other relevant subject matters by June 30, 2026.

B. FORECASTED REVENUES AND UNCOLLECTIBLES

WGL RMA 1 - Revenues and Related Expenses; OPC BCO-10 - Adjust Uncollectible Expense to a Normalized Annual Level

325. **WGL.** WGL proposes to increase Test Year operating revenues by $19,414,936 and the Test Year revenue-related expenses by $5,459,640. WGL also proposes to set adjusted operating revenues at present rates for the test at $$211,627,531.[732] Because the level of uncollectibles is influenced by weather and the cost of gas, WGL argues that it is necessary to adjust uncollectibles.[733] WGL asserts that the revenue component of RMA 1

[732] WGL Brief at 135.

[733] WGL (E) at 15:9-14 (Banks Direct Testimony).

is comprised of two categories: Deliveries of Gas; and Other Operating Revenues.[734] WGL proposes an adjustment to the Deliveries of Gas category to take into account the warmer than average weather experienced during the test period.[735] WGL asserts that it followed the Commission's directives to compute this adjustment.[736]

326. For Other Operating Revenues, WGL claims that it excluded recovery of gas costs from the computation of weather-normalized revenues to reflect distribution-only amounts.[737] WGL contends that it also aligned late payment charges with weather normalized revenues.[738] The "Miscellaneous Service Revenues" category, which includes payments for dishonored checks and reconnection fees, was not adjusted as the levels of these revenues during the Test Year were similar to revenues in previous years.[739] While revenues from the AOC contract are treated as firm revenues, revenues from the GSA Combined Heat and Power ("CHP") contract are treated as interruptible and excluded from revenues.[740] Because the Sustainable Energy Trust Fund ("SETF") and Energy Assistance Trust Fund ("EATF") are components of base rates, WGL asserts that it is necessary to synchronize the related expense in the cost of service with the treatment of revenues.[741] WGL also adjusts pass-through taxes.[742] WGL argues that these adjustments should be adopted.[743]

327. WGL calculated its uncollectible revenue-related expense by using a five-year average. WGL asserts that it explained the reasoning for this adjustment, as well as adjustments to revenue-related expenses for the SETF, the EATF, and pass-through taxes.[744]

328. **OPC.** OPC contends that WGL's five-year average includes outlier amounts for 2020, 2021, and 2022, resulting in a high-than-average amount for Uncollectibles.[745]

734 WGL (E) 5:11-19 (Banks Direct Testimony).

735 WGL (E) 6:1-7 (Banks Direct Testimony).

736 WGL (E) 6:22 – 7:3 (Banks Direct Testimony); WGL Brief at 142.

737 WGL (E) 9:2 – 10:2 (Banks Direct Testimony); WGL Brief at 142-143.

738 WGL (E) 11:13-14 (Banks Direct Testimony), WGL Brief at 143.

739 WGL (E) 12:6-15 (Banks Direct Testimony); WGL Brief at 143.

740 WGL (E) 13:7-11 (Banks Direct Testimony); WGL Brief at 144.

741 WGL (E) at 16:20-22 (Banks Direct Testimony); WGL Brief at 142-143.

742 WGL (E) at 17:9 – 18:18 (Banks Direct Testimony); WGL Brief at 142.

743 WGL Brief at 144.

744 WGL Brief at 145-146.

745 OPC (B) at 133:16-21 (Ostrander Direct Testimony).

OPC proposes a reduction in the uncollectible amount, using 2018, 2019, and 2020 in its average.[746]

329. **WGL Rebuttal.** WGL opposes OPC's proposed adjustment for Uncollectibles, arguing that the Commission has already considered and rejected OPC's arguments in prior rate cases.[747] WGL argues that it has normalized higher than normal uncollectibles in 2020, 2021, and 2022 by using the five-year average, making OPC's adjustment unnecessary.[748] WGL asserts that the use of the five-year average ensures that a representative uncollectible rate that takes into account both periods of higher than normal and lower than normal uncollectibles is established.[749] Because the charge off amounts are based on WGL's books, WGL asserts that these costs are known and measurable.[750] WGL also argues that the use of the five-year average is consistent with Commission precedent, so OPC's BCO-10 should be rejected.[751]

330. **OPC Brief.** OPC objects to WGL's uncollectibles adjustment because it is excessive, including outliers and reflecting unique and non-recurring conditions from prior years. In OPC's view, these outliers cause an unusually high five-year average uncollectibles accrual rate. Thus, OPC argues that its adjustment for Uncollectibles should be approved.[752]

Decision

331. In Order No. 12589, the Commission reaffirmed its use of the five-year average methodology to calculate uncollectible revenue-related expense, finding that a five-year average often includes amounts that deviate from the arithmetic average on both the high and low ends. The Commission rejected an alternative calculation by OPC since OPC had not justified its alternative.[753] WGL has used the approved five-year average methodology to determine uncollectible revenue-related expense in this proceeding. While the Commission recognizes OPC's concerns that the data used in WGL's five-year average methodology may be influenced by the unique conditions of the Covid-19 pandemic, the

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746 OPC (B) at 134:5 - 135:2 (Ostrander Direct Testimony).

747 WGL (2E) at 2:4-13 (Banks Rebuttal Testimony).

748 WGL (2E) at 3:9-23 (Banks Rebuttal Testimony).

749 WGL (2E) at 5:8-21 (Banks Rebuttal Testimony).

750 WGL (2E) at 5:22-25 (Banks Rebuttal Testimony).

751 WGL Brief at 147-149.

752 OPC Brief at 102-103.

753 *Formal Case No. 989, In the Matter of the Office of the People's Counsel's Complaint for a Commission-Ordered Investigation into the Reasonableness of Washington Gas Light Company's Existing Rates and 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. 989*"), Order No. 12589, ¶ 125, rel. October 29, 2002 ("Order No. 12589").

Commission believes that data from 2020, 2021, and 2022 remain more recent and reflective of current market conditions than the older data from 2018 and 2019. Accordingly, the Commission finds that using the five-year average methodology is reasonable and appropriate as it normalizes the uncollectible expenses results over time, and any abnormal conditions during the pandemic years are appropriately smoothed by the averaging methodology.

332. Moreover, the Commission rejects OPC's proposed BCO-10 adjustment to Uncollectible gas account expense that reduces revenue requirement by $1 million because it is not based on the Commission-approved five-year methodology and adopts WGL's five-year average methodology used in RMA 1, resulting in an accrual rate of 2.7046%.

X. TEST YEAR EXPENSES

333. 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 proposes several RMAs enumerating its expenses, resulting in a proposal to recover $197,744,8428 for total, distribution-only operating expenses.[754] OPC and AOBA propose modifications of WGL's RMA and adjustments of their own.

A. LABOR EXPENSES – WAGES AND SALARIES

WGL RMA 5 Wages and Salaries
OPC BCO-4: Adjust Pay Raises to Reflect Reduced Payroll Costs for Additional May to November 2024 Employee Reductions

334. **WGL.** WGL proposes known and measurable adjustments to wages and salaries that WGL will incur during the rate effective period. The adjustment: annualizes the pay increases that occurred during the Test Year; contains wage increases for union employees pursuant to union contracts; includes salary increases for management employees that will occur within 12 months of the end of the Test Year; and normalizes union ratification bonuses.[755] WGL contends that the methodology used to calculate this adjustment follows the methodology approved in Order No. 21939 with one exception: discontinuation of the elimination of the per book payroll expenses for the three Damage Prevention employees hired pursuant to Term No. 7.[756] WGL asserts that the pay increases for union and management employees are known and measurable and should be included.[757]

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754 WGL Brief at 161.

755 WGL (F) at 7:12-21 (Smith Direct Testimony).

756 WGL (F) at 8:3-8 (Smith Direct Testimony).

757 WGL (F) at 9:1-19 (Smith Direct Testimony).

WGL uses the average employee headcount during the Test Year to calculate employee levels. WGL maintains that this headcount excludes the numbers of employees affected by the Involuntary Separation Plan ("ISP"), so WGL contends that no further adjustment is necessary.[758]

335. **OPC.** While WGL addresses the April 2024 ISP involving 70 positions in this proceeding, OPC argues that WGL does not disclose or account for the larger Voluntary Separation Plan ("VSP"), which impacted 92 management positions and 13 union positions that occurred between May and November 2024. OPC contends that the VSP reduced costs by $17.5 million.[759]

336. Regarding raises, OPC proposes to permit Test Year union raises but not post-Test-Year union raises and to prohibit Test Year and post-Test-Year management raises. Should the Commission grant recovery for management wages, OPC proposes that these wage increases be limited to 3% because WGL has not provided sufficient information to justify a higher wage increase.[760] OPC does not oppose the union ratification bonus.[761] OPC opposes the post-test-year wage increases since they do not take into account payroll decreases due to the May through November 2024 reduction in headcount and are thus inflated.[762]

337. OPC also contends that WGL proposed different pay raises for management for the same years (2022 – 2024) in *Formal Case Nos. 1169* and *1180*. OPC questions why WGL argues that pay increases are known and measurable when WGL has proposed different pay raise percentages for the same periods of time in different proceedings.[763] OPC adds that all components of a pay raise must be known and measurable for the pay raise to be considered known and reasonable.[764]

338. **WGL Rebuttal.** WGL asserts that it sought information from various sources to determine the amount of salary increases. WGL contends that it tries to set salary increases that are in the market median.[765] Contrary to OPC's assertion, WGL contends that

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758 WGL (F) at 9:23 – 10:6 (Smith Direct Testimony).

759 OPC (B) 35:19 – 36:9 (Ostrander Direct Testimony); OPC Brief at 69.

760 OPC (B) 51:7-10 (Ostrander Direct Testimony); OPC Brief at 70.

761 OPC (B) 37:3 -5 (Ostrander Direct Testimony); OPC Brief at 68.

762 OPC (B) 41:14-17 (Ostrander Direct Testimony); OPC Brief at 71.

763 OPC (B) 46:3 – 47:20; 50:9-12 (Ostrander Direct Testimony).

764 OPC (B) 48:7-9 (Ostrander Direct Testimony).

765 WGL (2M) at 4:7-10 (Burgum Rebuttal Testimony).

it provides its supporting documentation to OPC.[766]

339. Regarding the VSP, WGL argues that many of the union positions will be filled, not eliminated, so OPC's reductions for union pay raises should be rejected.[767] WGL contends that the impact of the VSP on management positions is not known and measurable; WGL presented its most reasonable estimate of the salaries expense during the rate effective period. Since WGL has already hired to fill some of those management positions, the Commission would need to recalculate OPC's adjustment to take into account those hires if the Commission accepted OPC's adjustment.[768]

340. WGL also asserts that OPC's adjustment for the Test Year annualization of pay increases that occurred during the Test Year are unnecessary, as WGL removed the 12-month labor expenses for the employees affected by the ISP prior to the 2024 annualization. Thus, the costs only included costs for the employees remaining after the ISP.[769]

341. WGL notes that in Order No. 21939, the Commission rejected WGL's proposed management pay increases and used the pay increases that occurred within 12 months of the end of the test year to calculate pay increases. In this case, WGL asserts that it used an average of the last three years of pay increases to project the 2025 pay increases, having no other information.[770] Since the 2025 pay increase is now known and is lower than the projected increase, WGL amends its costs into the rate effective period to adjust labor expenses by $16,000 and associated payroll taxes by $1,100.[771]

342. **OPC Surrebuttal.** OPC objects to the use of WGL's December 2025 budgeted headcount figures in its calculation because WGL has not documented these figures. OPC also contends that WGL's headcount figures have historically been inaccurate.[772]

343. **WGL Brief.** For its labor expenses, WGL argues that its proposed adjustments are consistent with the methodologies approved in Order No. 21939, with the exception of the ISP, which did not occur in *Formal Case No. 1169*, and an uncontested medical plan cost inflation adjustment, which was not proposed in *Formal Case No. 1169*.

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[766] WGL (2M) at 4:20 – 5:2 (Burgum Rebuttal Testimony).

[767] WGL (2F) at 14:20 – 15:4 (Smith Rebuttal Testimony).

[768] WGL (2F) at 15:5-16 (Smith Rebuttal Testimony).

[769] WGL (2F) at 15:21 – 16:5 (Smith Rebuttal Testimony).

[770] WGL (2F) at 16:10-19 (Smith Rebuttal Testimony).

[771] WGL (2F) at 17:1-11 (Smith Rebuttal Testimony).

[772] OPC (2B) at 91:3-18 (Ostrander Surrebuttal Testimony).

WGL notes that only three of the nine labor adjustments are contested.[773]

344. According to WGL, its wages and salaries adjustment uses the average test year number of employees is consistent with Commission precedent.[774] WGL contends that its post-test-year labor expenses satisfy the three-part test articulated in Order No. 21939: they are not too remote in time; they are known and measurable; and they benefit ratepayers by preventing attrition. WGL argues that RMA 5 meets this standard.[775] WGL represents that the union pay increases were based on their collective bargaining agreements, while management pay increases were calculated using a historical three-year average.[776] WGL asserts that it used the headcount expected for the rate effective period.[777]

345. WGL objects to OPC's proposal to limit union pay increases due to the ISP. WGL argues that adjusting headcount does not justify denial of contractually mandated pay increases.[778] For management employees, WGL contends that RMA 5 already removes 12 months of labor expenses for employees affected by the ISP. WGL claims that the management pay increase only applies post-ISP. WGL argues that OPC proposes to double count the effect of the ISP by eliminating management wage increases, which WGL asserts is unreasonable and improper.[779] WGL asserts that the management pay increase of 4.58% is known and reasonable, as is the reduction in management employees.[780] Contrary to OPC's argument, WGL asserts that the management pay increases are consistent with Order No. 21939.[781] Thus, WGL urges the Commission to accept RMA 5.[782]

346. **OPC Brief.** OPC argues that WGL has not addressed the VSP reduction in headcount from May through November 2024. Thus, OPC claims that the Commission should reject WGL's payroll adjustments and accept OPC's proposed adjustment, which addresses this reduction.[783] OPC disagrees with WGL's reference to the Commission's approval of post-test-year pay increases in Order No. 21939 by arguing that WGL does not

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773 WGL Brief at 163.

774 WGL Brief at 175.

775 WGL Brief at 164, 175.

776 WGL Brief at 165-166.

777 WGL Brief at 166.

778 WGL Brief at 167.

779 WGL Brief at 167-168.

780 WGL Brief at 169.

781 WGL Brief at 168-169.

782 WGL Brief at 170.

783 OPC Brief at 73.

take into account its workforce reductions post-test-year in this proceeding.[784] According to OPC, WGL has overstated its payroll costs that do not reflect known and measurable payroll reductions.[785]

347. Regarding WGL's management pay increases, OPC argues that they should be rejected because WGL proposed very different pay increases for the same years 2022, 2023, and 2024. While WGL argued that these raises were "known and measurable," OPC questions how two very different pay raises can be known and measurable.[786] OPC also contends that WGL did not provide sufficient support for the management pay increases. Thus, OPC argues that management pay increases should be limited to 3%.[787]

Decision

348. The Commission accepts WGL's methodology to calculate the base amount for its proposed pay raise adjustments because the proposed methodology is consistent with Commission precedent. After review of the record, the Commission finds that WGL's calculation of the base amount for its proposed Union pay raise adjustments is consistent with Commission precedent. These 3% raises are included in the Union contracts, so they are known and measurable. Therefore, the Commission accepts WGL's proposed Union test period pay raises effective in 2023 and 2024.

349. The Commission modifies WGL's proposed management test period pay increases of 3.97% effective January 1, 2024, and proposed management pay increase of 4.58% effective January 1, 2025. While the Commission accepts WGL's calculation of the base amount for its proposed management pay raise adjustments, the Commission finds that WGL's proposed increases are unreasonable because they are higher than the rate of inflation. The Commission finds that a 3% management pay increase is appropriate, reasonable, and consistent with the current inflation rate. Therefore, the Commission approves a 3% management pay increase for 2024 and the first three months of 2025. This results in a $0.196 million decrease to the Revenue Requirement.[788]

B. INVOLUNTARY SEPARATION PLAN ("ISP") AND VOLUNTARY SEPARATION PLAN ("VSP")

WGL RMA 13 Involuntary Separations Labor Expense Adjustment OPC BCO-5: Remove Payroll for Phase 2 Employee Reduction

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[784] OPC Brief at 73.

[785] OPC Brief at 73-74.

[786] OPC Brief at 75.

[787] OPC Brief at 78.

[788] *See* Commission RMA 3, Schedule 3.

350. **WGL.** Due to the elimination of 70 positions in April 2024 ("the ISP"), WGL removes the actual costs of their salaries and wages, STIs, and the employer portion of benefits. WGL contends that these costs will not be incurred during the rate effective period and are known and measurable.[789]

351. **OPC.** While WGL removed the costs of the positions eliminated in the ISP, OPC argues that WGL did not also remove the costs of the 92 management employee and 13 union employee positions eliminated between May and November 2024 in a Voluntary Separation Plan ("the VSP"). To account for these costs, OPC removed an additional $3.0 million for WGL-D.C.[790]

352. OPC argues that WGL was not forthcoming about the elimination of these additional positions in the VSP. OPC questions the accuracy and reasonableness of other WGL costs in this proceeding.[791]

353. **WGL Rebuttal.** Since the cost savings and the amortization of the cost to achieve the cost savings of the ISP were known and measurable at the end of the Test Year, WGL argues that both of these adjustments should be adopted by the Commission.[792] However, costs from the VSP that began in September 2024 were not known and measurable at the end of the Test Year and were outside the Test Year, so WGL did not include those costs as an adjustment. WGL also argues that some positions included in the VSP have been refilled, unlike positions in the ISP.[793]

354. **OPC Surrebuttal.** OPC accuses WGL of withholding information regarding cost savings, headcount, and backfilled positions for the VSP. OPC claims that its adjustment is conservative because it did not exclude costs from certain union positions that were eliminated.[794]

355. While the VSP occurred outside of the test period, OPC contends that reasonable post-test-year costs that are known and measurable can be quantified and updated during the proceeding. OPC notes that WGL has included post-Test-Year costs for other costs in this proceeding. However, OPC contends that WGL has included post-Test-Year cost increases without including post-Test-Year cost decreases.[795] OPC also asserts that VSP costs extending to November 2024 are known and measurable, similar to the post-Test-Year

[789] WGL (F) at 19:8-16 (Smith Direct Testimony).

[790] OPC (B) at 57:0-19 (Ostrander Direct Testimony); OPC Brief at 67.

[791] OPC (B) at 62:4-7 (Ostrander Direct Testimony).

[792] WGL (2F) at 6:1-7 (Smith Rebuttal Testimony).

[793] WGL (2F) at 6:9-18 (Smith Rebuttal Testimony).

[794] OPC (2B) at 85:1-5 (Ostrander Surrebuttal Testimony).

[795] OPC (2B) at 86:8-19 (Ostrander Surrebuttal Testimony).

management pay increases that WGL seeks to include. OPC also represents that the Commission approved post-Test-Year pay increases for one year post-Test-Year and post-Test Year headcount in *Formal Case No. 1169*.[796]

356. Further, OPC alleges that the reason it cannot provide more data about the VSP's post-Test-Year costs is because WGL has not provided that data.[797] Because WGL has not provided sufficient data to meet its burden of proof regarding its adjustment, OPC contends that the Commission should reject WGL's adjustment and accept OPC's VSP adjustment.[798]

357. **WGL Brief.** WGL argues that while OPC accepts RMA 13, OPC additional reductions that OPC claimed would occur between May and November 2024. WGL contends that OPC's further reductions conflate the ISP with the VSP. WGL claims that the effect of the VSP on headcount is not reasonably knowable, since WGL is actively hiring the fill the VSP positions. Further, WGL represents that the ISP involved elimination of positions, while VSP positions will eventually be refilled.[799] WGL contends that the VSP's timeframe is too far removed from the end of the Test Year. Additionally, WGL asserts that Adjustment BCO-5 is inconsistent with Order No. 17132, which stated that the Commission would not adjust wages and salaries due to post-test-year changes in headcount. Instead, in Order No. 17132, the Commission used average test-year employee levels instead of end-of-period employee levels because there was no evidence that the headcount changes were anomalous. WGL argues that it is uncontested that the VSP is an anomalous event.[800]

358. WGL asserts that RMA 13 is reasonable and OPC's BCO-5 should be rejected. However, should the Commission decide to adjust the revenue requirement to take into account the ISP and the VSP, then the Commission should reject both RMA 13 and BCO-5, which would reduce the revenue requirement by $196,435.[801]

359. **OPC Brief.** While WGL accounted for the ISP in its payroll expenses, OPC contends that WGL did not adjust its payroll expenses for the VSP, which also reduced headcount. Thus, OPC reduces payroll costs to take into account the VSP.[802] OPC argues that the VSP did not occur too far outside of the Test Year for these reductions to be excluded from payroll expenses. OPC also claims that these costs are known and measurable. Thus,

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796 OPC (2B) at 87:4 – 88:6 (Ostrander Surrebuttal Testimony).

797 OPC (2B) at 88:13 – 89:11 (Ostrander Surrebuttal Testimony).

798 OPC (2B) at 90:17 – 91:2 (Ostrander Surrebuttal Testimony).

799 WGL Brief at 173

800 WGL Brief at 174.

801 WGL Brief at 175.

802 OPC Brief at 79.

inclusion of these cost reductions is consistent with Commission precedent.[803]

Decision

360. In 2024, WGL reduced its headcount through two programs: the ISP in April 2024; and the VSP from May through November 2024. WGL argues that these two programs differ in that the ISP permanently eliminated positions, while the VSP did not necessarily eliminate the positions. WGL and OPC agree on the elimination of the ISP costs but disagree on the treatment of VSP costs.

361. The Commission determines that WGL RMA 13 is appropriate because the ISP program resulted in a permanent reduction in WGL's headcount and this adjustment correctly reduces gross payroll costs related to the ISP program for the purposes of determining the level of payroll costs used in calculating pay raises in the test period and post-test period. The ISP program costs will not occur in the rate effective period, are known and measurable, and reduce costs, generating benefits to ratepayers. Thus, the Commission accepts WGL's proposed RMA 13 reflecting the reduction in salaries and other related expenses related to the ISP, resulting in a $2 million decrease in cost of service and the amortization of the cost to implement the ISP.

362. Regarding the VSP, the Commission determines that the final impact of the VSP is not known and measurable as the Company was in the process of actively hiring as of May 2025 to backfill some of the positions affected by the VSP. Per WGL, some of the roles have been backfilled and the hiring process is likely to continue.[804] OPC's BCO-5 adjustment of $3 million related to the VSP costs for 92 management employees fails two of the three-prong test since the amounts are: (1) unknown and uncertain, and thus cannot be calculated with precision; and (2) are too remote in time. Thus, the Commission rejects BCO-5.

C. INVOLUNTARY SEPARATION COST TO IMPLEMENT

WGL RMA 14 Involuntary Separation Cost to Implement
OPC BCO-6: Amortization of Implementation Expenses
For Involuntary Separation Program

363. **WGL.** To implement the reduction in headcount, WGL argues that it incurred expenses including severance costs, accrued incentive compensation, Consolidated Omnibus Budget Reconciliation Act ("COBRA") medical and dental benefits, outplacement benefits, and certain consultant costs.[805] Because these costs occurred before the benefits of the ISP

[803] OPC Brief at 81-82.

[804] WGL (3A) at 12:5 – 13:2 (Steffes Rebuttal Testimony).

[805] WGL (D) at 60:17-19 (Tuoriniemi Direct Testimony).

manifested, WGL proposes to amortize these costs over a five-year period.[806] WGL contends that this proposal is consistent with Commission precedent in Order Nos. 17132 and 18712.[807] WGL asserts that the ISP did not have an impact on OPEB and pension expenses.[808]

364. **OPC.** OPC removes WGL's amortization adjustment of $271,011 since WGL has not provided sufficient information regarding the VSP.[809] OPC contends that WGL has not been responsive in data requests regarding whether WGL incurred additional expenses in the May through November 2024 VSP.[810]

365. **WGL Rebuttal.** WGL argues that OPC's removal of the amortization expense is unsupported. WGL also contests OPC's post-test-year adjustment based on reduced employee headcount.[811]

366. **OPC Surrebuttal.** OPC supports offsetting this adjustment by the cost savings of the VSP. Since WGL has not provided cost information regarding the VSP, OPC believes that such information would undercut WGL's position. OPC contends that WGL has not provided such information to meet its burden of proof regarding this RMA.[812]

367. **WGL Rejoinder.** WGL argues that OPC conflates arguments regarding the ISP and VSP in order to justify a substantial revenue decrease that is unsupported by known and measurable costs.[813] While WGL argues that the Commission should reject OPC's adjustment, should the Commission approve an adjustment related to both ISP and VSP costs, the Commission should reject OPC's adjustment to VSP costs and WGL's adjustment to ISP costs.[814] This adjustment would reduce the revenue requirement by $196,435.[815]

368. **WGL Brief.** In WGL's Rejoinder Testimony, WGL proposed an alternative method of treating ISP and VSP costs, although it continues to support its original

806 WGL (D) at 60:20-24 (Tuoriniemi Direct Testimony).

807 WGL (D) at 53:4-17 (Tuoriniemi Direct Testimony).

808 WGL (F) at 14:23 - 15:1(Smith Direct Testimony).

809 OPC (B) at 66:5-10, 69:6-11 (Ostrander Direct Testimony).

810 OPC (B) at 67:20–68:7 (Ostrander Direct Testimony).

811 WGL (2F) at 5:5-15 (Smith Rebuttal Testimony).

812 OPC (2B) at 85:6-18 (Ostrander Surrebuttal Testimony).

813 WGL (3F) at 2:10-17 (Smith Rejoinder Testimony).

814 WGL (3F) at 2:20 – 3:6 (Smith Rejoinder Testimony).

815 WGL (3F) at 3:10-11 (Smith Rejoinder Testimony).

proposal.[816]

369. Notwithstanding the VSP, WGL asserts that it hired five new union employees between January and February 2025. Thus, WGL contends, there is no reason to reduce headcount in the manner that OPC proposes.[817]

370. **OPC Brief.** OPC supports its removal of WGL's $271,011 amortization adjustment on the basis that WGL did not remove payroll costs for the VSP and did not provide updated post-test-year information to show VSP cost savings. OPC asserts that WGL did not meet its burden of proof on this issue.[818]

Decision

371. The Commission determines that the removal of the amortization costs incurred to implement the ISP proposed by OPC is not appropriate because U.S. Generally Accepted Accounting Principles ("GAAP") requires specific treatment for costs associated with employee activities.[819] This accounting standard requires that one-time termination benefits be recognized only when a detailed plan is approved and communicated to employees. If the benefits extend over a service period, as was the case for the VSP, the costs must be amortized over that period, not expensed immediately. Amortization ensures that expenses are matched with the periods in which the related benefits are provided, which yields a more accurate reflection of the economic impact of restructuring decisions. Therefore, Commission rejects OPC's BCO-6 adjustment of $0.271 million, which seeks to remove the amortization of costs incurred to implement the ISP, as removing amortization would lead to noncompliance with accounting standards. In contrast, WGL RMA 14 is consistent with accounting standards; therefore, the Commission accepts this adjustment.

D. SHORT TERM INCENTIVE PLAN

WGL RMA 5 Wages and Salaries
OPC BCO-12: Adjust Short-Term Incentives

372. **WGL.** WGL argues that it structures its salaries to include both base salary and "at risk" short- and long-term incentives. STI are available to all employees, including collective bargaining employees; long term incentives are available for management. The goal of these incentive programs is to link pay to performance.[820]

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816 WGL Brief at 176.

817 WGL Brief at 167.

818 OPC Brief at 83.

819 FASB Accounting Standard Codification ASC 420 Exits or Disposal Cost Obligations, https://asc.fasb.org/1943274/2147481662.

820 WGL (M) at 3:18 – 4:2 (Burgum Direct Testimony).

373. WGL's STI program is based on the achievement of corporate Value Drivers.[821] Since the Commission permits inclusion of STI,[822] WGL includes STI in the cost of service.[823] Because STI are tied to Value Drivers, WGL contends that the STI program benefits customers.[824]

374. Effective January 1, 2024, WGL changed its STI program. WGL increased the threshold of actual Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") performance versus budgeted EBITDA to fund the STI program. The EBITDA threshold was increased from 80% to 90%. The Value Drivers were clarified. Additionally, a specific scorecard for WGL, excluding SEMCO, was introduced.[825]

375. WGL asserts that it did not include long-term incentives in this adjustment.[826] While recognizing that the Commission excluded some STI costs in Order No. 21939, WGL did not exclude these short-term incentives from its calculations in this proceeding. WGL represents that the STI exclusions in Order No. 21939 were due to the poor performance of the WGL Call Center. Since performance at the Call Center has improved, WGL asserts that there is no reason to exclude any STI costs in this proceeding.[827]

376. **OPC.** OPC proposes to remove $968,543, or one-third, of STI because OPC believes that they are based on financial performance, which the Commission has traditionally disallowed. OPC bases its conclusion on the information provided in the AltaGas 2024 Management Information Circular ("Circular"), which includes references to STI being driven by financial performance.[828] OPC bases its one-third reduction on the belief that the STI have three focus areas: financial-related benefits; customer-related benefits; and other-related benefits.[829]

377. **WGL Rebuttal.** WGL argues that the Commission has accepted the inclusion of incentives relating to EBITDA (in *Formal Case No. 1169*) and ROE (in *Formal*

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821 WGL (M) at 4:19-20 (Burgum Direct Testimony).

822 WGL (M) at 5:9-11 (Burgum Direct Testimony).

823 WGL (F) at 10:9-13 (Smith Direct Testimony).

824 WGL (M) at 2:12-23 (Burgum Direct Testimony).

825 WGL (M) at 6:1-9 (Burgum Direct Testimony).

826 WGL (F) at 10:16-18 (Smith Direct Testimony).

827 WGL (F) at 11:18 – 12:2 (Smith Direct Testimony).

828 OPC (B) at 137:10-20 (Ostrander Direct Testimony).

829 OPC (B) at 142:17-20 (Ostrander Direct Testimony).

Case No. 1093), rejecting OPC's similar arguments in each case.[830] WGL represents that the STI are not different than those proposed in *Formal Case No. 1169*.[831] Just because there is a financing trigger for STI does not mean that STI are financial in nature, WGL asserts.[832]

378. **WGL Brief.** WGL asserts that Commission precedent permits inclusion of STI in the cost of service.[833] WGL contends that it explained its STI and justified the recovery of the District's portion of STI.[834] WGL alleges that OPC's proposal to disallow one-third of the STI costs is based on the same arguments that the Commission rejected in Order No. 21939. WGL argues that OPC's reliance on the funding trigger for STI payments contained in the AltaGas 2024 Management Information Circular to justify disallowance of some STI is unfounded, since STI are awarded through the WGL Value Drivers and individual performance. WGL represents that its testimony demonstrating that the Value Drivers directly relate to providing safe, reliable, and efficient service was uncontested. WGL argues that its proposal to recover STI costs should be approved since they are just and reasonable.[835]

379. **OPC Brief**. Contrary to WGL's contentions, OPC asserts that WGL includes incentives related to financial performance in its STI. OPC notes that the Commission has historically excluded such recovery.[836] OPC argues that the Circular includes references to STI being driven by financial performance.[837] OPC also alleges that the 2023 Utilities Value Driver contains financial incentives. Thus, OPC proposed a three-way split of STI into the categories of Regulatory and Public Policy, Operations, and Business Development – New Markets to calculate its adjustment to remove one-third of the District's portion of STI expenses.[838]

Decision

380. In *Formal Case* No. *989*, the Commission stated that the legal standard it would apply to determine whether to allow a utility to recover corporate executive incentive compensation is whether the incentive plan provides benefit to the ratepayers The

830 WGL (2F) at 1:4-15 (Smith Rebuttal Testimony).

831 WGL (2F) at 18:17-18 (Smith Rebuttal Testimony).

832 WGL (2M) at 3:1-4 (Burgum Rebuttal Testimony).

833 WGL Brief at 166.

834 WGL Brief at 170.

835 WGL Brief at 171-172.

836 OPC Brief at 105.

837 OPC Brief at 105-106.

838 OPC Brief at 107.

Commission also listed some of the factors to be considered in assessing the benefit to ratepayers, including whether the incentive compensation was necessary to provide quality service and whether the costs were consistent with comparable companies in the region.[839] Applying the factors established in *Formal Case No. 989*, the Commission approved the Company's at-risk STI request in *Formal Case No. 1093* and determined that the compensation paid under the STI program to union and non-supervisory managers and to supervisory executives was reasonable, competitive, and benefited ratepayers by providing incentives for Company personnel to achieve the many customer-related goals that are set forth in the Corporate Scorecard.

381. In *Formal Case No. 1093*, the Commission stated

> We have evaluated [STI]P as a component of overall compensation and find that the majority of the Corporate Scorecard goals benefit ratepayers. We have not set as a requirement for [STI]P that each and every goal within an incentive plan must only benefit ratepayers. We recognize that a financially healthy utility company that provides quality service is beneficial to ratepayers and shareholders alike. As long as the [STI]P is structured to provide significant benefits to ratepayers, it can also contain a financial performance goal that benefits shareholders. For that reason, we decline to accept OPC's recommendation to reduce the [STI]P cost recovery by one-sixth because of the existence of the return on equity goal.[840]

382. In *Formal Case No. 1137*, the Commission found that WGL had demonstrated that ratepayers benefit to some degree from the operation of the STI program because the great majority of the Corporate Scorecard goals used in the STI program were based on activities that benefit ratepayers by focusing on providing safe, reliable, and cost-effective natural gas service. The Commission found that WGL showed that supervisory managers received STI compensation based upon WGL's evaluation of the employees' achievement of the goals in the Corporate Scorecard. However, the Commission determined that WGL had not presented sufficient evidence to support the claim that the two specific corporate goals related to WGL's financial performance provided benefits to ratepayers. The Commission decided that the non-utility earnings goal, which captured the ability of WGL Holdings to deliver earnings through non-utility activities, and the Utility ROE goal, which measured the capability to earn the weighted average return on common equity, were not necessary to provide quality service to ratepayers and excluded these amounts from expenses.[841] The Commission also reduced the requested STI 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 due to the significant variances between cost estimates and actual costs for the VMCR program, as found in the Management Audit

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839 Order No. 12589, ¶ 148.

840 Order No. 17132, ¶ 168.

841 Order No. 18712, ¶ 253.

associated with *Formal Case No. 1027*.[842]

383. In *Formal Case No. 1169*, the Commission excluded recovery for the Customer Strategy Value Driver when WGL's Call Center performance failed the Natural Gas Quality of Service Standards by a large margin during 2020 and 2021. The Commission accepted the remaining STI expenses since they were reasonable, competitive, and beneficial to ratepayers.[843]

384. In this proceeding, the Commission finds that WGL has taken steps to revise and improve the structure of its STI program. These revisions include raising the EBITDA funding threshold from 80% to 90%, introducing a scorecard specific to WGL, and incorporating more quantifiable success metrics into its Value Drivers. These developments appear intended to strengthen the alignment between employee incentives and operational goals such as safety, reliability, and customer satisfaction—areas that have been viewed favorably in past Commission decisions when evaluating incentive-related cost recovery as noted above.

385. At the same time, the continued role of EBITDA as a funding threshold warrants further investigation. While WGL has clarified that EBITDA is not used as a performance metric for determining payouts under the STI, its function in determining whether the incentive pool is funded introduces a financial element that has been noted by OPC and referenced in materials such as the Circular. Although the existence of a funding trigger is not determinative, the Commission is not convinced that the funding trigger is structured to provide significant benefits to ratepayers, since incentive compensation is contingent on financial performance.

386. OPC's proposed disallowance of 33% in BCO-12 is based on a proxy approach and materials at the corporate level, rather than a detailed breakdown of WGL-specific STI metrics. In the absence of documentation that clearly delineates between financial and non-financial components of the STI program, it is difficult to assess the extent to which OPC's proposed adjustment accurately reflects WGL's compensation structure. Nevertheless, certain components of the Value Drivers—such as efficient capital deployment and business development—raise questions about the presence of financial considerations within the program. The Commission is not convinced that all components of the Value Drivers support employee performance and the determination of any STI awarded. The Commission has reviewed OPC's BCO-12 adjustment for the treatment of STI and finds its approach and execution reasonable. The Company has not met its burden of proof to support its claims that STI is not based on achieving financial goals. Therefore, the Commission accepts OPC's BCO-12 adjustment as modified by the Commission, resulting in a $0.995 million reduction to revenue requirement.[844]

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[842] Order No. 18712, ¶ 254.

[843] Order No. 21939, ¶ 231.

[844] *See* Commission RMA 4, Schedule 3.

E. LONG-TERM INCENTIVE PROGRAM

WGL RMA 6 Long Term Incentive Program

387. **WGL.** Pursuant to the Commission's directives, WGL asserts that it removed all LTI costs from WGL's District of Columbia cost of service.[845] No party has argued otherwise. After review, the Commission finds that WGL removed LTI costs from WGL's cost of service.

F. EMPLOYEE FRINGE BENEFITS ELIMINATION

WGL RMA 10 Employee Fringe Benefits Elimination

388. **WGL.** Consistent with Order No. 21939, WGL asserts that it removed the costs related to executive fringe benefits.[846] No party contradicts this assertion. After review, the Commission finds that executive fringe benefits are not included in the cost of service.

G. PAYROLL TAXES

WGL RMA 12 Payroll Taxes

389. **WGL.** WGL asserts that it adjusted the payroll taxes to account for increases during the rate effective period, totaling $22,322.[847]

390. **OPC Surrebuttal.** OPC notes that WGL proposes a small payroll tax adjustment. OPC proposes its own adjustment of $49,432 in its Surrebuttal Testimony based on other adjustments.[848]

391. **WGL Brief.** WGL contends that there is no disagreement among the parties on the appropriate tax rates for Federal Insurance Contribution Act and Medicare and the tax earnings for social security limitations. Instead, the dispute focuses on the labor-related adjustments that impact the wage base. Because WGL argues that its other labor-related adjustments should be adopted, WGL argues that RMA 12 should also be adopted, for consistency.[849]

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845 WGL (F) at 11:7-14 (Smith Direct Testimony).

846 WGL (F) at 17:9-11 (Smith Direct Testimony).

847 WGL (F) at 18:18 – 19:4 (Smith Direct Testimony).

848 OPC (2B) at 128:11-14 (Ostrander Surrebuttal Testimony), *citing* Exhibit OPC (2B)-4, Schedule 13.

849 WGL Brief at 177.

Decision

392. This is a flow through adjustment based on other decisions in this proceeding.

H. PAYROLL OVERTIME

OPC BCO-7: Adjust Overtime Expense to a Normalized Level

393. **OPC.** OPC argues that WGL has not met its burden of proof regarding overtime expenses.[850] OPC claims that WGL did not make an adjustment to reduce its payroll overtime expenses to a normalized level for the Test Year.[851] As a correction, OPC's proposed reduction is $777,580.[852] OPC justifies its adjustment by stating that WGL did not specify reasons and specific costs related to large changes in year-to-year overtime costs. OPC argues that a normalization of these costs is necessary.[853] To normalize expenses, OPC claims that it used a methodology similar to what WGL uses to calculate uncollectible expenses. Thus, OPC contends that its methodology is reasonable.[854]

394. **WGL Rebuttal.** WGL argues that OPC's adjustment is inappropriate because overtime expenses have increased from 2019 through 2024, notwithstanding a Covid-19 related decline in 2020 and 2021.[855] WGL contends that OPC's adjustment lowers overtime costs to below 2023 and 2024 costs.[856] WGL asserts that overtime has increased as employee headcount has decreased and the amount of work to be done has increased.[857] WGL also claims that it has reduced its reliance on external labor.[858] WGL argues that normalization of overtime costs is inappropriate because these costs are escalating steadily, not fluctuating.[859] WGL argues that OPC has not presented any justification for normalizing these expenses or any evidence that WGL's overtime expenses are inaccurate.[860] Finally, WGL argues that OPC's calculations are based on incorrect data, so even if the Commission

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850 OPC (B) at 73:7-9 (Ostrander Direct Testimony).

851 OPC (B) at 70:6-8 (Ostrander Direct Testimony).

852 OPC (B) at 71:9-11 (Ostrander Direct Testimony).

853 OPC (B) at 72:18 – 73:6 (Ostrander Direct Testimony).

854 OPC (B) at 74:9-14 (Ostrander Direct Testimony).

855 WGL (2F) at 10:5-14; 11:5-7 (Smith Rebuttal Testimony).

856 WGL (2F) at 10:15-23 (Smith Rebuttal Testimony).

857 WGL (2F) at 11:4-5; 11:11-14 (Smith Rebuttal Testimony).

858 WGL (2F) at 11:11-14 (Smith Rebuttal Testimony).

859 WGL (2F) at 11:17 – 12:2; 123:9-17 (Smith Rebuttal Testimony).

860 WGL (2F) at 12:2-5 (Smith Rebuttal Testimony).

were to accept the adjustment, it would need to be recalculated.[861]

395. **OPC Surrebuttal and Brief.** OPC accepts a $200,000 reduction to BCO-7. OPC's new adjustment is $577,580.[862] OPC contends that an adjustment is needed to normalize overtime expenses due to an escalation in overtime expenses from the end of 2023 to the end of the Test Year. OPC claims that WGL did not specify the reasons for the large increase. Additionally, OPC claims that its adjustment will contribute to a more even and consistent impact on the revenue requirement and rates and is consistent with WGL's other adjustments.[863]

396. **WGL Brief.** WGL argues that OPC's Adjustment BCO-7 is appropriate for several reasons. First, OPC's selection of a four-year period to normalize this expense is arbitrary and inconsistent with other five-year periods that OPC selected for other normalization adjustments. Even though WGL did not propose an overtime adjustment, WGL contends that the trend of rising overtime costs is clear.[864] WGL argues that its overtime costs are justified based on union headcount and the amount of work to be done.[865] Since overtime costs do not vary from year to year, WGL argues that normalization is inappropriate. WGL also argues that OPC selectively uses budget data to justify the adjustment and uses the wrong data, utilizing gross pay instead of overtime data.[866] WGL contends that BCO-7 should be rejected because it is arbitrary, unreasonable, and incorrect. Further, WGL represents that this adjustment fails to approximate the overtime expenses that WGL will reasonably incur during the rate effective period.[867]

Decision

397. The Commission determines that WGL has not met its burden of proof to justify its recent year-over-year increase in employee overtime expenses. WGL states that overtime costs have been escalating since the Covid-19 pandemic but then makes management-level decisions reducing headcount and increasing employee separations for the post-pandemic period that would serve to exacerbate the increasing overtime operating expense. The Commission finds that this overtime expense has increased by more than 10% compared to the Test Year overtime expense in *Formal Case 1169*. Therefore, the Commission accepts OPC BCO-7 as modified by the Commission which results in a

861 WGL (2F) at 13:20 – 14:5 (Smith Rebuttal Testimony).

862 OPC (2B) at 92:15-17 (Ostrander Surrebuttal Testimony).

863 OPC Brief at 84-85.

864 WGL Brief at 186.

865 WGL Brief at 186-187.

866 WGL Brief at 187-188.

867 WGL Brief at 188.

reduction of $0.593 million in revenue requirement.[868]

I. COVID-19 REGULATORY ASSET

WGL RMA 15 - Covid-19 Regulatory Asset Amortization

398. **WGL.** WGL does not include any amortization of the Covid-19 Regulatory Asset in its Application. WGL proposes an adjustment that includes an increase of operating expenses of $73,633 to adjust the Test Year amortization to be consistent with the Commission's Covid-19 regulatory asset rulings in *Formal Case No. 1169*.[869]

Decision

399. In Order No. 21939, the Commission allowed $368,163 for PPE and cleaning costs in the regulatory asset account. The Commission also permitted this amount to be amortized over a five-year period.[870] The Commission has reviewed this RMA and finds it to be reasonable and consistent with the directives in Order No. 21939 and accepts it.

J. REGULATORY COMMISSION EXPENSES

WGL RMA 16 Regulatory Commission Expenses

400. **WGL.** While the Commission has approved the recovery of regulatory commission expenses during a three year amortization period, WGL argues that since the filing of *Formal Case No. 1137*, it has under-collected for regulatory expenses associated with rate cases. RMA 16 combines the under-collected amount, continued amortization, and the anticipated costs of this proceeding, totaling $6,886,798. WGL proposes to amortize this amount over three years, consistent with Commission precedent, with $2,295,599 being amortized each year.[871] WGL also proposes adjusting carrying costs calculated pursuant to carrying cost rates in *Formal Case No. 1169* until August 1, 2025, with carrying costs calculated based on the proposed capital structure and cost of capital in this proceeding after that date.[872]

401. This adjustment is uncontested. The Commission finds WGL's RMA 16 reasonable and accepts it.

K. ENVIRONMENTAL COSTS

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[868] *See* Commission RMA 5, Schedule 3.

[869] WGL (D) at 64:14-17 (Tuoriniemi Direct Testimony).

[870] Order No. 21939, ¶ 255.

[871] WGL (D) at 65:8-21 (Tuoriniemi Direct Testimony).

[872] WGL (D) at 66:1-3, 13-17 (Tuoriniemi Direct Testimony).

WGL RMA 17 Environmental Costs

402. **WGL.** WGL proposes to amortize the District of Columbia portion of the under-collected and current environmental costs over a five-year period, consistent with Commission precedent.[873]

403. This adjustment is uncontested. The Commission finds WGL RMA 17 reasonable and accepts it.

L. INSURANCE EXPENSE

WGL RMA 18 Insurance Expense

404. **WGL.** Since WGL's insurance policies were renewed during the Test Year, WGL updated the insurance expenses to take into account the new policies and the jurisdictional allocation of these expenses.[874]

405. This adjustment is uncontested. The Commission finds WGL RMA 18 reasonable and accepts it.

M. INTEREST ON CUSTOMER DEPOSITS

WGL RMA 19 Interest on Customer Deposits

406. **WGL.** Consistent with the methodology used in *Formal Case Nos. 1137* and *1169*, WGL calculates an increase of $35,315 in interest expense. WGL does not anticipate any increase in the level of deposits during the rate effective period.[875]

Decision

407. This adjustment is uncontested. The Commission approves this adjustment, as WGL's calculation is consistent with the methodology used in *Formal Case Nos. 1137* and *1169.*

N. NON-LABOR INFLATION ADJUSTMENT

WGL RMA 21 – Non-labor Inflation Adjustment OPC BCO-8: Remove WGL's Non-Labor Inflation Adjustment

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873 WGL (D) at 68:9-17 (Tuoriniemi Direct Testimony).

874 WGL (D) at 69:10-12 and 20-22 (Tuoriniemi Direct Testimony).

875 WGL (D) at 71:7-9 (Tuoriniemi Direct Testimony).

408. **WGL.** Based on general cost increases in O&M expenses and significant inflation in recent years, WGL proposes a non-labor inflation adjustment of $1,043,643.[876] WGL asserts that its 2.49% non-labor inflation adjustment was calculated consistent with the rulings in Order No. 21939. WGL's calculation used the Survey of Professional Forecasters' ("SPF") forecasted inflation rates from the 2024 First Quarter 2024 Survey.[877] WGL excludes certain adjustments from this inflation factor, because those items are addressed in other ratemaking adjustments. This adjustment includes actual cost increases and those excluded from the Test Year.[878] WGL has a different adjustment for inflation of labor costs, since labor costs are increasing greater than non-labor costs.[879]

409. **OPC.** OPC proposes to remove WGL's proposed non-labor inflation adjustment, arguing that economic conditions have changed such that this adjustment is not necessary.[880] OPC contends that the annual inflation rate used in this proceeding, 2.49%, is not so far removed from normal inflation rates so that a special adjustment is required.[881] OPC notes that the Commission accepted a 2022 post-test-year inflation adjustment of 3.75% in *Formal Case No. 1169*, but the circumstances present in *Formal Case No. 1169* are no longer present.[882] Further, OPC claims that WGL's non-labor inflation adjustment is not supported.[883] OPC argues that WGL has not evaluated its vendor contracts to ensure that inflation factors are not already included in the contracts.[884] OPC also asserts that WGL has not considered productivity offsets that would reduce non-labor costs.[885] OPC claims that the Maryland Public Service Commission ("MD PSC") rejected this adjustment in Case No. 9651.[886]

410. **WGL Rebuttal.** While WGL acknowledges that inflation has decreased

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876 WGL Brief at 179.

877 WGL (D) at 73:9-16 (Tuoriniemi Direct Testimony); WGL Brief at 180.

878 WGL (D) at 74:4-6 (Tuoriniemi Direct Testimony).

879 WGL (D) at 74:22-23 (Tuoriniemi Direct Testimony).

880 OPC (B) at 75:1-8 (Ostrander Direct Testimony).

881 OPC (B) at 75:18-20 (Ostrander Direct Testimony).

882 OPC (B) at 75:20 – 76:4 (Ostrander Direct Testimony).

883 OPC (B) at 77:21 – 78:9 (Ostrander Direct Testimony).

884 OPC (B) at 78:11-14 (Ostrander Direct Testimony).

885 OPC (B) at 78:16-20 (Ostrander Direct Testimony).

886 OPC (B) at 83:8 – 84:10 (Ostrander Direct Testimony).

from 2022, it asserts inflation remains higher than the Federal Reserve's 2% target.[887] WGL contends that the Commission rejected the same OPC arguments against the non-labor inflation adjustment in *Formal Case No. 1169*.[888] Given the fact that new rates will not become effective until at least two years after the beginning of the Test Year, WGL argues that a non-labor inflation adjustment is needed to keep up with economic conditions within that time gap.[889]

411. **OPC Surrebuttal.** OPC reiterates its position that inflation is not sufficiently elevated or abnormal to justify a non-labor inflation adjustment. OPC argues that WGL has not cited any support for its adjustment.[890] To the contrary, OPC claims that WGL's data shows that 2025 inflation is below 2021, 2022, 2023, and 2024 inflation rates.[891] OPC reiterates its call for the Commission to reject WGL's adjustment.[892]

412. **WGL Brief.** WGL urges the Commission to reject OPC Adjustment BCO-8. Contrary to OPC's contentions, WGL argues that inflation is still high, noting that inflation is still higher than the 2% set by the Federal Reserve. WGL asserts that OPC erroneously conflates the project inflation rates published by the SPF with the actual inflation rate published by the Bureau of Labor Statistics. WGL contends that OPC selectively cites to the WGL 2024 budget when the budget shows reductions to the revenue requirement, not when the budget shows increases to the revenue requirement.[893] Regarding OPC's requests for additional studies, WGL argues that OPC raised the same arguments in *Formal Case No. 1169*, where they were rejected. WGL argues that OPC failed to respond to WGL's Rebuttal Testimony on this issue. Thus, WGL argues that the Commission should adopt WGL RMA 21.[894]

413. **OPC Brief.** Even though the Commission granted WGL a non-labor inflation adjustment in *Formal Case No. 1169*, OPC argues that such an adjustment in this proceeding is not warranted. OPC claims that inflation has declined between the Test Year in *Formal Case No. 1169* and this proceeding.[895] OPC notes that 2025 inflation levels are significantly lower than in previous years. OPC contends that the Commission has not relied on the

887 WGL (3D) at 22:11-19 (Gibson Rebuttal Testimony).

888 WGL (3D) at 24:9-14 (Gibson Rebuttal Testimony).

889 WGL (3D) at 25:4-7 (Gibson Rebuttal Testimony).

890 OPC (2B) at 93:6-16 (Ostrander Surrebuttal Testimony).

891 OPC (2B) at 93:17-19 (Ostrander Surrebuttal Testimony).

892 OPC (2B) at 94:4-5 (Ostrander Surrebuttal Testimony).

893 WGL Brief at 181.

894 WGL Brief at 182-183.

895 OPC Brief at 86-87.

Federal Reserve targeted level to determine whether a non-labor inflation adjustment is necessary.[896] OPC also argues that WGL has not supported its non-labor inflation adjustment. Although WGL uses the CPI inflation rate for its adjustment, OPC asserts that WGL has not shown a correlation between the percentage cost increase of the CPI inflation factors and the percent increase in costs of WGL's non-labor costs.[897] Additionally, OPC asserts that WGL did not show that the increases in its non-labor costs were due to inflation.[898] OPC argues that WGL has not offset this adjustment with productivity factors.[899] Further, OPC claims that the MD PSC rejected such an adjustment in Case No. 9651. OPC argues that WGL failed to meet its burden of proof regarding the non-labor inflation adjustment.[900]

Decision

414. Historically, the Commission has rejected utilities' proposed adjustments for other non-labor inflation expense increases.[901] In Order No. 21939, the Commission accepted "WGL's non-labor inflation adjustment for only 2022" recognizing "that inflation has increased substantially in the post-test-year-period" and that these costs were not too remote in time from the Test Year and provided a more accurate reflection of the current economic situation but denied WGL's 2023 and 2024 non-labor inflation adjustments because they were beyond the 12 months post-test year."[902]

415. The U.S. Bureau of Labor Statistics' annual inflation rate is 3.0% for all items for 2025.[903] Roughly five years after Covid-19, WGL now requests a similar adjustment for an inflation rate of 2.49%.[904] WGL notes that its request is supported by the Survey of Professional Forecasters, which is published by the Philadelphia Federal Reserve, an organization known for forecasted inflation rates.[905] It is difficult to support this request, knowing that inflation is not currently at extraordinary levels as it was when we decided *Formal Case No. 1169*. As stated by OPC "Chart 1 in Witness Gibson's rebuttal testimony shows that current 2025 inflation levels are lower than inflation levels for much of 2021, and

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896 OPC Brief at 88.

897 OPC Brief at 89-90.

898 OPC Brief at 91-92.

899 OPC Brief at 93.

900 OPC Brief at 86, 93.

902 Order No. 21939, ¶ 270.

903 *See* U.S. Bureau of Labor Statistics. Consumer Price Index for All Urban Consumers: All Items in U.S. City Average. Accessed October 24, 2025.

904 WGL (D) at 73:14-16 (Tuoriniemi Direct Testimony). The Federal Reserve's sets a 2% inflation rate target. WGL (3D) at 22:15-17 (Gibson Rebuttal Testimony).

905 WGL (D) at 73:9-10 (Touriniemi Direct Testimony).

all of 2022 and 2023, and about equal to or somewhat less than 2024."[906] With the current 2025 inflation at its lowest levels since Covid-19, we see no justification for a specific significant rate case adjustment. We also agree with OPC's witness in that "even if inflation is currently exceeding the Federal Reserve targeted level, this is not an objective standard for justifying a rate case adjustment."[907] Therefore, absent sufficient evidence on the record, WGL's adjustment is denied, and OPC's BCO-8 is approved as modified by the Commission, resulting in a $1.07 million decrease to Revenue Requirement.[908]

O. INTEREST ON DEBT

WGL RMA 29 – Interest Synchronization on Debt
OPC BCO-14

416. **WGL.** WGL asserts that this adjustment is the amount needed to adjust the Test Year interest expense to the ratemaking level based on the weighted cost of debt. WGL decreased interest expenses by $831,295.[909] WGL urges the Commission to adopt its adjustment instead of OPC's.[910]

417. **OPC Surrebuttal.** OPC proposes an interest synchronization adjustment based on its other adjustments. OPC uses the same methodology as WGL to calculate this adjustment.[911]

Decision

418. To determine the adjustment for interest synchronization that reflects the tax deduction generated by the interest component of the approved revenue requirement, the Commission computed the interest component of the approved revenue requirement based on the approved weighted cost of debt of 2.36% (for long-term and short-term debt combined). The Commission multiplied the approved rate base by the weighted cost of debt. The Commission then compared the calculated interest expense against the Company's test-year interest expense to determine whether the interest synchronization adjustment is necessary. The Commission calculated the tax effect of the interest expense variance, resulting in an interest synchronization adjustment of $142,564.[912] This calculation is

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906 OPC at 93:17-19 (Ostrander Surrebuttal Testimony).

907 OPC at 93:14-16 (Ostrander Surrebuttal Testimony).

908 *See* Commission RMA 6, Schedule 3.

909 WGL (D) 81:22-82:8 (Tuoriniemi Direct Testimony).

910 WGL Brief at 183-184.

911 OPC (2B) at 128:17-20 (Ostrander Surrebuttal Testimony).

912 *See* Commission RMA 7. Schedule 3. The total impact to the Revenue Requirement is $202,007.

consistent with the calculations performed in *Formal Case No. 1169*.[913]

P. TAXES

WGL RMA 31 District of Columbia and Federal Taxes

419. **WGL.** WGL adjusts the federal and District of Columbia income taxes based on the adjustments, including the weather normalization adjustment, and synchronization of interest.[914] This adjustment takes into account permanent and flow through items.[915]

420. **OPC.** OPC revises this adjustment using the same methodology as WGL to take into account its own adjustments.[916]

421. **WGL Brief.** WGL argues that OPC used the same tax rates as WGL but makes adjustments to WGL's tax amounts due to other OPC adjustments. WGL argues that the Commission should adopt RMA 31 for the same reasons that the Commission should adopt WGL's other flow-through adjustments.[917]

Decision

422. No party contested the methodology used in this adjustment. The Commission adjusts WGL RMA 31 to include the impacts of changes to other ratemaking adjustments.

Q. DEFERRED TAX ASSET – NOLC TAX NORMALIZATION – PLR

WGL RMA 32 Deferred Tax Asset for Net Operating Loss Carryforwards ("DTA-NOLC") Tax Normalization PLR
OPC BCO-3: Reverse the Impact 1 of WGL's NOLC PLR Adjustment

423. **WGL.** WGL asserts that recent IRS PLR require a change in WGL's treatment of federal income tax sharing payments received by WGL for its participation in consolidated federal income tax returns on the federal DTA related to the NOLC related to depreciation.[918] WGL claims that the PLR specify that tax sharing payments from other members of a consolidated group for the utilization of regulated utility DTA-NOLC cause a

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913 Order No. 21939, ¶ 286.

914 WGL (D) at 92:15-18 (Tuoriniemi Direct Testimony).

915 WGL (D) at 93:9-13 (Tuoriniemi Direct Testimony).

916 OPC Exhibit (B)-2, Lines 23-26, Column H.

917 WGL Brief at 185.

918 WGL (D) at 97:16-20 (Tuoriniemi Direct Testimony).

normalization violation of the tax rules.[919] While the PLR were directed to other utilities, WGL argues that they are applicable to WGL since WGL is in a similar position as the utility covered by the PLR.[920] While there is a penalty for normalization violations, WGL claims that the IRS provides a remedy for the violation if the company corrects the violation at the next opportunity during a rate case.[921] To remedy the violation, WGL asserts that it needs to re-establish, for rate making purposes, the DTA-NOLC generated by the accelerated tax depreciation deductions reflected on the stand-alone company income tax returns that had previously been reduced by the tax sharing payments.[922]

424. WGL also contends that these PLR affect the excess deferred taxes resulting from the Tax Cuts and Jobs Act of 2017 ("TCJA"). WGL claims that it established the ratemaking for excess deferred taxes, including a regulatory asset, in *Formal Case No. 1162*. As part of the *Formal Case No. 1162* Settlement Agreement, a 15-year amortization period for the regulatory asset was established. WGL claims that this amortization must be changed to reflect the Average Rate Assumption Method required by the normalization rules.[923] WGL represents that the *Formal Case No. 1162* Settlement Agreement permits this change.[924]

425. **OPC.** OPC proposes to reverse WGL's RMA 32, resulting in a total decrease to the rate base of $26,370,613, consisting of a reduction to the Federal NOLC balance of $27,248,76842 (a decrease in rate base), an increase to the State/D.C. NOLC balance of $878,15543 (an increase in rate base), and an increase to income tax expense of 140,599.[925] OPC claims that RMA 32 would immediately remove tax benefits that customers have received and would increase rate base by $26.4 million.[926] Contrary to WGL's assertion, OPC argues that the reversal of the tax sharing agreement is not an urgent concern. OPC argues that WGL has not taken actions outside of the request in this proceeding to fix the tax problem that WGL has identified.[927] Further, OPC contends that WGL has not provided sufficient information to support its request.[928] OPC represents that this RMA may violate

919 WGL (H) at 2:15-17 (Bell Direct Testimony).

920 WGL (H) at 2:20 – 3:10 (Bell Direct Testimony).

921 WGL (H) at 5:20 – 6:10 (Bell Direct Testimony).

922 WGL (H) at 6:18-21 (Bell Direct Testimony).

923 WGL (H) at 7:22 – 8:11 (Bell Direct Testimony).

924 WGL (H) at 8:14-22 (Bell Direct Testimony).

925 OPC (B) at 24:6-10 (Ostrander Direct Testimony).

926 OPC (B) at 24:17 – 25:4 (Ostrander Direct Testimony).

927 OPC (B) at 28:4-12 (Ostrander Direct Testimony).

928 OPC (B) at 29:13-15 (Ostrander Direct Testimony).

Term No. 44.[929]

426. To mitigate the negative effect of RMA 32, OPC recommends that the Commission amortize the negative effect of this adjustment over the same period of years that customers received the benefit, instead of having the negative effect become effective at one time. OPC also argues that only the amounts of the benefits that ratepayers received should be subject to recovery.[930]

427. OPC raises concerns that the tax sharing agreement upon which WGL relied was never approved by the Commission. OPC questions whether the payments under the tax sharing agreement should have occurred without this approval. [931]

428. Finally, OPC recommends that the Commission open a generic proceeding to investigate this tax issue.[932]

429. **WGL Rebuttal.** WGL argues that OPC's NOLC adjustment in contrary to the settlement agreement in *Formal Case No. 1151.* WGL also argues that OPC argues that the Commission should ignore IRS procedures and commit a normalization violation.[933] WGL argues that OPC makes mathematical errors in its failure to exclude ADIT in its disallowances, which creates a synchronization error, leading to a violation of the consistent rules of normalization.[934]

430. WGL argues that OPC's objections to the tax normalization are not relevant in this case. Contrary to OPC's argument, WGL contends that the fact that the tax sharing arrangement was not approved by the Commission is not relevant because the Commission does not require pre-approval for affiliate contracts.[935] Likewise, WGL claims that OPC's citation to Term No. 44 is irrelevant because that Term relates only to tax issues related to the AltaGas – WGL Merger.[936] WGL clarifies that there are no tax payments from AltaGas to WGL since AltaGas is not part of the U.S. consolidated tax return.[937]

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929 OPC (B) at 32:17-18 (Ostrander Direct Testimony).

930 OPC (B) at 34:4-9 (Ostrander Direct Testimony).

931 OPC (B) at 34:15-18 (Ostrander Direct Testimony).

932 OPC (B) at 28:17 – 29:1 (Ostrander Direct Testimony).

933 WGL (3D) at 5:1-4; 18:9-16 (Gibson Rebuttal Testimony); WGL (2H) at 2:3-10 (Bell Rebuttal Testimony).

934 WGL (3D) at 16:5-13 (Gibson Rebuttal Testimony).

935 WGL (3D) at 18:21 – 19:5 (Gibson Rebuttal Testimony).

936 WGL (3D) at 19:9-25 (Gibson Rebuttal Testimony).

937 WGL (3D) at 20:1-4 (Gibson Rebuttal Testimony).

431. WGL agrees with OPC that WGL does not need to obtain its own PLR.[938] WGL contends that the fact patterns in the filed PRL are the same as WGL's situation. To WGL, it would be expensive and time consuming to seek a letter that is likely to provide the same result.[939] Contrary to OPC assertions, WGL describes the activities it undertook to research the tax normalization issue.[940] WGL identifies the similarities between the situations addressed by the filed PRL and WGL's situation.[941] WGL contends that OPC does not dispute these facts.[942]

432. WGL contends that it is following established IRS procedures to correct the normalization violation. WGL indicates that it has already identified the normalization violation to the IRS.[943] WGL asserts that it informed its Commissions of the violation and is seeking to rectify the violation at the earliest opportunity during this proceeding.[944] WGL claims that OPC's proposed procedure to correct the violation would conflict with IRS procedures and delay the resolution of the violation.[945] If WGL were to fail to correct the normalization violation, rate base would increase and WGL could be subject to penalties, WGL asserts.[946] WGL claims that the failure to correct the normalization violation in this proceeding would have a greater negative impact on the revenue requirement for customers in all three jurisdictions.[947] Contrary to OPC's contentions, WGL claims that it is not required to recover the benefits of the rate base reductions from tax sharing payments from customers.[948]

433. WGL argues that WGL has participated in tax sharing agreements before and

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938 WGL (2H) at 4:4-5 (Bell Rebuttal Testimony).

939 WGL (2H) at 4:8-12 (Bell Rebuttal Testimony).

940 WGL (2H) at 4:20 – 5:2 (Bell Rebuttal Testimony).

941 WGL (2H) at 5:20 – 6:4 (Bell Rebuttal Testimony).

942 WGL (2H) at 6:5-6 (Bell Rebuttal Testimony).

943 WGL (2H) at 6:25 – 7:2 (Bell Rebuttal Testimony).

944 WGL (2H) at 7:23 – 8:3 (Bell Rebuttal Testimony).

945 WGL (2H) at 8:14-20 (Bell Rebuttal Testimony).

946 WGL (2H) at 9:21 – 10:2 (Bell Rebuttal Testimony).

947 WGL (2H) at 10:2-9 (Bell Rebuttal Testimony).

948 WGL (2H) at 10:16-22 (Bell Rebuttal Testimony).

after the AltaGas Merger,[949] to the same effect.[950] WGL contends that the tax sharing agreement permits each of the entities to preserve the tax liabilities and attributes that would exist if the companies filed separate tax returns.[951] WGL argues that the application of the tax sharing agreement reduces rate base. WGL contends that the Commission has permitted such activity and rejected an OPC-proposed change in *Formal Case No. 1162*.[952]

434. **OPC Surrebuttal.** OPC refines its position in its Surrebuttal Testimony, now arguing that a "potential" tax normalization violation has occurred. However, OPC believes that the IRS is the only entity that can actually determine whether a tax normalization violation has occurred, so WGL should seek a PLR from the IRS before seeking an adjustment in a rate case.[953] OPC also contends that the Commission should not rely on PLR provided to other utilities; the Commission should direct WGL to obtain its own PLR. OPC argues that no other state commission has relied on another utility's PLR in making its decisions regarding tax normalization violations, and the Commission should not do so here.[954] OPC claims that the facts and circumstances in the three PLRs upon which WGL relies are different than the circumstances in this proceeding.[955] OPC asserts that the IRS does not permit entities to rely on other entities' PLR.[956] Following Commission precedent, OPC seeks to have input into WGL's request for a PLR.[957]

435. While WGL seeks a PLR, OPC contends that there will be no normalization violation. Thus, OPC contends that the Commission does not need to accept RMA 32.[958] OPC believes that RMA 32 should be removed from this proceeding but does not object if WGL creates a regulatory asset for the amount on WGL's books in case the IRS does rule in favor of WGL.[959]

436. Further, OPC contends that it cannot confirm the accuracy of WGL's

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949 WGL (2H) at 11:6-17 (Bell Rebuttal Testimony).

950 WGL (2H) at 12:3-7 (Bell Rebuttal Testimony).

951 WGL (2H) at 11:19 – 12:2 (Bell Rebuttal Testimony).

952 WGL (2H) at 13:3-15 (Bell Rebuttal Testimony).

953 OPC (2B) at 39:3-8; 40:12-20 (Ostrander Surrebuttal Testimony).

954 OPC (2B) at 48:16 – 49:10 (Ostrander Surrebuttal Testimony).

955 OPC (2B) at 58:16-17 (Ostrander Surrebuttal Testimony).

956 OPC (2B) at 49:11-16 (Ostrander Surrebuttal Testimony).

957 OPC (2B) at 40:22 – 41:20 (Ostrander Surrebuttal Testimony).

958 OPC (2B) at 55:8-15 (Ostrander Surrebuttal Testimony).

959 OPC (2B) at 39:19-23 (Ostrander Surrebuttal Testimony).

proposed adjustment.[960] Before the Commission accepts WGL's adjustment, OPC argues that it should be accurately calculated, perhaps by the IRS.[961]

437. OPC identifies another potential tax normalization violation that WGL has not addressed. To prevent this second possible violation, OPC recommends that WGL reduce the retained earnings capital account by the same amount that it is seeking because this account reflects the prospective impact of receiving the cash payments from its affiliates.[962] Should WGL not agree, OPC recommends that WGL seek a PLR on this issue as well.[963]

438. OPC believes that the transactions covered by the PLR violate Term No. 44. OPC argues that WGL's tax sharing activities fall within the purview of Term No. 44. To OPC, it is irrelevant whether the tax sharing arrangements predated the Merger; the relevant issue is that they were used after the Merger.[964] To correct for this violation, OPC proposes several remedies. The first is a reduction in the cost of equity. In OPC's view, any PLR ruling in favor of WGL should be phased in to minimize the impact on customers. OPC also contends that the Commission should use its discretion to reduce the revenue requirement.[965]

439. OPC disputes WGL's argument that OPC's position contradicts the Settlement Agreement in *Formal Case No. 1151*. OPC claims that *Formal Case No. 1151* dealt with the TJCA tax normalization violations, not NOLC tax normalization violations.[966]

440. Should the Commission adopt RMA 32, OPC proposes several actions that would mitigate the effect of RMA 32. OPC contends that the Commission should: ensure that offsets are made to the retained earnings/equity component of WGL's capital structure; determine whether the NOLC should be amortized over the same number of years that benefits accrued to ratepayers; and ensure that only the amounts of tax sharing payment benefits that flowed through to ratepayers should be subject to the amortization process.[967]

441. **WGL Rejoinder.** Now that WGL, OPC, and the Commission are aware of a potential normalization violation, WGL argues that the Commission must act now to prevent an inadvertent normalization violation from becoming an intentional normalization

960 OPC (2B) at 39:25-27; 45:1-2 (Ostrander Surrebuttal Testimony).

961 OPC (2B) at 46:1-4 (Ostrander Surrebuttal Testimony).

962 OPC (2B) at 40:1-10; 43:7-14 (Ostrander Surrebuttal Testimony).

963 OPC (2B) at 44:6-7 (Ostrander Surrebuttal Testimony).

964 OPC (2B) at 72:12 – 74:3 (Ostrander Surrebuttal Testimony).

965 OPC (2B) at 41:22 – 42:3; 76:11-25 (Ostrander Surrebuttal Testimony).

966 OPC (2B) at 77:6 – 78:6 (Ostrander Surrebuttal Testimony).

967 OPC (2B) at 71:16 – 72:5 (Ostrander Surrebuttal Testimony).

violation, which would prohibit WGL from being eligible for accelerated depreciation, increasing rate base.[968] WGL argues that reversal of the adjustment would itself be a normalization violation.[969] WGL also asserts that establishing a regulatory assets would be inappropriate once the Commission recognizes the adjustment in rates.[970] WGL argues that OPC's new proposals for action should be rejected.[971]

442. Contrary to OPC's contentions, WGL argues that the TJCA covered more than just EDIT amounts. Instead, *Formal Case No. 1151* addressed full normalization of taxes, including the full ADIT, going forward. WGL argues that OPC proposes flowthrough income tax treatment as determined in the PLR, which violates that *Formal Case No. 1151* Settlement Agreement.[972]

443. WGL argues that OPC is incorrect in arguing that the IRS determines whether a normalization violation occurs. WGL contends that it is the taxpayer's responsibility to determine how to comply with the tax code. While the IRS can verify compliance, it is not the IRS' obligation to assist taxpayers in determining tax obligations.[973]

444. WGL continues to believe that it does not need to seek its own PLR.[974] Should the Commission direct WGL to seek its own PLR, WGL requests that the Commission adopt RMA 32 and then direct WGL to establish a regulatory liability account. This account would track the return collected on rates on the adjustment amount in rate base less the costs of obtaining a PLR. The regulatory liability would not reduce rate base but would include accrued interest. If the IRS supports WGL, then the regulatory liability would be eliminated. If the IRS denies WGL's request, then the regulatory liability would be returned to customers.[975]

445. **WGL Brief.** WGL argues that it has conclusively demonstrated that RMA 32 is just, reasonable, and in the public interest. [976] WGL argues that RMA 32 is based on an identified inadvertent tax normalization violation. In order to prevent this inadvertent violation from being assessed penalties, WGL asserts that it is attempting to avail itself of

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968 WGL (3H) at 4:22 – 5:19 (Bell Rejoinder Testimony).

969 WGL (3H) at 7:4 (Bell Rejoinder Testimony).

970 WGL (3H) at 7:8-9 (Bell Rejoinder Testimony).

971 WGL (3H) at 5:20 – 6:3; 7:12 – 9:16 (Bell Rejoinder Testimony).

972 WGL (4D) at 7:13 – 8:2 (Gibson Rejoinder Testimony).

973 WGL (3H) at 6:14-19 (Bell Rejoinder Testimony).

974 WGL (3H) at 6:7-11 (Bell Rejoinder Testimony).

975 WGL (4D) at 8:7-22 (Gibson Rejoinder Testimony).

976 WGL Brief at 185.

the IRS safe harbor by correcting the problem in this rate case. WGL argues that it identified the inadvertent violation in its 2023 federal income tax return, so this rate case is the first opportunity to remedy this violation.[977] If the normalization becomes an intentional violation, WGL argues that it could lose its eligibility for accelerated depreciation, increasing rate base substantially.[978]

446. WGL presents alternatives for the Commission's consideration to remedy the violation. First, the Commission could accept RMA 32. Second, should the Commission determine that WGL should obtain its own PRL regarding this violation, the Commission could accept RMA 32 but require WGL to establish a regulatory liability account for tracking purposes until the IRS rules on the PLR.[979] If the Commission requires WGL to obtain a PLR, WGL recommends that the Commission include language such as the following in its Order:

> [t]he Company is ordered to request a ruling on the normalization violations within one (1) year from the final order date in this matter. If the IRS has not provided a ruling within three (3) years from the final order date, the inadvertent normalization violation is deemed to have occurred and the remediation as outlined is upheld and the regulatory liability shall be reversed without effect;[980] or
>
> the Company is ordered to request a ruling on the normalization violations within one (1) year from the final order date in this matter. If the IRS has provided a ruling within two (2) years of the date of the Company's ruling request, the inadvertent normalization violation is deemed to have occurred and the remediation as outlined in Exhibit WG (4D) at Page 8 and the regulatory liability shall be reversed without effect.[981]

Third, the Commission would follow the Indiana Regulatory Utility Commission and permit WGL to create a tax rider, which would collect the regulatory asset once a PLR is issued.[982] However, WGL argues that the Commission cannot merely reject RMA 32 without any other action, since such inaction would convert the inadvertent violation into an intentional violation.[983]

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977 WGL Brief at 202-203.

978 WGL Brief at 222-223.

979 WGL Brief at 203-204, 212-213.

980 WGL Brief at 213.

981 WGL Brief at 224.

982 WGL Brief at 218-219.

983 WGL Brief at 204.

447. WGL contends that it rebutted OPC's arguments regarding BCO-3.[984] WGL argues that OPC's Witness Ostrander did not recall WGL's 2023 tax return during the hearing, undermining his credibility.[985] WGL also argues that he Commission should disregard OPC's Witness Ostrander's Surrebuttal Testimony on this issue since Witness Ostrander waited until Surrebuttal Testimony to advance certain positions.[986] WGL objects to OPC's proposal to create a regulatory asset, since that treatment would preclude recovery in this rate case. To avoid a normalization violation using OPC's proposed regulatory assets. WGL argues that it would still need to include the regulatory asst in rate, which would be a more complicated way of recovering the amounts in RMA 32.[987] Regarding OPC's proposal that a reduction in retained earnings should be required if RMA 32 is approved, WGL contends that this recommendation is contrary to FERC USOA principles.[988]

448. Should the Commission require WGL to obtain a PLR, WGL objects to OPC's request to have input into the PLR request. WGL argues that some of OPC's requests for inclusion in the PLR are outside the scope of a PLR.[989]

449. In arguing that RMA 32 violates Term No. 44, WGL contends that OPC is misinterpreting Term No. 44. WGL argues that Term No. 44 relates to tax elections and accounting methods related to the Merger, which is not implicated in RMA 32.[990]

450. WGL argues that it is justified in relying on the PLR, even though PLR are specific to the ratepayer that requested the PLR. WGL argues that FERC has relied on PLRs as a basis for decisions regarding entities that did not request the PLR.[991] While the Commission does not need to determine whether WGL has violated tax laws, WGL asserts that the Commission does need to approve appropriate ratemaking recognition of the correction.[992] WGL also notes that the IRS decision to issue a PLR is discretionary, so WGL's actions in this proceeding were reasonable.[993] WGL argues that the three PLR cited

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984 WGL Brief at 185, 204.

985 WGL Brief at 214-215.

986 WGL Brief at 216-217.

987 WGL Brief at 218.

988 WGL Brief at 219.

989 WGL Brief at 221.

990 WGL Brief at 221.

991 WGL Brief at 206-207.

992 WGL Brief at 207.

993 WGL Brief at 208.

include the same facts as WGL.[994] WGL contends that OPC does not dispute that the facts are similar.[995] WGL argues that RMA 32 is just, reasonable, and in the public interest, meriting approval by the Commission.[996]

451. **OPC Brief.** Instead of relying on the three PLR, OPC argues that the Commission should direct WGL to seek its own PLR from the IRS to have the IRS determine whether a normalization violation has occurred and whether WGL's proposed NOLC adjustment is the correct remedy for the violation. In the interim, OPC argues that the Commission should reject the adjustment, arguing that there would be no negative consequences from a directive to seek a PLR.[997] OPC also requests that the Commission follow its precedent and permit OPC to have input into WGL's PLR request.[998]

452. OPC also contends that there has been no normalization violation. Thus, OPC contends that the Commission should remove the NOLC adjustment while WGL seeks a PLR. OPC contends that this removal would follow precedent in this and other jurisdictions.[999] Further, OPC claims that WGL incorrectly calculated the NOLC adjustment, proposing its own calculation. When WGL argued that OPC's calculations are incorrect, OPC contends that WGL did not identify OPC's error.[1000] OPC also argues that the NOLC adjustment is inconsistent with Term No. 44.[1001]

453. Should the Commission accept the NOLC adjustment, OPC proposes several revisions. First, OPC recommends that the Commission make proper offsetting adjustments to the retained earnings/equity component of WGL's capital structure. Second, OPC urges the Commission to determine if amortization of the NOLC over the same period as benefits accrued to ratepayers should occur (about six years). OPC also argues that only those amounts that flowed through to benefit ratepayers should be subject to amortization.[1002]

454. Another alternative proposed by OPC is to permit WGL to create a regulatory asset as a placeholder for a future adjustment while WGL seeks the PLR.[1003]

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994 WGL Brief at 208-209.

995 WGL Brief at 210-211.

996 WGL Brief at 211.

997 OPC Brief at 40-41, 43.

998 OPC Brief at 51-52.

999 OPC Brief at 56-58.

1000 OPC Brief at 60.

1001 OPC Brief at 63-66.

1002 OPC Brief at 66-67.

1003 OPC Brief at 67.

Decision

455. In *Formal Case No. 1103*, Pepco proposed an adjustment to increase rate base due to an NOLC position that relied on a previously issued PLR[1004] to another entity, which the Company claimed was in a similar situation.[1005] Pepco requested to offset its ADIT for all of its NOLC because it claimed this treatment was generally consistent with the Treasury Regulations and the decision of other state Commissions. In that proceeding, OPC proffered several arguments on why Pepco's adjustment should not be accepted, including known and measurable arguments regarding the accuracy of the amount of adjustments that should be made. After reviewing Pepco's proposal and OPC's arguments, the Commission expressed its reservation for allowing an adjustment that is "less than known and measurable" given that Pepco had not even filed its tax returns for the applicable year and had not provided its own PLR. However, the Commission indicated its hesitation to make a ratemaking decision on a novel tax-related issue without being further informed by the IRS in the form of a PLR, when the decision could result in added costs to District ratepayers in the form of an IRS penalty. Given all this, the Commission accepted Pepco's proposed adjustment based on guidance from other previously issued PLRs, but directed Pepco to obtain its own PLR from the IRS that addressed the ratemaking implications of the Company's proposed NOLC/ADIT offset to rate base as presented in the case.[1006] The Commission believes this precedent is similar to the present situation, wherein WGL is making a novel and complicated tax adjustment based on a previously issued PLR for an entity that WGL claims was in a similar situation with the same set of facts as the Company.

456. The Commission believes that disregarding the IRS PLRs could lead to serious financial consequences for the Company and its customers. Specifically, it may result in the loss of accelerated depreciation benefits, which could raise costs for ratepayers through higher utility rates. WGL has quantified the penalty for a normalization violation as a $107 million increase to rate base due to the loss of accelerated depreciation, resulting in a net penalty of $80 million (taking into account the $27 million cost of applying the proper normalization accounting to rate base). However, the IRS PLRs that WGL relies on are specific to the companies that requested them, and although the relevant facts may appear the same, only the IRS can provide the authoritative guidance that is specific to WGL's set of facts. Therefore, the Commission directs WGL to establish a regulatory asset[1007] with the same ratemaking impact as WGL's RMA 32, with the requirement that the Company must

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[1004] PLR 8818040, rel. February 9, 1988.

[1005] *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*, Order No. 17424, ¶ 121-146, rel. March 26, 2024 ("Order No. 17424").

[1006] Order No. 17424, ¶ 142.

[1007] The regulatory asset will follow the accounting treatment established in WGL's response to Commission Staff DR 3-6. *See Data Request No. 1180*, Washington Gas Light Company Response to Staff Data Request No. 3, filed May 23, 2025.

request its own IRS PLR. The Commission directs the Company to submit a copy of the PLR request submitted to the IRS within 60 days of the date of this Order. The Commission expects WGL's request submitted to the IRS to be consistent with the relevant facts established in the Rebuttal and Rejoinder Testimonies of WGL Witness Bell.[1008] The Commission also directs the Company to implement a regulatory liability to track the return collected in rates for this purpose minus the cost of obtaining the PLR. The regulatory liability will not reduce rate base in this case and would accrue interest. The Company is directed to inform the Commission within 30 days of the IRS ruling. The Commission also directs the Company to include detailed testimony in its next rate case application explaining the outcome of the PLR request. Should the IRS rule that no normalization violation exists, the Commission will make the necessary adjustments to rate base in the Company's next rate case after the IRS ruling.[1009]

457. Regarding OPC's claims that there is a nexus between Term No. 44 and the normalization violation, the Commission notes that the PLR originated from long-standing normalization requirements that predate the Merger. WGL's NOLC situation is not related to the Merger and is specific to the Company's regulated activities in the District. Moreover, WGL had a tax sharing agreement with affiliates prior to the Merger, and the PLR would have affected those payments in the same way that they now impact post-Merger tax sharing. This leads us to conclude that the normalization issues are unrelated to the Merger and thus not subject to Term No. 44. Finally, we agree with WGL's assertion that there are no tax sharing payments from AltaGas to WGL and that neither is AltaGas a member of the U.S. consolidated tax return that the Company files nor is it a party to the tax sharing agreement.[1010]

R. CREDIT/DEBIT CARD TRANSACTION FEE ELIMINATION

WGL RMA 28 Credit/Debit Card Transaction Fee Elimination
OPC BCO-14: Credit/Debit Card Fees

458. **WGL.** WGL proposes ending its practice of paying vendor transaction fees on credit and debit card payments.[1011] Instead, customers would be required to pay these fees.[1012] Even though WGL anticipates saving these charges, it also anticipates increased

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1008 WGL (2H) at 5:3-25, and 6:1-6 (Bell Rebuttal Testimony); WGL (3H) 2:1-4:6 (Bell Rejoinder Testimony).

1009 The Dissent states that the evidentiary record does not include sufficient documentation to determine the magnitude of the NOLC balance. Dissent at 2. The Commission has reviewed the Company's Application, including the supporting testimony and the associated exhibits as well as the Company's response to Commission Staff Data Request No. 3-2 and determined that the balance information is appropriately supported. *See* Washington Gas Light Company Response to Commission Staff Data Request No. 3.

1010 WGL (3D) at 20:1-14 (Gibson Rebuttal Testimony).

1011 WGL (D) at 80:4-8 (Tuoriniemi Direct Testimony).

1012 WGL (O) at 19:17-23 (Lawson Direct Testimony).

charges by Automatic Clearing Houses resulting from WGL customers changing their payment methods.[1013] If the Commission were to reject this proposal, WGL would incur an additional expense to recover these transaction fees.[1014]

459. **OPC.** OPC does not oppose WGL's proposal.[1015] However, OPC recommends that WGL should advertise other electronic means of bill payment besides credit or debit cards so that customers avoid paying the vendor fees.[1016]

Decision

460. The Commission agrees with WGL's proposal to discontinue its practice of paying vendor transaction fees on customer credit card and debit card payments and to permit WGL customers paying by credit card to pay the credit card fee. Since there are a variety of electronic methods of payment of WGL's bills that do not incur fees for the customer or WGL, WGL customers can use those other methods of payment. The Commission also agrees with OPC's proposal that WGL should inform customers of the alternative forms of electronic payment that do not incur fees. The Commission directs WGL to notify its customers of this change and file a notice with the Commission within 60 days of the date of this Order describing how WGL notified its customers. To allow time for proper customer communication and implementation, the Commission authorizes WGL to begin collecting credit card vendor fees from customers no earlier than 90 days after the date of this Order.

S. MERGER TERM NOS. 24 AND 72

461. **WGL.** WGL asserts the Merger Term Nos. 24 and 72 are still relevant in this proceeding. Term No. 24 relates to affiliate transactions. WGL asserts that its 2024 CAM contains the information required by Term No. 24.[1017]

462. Term No. 72 limits WGL's ability to collect PROJECT*pipes* costs that exceed a certain threshold from being collected through the PROJECT*pipes* surcharge,[1018] WGL testifies that for years in which the PROJECT*pipes* costs exceeded the threshold, the costs were included as normal replacement costs.[1019]

1013 WGL (D) at 80:21-23 (Tuoriniemi Direct Testimony).

1014 WGL (D) at 81:15-17 (Tuoriniemi Direct Testimony).

1015 OPC (B) at 145:1-3 (Ostrander Direct Testimony).

1016 OPC (A) at 6:3-6 (Dismukes Direct Testimony).

1017 WGL (D) at 105:12 – 107:3 (Tuoriniemi Direct Testimony).

1018 WGL (D) 107:7-19 (Tuoriniemi Direct Testimony).

1019 WGL (D) 108:1 – 109:13 (Tuoriniemi Direct Testimony).

463. **WGL Brief.** WGL explains how it complied with both Term Nos. 24 and 72. WGL argues that no party has disputed WGL's compliance with Term Nos. 24 and 72.[1020]

Decision

464. Term No. 24 reads:

> Washington Gas will comply with its Cost Allocation Manual ("CAM") in transactions with AltaGas and its affiliates. AltaGas and its subsidiaries will use pricing protocols consistent with the rules of the Commission for transfer prices of any intercompany transfers of supplies and services related to Washington Gas. The Applicants agree that Washington Gas will continue to use its CAM (as updated) for all entities that allocate costs to Washington Gas's regulated operations. Within the CAM, the entities should also include all foreign exchange rates used, method of determining the exchange rates used (i.e., average annual, date certain, etc.) and source of the exchange rates used. An updated Washington Gas CAM and the service agreement(s) between any service company or affiliate allocating costs to Washington Gas shall be filed with the Commission within 12 months of Merger Close and thereafter, consistent with the Commission's affiliate reporting requirements. Further, the Applicants commit that current service agreements between Washington Gas and any affiliates that Washington Gas either provides services to or receives services from will be provided with the 21-day compliance filing in any future rate case proceedings. This will include, but not be limited to, service agreements with AltaGas and ASUS, as well as agreements Washington Gas has with its unregulated affiliates. [1021]

465. Term No. 72 reads:

> Washington Gas will calculate, on an annual basis, the average costs from the prior two years of replacing/remediating the necessary infrastructure to reduce leaks within its PROJECTpipes program. Average costs will be calculated on a "per mile (or foot) of main pipe replaced/remediated and per service replaced/remediated" basis, and applicable to each PROJECT*pipes* program (currently Program 1 – Bare and/or Unprotected Steel Service Replacement; Program 2 – Bare Steel Main and Unprotected Steel Main and Affected Service Replacement; and Program 4 – Cast Iron Main and Affected Service Replacement; and any future PROJECT*pipes* programs). Washington Gas will not be allowed to recover any replacement/ remediation expenditures for completed program work incurred post-Merger Close (Fiscal Year 2019 and beyond) in the surcharge tracker

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[1020] WGL Brief at 292-294.

[1021] Order No.19396, Appendix A.

> mechanism that are above 120 percent of the rolling two year annual average program cost (calculated from program years 2017 and 2018)of the per unit and per program material replacement/remediation cost, hereafter referred to as "excess costs;" provided, for cast iron replacement/ remediation costs, "excess costs" shall be defined as costs above 120% of the Class 3 estimates for such projects until such time as Washington Gas has sufficient data to establish average costs of cast iron replacements/remediation by pipe diameter. Any excess costs for leak replacement/remediation under the PROJECTpipes program will be treated as normal replacement costs and will be reviewed by the Commission and stakeholders in a prudence review in Washington Gas's next base rate case to determine if the costs were prudently incurred and are appropriate for recovery through base rates.[1022]

466. No party disputed WGL's compliance on this item. After review, the Commission determines that WGL is compliant with Term Nos. 24 and 72. The Commission finds that the 2024 CAM contains the information required by Term No. 24. The Commission also determines that for the years in which PROJECT*pipes'* costs exceeded the thresholds in Term No. 72, these costs were included in normal replacement costs.

T. RATE TREATMENT OF AFFILATE EXPENSES

OPC BCO-9: A&G/Affiliate Expenses Allocated to WGL

467. **WGL.** During the Test Year, WGL contends that two affiliates provided services to WGL: AltaGas and SEMCO.[1023] WGL asserts that the services provided by AltaGas and SEMCO benefited WGL.[1024] WGL argues that these services were not duplicative of WGL's own services.[1025] WGL represents that an outside consultant's report shows that affiliate services were provided at the lower of cost or market value during the Test Year. Additionally, on average, outside consultants' hourly rates were higher than affiliates'.[1262] WGL also contends that its A&G costs per customer provided by its affiliates are in the middle of A&G costs of other utilities.[1026] WGL's consultant also found that WGL has sufficient control activities in place to monitor whether affiliate charges are necessary and reasonable.[1027] WGL's consultant found that affiliate charges during the Test Year were

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1022 Order No. 19396, Appendix A.

1023 WGL (L) at 4:1-2 (Baryenbruch Direct Testimony).

1024 WGL (L) at 8, Table 4 (Baryenbruch Direct Testimony).

1025 WGL (L) at 8:15-16 (Baryenbruch Direct Testimony).

1026 WGL (L) at 12:6-8, Table 8 (Baryenbruch Direct Testimony).

1027 WGL (L) at 14:10-21 (Baryenbruch Direct Testimony).

necessary and reasonable.[1028]

468. **OPC.** OPC removed $1.2 million of the $5.1 million of AltaGas corporate expenses allocated to WGL.[1029] From 2019 through 2022, OPC notes that AltaGas allocated a similar amount of expenses to WGL due to the restrictions in Term No. 41.[1030] After the expiration of Term No. 41, which limited the allocations of AltaGas costs to WGL, OPC alleges that the amount of AltaGas corporate expenses allocated to WGL has increased substantially.[1031] OPC argues that these expenses are unreasonable, excessive, and unsupported.[1032] OPC contends that WGL did not provide support for these allocations.[1033] Additionally, OPC argues that WGL Witness Baryenbruch and Witness Block's analyses are incomplete or erroneous.[1034] Thus, WGL did not meet its burden of proof to approve these expenses.[1035] Through its adjustment, OPC seeks to normalize the affiliate expenses.[1036]

469. OPC argues that WGL makes substantial errors in its comparison of WGL's A&G expenses and affiliate expenses with those in a peer group of utilities. OPC argues that Witness Baryenbruch did not remove the peer affiliate expenses from the peer A&G expenses to arrive at a net A&G expense. Thus, OPC represents that Witness Baryenbruch's comparison is erroneous and incorrectly shows that WGL's affiliate expenses are lower and more reasonable than other utilities.[1037] By using the correct calculations, OPC contends that WGL would have reached a conclusion that WGL's A&G expenses and affiliate expenses are higher than the market.[1038]

470. OPC notes that WGL seeks to allocate $5.6 million in costs to other affiliates. OPC does not propose an adjustment for this allocation.[1039]

[1028] WGL (L) at 15:1-3 (Baryenbruch Direct Testimony).

[1029] OPC (B) at 84:20-23 (Ostrander Direct Testimony).

[1030] OPC (B) at 90:16-19 (Ostrander Direct Testimony).

[1031] OPC (B) at 85:13-18; 90-19 – 91:5 (Ostrander Direct Testimony).

[1032] OPC (B) at 85:13-18 (Ostrander Direct Testimony).

[1033] OPC (B) at 92:3 - 94:18 (Ostrander Direct Testimony).

[1034] OPC (B) at 119:7 – 123:17; 123:7 – 124:6 (Ostrander Direct Testimony).

[1035] OPC (B) at 99:15-17 (Ostrander Direct Testimony).

[1036] OPC (B) at 91:6-7 (Ostrander Direct Testimony).

[1037] OPC (B) at 127:9-18 (Ostrander Direct Testimony).

[1038] OPC (B) at 127:18 – 128:5 (Ostrander Direct Testimony).

[1039] OPC (B) at 87:9-11 (Ostrander Direct Testimony).

471. **WGL Rebuttal.** WGL's Rebuttal Testimony revises its calculated Test Year A&G expenses per customer. In Direct Testimony, these costs were calculated for the WGL's entire service area but are now revised to reflect District-only costs. Additionally, the Rebuttal Testimony adjusts for the wide disparities in cost of living of the comparison group of utilities,[1040] which affect A&G expenses.[1041] With these revisions, WGL argues that its $165 per customer in A&G expense is in the middle of the comparison group of utilities, demonstrating their reasonableness.[1042]

472. WGL disagrees with OPC's contention that corporate costs should be normalized because there has been an increase in these costs. WGL contends that cost normalization is appropriate when costs are volatile.[1043] For corporate costs, WGL claims that these costs have increased steadily due to inflation and routine, updated allocation factors.[1044] WGL contends that the change in MMF allocation factors is due to increased investment in WGL assets and the AltaGas sale of the Alaska utilities.[1045] Since there are fewer utilities to share the AltaGas corporate costs, the utilities' share of the common costs would necessarily increase, WGL asserts.[1046] WGL argues that normalization of these costs would lead to an under-recovery by WGL.[1047] Normalization would also improperly affect the MMF.[1048] Contrary to OPC's assertions, the expiration of Term No. 41 did not cause a substantial increase in allocated costs.[1049] WGL recommends rejection of BCO-9.[1050]

473. Regarding OPC's criticism of WGL's Lower of Cost or Market ("LCM") Comparison, WGL argues that OPC's analysis is not correct. First WGL argues that WGL's labor cost comparison includes labor and non-labor expenses for both inside and outside

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1040 WGL (2L) at 22:6-9 (Baryenbruch Rebuttal Testimony).

1041 WGL (2L) at 23:2-7 (Baryenbruch Rebuttal Testimony).

1042 WGL (2L) at 23:10 = 24:2 (Baryenbruch Rebuttal Testimony).

1043 WGL (3D) at 21:9-19 (Gibson Rebuttal Testimony).

1044 WGL (2K) at 1:21-24; 3:9-13 (Block Rebuttal Testimony). Other costs include the CEO search costs, digital costs, cloud computing costs, and key professional services. WGL (2K) at 6:18 – 7:6 (Block Rebuttal Testimony).

1045 WGL (2K) at 2:3-6 (Block Rebuttal Testimony).

1046 WGL (2K) at 2:6-7 (Block Rebuttal Testimony).

1047 WGL (2K) at 3:14-18 (Block Rebuttal Testimony).

1048 WGL (2K) at 3:23 – 4:4 (Block Rebuttal Testimony).

1049 WGL (2K) at 9:3-7 (Block Rebuttal Testimony).

1050 WGL (3D) at 21:9-19 (Gibson Rebuttal Testimony).

personnel.[1051] WGL argues that outside providers' inclusion of profit in its labor rates does not prevent WGL from using these rates in its comparisons.[1052] WGL argues that OPC's proposal to compare each employee's work experience and other credentials is time-consuming and unnecessary.[1053] WGL argues that its LCM Comparison has been accepted in over 20 jurisdictions, including Virginia.[1054] WGL represents that the WGL cost differential is much higher than cost differentials for other utilities that used the same analysis.[1055] WGL also argues that OPC erred by arguing that the affiliate costs represented WGL costs to provide services to affiliates, whereas WGL was providing cost information regarding affiliates' costs to provide services to WGL.[1056] Further, WGL contends that OPC has not presented any evidence showing that the provision of services to WGL by AltaGas and SEMCO deviates from the NARUC guidelines.[1057]

474. WGL contends that OPC's A&G analysis is flawed because OPC only benchmarked the A&G expenses directly attributed to a utility and did not include A&G expenses associated with affiliate charges.[1058] WGL claims that OPC's approach measures how A&G work is structured, not cost performance.[1059] WGL represents that OPC's approach is not used.[1060] In WGL's view, this is another reason for the Commission to reject Adjustment BCO-9.[1061]

475. Regarding the costs for the AltaGas CEO transition, WGL asserts that it is a normal business practice to allocate a portion of the salary and bonus for the outgoing CEO to affiliates, which AltaGas and WGL did.[1062] Contrary to OPC's argument, WGL contends that the signing bonus for the new AltaGas CEO was not allocated to WGL, although a portion of the incoming CEO's salary and STI was.[1063] WGL also notes that OPC removes the costs for the CEO twice, so if the Commission were to accept BCO-9, the Commission

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1051 WGL (2L) at 8:4-18 (Baryenbruch Rebuttal Testimony).

1052 WGL (2L) at 9:1-8 (Baryenbruch Rebuttal Testimony).

1053 WGL (2L) at 10:9-16 (Baryenbruch Rebuttal Testimony).

1054 WGL (2L) at 10:18-22 (Baryenbruch Rebuttal Testimony).

1055 WGL (2L) at 12:1-4 (Baryenbruch Rebuttal Testimony).

1056 WGL (2L) at 16:14 17:2 (Baryenbruch Rebuttal Testimony).

1057 WGL (2L) at 19:5-7 (Baryenbruch Rebuttal Testimony).

1058 WGL (2L) at 21:12-13 (Baryenbruch Rebuttal Testimony).

1059 WGL (2L) at 21:19-20 (Baryenbruch Rebuttal Testimony).

1060 WGL (2L) at 22:2-3 (Baryenbruch Rebuttal Testimony).

1061 WGL (2L) at 24:7 – 25:5 (Baryenbruch Rebuttal Testimony).

1062 WGL (2K) at 10:2-11 (Block Rebuttal Testimony).

1063 WGL (2K) at 10:13-18 (Block Rebuttal Testimony).

should ensure that the CEO costs are removed only once.[1064]

476. **OPC Surrebuttal.** OPC represents that its proposed use of a five-year average to compute affiliate costs was recently accepted in Maryland.[1065] OPC claims that the change in the affiliate expenses in the Maryland case was similar to the change in affiliate expenses in this proceeding.[1066] Contrary to WGL's arguments, OPC contends that a five-year average is appropriate when there are unexplained or unsubstantiated cost increases for more than one year, if future costs are not known or measurable, or if there are unreasonable incentives to increase costs, not merely when costs are volatile.[1067] OPC asserts that WGL has not provided sufficient information to explain its costs, particularly in the Test Year.[1068]

477. Specifically, OPC contends that WGL did not show how the MMF factors and inflation affected costs.[1069] OPC asserts that there are several problems with the MMF and inflation factors.[1070] Contrary to WGL's representations, OPC alleges that WGL uses a modified MMF that does not comport with industry practice.[1071] OPC claims that WGL erroneously applies to same Canadian inflation factor for each year to each expense, without justifying the use of the same inflation factor.[1072] OPC also claims that WGL's witnesses are inconsistent in their arguments of the effect of Canadian inflation on affiliate expenses.[1073] OPC argues that the two factors that WGL asserts are driving the change in the MMF factor, the sale of the Alaska utilities, and investment in WGL, WGL does not provide any documentation to support these assertions.[1074] Instead, OPC argues that the cost driver was an increase in AltaGas expenses that were subject to allocation to affiliates from 2022 through the end of the Test Year.[1075] OPC argues that these expenses should have been evaluated to determine whether they were reasonable, justified, and beneficial to WGL

1064 WGL (3D) at 21:22 – 22:6 (Gibson Rebuttal Testimony); WGL (2K) at 11:13-16 (Block Rebuttal Testimony).

1065 OPC (2B) at 94:14 – 95:2 (Ostrander Surrebuttal Testimony).

1066 OPC (2B) at 96:1-4 (Ostrander Surrebuttal Testimony).

1067 OPC (2B) at 95:14-20 (Ostrander Surrebuttal Testimony).

1068 OPC (2B) at 97:4-16 (Ostrander Surrebuttal Testimony).

1069 OPC (2B) at 99:17 – 101:4 (Ostrander Surrebuttal Testimony).

1070 OPC (2B) at 101:8 – 102:3 (Ostrander Surrebuttal Testimony).

1071 OPC (2B) at 107:6-18 (Ostrander Surrebuttal Testimony).

1072 OPC (2B) at 103:5-11 (Ostrander Surrebuttal Testimony).

1073 OPC (2B) at 111:6 – 112:2 (Ostrander Surrebuttal Testimony).

1074 OPC (2B) at 103:16 – 104:8 (Ostrander Surrebuttal Testimony).

1075 OPC (2B) at 104:9-18 (Ostrander Surrebuttal Testimony).

customers.[1076] Further, OPC argues that the inflation factors used for this RMA are different than the inflation factors used for other adjustments.[1077] OPC argues that WGL failed to meet its burden of proof, so this adjustment should be rejected by the Commission.[1078]

478. OPC decreases BCO-9 slightly to adjust for CEO pay in response to WGL testimony regarding the double removal of SEMCO CEO expenses.[1079]

479. Contrary to WGL's contentions, OPC asserts that WGL's LCM methodology has been rejected in several jurisdictions.[1080] OPC also claims that WGL has not clarified or reconciled the labor and non-labor costs in the LCM study to the costs used in WGL's CAM.[1081]

480. OPC asserts that WGL's comparison of external and internal billing rates is faulty because external billing rates include a profit margin, whereas internal billing rates do not. OPC contends that WGL should either remove the profit margin for external rates or add a profit margin into internal rates for a true comparison.[1082] OPC also argues that WGL does not compare equivalent positions in evaluating labor costs.[1083] OPC urges the Commission to reject the LCM study.[1084]

481. OPC argues that it proposed an A&G adjustment because WGL's proposal was unreasonable, by exceeding the market cost of peers by 175%.[1085] Contrary to WGL's assertion, OPC argues that its adjustment for affiliate costs is based on a five-year average method, not a net A&G method.[1086]

482. **WGL Rejoinder.** For the LCM cost comparison, WGL asserts that it used the methodology recommended by NARUC, which does not include a profit margin. WGL contends that OPC's methodology is not consistent with the NARUC methodology and has

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1076 OPC (2B) at 104:20 – 105:2 (Ostrander Surrebuttal Testimony).

1077 OPC (2B) at 105:10 – 106:8 (Ostrander Surrebuttal Testimony).

1078 OPC (2B) at 102:21; 105:4-6 (Ostrander Surrebuttal Testimony).

1079 OPC (2B) at 112:6-8 (Ostrander Surrebuttal Testimony).

1080 OPC (2B) at 112:13 – 114:12 (Ostrander Surrebuttal Testimony).

1081 OPC (2B) at 118:9-11 (Ostrander Surrebuttal Testimony).

1082 OPC (2B) at 119:4-19 (Ostrander Surrebuttal Testimony).

1083 OPC (2B) at 121:1 – 122:6 (Ostrander Surrebuttal Testimony).

1084 OPC (2B) at 121:16-17 (Ostrander Surrebuttal Testimony).

1085 OPC (2B) at 125:6-11 (Ostrander Surrebuttal Testimony).

1086 OPC (2B) at 127:4-8 (Ostrander Surrebuttal Testimony).

not been used.[1087]

483. **WGL Brief.** WGL argues that OPC's adjustment is unwarranted. WGL argues that normalization of affiliate expenses is not necessary, since affiliate expenses are not variable. Even if normalization were appropriate, WGL contends that OPC uses an arbitrary and inconsistent time period. WGL represents that it explained the drivers in variances to corporate costs. WGL contends that changes were driven by increased capital investment in WGL infrastructure, the sale of the Alaska utilities, and inflation.[1088] WGL claims that OPC misrepresents specific functions and impacts on costs. Further, WGL represents that OPC did not rebut WGL's LCM comparison. WGL asserts that OPC's critiques of the LCM lack merit, since it misunderstands the purpose of the LCM Comparison.[1089] In excluding the CEO cost removal, WGL claims that OPC is disallowing the same costs twice. Contrary to OPC's claims, WGL argues that the Kentucky Public Service Commission did not reject the LCM. WGL also argues that OPC's argument that the impact of inflation on the MMF allocation factors is inconsistent with the non-labor inflation adjustment is irrelevant, since the allocation factors in the MMF are not ratemaking adjustments.[1090] WGL responds to OPC's critique that the LCM Comparison has not recommended downward adjustments by arguing that this result is not surprising due to the fact that utilities are highly regulated. WGL urges the Commission to reject BCO-9.[1091]

484. **OPC Brief.** OPC argues that the Commission should support its adjustment to affiliate expenses because they are excessive and unsupported. OPC asserts that the adjustment reflects unjustified significant increases in costs, some of which appeared shortly after the expiration of Term No. 41.[1092] OPC claims that WGL has not presented a detailed analysis of the actual costs and cost allocation that would support a conclusion that these costs are reasonable. Further, OPC represents that WGL did not review documentation for the costs, did not test the MMF allocations or underlying inputs for validity, and did not review MMF allocations from the U.S. and Canada to determine if there is a reasonable method for allocating costs between jurisdictions.[1093] Contrary to WGL's contentions, OPC also asserts that the MMF is not commonly used in the industry. Additionally, OPC contends that WGL's analysis is inconsistent.[1094]

1087 WGL (3L) at 7:3 – 8:3 (Baryenbruch Rejoinder Testimony).

1088 WGL Brief at 190.

1089 WGL Brief at 191-193.

1090 WGL Brief at 194.

1091 WGL Brief at 195.

1092 OPC Brief at 93.

1093 OPC Brief at 94.

1094 OPC Brief at 98.

485. OPC argues that its five-year average adjustment methodology for affiliate expenses should be adopted, as it was by a MD PSC Pepco rate case. OPC contends that WGL's situation is similar to the Pepco situation in Maryland. OPC argues that its methodology is appropriate if there is an unexplained and unsupported cost increase, if the future level of costs is unknown, or if there are incentives to increase costs. OPC argues that the five-year average is appropriate due to the large increase in the last year.[1095]

Decision

486. OPC Adjustment BCO-9 is based on OPC's observation that corporate costs allocated to WGL have increased, and therefore, OPC believes that a normalization is appropriate. The Commission has used normalization for highly volatile costs like storm costs.[1096] Normalization would be appropriate if corporate costs presented in the test year represent highly volatile abnormal costs that do not properly represent the rate effective period. However, the record reflects that corporate cost increases did not rise to the level of volatility that would require normalization. Moreover, the Commission does not believe increases in corporate costs are comparable to storm costs, which can vary significantly from year to year. Thus, the Commission rejects OPC BCO-9.

487. Given our recommendation to reject OPC's BCO-9, WGL's argument that OPC's adjustment erroneously double-counts CEO cost reductions is moot.[1097] The Commission will continue to monitor WGL's corporate cost allocations to ensure that the level of costs borne by District ratepayers will continue to be reasonable and will take further action if necessary.

U. CALL CENTER EXPENSES

OPC BCO-11: Adjust Call Center Expense

488. **WGL.** WGL proposes to maintain its current level of Call Center expense and defends this position by citing its strong performance during the Test Year. According to Witness Steffes, WGL's Call Center met or exceeded service targets during the Test Year (April 1, 2023 to March 31, 2024), answering over 99,000 of 101,328 emergency calls within 30 seconds—a 99.02% success rate.[1098] Additionally, for regular customer service calls, the Company did not fall below an 83.65% answer rate within 30 seconds in any month.

489. **OPC.** While WGL did not propose an adjustment for Call Center expenses,

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1095 OPC Brief at 101-102.

1096 Order No. 15710, ¶ 137.

1097 WGL (3D) at 21-22 (Gibson Rebuttal Testimony).

1098 WGL (A) at 11:15-18 (Steffes Direct Testimony).

OPC proposes to reduce Call Center expenses.[1099] OPC argues that WGL did not adequately explain the reasons for changes in these expenses.[1100] OPC contends that its reduction is supported.[1101]

490. **WGL Rebuttal.** WGL objects to this adjustment, arguing that OPC offers projected costs for the Call Center. WGL argues that call center costs are variable and thus are not known and measurable outside of the Test Year.[1102]

491. **WGL Brief.** WGL argues that this adjustment should be rejected. WGL argues that OPC again cherry picks budget items to propose reductions. Additionally, WGL argues that it cannot predict the volume or nature of calls during the rate effective period. WGL contends that any attempt to adjust Call Center expenses based on post-Test-Year projects is not known or measurable.[1103]

492. **OPC Brief.** OPC claims that WGL has not presented sufficient information explaining changes in Call Center expenses. While OPC indicated that it was willing to revise or remove OPC's adjustment upon the receipt of additional information, WGL did not provide the information, so OPC continues to support its adjustment.[1104]

Decision

493. In *Formal Case No. 1169*, WGL's Call Center expenses during 2022 were materially higher than the actual Call Center expenses incorporated in the 2021 Test Year, but WGL did not seek recovery of the higher expenses.[1105] Based on the record in that case, the Commission concluded that the Test Year level of Call Center D.C. expenses was reasonable. In this proceeding, WGL has not changed the Test Year Call Center expenses allocated to D.C., which are lower than 2022 and 2023.[1106] Therefore, we conclude that Test Year Call Center D.C. expenses are reasonable.

494. Similar to *Formal Case No. 1169*, the Company did not propose a ratemaking adjustment in this proceeding to reflect higher expenses allocated to the District for 2023 and 2024. OPC proposes reducing the Call Center expense in the Test Year due to anticipated

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[1099] OPC (B) at 135:13-21 (Ostrander Direct Testimony).

[1100] OPC (B) at 136:3-5 (Ostrander Direct Testimony).

[1101] OPC (B) at 137:3-4 (Ostrander Direct Testimony).

[1102] WGL (3D) at 26:3-5 (Gibson Rebuttal Testimony).

[1103] WGL Brief at 195-196.

[1104] OPC Brief at 103-104.

[1105] Order No. 21939, ¶ 332.

[1106] *Data Request No. 1180*, WGL's Data Response No. 18-10 to OPC, filed December 16, 2024.

reductions in WGL's budget from its negotiations with the Call Center vendor. OPC proposes that these anticipated savings in WGL's budget support its reduction of $0.303 million in revenue requirement.

495. After a detailed review of WGL's Call Center expenses, OPC's proposed reduction, and the relevant documents in the record, the Commission finds that OPC's proposed reduction to Test Year Call Center expense is arbitrary and unsupported. The Commission determines that OPC's methodology lacks measurable support for its proposal because the savings it cites regarding the Call Center vendor are only anticipatory and are not known and measurable. Moreover, the Test Year in this case, which is twelve (12) months ending March 31, 2024, is considered a normal representation of typical operations with no unusual events such as Covid-19 and is accepted by the parties. The Commission notes that call center costs are driven by the volume and type of customer calls, which fluctuate based on factors such as weather, gas prices, or rate changes. Such fluctuations underscore the appropriateness of using actual Test Year costs rather than speculative projections or budgeted amounts that are not known or measurable. Therefore, the Commission determines that WGL has appropriately used actual Test Year expenses to represent the level of Call Center costs, consistent with the Commission's known and measurable standard. For these reasons, the Commission rejects OPC BCO-11.

V. GOVERNMENT AFFAIRS/LITIGATION COSTS

496. **Sierra Club Data Requests and Evidentiary Hearing.** Sierra Club submitted data requests related to WGL's lobbying, governmental affairs, and litigation costs during the Test Year. In compelled responses to these Sierra Club Data Requests, WGL indicated that it included $14,189 in litigation costs in rates.[1107] These litigation costs were in reference to *Washington Gas Light, et al. v. D.C., et al.*, 24-cv-02942. WGL asserts that it applied its jurisdictional factor to allocate these costs to the District.[1108] In its Response to Bench Data Request No. 1, WGL indicated that it allocated $247,214 in governmental affairs non-lobbying costs in rates.[1109]

497. **WGL Brief.** Contrary to Sierra Club contentions at the evidentiary hearing, WGL argues that its rates do not include any expenses for lobbying activities. Instead, expenses relating to lobbying are included in FERC USOA Account 426.4 and not in rates.[1110] However, WGL states that $247,214 in allocated government affairs non-lobbying costs such as customer impact and policy analysis, stakeholder engagement, public policy

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[1107] *Formal Case No. 1180*, Response to Sierra Club Data Request No. 2 pursuant to Order No. 22455, filed July 11, 2025.

[1108] *Formal Case No. 1180*, WGL Response to Sierra Club Data Request No. 2., filed May 29, 2025; Response to Sierra Club Data Request No. 2 pursuant to Order No. 22455, filed July 11, 2025.

[1109] *Formal Case No.1180*,Washingtron Gas Light Company's Response to Bench Data Request No. 1 ("WGL Response to Bench Request No. 1"), filed August 18, 2025.

[1110] WGL Brief at 196.

messaging, research and reporting, and other functions, are included in rates.[1111] WGL argues that there is no evidentiary basis to exclude any of these non-lobbying costs from rates.[1112]

498. WGL indicates that certain litigation expenses in the amount of $14,189 are included in rates. WGL argues that inclusion of these expenses is appropriate because they are recorded in FERC USOA Account 923 and because they were incurred in the interests of WGL customers to defend against attempts to dismantle gas service in the District of Columbia. WGL argues that there is no evidentiary basis to exclude these costs from rates.[1113]

499. **Sierra Club Brief.** Sierra Club argues that the Commission should disallow $218,775[1114] in government affairs labor costs since WGL has not demonstrated that these costs are in the public interest. Sierra Club alleges that WGL did not include this amount in its Application and was not transparent regarding its government affairs costs. Sierra Club contends that WGL admitted during the evidentiary hearing that some of these governmental affairs lobbying costs that are not included in FERC USOA Account 426.4 are for lobbying outside of the District. Sierra Club argues that District ratepayers should not be paying for lobbying efforts outside the District or against the District's climate legislation.[1115]

500. While WGL testified at the evidentiary hearing that it had two registered lobbyists during the Test Year,[1116] Sierra Club alleges that filings at the Board of Ethics and Government Accountability ("BEGA") show six registered lobbyists in CY 2023 and seven registered lobbyists in CY 2024. Sierra Club also asserts that BEGA filings show expenditures of $43,000 a month during CY 2024. Sierra Club argues that WGL employs more lobbyists than indicated in WGL's evidentiary hearing testimony. Sierra Club asserts that these discrepancies merit disallowance of the government affairs labor costs and the opening of an independent investigation into WGL's lobbying costs.[1117]

Decision

501. The Commission does not find sufficient and compelling evidence indicating that the $247,214 in allocated costs includes lobbying costs. The Commission finds that

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[1111] WGL Brief at 197.

[1112] WGL Brief at 198.

[1113] WGL Brief at 199-200.

[1114] The Commissions notes that the revised figure in WGL's Response to Bench Request No. 1 is $247,214.

[1115] Sierra Club Brief at 13, 15.

[1116] Tr. at 95.

[1117] Sierra Club Brief at 14, 16.

WGL demonstrated that these costs are directly tied to Full-Time Equivalents ("FTE") engaged in governmental affairs activities, such as customer impact analysis, policy research, stakeholder engagement, and public policy communications, not lobbying activities.[1118] The costs for these FTEs are allocated to governmental affairs activities in the District using the correct allocation factors.[1119] Considering that these costs are recorded in accordance with FERC accounting guidelines, the Commission is convinced that the Company has satisfied the burden of showing that $247,214 in allocated costs are not lobbying costs. The Commission determines that the additional costs claimed by Sierra Club's Briefs to be lobbying are not included in the $247,214 sought by WGL. WGL's lobbying activities are recorded according to FERC Account 426.4, which requires exclusion from the revenue requirement. Therefore, the Commission denies Sierra Club's request to disallow $247,214.[1120]

502. Additionally, the Commission rejects Sierra Club's request to open an investigation into the Company's lobbying, government affairs, and influence practices in the District because its claims are unsupported. The assertions raised by Sierra Club regarding the number of registered lobbyists and BEGA filings are speculative, are not supported by record evidence demonstrating improperly included costs, and do not establish that any lobbying expenditures have been recovered through District rates.

503. Based on our review of record evidence in this case, the Commission determines that the $14,189 District litigation expenses recorded by the Company in FERC Account 923 are appropriately included in rates. These legal expenses were reasonably incurred in litigation regarding the continued existence and maintenance of gas distribution service in the District to the benefit of ratepayers who want natural gas service. The Commission finds that these costs were prudently incurred and directly related to preserving safe and reliable gas distribution service in the District and rejects Sierra Club's request to disallow the $14,189 related to litigation costs.[1121]

XI. <u>LONG TERM PLAN FOR CAPITAL PROJECTS</u>

504. **WGL.** WGL asserts that it performs a planning exercise to determine a reasonable forward-looking estimate of capital investment allocation at least annually. This planning exercise includes evaluation of capital activities in progress, PROJECT*pipes* activities, safety, current known or anticipated growth, and other needs.[1122] Since WGL performs its capital planning based on calendar years, WGL asserts that the Test Year

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1118 Tr. at 74-84; WGL Response to Bench Data Request No. 1.

1119 WGL Response to Bench Data Request No. 1.

1120 Sierra Club's brief did not update its disallowance to reference the Company's government affairs of $247,214.

1121 The Commission takes no position on the merits of the litigation.

1122 WGL (P) at 5:13 – 6:3 (Murphy Supplemental Direct Testimony).

incorporated planning from two calendar years.[1123]

505. For the vast majority of projects, WGL argues that there are no adequate alternatives to pipeline replacement that would ensure safe and reliable gas service.[1124] WGL will consider abandonment if no customers are being served or would be affected by the abandonment.[1125]

506. WGL outlines its project development process and provides its project development process.[1126] Once a project is identified, WGL goes through an engineering process. WGL also indicates that between August and January, WGL updates its risk model and determines current results. Projects are then prioritized based on those results. WGL then undertakes research and design for prioritized projects between January and October.[1127] Projects are typically finalized by the end of October.[1128] Once the plans are reviewed and authorized, the construction process begins.[1129]

507. WGL asserts that it uses a variety of methods to develop its cost estimates. Additionally, for PROJECT*pipes* projects, WGL uses Advancement of Cost Engineering ("AACE") Class 3 estimating criteria, as required by the Commission in Order No. 20671.[1130] WGL bases its construction costs on multi-year alliance construction contracts that are competitively bid.[1131]

508. WGL argues that cost variances result from cost drivers that are outside of WGL's control and thus were not known or foreseeable when the cost estimate was developed. WGL identifies four major cost drivers: permitting; labor costs and inflation; jurisdictional paving limits; and unexpected field conditions.[1132] If a variance exceeds certain limits, the project must be reauthorized.[1133] WGL argues that its construction management practices ensure that construction costs are necessary, prudent, and consistent

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1123 WGL (P) at 6:4-16 (Murphy Supplemental Direct Testimony).

1124 WGL (P) at 14:13-16 (Murphy Supplemental Direct Testimony).

1125 WGL (P) at 14:16-18 (Murphy Supplemental Direct Testimony).

1126 Exhibit WG (P)-1 (Murphy Supplemental Direct Testimony).

1127 WGL (P) at 15:21 – 16:3 (Murphy Supplemental Direct Testimony).

1128 WGL (P) at 16:3011 (Murphy Supplemental Direct Testimony).

1129 WGL (P) at 16:14-21 (Murphy Supplemental Direct Testimony).

1130 WGL (P) at 17:9-18 (Murphy Supplemental Direct Testimony).

1131 WGL (P) at 18:12-19 (Murphy Supplemental Direct Testimony).

1132 WGL (P) at 19:5-20 (Murphy Supplemental Direct Testimony).

1133 WGL (P) at 20:7-8 (Murphy Supplemental Direct Testimony).

with competitively sourced contract pricing. WGL argues that its process ensures that projects are necessary and costs are reasonable.[1134]

509. **DCG.** DCG questions WGL's long-term plans for capital expenditures, arguing that WGL appears to plan only a few years in advance.[1135] DCG argues that WGL does not prepare customer count or sales forecasts beyond five years.[1136] DCG contends that making investment decisions based on short-term forecasts does not take into account the long lives of assets and the impact of customer choice on replacing assets.[1137] DCG recommends that WGL use a planning horizon of 10 – 20 years.[1138] DCG contends that WGL has not indicated in this docket that it has considered or implemented NPAs.[1139] In DCG's view, NPAs lower rates while reducing risk.[1140]

510. DCG asserts that the Commission should require WGL to conduct long term comprehensive system planning and review, amend, and approve this long term capital planning program.[1141] Additionally, DCG contends that the Commission should not approve any additions to rate base that are not consistent with the approved long term capital planning methodology.[1142] As part of this process, DCG asserts that the Commission should require WGL to keep records of all of the assets that it uses each year.[1143] Without such long-term planning, DCG argues that WGL is more prone to imprudent decisions.[1144] DCG argues that other jurisdictions such as Illinois have required the gas company to develop a long term gas infrastructure planning process.[1145] DCG argues that the Commission should not entertain any further rate case until WGL has shown that it has developed and uses such an approved comprehensive gas system planning approach to determine capital and operating costs.[1146]

1134 WGL (P) at 21:5-9 (Murphy Supplemental Direct Testimony).

1135 DCG (A) at 25:25-26; 42:4-7 (Hopkins Direct Testimony).

1136 DCG (A) at 26:3-4 (Hopkins Direct Testimony).

1137 DCG (A) at 26:15-17 (Hopkins Direct Testimony).

1138 DCG (A) at 26:22 – 27:4 (Hopkins Direct Testimony).

1139 DCG (A) at 28:12-13, 42:8-11 (Hopkins Direct Testimony).

1140 DCG (A) at 29:8 (Hopkins Direct Testimony).

1141 DCG (A) at 32:7-8 (Hopkins Direct Testimony).

1142 DCG (A) at 32:9-13 (Hopkins Direct Testimony).

1143 DCG (A) at 32:4-6, 42:24-25 (Hopkins Direct Testimony).

1144 DCG (A) at 33:9-11 (Hopkins Direct Testimony).

1145 DCG (A) at 43:3-6 (Hopkins Direct Testimony).

1146 DCG (A) at 42:12-13 (Hopkins Direct Testimony).

511. In sum, DCG argues that WGL has not taken its current and future competitive position into account when planning capital expenditures.[1147] According to DCG, WGL does not track all of the information that it needs to adequately perform long term planning.[1148] DCG also contends that WGL does not plan for stranded assets.[1149]

512. **Sierra Club**. Sierra Club objects to WGL's assertion that the District's climate policies do not affect WGL's planned capital investments, life of assets, or depreciation rates.[1150]

513. **WGL Rebuttal.** WGL argues that DCG's proposed 10 to 20 year long term planning horizon assumes full electrification of the District. To achieve this full electrification, WGL contends that DCG presupposes a rate of electrification that has not occurred anywhere in the country. WGL argues that it would be unreasonable and harmful to customers to plan for a natural gas system and capital expenditures based on those parameters.[1151] Further, since WGL will be filing frequent rate cases to recover pipe replacement costs, WGL asserts that the Commission will have multiple opportunities to evaluate the direction of WGL's capital expenditures as well as customer migration and stranded asset risk and direct WGL to modify its capital expenditures.[1152] WGL represents that the electrification that is currently occurring in the District has had no impact of WGL operations.[1153]

514. Regarding NPAs, WGL argues the DCG overstates the costs of service line replacement and understates the costs of electrification per housing unit. WGL contends that electrification costs more than the DCG-proposed $15,000 incentive payment. WGL asserts that DCG has presented no assessment about whether inclusion of this incentive payment in gas rates is cost-effective.[1154] WGL also asserts that it evaluates whether abandonment or use of cured in place liner are appropriate in engineering projects, but WGL asserts that most of its pipe replacement projects have no adequate alternatives.[1155] WGL also argues that industry evidences shows that NPAs do not reduce necessary repairs, provide cost savings to

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1147 DCG (A) at 41:22-24 (Hopkins Direct Testimony).

1148 DCG (A) at 42:12-13 (Hopkins Direct Testimony).

1149 DCG (A) at 42:14-17 (Hopkins Direct Testimony).

1150 Sierra Club (A) at 16:3-6 (Rábago Direct Testimony).

1151 WGL (3A) at 20:3-22 (Steffes Rebuttal Testimony).

1152 WGL (3A) at 20:23 – 20:9 (Steffes Rebuttal Testimony).

1153 WGL (2P) at 25:3-5 (Murphy Rebuttal Testimony).

1154 WGL (3A) at 21:12 – 23:1 (Steffes Rebuttal Testimony).

1155 WGL (2P) at 26:8-15 (Murphy Rebuttal Testimony).

customers, and do not attract customer interest.[1156]

515. WGL contends that Sierra Club raises concerns about the rapid departure of WGL customers and stranded assets without accommodating these concerns and increased risk through adequate cost recovery or adjustments to the ROE.[1157]

516. **WGL Brief.** Preliminarily, WGL notes that rate cases are based on a historical test year, not future planning. Thus, WGL argues that its focus was on plant that was used and useful in the Test Year. WGL urges the Commission not to engage in attempts to predict the use and usefulness of plant that is currently used to provide service.[1158]

517. **DCG Brief.** DCG criticizes WGL's planning for capital investments, arguing that WGL lacks a long-term plan extending beyond five years.[1159] Since WGL's capital investments have a long-term impact, DCG contends that WGL's capital planning should also be long-term.[1160] DCG also argues that WGL does not consider the District's climate policies and the trend away from natural gas use in its capital investment planning. DCG notes that WGL's market share for Residential Heating has steadily declined,[1161] while prices have risen relative to electric prices.[1162] Since WGL does not consider possible future declines in revenue in the future, DCG contends that WGL's long-term capital planning is imprudent and reckless.[1163]

518. Because it does not evaluate NPA and fails to include information required for good gas planning, DCG claims that WGL's long-term capital investments program is faulty and imprudent.[1164] Additionally, DCG argues that WGL has not analyzed the potential for stranded assets in its system.[1165] DCG argues that the Commission should require WGL to file a long-term plan that includes NPAs, including electrification incentives.[1166] DCG argues that WGL's preferred pipe replacement alternative is not

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1156 WGL (2P) at 27:23 - 28:4 (Murphy Rebuttal Testimony).

1157 WGL (3A) at 22:20 – 23:3 (Steffes Rebuttal Testimony).

1158 WGL Brief at 232.

1159 DCG Brief at 7-8.

1160 DCG Brief at 8.

1161 DCG Brief at 11.

1162 DCG Brief at 12.

1163 DCG Brief at 18.

1164 DCG Brief at 19-20.

1165 DCG Brief at 23.

1166 DCG Brief at 19-20.

financial sustainable. DCG contends that electrification and targeted replacement enhance safety while reducing rates and stranded cost risk.[1167]

519. DCG argues that WGL's inability to identify currently used and useful GPIS impedes its ability to plan prudent capital investments. To remedy this problem, DCG recommends that the Commission direct WGL accounts for the assets currently in rate base and to develop a method based on best practices that enables WGL to determine when an asset becomes stranded.[1168]

520. DCG's recommendations for a long-term plan include directing WGL to maintain records of assets used to provide service, with a contribution of these assets to rate base and depreciation expense and directing WGL to conduct comprehensive long-term gas system planning. DCG contends that the Commission should determine that, in subsequent rate cases, no inclusion in rate base of capital expenditures, or inclusion in cost of service of O&M expenses, that have not been shown to be consistent with an approved long-term planning methodology.[1169]

521. DCG argues that improved gas system planning benefits all stakeholders. The risk of financial risks to ratepayers for imprudent investments will be minimized. The plan benefits WGL by minimizing stranded assets and aligning more closely with the District's climate goals. The Commission will benefit by having more transparent information to guide Commission decisions.[1170]

Decision

522. In Order No. 18712, the Commission committed to scrutinizing any future WGL long term capital expenditure plans.[1171] In *Formal Case No. 1169*, WGL's request sought to include several long-term capital expenditures that had costs well beyond the test year. The Commission rejected the costs for these projects as the Company failed to persuade us of the beneficial impact in the District. Moreover, these projected costs were beyond the test year and were not known and measurable.[1172]

523. Even though rate cases are based on costs in a historical test year, not future costs, the Commission has sought information about long-term capital projects in rate case proceedings because information about long-term planning provides insight into WGL's

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[1167] DCG Brief at 21.

[1168] DCG Brief at 25.

[1169] DCG Brief at 20.

[1170] DCG Brief at 27.

[1171] Order No. 18712, ¶ 126.

[1172] Order No. 21939, ¶ 352.

current operations. While the Commission refrains from making decisions about long-term capital expenditures in this proceeding, we note that open proceedings, such as *Formal Case No. 1167*, *Formal Case No. 1178* and *Formal Case No. 1179*, focus on some of these issues.

524. Regarding DCG's request for a gas planning proceeding, the Commission notes that it requested comments on the feasibility of opening such a proceeding in Order No. 22339.[1173] As part of this consideration, the Commission must evaluate current and future resources and programs to ensure that they are sufficient to assist the District in meeting its climate goals.

XII. WEATHER NORMALIZATION ADJUSTMENT

525. **WGL.** WGL is proposing a WNA to mitigate the effects of weather variations on rates to ensure that WGL neither over- nor under-collects due to weather variations. Because weather is outside of WGL's control, WGL reasons that weather fluctuations should not affect billing for distribution services or cost recovery.[1174] WGL proposes that any weather fluctuations between October and May be considered in the "WNA Period" and rates would be subject to adjustment. Outside of that period, no adjustments would be made for weather fluctuations.[1175]

526. During the heating season, WGL proposes to calculate the revenue excess or deficiency by rate class based on actual weather. If there is a revenue excess in one month, the excess will be returned via a credit in the next billing cycle, two months later. At the time of the credit, the excess revenue/deficiency will be reset to zero. If there is a revenue deficiency in a given month, this deficiency will be carried over until the end of the heating season or until there is a subsequent revenue excess.[1176] If there is a revenue deficiency at the end of the heating season, WGL will defer the collection of the deficiency until the next heating season. The deficiency will be spread throughout the next heating season.[1177] Carrying costs at a rate equal to WGL's authorized short term debt will be assessed on a monthly basis to any revenue deficiency or excess.[1178] To mitigate risk to customers, WGL proposes that the WNA factor be capped at 15% of each class' Distribution Charge per therm.[1179]

1173 *Formal Case No. 1167, In the Matter of the Implementation of Electric and Natural Gas Climate Change Proposals* ("*Formal Case No. 1167*"), Order No. 22339, ¶ 26, rel. December 10, 2024 ("Order No. 22339").

1174 WGL (A) at 22:4-15 (Steffes Direct Testimony); WGL (3D) at 7:1-14 (Gibson Rebuttal Testimony).

1175 WGL (A) at 23:4-6 (Steffes Direct Testimony).

1176 WGL (O) 15:16 – 16:8 (Lawson Direct Testimony).

1177 WGL (O) 16:9-12 (Lawson Direct Testimony).

1178 WGL (O) 16:12-16 (Lawson Direct Testimony).

1179 WGL (O) 18:1-4 (Lawson Direct Testimony).

527. WGL's WNA contains two reconciliation provisions. The first occurs when a credit is provided. The second will occur at the end of the heating season.[1180] WGL proposes to make an annual filing and reconciliation on the WNA each August 1.[1181]

528. WGL argues that the WNA is structured so that it adjusts distribution, non-gas rates due to weather deviations, not customer efficiency gains or economic impacts.[1182] When weather is warmer than normal during the WNA Period, WGL will accrue any shortfall due and carry the balance forward to the next WNA Period, when WGL would incorporate the balance into rates on a per therm basis. Any credit to customers due to colder than normal weather would be given in the two months after the end of the WNA Period. Additionally, if there is a significant weather fluctuation during a WNA Period, the next WNA Period rate adjustment will be capped to prevent rate volatility.[1183]

529. WGL argues that the WNA is beneficial to WGL and ratepayers alike. WGL contends that the WNA facilitates risk mitigation caused by weather fluctuations while ensuring that WGL meets, but does not exceed, its authorized revenue. In WGL's view, the WNA permits WGL to recover its costs in the manner in which it incurs its costs.[1184] WGL claims that any adjustments for colder than normal weather will be credited to ratepayers expeditiously while any adjustments for warmer than normal weather will be handled in the next WNA Period.[1185] This mechanism would provide time value of money to customers.[1186] Because the uncollected balance during under-collection would not be collected until the following WNA Period, WGL proposes to include carrying costs in the amounts due the following WNA Period.[1187]

530. WGL claims that the WNA will not be a disincentive to energy conservation since the WNA does not apply to gas charges.[1188] Because WGL proposes the WNA to adjust only for weather fluctuations, not for energy conservation, WGL argues that tracking of customer gas usage and discussing the existence of energy conservation programs are

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1180 WGL (O) 19:1-11 (Lawson Direct Testimony).

1181 WGL (O) 17:10-16 (Lawson Direct Testimony).

1182 WGL (A) at 23:10-12 (Steffes Direct Testimony), WGL (D) at 22:9-11 (Tuoriniemi Direct Testimony).

1183 WGL (A) at 23:12-14 (Steffes Direct Testimony).

1184 WGL (D) at 23:4-6 (Tuoriniemi Direct Testimony).

1185 WGL (A) at 24:3-12 (Steffes Direct Testimony).

1186 WGL (D) at 31:6-8 (Tuoriniemi Direct Testimony).

1187 WGL (D) at 31:16 (Tuoriniemi Direct Testimony).

1188 WGL (D) at 22:13-17, 26:6-7 (Tuoriniemi Direct Testimony).

unnecessary.[1189]

531. **OPC.** OPC opposes the WNA.[1190] OPC argues that WGL has not shown any economic harm caused by the lack of the WNA. Additionally, WGL has not shown how the WNA would provide rate stability to ratepayers. OPC contends that WGL has not proposed any corresponding reductions to ROE if the WNA were accepted. Instead of benefiting ratepayers, OPC claims that the WNA benefits WGL by shifting financial risk away from WGL to ratepayers. If the Commission were to approve the WNA, OPC believes that the Commission should reduce ROE.[1191] OPC notes that when the Commission approved the Bill Stabilization Adjustment ("BSA") for Pepco, it reduced ROE to take into account the lower risk that Pepco would face. Even though the BSA was a full revenue decoupling proposal, unlike the WNA, OPC believes that the same principles apply since the WNA reduces WGL's risk. [1192]

532. OPC questions how refunds to former customers will be handled, since WGL is silent on this issue. Without having a clean plan on how WGL can provide refunds to transient customers, OPC argues that the WNA can exacerbate equity and fairness concerns.[1193]

533. OPC argues that the WNA has some of the same flaws that caused the Commission to reject similar WGL decoupling proposals. First, OPC contends, WGL has not presented evidence of financial harm that would justify the WNA.[1194] OPC also represents that WGL has cost recovery mechanisms such as the Purchased Gas Charge ("PGC") and PROJECT*pipes* that promote revenue stability. OPC claims that the WNA is just another mechanism to transfer risk to ratepayers.[1195] OPC argues that WGL has not shown that it has investigated other methods for mitigating weather risks.[1196]

534. OPC asserts that a WNA would be detrimental to ratepayers. OPC estimates that a WNA mechanism would have cost ratepayers $31.97 million from 2019 through 2023.[1197] OPC argues that a proceeding before the Pennsylvania Public Utilities Commission

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1189 WGL (D) at 25:15-19 (Tuoriniemi Direct Testimony).

1190 OPC (A) at 25:13-14 (Dismukes Direct Testimony).

1191 OPC (A) at 3:27 – 4:11; 25:14-17 (Dismukes Direct Testimony).

1192 OPC (A) at 24:3-9 (Dismukes Direct Testimony).

1193 OPC (A) at 16:9-14 (Dismukes Direct Testimony).

1194 OPC (A) at 19:12-17 (Dismukes Direct Testimony).

1195 OPC (A) at 20:1-10 (Dismukes Direct Testimony).

1196 OPC (A) at 20:13-19 (Dismukes Direct Testimony).

1197 OPC (A) at 21:2-4 (Dismukes Direct Testimony).

showed that a weather decoupling mechanism was detrimental to ratepayers.[1198] OPC argues that WGL has not presented any study showing benefits to ratepayers.[1199] OPC contends that the WNA's lagging adjustments would exacerbate bill instability instead of remedy it.[1200]

535. OPC objects to the 15% cap, arguing that the cap is too high to protect against rate volatility. OPC also claims that the cap does not limit the revenues that can be recovered. Instead, the cap defers payment or amounts over the cap.[1201]

536. **AOBA.** Contrary to WGL's contention, AOBA contends that the WNA actually increases the volatility of customer bills because the adjustments are not applied in the month in which the weather fluctuation occurs.[1202] AOBA asserts that the WNA is different than other decoupling proposals that WGL has proposed in past proceedings because it is focused on the effects of weather fluctuations.[1203] AOBA objects to WGL's proposal to accrue under-collections but not over-collections, arguing that this proposal would prevent potential offsets that would moderate bill adjustments.[1204] AOBA also argues that the +/- 15% cap is too large; instead, the cap should be +/-10%.[1205] AOBA contends that the possibility of very small adjustments would increase the complexity of the WNA. Instead, AOBA proposes that any adjustment of +/- 1% be deferred until the variance exceeds +/- 5%.[1206] With these adjustments, and with an adjustment to ROE, AOBA could accept the WNA.[1207]

537. **Sierra Club.** Sierra Club argues that the WNA provides a disincentive to WGL to conserve costs.[1208] Sierra Club argues that by providing WGL with recovery regardless of customer demand incentivizes WGL to spend more on capital projects and other fixed costs.[1209] Sierra Club also objects to the WNA because it assigns costs in the way that

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1198 OPC (A) at 21:8-10 (Dismukes Direct Testimony).

1199 OPC (A) at 21:11-14 (Dismukes Direct Testimony).

1200 OPC (A) at 22:4-6 (Dismukes Direct Testimony).

1201 OPC (A) at 26:16 – 23:3 (Dismukes Direct Testimony).

1202 AOBA (B) at 40:8-11 (B. Oliver Direct Testimony).

1203 AOBA (B) at 41:11-18 (B. Oliver Direct Testimony).

1204 AOBA (B) at 42:14-20 (B. Oliver Direct Testimony).

1205 AOBA (B) at 43:1-5 (B. Oliver Direct Testimony).

1206 AOBA (B) at 43:6-16 (B. Oliver Direct Testimony).

1207 AOBA (B) at 48:10-14; 51:20 – 52:2 (B. Oliver Direct Testimony).

1208 Sierra Club (A) at 34:7-18 (Rábago Direct Testimony).

1209 Sierra Club (A) at 34:18 – 35:2 (Rábago Direct Testimony).

accountants classify as "fixed" costs, rather than in the way that fixed costs are incurred.[1210] Sierra Club argues that the WNA masks price signals that customers see in volumetric bills. Sierra Club contends that usage volatility can be better addressed in peak use reduction, energy efficiency, and electrification.[1211]

538. Sierra Club argues that WGL provides no support for its proposition that the WNA would not weaken price signals encouraging energy efficiency. In contrast, Sierra Club represents that the complicated WNA computations would weaken the link between usage and bills.[1212] Sierra Club contends that the WNA would be confusing to customers. Additionally, the WNA impedes the realization of the District's climate goals.[1213] Sierra Club argues that the WNA protects WGL from the effects of climate change and does not incentivize WGL to act to mitigate the effects of climate change.[1214] While the Commission invited WGL to propose a decoupling mechanism, Sierra Club represents that the Commission intended for any such decoupling mechanism to be related to energy efficiency and decarbonization. Sierra Club argues that the WNA does not achieve these goals.[1215] Sierra Club requests that the Commission reject the WNA.[1216]

539. **WGL Rebuttal.** Contrary to OPC's arguments, WGL contends that it did not need to provide a more comprehensive analysis to support the WNA proposal since the effects of deviations from normal weather are implicitly included in the ratemaking formula. WGL argues that it is a mathematical fact that warmer weather will decrease WGL's distribution revenue.[1217] WGL contends that the WGL is a mechanism to ensure that WGL will recover no more than the costs that the Commission permits to be recovered.[1218]

540. WGL disagrees with OPC's contention that the PGC and PROJECT*pipes* surcharges could obviate the need for the WNA. WGL argues that the PGC is a pass through charge for gas supply that does not impact earnings.[1219] Likewise, WGL argues that while the PROJECT*pipes* surcharge recovers costs from construction work; it does not recover

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1210 Sierra Club (A) at 37:17-20 (Rábago Direct Testimony).

1211 Sierra Club (A) at 38:5-10 (Rábago Direct Testimony).

1212 Sierra Club (A) at 38:13-21; 40:9-14 (Rábago Direct Testimony).

1213 Sierra Club (A) at 39:3-5 (Rábago Direct Testimony).

1214 Sierra Club (A) at 39:7-18 (Rábago Direct Testimony).

1215 Sierra Club (A) at 40:17-20 (Rábago Direct Testimony).

1216 Sierra Club (A) at 41:3-4 (Rábago Direct Testimony).

1217 WGL (3D) at 7:20 – 8:15 (Gibson Rebuttal Testimony).

1218 WGL (3O) at 6:16-26 (Lawson Rebuttal Testimony Testimony).

1219 WGL (3D) at 8:24 – 9:9 (Gibson Rebuttal Testimony).

reduced earnings due to weather.[1220] WGL also notes that OPC is proposing limits on the surcharge in *Formal Case No. 1179*, thus proposing a limit on the collection method that would in OPC's view obviate the need for the WNA.[1221]

541. WGL objects to OPC's arguments that storage, hedging, and weather insurance would obviate the need for the WNA. WGL contends that storage and hedging costs are already included in the PGC.[1222] Weather insurance is economically infeasible, WGL claims.[1223] Additionally, WGL contends that the cost for weather insurance would be borne by ratepayers.[1224]

542. In support of the WNA, WGL argues that its Witness Raab has shown that the Commission-mandated calculation method for weather normalization is deficient and results in chronic underearning in the District.[1225] WGL identifies several options in lieu of the WNA: adopting a shorter span of years for weather normalization; adoption of a decoupling mechanism; or adoption of a straight-fixed variable rate design.[1226]

543. WGL argues that OPC obliquely recognizes that its rate proposal would lead to under-earning.[1227]

544. Regarding OPC's objections to the cap, WGL contends that OPC has not presented an alternative. Although AOBA has proposed a lower cap than WGL, WGL asserts that it proposed the +/- 15% cap to minimize potential balances.[1228] In WGL's Direct Testimony, WGL represents that its calculations of the WNA show only a 5% fluctuation for Residential Heating and C&I (>3,000 therms) bills.[1229]

545. WGL justifies its asymmetrical approach to collections and distributions under the proposed WNA by asserting that an immediate refund due to cold weather events

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1220 WGL (3D) at 9:10-24 (Gibson Rebuttal Testimony); WGL (3O) at 5:18-21 (Lawson Rebuttal Testimony).

1221 WGL (3O) at 5:23-25 (Lawson Rebuttal Testimony).

1222 WGL (3D) at 10:4-14 (Gibson Rebuttal Testimony).

1223 WGL (3D) at 10:15 – 11:4 (Gibson Rebuttal Testimony).

1224 WGL (3D) at 11:5-6 (Gibson Rebuttal Testimony).

1225 WGL (3O) at 4:10-20 (Lawson Rebuttal Testimony).

1226 WGL (3O) at 5:2-10 (Lawson Rebuttal Testimony).

1227 WGL (3O) at 6:4-6 (Lawson Rebuttal Testimony).

1228 WGL (3O) at 7:17-25 (Lawson Rebuttal Testimony).

1229 WGL (3O) at 8:3-5 (Lawson Rebuttal Testimony).

would be more impactful to customers and would decrease bill volatility.[1230]

546. Contrary to Sierra Club's argument that the WNA functions like WGL's proposed fixed charges, WGL argues that the WNA is only applicable from October through May and is applied on a volumetric basis.[1231] WGL contends that Sierra Club's alternatives to the WNA are not designed to help WGL collect its revenue requirement.[1232] Contrary to Sierra Club's argument, WGL's costs to provide safe service do not vary seasonally and do not change based on colder or hotter weather.[1233] WGL argues that adoption of the WNA would lead to the most accurate level of normal weather.[1234]

547. WGL accepts AOBA's proposal to delay accrued balances of +/- 1% of the class distribution charge until the end of the next WNA period or until the accrued balance exceeds +/- 5% of the class' distribution charge.[1235]

548. **OPC Surrebuttal.** OPC opposes AOBA's proposed modifications to the WNA. Notwithstanding AOBA's modifications, OPC asserts that the WNA would disproportionally harm ratepayers by shifting financial risk to ratepayers while benefiting WGL by providing a revenue guarantee.[1236]

549. OPC rejects WGL's argument that the WNA is similar to the TCJA tax adjustments. While the TCJA adjustments resulted in a one-time reduction in in rates, OPC argues that the WNA is a recurring rate adjustment, not a pass through of tax reductions.[1237] By failing to provide evidence on the financial pressures that justify the WNA, OPC argues that WGL did not comply with Order No. 18712's mandates regarding a decoupling mechanism.[1238] OPC argues that two quarters of earnings reports, particularly those that are not from the heating season, are insufficient to show the need for the WNA.[1239] Contrary to WGL's claims, OPC asserts that the PGC adjusts rates based on fluctuating gas costs,

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1230 WGL (3O) at 8:19-23 (Lawson Rebuttal Testimony).

1231 WGL (3O) at 9:14-24 (Lawson Rebuttal Testimony).

1232 WGL (3O) at 10:6-13 (Lawson Rebuttal Testimony).

1233 WGL (3O) at 10:22 - 11:1 (Lawson Rebuttal Testimony).

1234 WGL (3O) at 11:25 – 12:1 (Lawson Rebuttal Testimony).

1235 WGL (3O) at 10:2-7 (Lawson Rebuttal Testimony).

1236 OPC (3A) at 2:15-19; 10:5-12; 11:5-7 (Dismukes Surrebuttal Testimony).

1237 OPC (3A) at 5:5-13 (Dismukes Surrebuttal Testimony).

1238 OPC (3A) at 6:16 – 7:2 (Dismukes Surrebuttal Testimony).

1239 OPC (3A) at 2:15-19 (Dismukes Surrebuttal Testimony).

providing earnings stability.[1240] OPC claims that WGL has other tools such as storage, hedging, and the PGC that it can use to mitigate a portion of weather-related risks, even if these tools to not affect distribution rates.[1241] Regarding weather insurance, OPC alleges that WGL has not thoroughly explored this option through market based research, so WGL's argument that weather insurance is too expensive cannot be supported.[1242]

550. **AOBA Surrebuttal.** AOBA asserts that WGL's proposed WNA does not consider the fact that changes in non-weather-sensitive gas use may offset changes in weather-sensitive gas use, which AOBA identifies as a weakness of the proposed WNA.[1243]

551. **Sierra Club Surrebuttal.** Sierra Club likens the WNA to a fixed charge because it is unrelated to gas consumption.[1244] Sierra Club argues that WGL does not rebut Sierra Club's testimony that the WNA weakens price signals to consumers.[1245] Sierra Club contends that WGL confirms through its Rebuttal Testimony that its goal is to increase sales through weakening price signals in the WNA.[1246] Sierra Club alleges that the WNA is the first step towards straight fixed variable rates.[1247]

552. **WGL Rejoinder.** Instead of countering WGL's argument about financial harm due to the lack of a WNA mechanism, WGL argues that OPC confirms that the Company suffered financial harm by calculating a $34.97 million shortfall due to weather.[1248]

553. While OPC criticizes WGL for not seeking a competitive bid for weather insurance, WGL argues that it relied on the expertise of its insurance consultant, which indicated that weather insurance would be more expensive than the WNA. WGL argues that its insurance broker has a great deal of expertise.[1249]

554. Addressing Sierra Club's objections to the WNA, WGL argues that the WNA applies on a volumetric basis, so that if a customer uses less gas, then the customer will be charged less. To WGL, the WNA does not weaken price signals. Instead, the WNA

1240 OPC (3A) at 8:6-12 (Dismukes Surrebuttal Testimony).

1241 OPC (3A) at 8:15-20 (Dismukes Surrebuttal Testimony).

1242 OPC (3A) at 9:9-18 (Dismukes Surrebuttal Testimony).

1243 AOBA (2B) at 13:12-15 (B. Oliver Surrebuttal Testimony).

1244 Sierra Club (2A) at 5:17 – 6:1 (Rábago Surrebuttal Testimony).

1245 Sierra Club (2A) at 6:1-12 (Rábago Surrebuttal Testimony).

1246 Sierra Club (2A) at 7:4-6 (Rábago Surrebuttal Testimony).

1247 Sierra Club (2A) at 7:7-9 (Rábago Surrebuttal Testimony).

1248 WGL (4D) at 2:11-22 (Gibson Rejoinder Testimony).

1249 WGL (4D) at 3:3-11 (Gibson Rejoinder Testimony).

addresses a cause of chronic underearning in the District without impeding energy efficiency or conservation efforts.[1250] WGL contends that the *status quo* actually provides a false price signal to customers underpricing natural gas. To WGL, adopting the WNA would be a step towards equalizing the cost recovery between the gas and electric systems. WGL argues that adopting the WNA would send clearer signals to customers about the relative cost of gas and electric service.[1251]

555. **WGL Brief.** WGL contends that adoption of the WNA would permit the Company to better align its rate structure with its cost structure and maintain its revenue structure. Currently, WGL represents that the way WGL incurs costs does not match the way that costs are incurred, since rates are mostly volumetric while costs are fixed. Additionally, WGL notes that volumetric charges are generally recovered through part of the year. WGL posits that the WNA would level out WGL's rate and cost structure and protect both WGL and customers from variable weather.[1252]

556. WGL argues that the WNA should be adopted. WGL notes that AOBA offered recommended revisions to WGL's proposed, one of which WGL accepted.[1253] The proposal that WGL accepts is to delay accrued balances that equate to less than +/- 1% of the class distribution charge until the end of the next WNA period, or when WGL's accrued balance exceeds the equivalent of +/- 5% of a class' applicable distribution charge.[1254] However, WGL rejects AOBA's proposal to accrue both under- and over-recoveries, instead of accruing under-recoveries and returning over-recoveries since this proposal ignores the fact that the WNA's asymmetric nature is designed to benefit ratepayers.[1255] WGL also opposes AOBA's +/- 10% cap, arguing that WGL's +/- 15% cap is designed to limit the potential for growing balances that accrue additional carrying costs.[1256]

557. WGL argues that OPC and Sierra Club's objections to the WNA do not demonstrate that the WNA is unjust and unreasonable. Contrary to OPC's argument, WGL contends that it did not need to produce a comprehensive analysis or demonstration that the lack of the WNA is attributable to earnings reductions. Instead, WGL argues that the impacts of the lack of a WNA are implicit in the ratemaking formula, which shows that earnings depend on the weather.[1257]

[1250] WGL (4O) at 6:20 – 7:6 (Lawson Rejoinder Testimony).

[1251] WGL (4O) at 7:9 – 8:9 (Lawson Rejoinder Testimony).

[1252] WGL Brief at 253.

[1253] WGL Brief at 254.

[1254] WGL Brief at 259.

[1255] WGL Brief at 259-260.

[1256] WGL Brief at 260.

[1257] WGL Brief at 255-256.

558. WGL also argues that bill stability is inherent in the WNA. An additional bill stabilizing-feature is the +/- 15% cap of the class distribution charge, WGL asserts.[1258]

559. Contrary to others' arguments, WGL argues that the WNA will not reduce energy efficiency initiatives, since gas charges comprise the majority of customer bills and the WNA does not apply to gas charges.[1259]

560. Instead of shifting risk, WGL represents that the WNA balances risk through a symmetrical adjustment. WGL contends that WNA only allows the recovery of costs that the Commission has already deemed appropriate; the WNA does not permit windfalls.[1260]

561. WGL objects to OPC's argument that there are methods to mitigate risk that would be more effective than the WNA. WGL argues that storage and hedging costs are already passed through to customers in the PGC. In WGL's view, weather insurance is not economically viable. WGL argues that OPC's contention that PROJECT*pipes* mitigates risk because the PROJECT*pipes* surcharge does not impact plant once it is moved int base rates.[1261]

562. Responding to Sierra Club, WGL argues that the WNA would be applied on a volumetric basis, so adoption of the WNA would not affect cost efficiency cost signals. WGL also argues that the WNA does not distort the bill and revenue impacts of the seasonality of WGL's business. WGL argues that Sierra Club's contention that the WNA would cause customer confusion distracts from the fact that WNA are common throughout the industry.[1262]

563. WGL claims that its WNA proposal is consistent with the Commission's directives regarding decoupling mechanisms developed in the past several rate proceedings. WGL argues that the WNA would mitigate the deviation between sales levels and Commission-ordered normal weather sales. WGL also contends that the WNA would resolve the mismatch between cost occurrence and cost recovery. In WGL's view, the WNA would not deter energy efficiency measures, since the WNA only applies to the distribution component of the bill. WGL urges the Commission to adopt the WNA.[1263]

564. **OPC Brief.** OPC argues that the WNA is unjust, unreasonable, and not in

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1258 WGL Brief at 256.

1259 WGL Brief at 253.

1260 WGL Brief at 257.

1261 WGL Brief at 258.

1262 WGL Brief at 258-259.

1263 WGL Brief at 261-262.

the public interest.[1264] OPC claims that WGL has not provided substantive evidence to show that it is experiencing long-term financial harm without the WNA.[1265] OPC argues that WGL does not provide the thorough financial analysis required by Order No. 18712.[1266] While WGL provides information showing financial harm over a short period, OPC argues that WGL has not demonstrated how the lack of a WNA has affected WGL's long-term financial health.[1267] Further, OPC argues that WGL obtains revenue stability through other surcharges and riders between rate cases.[1268] OPC urges the Commission to consider WGL's entire financial risk, inclusive of the PGC and the PROJECT*pipes* surcharge, in evaluating the WNA.[1269]

565. OPC claims that WGL has other ways to protect itself against the impact of weather on the timing of cost recovery, so a WNA is not needed. OPC represents that WGL did not present any evidence to show that it has used alternatives such as weather derivatives, hedging, and storage instead of seeking the WNA.[1270] OPC also alleges that WGL has not seriously considered the possibility of obtaining weather insurance.[1271]

566. OPC claims that the WNA is not intended to provide credits and charges in equal proportion to ratepayers. Instead, OPC asserts that the WNA is intended to provide revenue to WGL. OPC argues that rate design is supposed to provide a reasonable opportunity to recover cost of service, not a guarantee. Had the WNA been in place from 2019 through 2023, OPC claims that ratepayers would have paid $31.97 million to WGL. OPC contends that WNA mechanisms have harmed ratepayers in other jurisdictions.[1272] OPC claims that the WNA causes ratepayers to bear additional risks without additional benefits. For example, OPC asserts that the WNA does not address unclaimed refunds, which may occur more often in the District due to the District's transient population. OPC argues that the Commission should reject the proposition that the WNA is beneficial.[1273]

567. Additionally, OPC claims that WGL does not show that the WNA would

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1264 OPC Brief at 108.

1265 OPC Brief at 109.

1266 OPC Brief at 113.

1267 OPC Brief at 114-115.

1268 OPC Brief at 115.

1269 OPC Brief at 116.

1270 OPC Brief at 116.

1271 OPC Brief at 117-118.

1272 OPC Brief at 121.

1273 OPC Brief at 122-123.

provide rate stability through a customer impact study or similar empirical evidence.[1274] OPC claims that WGL's proffered average monthly bill impact analysis does not capture WNA impacts.[1275] OPC also objects to the WNA by claiming that the WNA shifts financial risk onto ratepayers without providing any benefits.[1276] OPC claims that the 15% cap is too high to protect against rate volatility.[1277] OPC argues that the WNA has the same flaws as prior decoupling mechanisms that the Commission rejected in Order Nos. 18712 and 21939.[1278]

568. OPC argues that WGL does not refute OPC's concerns about the 15% cap and the lack of evidence of rate stability in its Rejoinder Testimony.[1279]

569. Even with AOBA's proposed modification, OPC argues that the WNA is still problematic. OPC argues that the WNA still benefits WGL to the detriment of ratepayers.[1280]

570. Should the Commission approve the WNA, OPC argues that the Commission should reduce WGL's ROE.[1281] In OPC's view, this reduction is justified by the reduction in risk to WGL that the WNA provides. Such a reduction would be consistent with Commission precedent, OPC claims.[1282] OPC contends that in Order No. 15738 permitted WGL to propose a WNA without a reduction in ROE, the Commission stated that the burden of proof would be on WGL to explain why a reduction in ROE was not necessary. OPC argues that WGL did not provide such an explanation. In other jurisdictions, OPC asserts that the relationship between risk reduction a reduction in ROE is understood.[1283]

571. **AOBA Brief.** If the WNA is adopted, AOBA contends that the flaws in the Normal Weather Study would be perpetuated each year, favoring WGL. AOBA asserts that customers in non-residential classes will be locked into paying inflated charges.[1284] AOBA argues that WGL has not shown that weather is a significant factor in WGL's revenue

1274 OPC Brief at 109, 118.

1275 OPC Brief at 119.

1276 OPC Brief at 109.

1277 OPC Brief at 119.

1278 OPC Brief at 112.

1279 OPC Brief at 120-121.

1280 OPC Brief at 120.

1281 OPC Brief at 109.

1282 OPC Brief at 124.

1283 OPC Brief at 125.

1284 AOBA Brief at 39.

performance.[1285] AOBA argues that the WNA is designed to be a revenue recovery mechanism that will not benefit District ratepayers. In AOBA's view, the WNA creates asymmetric outcomes that favor WGL.[1286] AOBA represents that bill volatility will increase, as bills are indicative of not only usage and weather conditions, but also include adjustments, creating confusion and undermining the transparency of customer bills.[1287] Further, AOBA maintains that the WNA as proposed grants WGL too much unconstrained flexibility in its adjustments. AOBA recommends that the Commission reject the WNA as proposed and require WGL to develop a methodology that is reproducible, verifiable, and fair to customers before considering another normalization adjustment.[1288]

Decision

572. While WGL claims that its WNA is not a decoupling mechanism, we find that it 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 approved adjusted test-year levels. 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."[1289] At a high level, decoupling mechanisms "insulate a utility's revenue from factors such as changes in sales volume, extreme weather, and economic activity."[1290]

573. In Order No. 21939, the Commission rejected WGL's proposed decoupling mechanism, citing certain issues that needed investigation. These issues included: (1) how the mechanism would impact ratepayers; (2) whether it should insulate Company revenue from the impact of weather and economic changes, as well as reducing the Company's disincentive for energy efficiency; and (3) how it would interact with electrification efforts.[1291] Those concerns remain relevant to the current WNA proposal in this proceeding.

574. The Commission notes that the Company's distribution revenues vary based on weather, as a large portion of the Company's revenue requirement is collected through a volumetric rate. A WNA can be beneficial by protecting customers and the Company from uncontrollable risk due to variation between actual weather and the weather assumptions used in rate design. Under WGL's approach, over-recoveries that typically occur during colder periods with higher bills would be promptly returned to customers. Under-recoveries

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1285 AOBA Brief at 48.

1286 AOBA Brief at 49.

1287 AOBA Brief at 49-50.

1288 AOBA Brief at 50.

1289 Order No. 16101, ¶ 30.

1290 Order No. 16101, ¶ 30.

1291 Order No. 21939, ¶ 370.

would be accrued and reconciled later in time, having a smoothing effect on bill impacts and helping to avoid volatility. This approach reduces rate shock to customers.

575. The Commission also agrees with WGL's rebuttal argument that the PROJECT*pipes* surcharge and the PGC rider are unrelated to the WNA. These mechanisms serve distinct purposes, namely recovery of infrastructure investment costs and addressing fluctuations in gas commodity prices. Neither mechanism provides revenue stabilization in response to weather variability, which is the intended function of the WNA. As such, any potential revenue enhancement or risk mitigation afforded by these mechanisms should not be considered as offsetting or substituting for the WNA.

576. However, the Commission finds that WGL has failed to show the effect that the WNA would have had on customers by failing to quantify the bill impact if it were in place over the past five years.[1292] Without in-depth analysis on the WNA, it is difficult to understand the effects of the adjustment on customer bills and the Company's earnings. Based on the Commission's review of the revenue requirements and associated adjustments filed by WGL, it remains unclear how the proposed WNA would impact WGL's overall revenue requirement. None of WGL's RMAs directly demonstrates the effect of the WNA on revenues or operating costs. Without a transparent and quantifiable explanation of its financial impact, there is insufficient information on the record to evaluate whether the WNA is justified within the context of the Company's requested revenue requirement. Therefore, the Commission rejects the WNA.

577. Even though the Commission rejects the WNA as currently proposed, the Commission believes further discussion is needed concerning the development of a mechanism that would assist WGL in recovering losses due to WGL support of the District's climate initiatives, such as energy efficiency, electrification, pipe leak reduction, and any other related activities by removing the disincentives to invest in energy conservation initiatives. This mechanism should also consider the impact on rate design, consider the impact on authorized ROE, and compare the mechanics of the existing electric distribution decoupling mechanism. Therefore, the Commission directs Staff to convene a second part of the WNCWG to explore these issues once a Joint Report on weather normalization calculations is filed by June 30, 2026. We direct WGL to file a Joint Report including recommendations on the second part of the WNCWG as described herein by December 31, 2026.[1293]

XIII. <u>JURISDICTIONAL COST ALLOCATION</u>

578. **WGL.** WGL contends that its Jurisdictional Cost of Service Study ("JCOSS") is consistent with Commission directives. Thus, the JCOSS is appropriate to be used to determine costs allocated to the District of Columbia in this proceeding.[1294] WGL divides

[1292] *See* WGL (D) at 14:1-11 (Tuoriniemi Direct Testimony).

[1293] *See* ¶ 324.

[1294] WGL (F) at 20:11-16; 23:14-18 (Smith Direct Testimony).

its costs into direct costs, costs that are attributable to only one jurisdiction, and common costs, costs that are attributable to all WGL's jurisdictions. The JCOSS is used to allocate these common costs.[1295] WGL asserts that the allocation factors used are determined by the ultimate driver of the costs. WGL asserts that it used the same allocation factors that were used in *Formal Case No. 1169* with two exceptions.[1296]

579. WGL's first change to the *Formal Case No. 1169* allocation factors is to create an allocation factor based on the average accounts receivable balance in each jurisdiction. WGL applied this factor to the allocable portion of customer collection costs. In *Formal Case No. 1169*, WGL allocated these costs based on the number of meters in each jurisdiction but has now determined that the number of meters was not the cost driver for collection costs. In WGL's view, accounts receivable balances are a more appropriate cost driver.[1297]

580. WGL's second change was to disaggregate the expenses of payment by credit or debit cards from other collection expenses. Instead of allocating these expenses by the number of meters in each jurisdiction, WGL reviewed vendor invoices to determine the number of customers using credit/debit cards in each jurisdiction. WGL asserts that this change was required by a mandate in Virginia requiring the use of the ratio of credit/debit card users to allocate costs instead of meters.[1298]

581. WGL claims that the ACOSS properly excludes the costs related to service provided by WGL to affiliates in the development of the JCOSS.[1299]

582. **AOBA**. AOBA objects to the allocation of gas storage costs on the basis of total annual throughput, instead of on a seasonal basis. AOBA argues that the use of total annual throughput places inappropriate costs on usage in the non-winter months and distorts the allocation of costs.[1300] AOBA also asserts that since the cost allocations from WGL's Normal Weather Study are used in the JCOSS, the problems with the Normal Weather Study impede the accuracy and reliability of the JCOSS.[1301]

Decision

583. WGL's JCOSS divides its costs into: direct costs, costs attributable to only

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1295 WGL (F) at 20:21 – 21:3 (Smith Direct Testimony).

1296 WGL (F) at 21:6-8 (Smith Direct Testimony).

1297 WGL (F) at 22:3-14 (Smith Direct Testimony).

1298 WGL (F) at 22:15 – 23:4 (Smith Direct Testimony).

1299 WGL (D) at 36:12-15 (Tuoriniemi Direct Testimony).

1300 AOBA (B) at 23:13-21 (B. Oliver Direct Testimony).

1301 AOBA (B) at 50:11-14 (B. Oliver Direct Testimony).

one jurisdiction; and common costs. The JCOSS is used to allocate common costs, which are costs that are attributable to all WGL's jurisdictions. WGL asserts that the allocation factors used are determined by the underlying driver of the costs. In Order No. 21939, the Commission accepted the Company's JCOSS as reasonable.[1302] WGL claims that it used the same allocation factors as those used in *Formal Case No. 1169*, with two exceptions. The first change was to disaggregate the expenses of payment by credit or debit cards from other collection expenses, asserting that this change was required by a mandate in Virginia. The other change was to create an allocation factor based on the average accounts receivable balance in each jurisdiction, applying this factor to the allocable portion of customer costs. The Commission notes there have been no objections to these specific changes.

584. AOBA claims that seasonal costs should not be allocated on total throughput, as storage is driven by usage in peak months, and using this allocation method places inappropriate costs on usage in non-winter months. However, AOBA does not propose an alternative treatment for these costs. The Commission has reviewed WGL's JCOSS and finds that it conforms to Commission precedent and satisfies WGL's burden of proof. The Commission also finds that the two revisions proposed by WGL are a more reasonable reflection of cost drivers. Therefore, the Commission approves WGL's JCOSS as filed.

XIV. WGL'S REVENUE REQUIREMENT

585. The Commission concludes that, as a result of the findings and conclusions set forth in this Opinion and Order, WGL's District of Columbia Test-Year distribution rate base is $782.9 million, upon which the Company is authorized to earn a 7.43% rate of return, which equates to $58.2 million annually. The Company's net Test-Year operating income, including Allowance for Funds Used During Construction ("AFUDC"), is $34.1 million including the effects of the approved RMAs noted herein, which is deficient by the amount of $12.1 million. When tax payments are accounted for, the Commission finds that a $33.4 million gross revenue increase (after providing for an approximate $12.5 million PROJECT*pipes* surcharge revenue transfer) is appropriate for WGL and will allow the Company to earn its authorized rate of return. WGL's approved revenue increase is on an annual basis. The specific RMAs that led to the $33.4 million revenue increase are included in Schedules 1-4.

XV. CLASS COST OF SERVICE AND CLASS REVENUE ALLOCATION

586. Now that the Commission has determined the revenue requirement, the Commission must determine how to distribute WGL's $33.4 million revenue increase for the District among the Company's customer classes and approve a rate design to charge each class of customers. 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 broken up into several sub-groups. The Residential class comprises:

[1302] Order No. 21939, ¶ 377.

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 comprises: 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"), C&I Heating and/or Cooling/less than 3,075 therms ("C&I-H/C < 3,075""), Natural Gas Vehicle ("NGV"), and Combined Heat and Power/Distributed Generation Facilities ("C&I H/C CHP"). The GMA class comprises: 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, the remaining classes include Interruptible ("Non-Firm"); and Special Contracts.

587. **WGL.** WGL filed its CCOSS with its Application, correcting an error in the CCOSS in a December 5, 2024, Errata.[1303] WGL asserts that wherever possible, its CCOSS directly assigns revenues, operating expenses, and rate base.[1304] For costs that cannot be directly assigned, WGL uses allocation factors.

588. WGL asserts that its CCOSS differs from other studies presented in this proceeding in three ways. First, as required in Order No. 18712, 100% of interruptible costs are included in the CCOSS, while they are not included in WGL Exhibit (D) – 1 RMA 1 Revenues. This results in a reconciliation difference of $12.1 million.[1305] Second, the non-firm peak day therm usage calculated for the Interruptible and Special Contract classes included in the Normal Weather Study is excluded from the calculation of the peak day usage factor in the CCOSS.[1306] Third, the Asset Retirement Obligation ("ARO") asset and liability that are excluded from the CCOSS are included in the rate base schedule at page 2 of WGL Exhibit (D) – 1.[1307]

589. The CCOSS included in WGL's Application shows that one (1) class is earning close to the system average rate of return, six classes are earning below the system average, and six (6) customer classes are earning above the system average. The CCOSS included in WGL's December 5, 2024, Errata filing shows that two customer classes are earning close to the system-wide average rate of return, while six customer classes are earning above the system-wide average rate of return, and five customer classes are earning below the system-wide average rate of return.[1308] Of the five customer classes earning less

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1303 *Formal Case No. 1180*, Washington Gas's Errata to Direct Testimony, filed December 5, 2024.

1304 WGL (F) 25:19-20 (Smith Direct Testimony).

1305 WGL (F) 28:9-15 (Smith Direct Testimony).

1306 WGL (F) 28:16-18 (Smith Direct Testimony).

1307 WGL (F) 28:19 – 29:2 (Smith Direct Testimony).

1308 WGL (F) 29:16-18 (Smith Direct Testimony).

than the system-wide average rate of return, RES-H/C and C&I-H/C < 3,075 are earning close to the system-wide average rate of return, but the other three, RES-NON H/C-Other, and CNG, C&I H/C CHP, are earning far below the system-wide average rate of return. WGL proposes to apportion the rate increase to move customer classes closer to the system-wide average rate of return.[1309] However, WGL notes that its proposals to move the under-earning classes towards the system-wide average rate of return should be done gradually with a focus on affordability for the affected customer classes.[1310] WGL notes that in *Formal Case No. 1169*, the under-earning classes received 150% of the rate increase, so WGL proposes a lower increase in this proceeding.[1311]

590. WGL proposes that the average increase in tariffed distribution revenues is 30.29%. For the two (2) classes earning below but close to the system-wide average rate of return, WGL proposes a revenue increase of 33.32%. For those customer classes earning well below the system-wide average rate of return, WGL recommends an increase of 37.86%. WGL proposes an increase of 26.31% for those classes earning above the system-wide average rate of return.[1312]

591. WGL proposes increasing the Customer Charge by 25% across all customer classes. For customers under Rate Schedule Nos. 1 and 1A, the remainder of their increases will be reflected in the Distribution Charge. For customers under Rate Schedule Nos. 2, 2A, 3, 3A, and 7, the increase will be divided among the Peak Usage Charge and Distribution Charge. WGL proposes to increase the Peak Usage Charge to maintain the relationship between the Peak Usage Charge revenue and base rate revenues. The rest of the rate increase will be included in the Distribution Charge.[1313]

592. Consistent with Commission directives, WGL argues that its CCOSS seeks to implement a modest movement towards the system-wide average rate of return for all customer classes. The CCOSS also seeks to move rates towards how costs are incurred.[1314] Since most costs are fixed, not variable, WGL proposes a larger increase in the fixed Customer Charge. WGL asserts that increasing the Customer Charge also spreads the increase throughout the year, instead of concentrating the increase during the heating season.[1315] WGL argues that increasing the Customer Charge is consistent with Commission

[1309] WGL (O) 3:19 – 4:8 (Lawson Direct Testimony).

[1310] WGL (2O) at 3:25 - 4:2. (Lawson Supplemental Direct Testimony).

[1311] WGL (2O) at 4:19-24 (Lawson Supplemental Direct Testimony).

[1312] WGL (O) 4:9-20 (Lawson Direct Testimony).

[1313] WGL (O) 5:3-9 (Lawson Direct Testimony).

[1314] WGL (O) 5:12-17 (Lawson Direct Testimony).

[1315] WGL (O) 11:19 – 12:6 (Lawson Direct Testimony).

precedent.[1316]

593. WGL argues that its CCOSS complies with Order No. 21939 by using a 50/50 peak and annual composite factor to allocate mains investment costs for all customer classes, including interruptible and special contract customers. Additionally, WGL classifies CNG customers in a separate category from all other C&I customers. WGL argues that the peak and composite method is supported by cost causation and utilization of the assets and is a reasonable method to allocate the costs of distribution mains across all customer classes.[1317] WGL argues that its CCOSS is a reasonable estimate of the class rates of return.[1318]

594. WGL expects no changes to service requirements or billing determinants due to the rate increase. WGL contends that most of WGL's customers will not be shifting energy usage patterns in the short term. Additionally, WGL has not been able to determine that past shifts in usage are caused by past rate changes.

595. **OPC.** OPC argues that the CCOSS should only be a starting point for determining rate increases for customer classes. If only the CCOSS is used, under-earning classes could be impacted significantly and adversely.[1319] OPC notes that the Commission has applied several ratemaking principles in its rate design determinations, including gradualism in moving classes' rates towards cost causation.[1320]

596. OPC argues that WGL is proposing high rate increases for certain customer classes, up to 1.25 times the system wide average rate increase. In OPC's view, these proposed increases violate the policy of rate gradualism.[1321] OPC recommends that the rate increases per customer class be limited to 1.15 of the system wide average rate increase. OPC contends that this recommendation would reduce the maximum total base revenue increase for any particular class to 34% instead of 38%[1322] in accordance with the principles of rate gradualism.[1323] OPC contends that the proposed increases for Residential Heating and Cooling customers and industrial and Commercial Heating and Cooling customers are disproportionately high, especially given that the Residential Heating and Cooling customers

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1316 WGL (O) 12:9-20 (Lawson Direct Testimony).

1317 WGL (F) at 5:14-22 (Smith Direct Testimony).

1318 WGL (F) at 29:19-20 (Smith Direct Testimony).

1319 OPC (A) at 26:12-16 (Dismukes Direct Testimony).

1320 OPC (A) at 28:1-2 (Dismukes Direct Testimony).

1321 OPC (A) at 30:4-6 (Dismukes Direct Testimony). OPC also objects to AOBA's general acceptance of this 1.25 increase. OPC (2A) at 1:17 – 2:3 (Dismukes Rebuttal Testimony).

1322 OPC (A) at 4:14-21 (Dismukes Direct Testimony).

1323 OPC (2A) at 2:13 – 3:4 (Dismukes Rebuttal Testimony).

rate class is more closely aligned with the system wide average than any other rate class.[1324] OPC argues that these customers should receive the same increase as those customer classes that are near the system average.[1325] Instead of a 33.3% increase, OPC recommends an increase of 30.2% for the primary residential class.[1326]

597. **AOBA.** AOBA argues that WGL does not present the Test Year Interruptible Gas Use attributable to each of the rate blocks in WGL's Interruptible Gas Service rate schedule. AOBA contends that WGL does not provide information on the Distribution Charge revenue for the Interruptible class.[1327]

598. Due to WGL's compliance with Order No. 21939 to separate CNG customers into a different rate class, AOBA contends that the new C&I Non H/C – NGV class has a negative rate of return, while the C&I Non N/C class has the highest positive rate of return, 10.58%.[1328] AOBA argues that the Commission should give special consideration of these facts when determining class revenue requirements.[1329]

599. AOBA contends that the CCOSS demonstrates that the Special Contracts are earning far less than the system-wide average rate of return. Since the Commission cannot alter the Special Contracts, AOBA argues that WGL, not ratepayers, should bear the costs of the under-performance.[1330]

600. AOBA is generally supportive of the WGL's proposal to limit differentiation of revenue increase percentages among rate classes.[1331] However, AOBA is concerned about the negative rates of return for the CHP and NGV rate classes, which are limited rate classes that are unlikely to grow. AOBA argues that these rate classes should not be subsidized by other rate classes.[1332] AOBA contends that the Commission should investigate whether these rate classes are still necessary or whether they should be phased out.[1333] Alternatively, AOBA represents that the Commission should direct WGL to set rates for these classes that

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1324 OPC (A) at 4:21 – 5:4 (Dismukes Direct Testimony).

1325 OPC (A) at 5:4-6 (Dismukes Direct Testimony).

1326 OPC (A) at 5:9-12; 31 at 1-2 (Dismukes Direct Testimony); OPC (2A) at 3:7-12 (Dismukes Rebuttal Testimony).

1327 AOBA (B) at 24:1-12 (B. Oliver Direct Testimony).

1328 AOBA (B) at 25:1-9 (B. Oliver Direct Testimony).

1329 AOBA (B) at 51:6-8 (B. Oliver Direct Testimony).

1330 AOBA (B) at 27:15-21; 51:10-12 (B. Oliver Direct Testimony).

1331 AOBA (B) at 29:15-18 (B. Oliver Direct Testimony).

1332 AOBA (B) at 29:19 – 30:4 (B. Oliver Direct Testimony).

1333 AOBA (B) at 30:8-11; 50:16-21 (B. Oliver Direct Testimony).

are closer to the average rate of return.[1334]

601. AOBA asserts that since the cost allocations from WGL's Normal Weather Study are used in the CCOSS, the problems with the Normal Weather Study impede the accuracy and reliability of the CCOSS.[1335]

602. **WGL Rebuttal.** WGL urges the Commission to reject OPC's rate design proposals, contending that OPC's proposals are contrary to the Commission's rate design goals.[1336] WGL also notes that in *Formal Case No. 1169*, OPC supported a greater allocation of costs to under-earning classes than WGL has proposed in this proceeding.[1337] WGL objects to OPC's current proposal to treat over-earning and under-earning classes the same, arguing that this treatment is inconsistent with Commission precedent and sound ratemaking principles.[1338]

603. Regarding the NGV class, WGL notes that this class is separately identified for the first time in this proceeding. WGL justifies its proposed large increase to this class on the basis that NGV rates have not been raised for a substantial period of time. WGL also represents that even though this class is substantially under-earning, under the gradualist approach that the Commission has supported, it will take time for this class to approach the average system rate of return.[1339]

604. Regarding the CHP class, WGL asserts that the class rates were developed using a CCOSS from *Formal Case No. 1137*. In *Formal Case No. 1162*, the Commission adopted a different cost allocation methodology, which resulted in under-earning for the CHP class rate. Under gradualism principles, WGL asserts that it will take time for this class to approach the average system rate of return.[1340]

605. For interruptible customers, WGL represents that it used the wrong allocation of 25% peak usage/75% annual usage for mains instead of 50% peak usage/50% annual usage in its original calculations. WGL corrected this error through an Errata, so that the interruptible class is allocated the same increase as other over-earning classes.[1341]

1334 AOBA (B) Attachment A at 50 (B. Oliver Direct Testimony).

1335 AOBA (B) at 50:11-14 (B. Oliver Direct Testimony).

1336 WGL (3O) at 12:19-21 (Lawson Rebuttal Testimony).

1337 WGL (3O) at 13:1-13 (Lawson Rebuttal Testimony).

1338 WGL (3O) at 13:19 – 14:8 (Lawson Rebuttal Testimony).

1339 WGL (3O) at 15:5-14 (Lawson Rebuttal Testimony).

1340 WGL (3O) at 15:15 – 16:9 (Lawson Rebuttal Testimony).

1341 WGL (3O) at 17:5-18 (Lawson Rebuttal Testimony).

606. WGL asserts that AOBA's comments regarding the rate of return for the Special Contracts was based on an old CCOSS, instead of the revised CCOSS filed on December 5, 2024.[1342] This revised CCOSS shows a rate of return of 6.48%, which is higher than the system wide average of 4.77%, negating AOBA's concerns.[1343] Further, WGL represents that there are no new facts or changed circumstances that merit different treatment of the Special Contracts.[1344] Further, WGL contends that the Commission rejected similar arguments in *Formal Case No. 1169*.[1345]

607. WGL represents that there is no precedent for AOBA's request.[1346] WGL argues that the Commission has used the CCOSS as a guide and does not mandate that each customer class reach parity of return.[1347]

608. **OPC Surrebuttal**. OPC justifies its proposed allocation based on the current CCOSS, which shows a smaller disparity in earnings between rate classes. OPC argues that earnings for most rate classes are closer to parity with this CCOSS.[1348] OPC claims that WGL is not adjusting significant disparities between rate classes, while criticizing OPC for seeking to reduce small disparities between rate classes.[1349]

609. **AOBA Surrebuttal.** AOBA finds that the change made its WGL's December 5 Errata necessary and appropriate. AOBA does note that the change significantly impacted the calculated class rates of return, especially for the Interruptible and Special Contracts classes.[1350] AOBA continues to contend that WGL's adjustments to the non-weather sensitive elements of gas use significantly impact normalized annual volumes and Peak Day requirements. AOBA asserts that these adjustments impact WGL's CCOSS and rate design, despite the new CCOSS.[1351]

610. AOBA argues that WGL's rationale for treating C&I Heating/Cooling (small)

1342 WGL (2F) at 19:11-16 (Smith Rebuttal Testimony).

1343 WGL (2F) at 19:19-22 (Smith Rebuttal Testimony).

1344 WGL (2F) at 21:12-14 (Smith Rebuttal Testimony).

1345 WGL (2F) at 21:17 – 22:4 (Smith Rebuttal Testimony).

1346 WGL (2F) at 22:8-9 (Smith Rebuttal Testimony).

1347 WGL (2F) at 22:20-22 (Smith Rebuttal Testimony).

1348 OPC (3A) at 13:2-7 (Dismukes Surrebuttal Testimony).

1349 OPC (3A) at 13:13 – 14:6 (Dismukes Surrebuttal Testimony).

1350 AOBA (2B) at 19:14-21 (B. Oliver Surrebuttal Testimony).

1351 AOBA (2B) at 8:14-19; 20:8-12 (B. Oliver Surrebuttal Testimony).

< 3,075 class is arbitrary. AOBA argues that the charges for all C&I and GMA classes should be unified.[1352] AOBA notes that utilities and regulators have favored simplicity in rate design.[1353]

611. **WGL Brief.** WGL argues that a CCOSS should follow cost causation principles and be consistent. WGL argues that its CCOSS is consistent with the CCOSS used in *Formal Case No. 1169*, with two exceptions: distribution mains costs were to be allocated using equal weighing of peak day and annual usage for all classes, including interruptible and special contract customers; and CNG customers were to be classified separately from other commercial and industrial customers. WGL argues that its CCOSS filed in this proceeding complies with these requirements.[1354] WGL indicates that there are six customer classes earning less than system average rates of return; six customer classes earning more than the system average rate of return; and one customer class earning close to the system average. Thus, WGL argues that it applied most of the proposed increase to the under-earning classes, which is consistent with the Commission's directive to move classes closer to the system average rate of return.[1355]

612. WGL asserts that only one party, AOBA, has any objections to the CCOSS. WGL argues that AOBA's proposed adjustment appears to be based on WGL's original CCOSS, not the revised CCOSS filed on December 5. 2024. WGL represents that the revised CCOSS shows that the special contract class was over-performing. WGL also asserts that AOBA's proposed adjustment is inconsistent with the Commission's prior determinations that the special contracts were cost-neutral. WGL asserts that the Commission should accept methodologies used in each CCOSS as reasonable.[1356]

613. WGL asserts that its proposed cost allocation is primarily driven by the cost to serve each class of customers. WGL acknowledges that it accounts for gradualism, but that gradualism is one of many factors.[1357] WGL argues that its proposed revenue allocation is consistent with regulatory practice and precedent, while OPC's is not.[1358] WGL argues that OPC's proposed 115% cap on revenue increases for underearning classes in this proceeding is less than the 150% allocation that OPC proposed in *Formal Case No. 1169*. WGL notes that the Commission ultimately adopted that allocation in Order No. 21939. WGL represents that OPC does not provide a reason why it opposes WGL's proposed 125% allocation in this proceeding, when it supported 150% in the last proceeding. WGL also

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1352 AOBA (2B) at 21:15-20 (B. Oliver Surrebuttal Testimony).

1353 AOBA (2B) at 22:3-5 (B. Oliver Surrebuttal Testimony).

1354 WGL Brief at 243.

1355 WGL Brief at 246.

1356 WGL Brief at 244.

1357 WGL Brief at 244-245.

1358 WGL Brief at 245.

opposes OPC's proposed treatment of Residential Heating and Small C&I customers similarly to over-earning classes, since that treatment would lead to a widening of the revenue earning gap. WGL urges the Commission to reject OPC's proposed modifications for treatment of under-earning classes and Residential Heating and Small C&I customers.[1359]

614. **OPC Brief**. OPC argues that WGL's proposal for 1.25 times the system rate increases for several customer classes is disproportionally high, which violates the principles of rate gradualism.[1360] OPC argues that its 1.15 proposed increase in more reasonable, especially for such classes as Residential Heating and Cooling customers and small C&I heating and cooling customers that have ROR relatively close to or slightly below the system average. OPC argues that these customers should receive the same increase as those customers relatively close to or above the system average. This change would increase Residential Heating and Cooling by 30.2% instead of 33.3%.[1361]

615. OPC justifies its different positions in *Formal Case No. 1169* and this proceeding regarding the rate increases per class due to the differences in the CCOSS filed in these proceedings. OPC argues that in *Formal Case No. 1169*, the WGL CCOSS showed significant variations between rates and full cost of service, which merited larger class increases. OPC argues that the CCOSS filed in this proceeding does not show this variation. Due to these different circumstances, OPC claims that it was justified in having different positions in these two proceedings.[1362]

616. **AOBA Brief.** AOBA argues that the deficiencies in the Normal Weather Study affect the CCOSS, shifting class allocations and rate designs. AOBA claims that WGL exaggerates revenue shortfalls for classes that are most dependent on weather-sensitive usage, leading to higher fixed costs. AOBA contends that variables used to increase base gas estimates shift costs onto non-heating classes. AOBA contends that the increases in base gas are not supported in real-world behavior.[1363]

617. AOBA identifies the principles that should guide rate design decisions: designing rates that reflect cost causation (efficiency); avoiding unnecessary complexity (simplicity); and avoiding creating subsidies (equity). AOBA argues that WGL's rate design proposals deviate from these principles.[1364] AOBA asserts that WGL's rate design creates subsidies for CHP and NGV customers, since their revenue increases bear no relationship to their cost of service. AOBA argues that their revenue increases are artificially constrained,

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1359 WGL Brief at 247.

1360 OPC Brief at 127.

1361 OPC Brief at 128.

1362 OPC Brief at 129.

1363 AOBA Brief at 38.

1364 AOBA Brief at 40-41.

shifting the costs to commercial and group metered apartment customers.[1365] AOBA also claims that WGL has not proposed a means to eliminate the CHP and NGV rate classes, which have few customers and declining revenue. AOBA argues that these classes should be self-supporting.[1366]

618. AOBA contends that the errors in the Normal Weather Study inflate the calculation of peak-day requirements for heating classes. AOBA argues that these classes are assigned a disproportionate share of capacity-related costs, magnifying the inequities in cost allocation. These inflated deficiencies and exaggerated peak-day requirements lead to higher rates for these classes as compared to their cost of service.[1367] AOBA represents that peak demand charges should be based on verifiable contributions to system peaks, not inflated normalization factors.[1368] AOBA claims that these shifts distort price signals, discourage efficient use of natural gas, and undermine the Commission's responsibility to ensure that rates are just, reasonable, and non-discriminatory.[1369]

619. AOBA claims that WGL's flawed weather normalization methodology leads to steeper increases for commercial and group metered apartment customers than is justified.[1370] AOBA argues that the Normal Weather Study inflates usage for heating-sensitive classes, while the base gas adjustments create unsupported growth in non-weather-sensitive usage.[1371] AOBA recommends that the Commission recalibrate class revenue responsibilities to reflect costs more accurately.[1372] AOBA claims that it demonstrated that WGL's subclass distinctions are arbitrary. Further, AOBA contends that Commercial and GMA non-heating customers are assigned high distribution charges even though their load profiles do not impose greater costs of the distribution system.[1373]

Decision

620. A CCOSS assists in allocating the total jurisdictional cost of service among various customer classes. The Commission enjoys wide discretion in setting customer class revenue requirements. Traditionally, in setting class revenue requirements for WGL, we have

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1365 AOBA Brief at 42.

1366 AOBA Brief at 43.

1367 AOBA Brief at 39.

1368 AOBA Brief at 45.

1369 AOBA Brief at 39.

1370 AOBA Brief at 43.

1371 AOBA Brief at 44.

1372 AOBA Brief at 44.

1373 AOBA Brief at 45.

considered the class cost of service for each class, as well as a broad range of other factors.[1374] We have found that WGL's customer class rates of return need not be equal, considering only class cost of service.[1375]

621. In *Formal Case No. 1016*, the Commission announced its policy decision to move gradually toward more equal class rates of return and eliminate any negative class rates of return.[1376] 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.[1377]

622. In *Formal Case No. 1137*, the Commission found that the Company's CCOSS showed that wide disparities still existed in customer class rates of return, including some negative class rates of return for WGL's Residential customers. However, the Commission was concerned with the impact that a significant increase in gas charges would have on residential customers on a fixed income. The Commission weighed these considerations and determined that moving toward greater parity in class rates of return required the Commission to continue on the same path as in our decision in *Formal Case No. 1093*. The Commission modified the revenue allocation adopted in *Formal Case No. 1093* and allowed an increase to the Residential class RORs. The Commission further increased the allocation percentage by adding an additional percentage to the negative ROR classes. The Commission found that the incremental revenue necessary to move the three classes toward the system average would reduce the revenue allocation to firm non-residential customers. Interruptible Service customers would 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 moved all customer classes gradually toward greater parity in class rates of return, consistent with our stated policies.[1378]

623. In Order No. 18712, the Commission also directed WGL to provide a CCOSS that treated all customers as regulated customers and allocated the interruptible elements of the Distribution Cost Adjustment ("DCA") within the cost of service.[1379] There, the

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1374 *See, e.g., Washington Gas Light Co. v. Pub. Serv. Comm'n*, 450 A.2d 1187, 1202-1208 (D.C. App. 1982).

1375 *See, e.g., Washington Gas Light Co. v. Pub. Serv. Comm'n* 450 A.2d 1187, 1207; *Apartment House Council of Metropolitan Washington, Inc. v. Pub. Serv. Comm'n*, 332 A.2d 53, 57 (D.C. App. 1975) ("equal return from customer classes is not required").

1376 *See* 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").

1377 Order No. 17132, ¶ 288.

1378 Order No. 18712, ¶ 402.

1379 Order No. 18712, ¶ 368.

Commission directed WGL to file an alternative CCOSS in its next rate case that included all interruptible revenue and costs for one or more interruptible classes within the overall CCOSS instead of an extra or sequential analysis. [1380] The Commission found that the CCOSS filed in *Formal Case No. 1169* was consistent with the directives in Order No. 18712.

624. In *Formal Case No. 1169*, the Commission determined that WGL should allocate these costs on a 50/50 peak and annual basis among all customers. The Commission also adopted OPC's revenue allocation methodology in which rate classes earning less than a 1.0 UROR are allocated 150% of the system average percent increase, while the remaining rate classes are allocated 100% of the system average percent increase. The Commission reasoned that this allocation would, over time, move classes closer to cost-based rates.[1381]

625. In *Formal Case No. 1169*, the Commission directed WGL to provide an alternate CCOSS that classifies the Company's CNG customers and remaining C&I customers in separate rate (cost of service) classes because these two types of customers have different usage patterns in the next rate case. This type of reclassification was done in *Formal Case No. 1137* to obtain COS information covering Special Contracts.[1382]

626. Based on this record, the Commission approves WGL's CCOSS as amended by its December 5, 2024, CCOSS Errata Filing and Revenue Allocation filed in this proceeding. The Commission finds that WGL's CCOSS is generally consistent with prior directives regarding treatment of Interruptible service, mains cost allocation, and classification of NGV customers. No fully developed alternative CCOSS consistent with those directives has been presented in the record. Although AOBA argues with WGL's CCOSS, citing concerns regarding the low rates of return for the CHP and NGV customer classes, the Commission ultimately agrees with WGL's argument that the CCOSS follows cost causation principles and is consistent with prior Commission approved decisions.

627. This is the first case in which the NGV customer class has been separated out as its own customer class. To be aligned with the concept of gradualism, it will take time for this class to no longer need subsidization. Additionally, no evidence was provided to suggest that WGL will not be able to win future customers in the District. Similarly, the Commission does not find evidence that suggests that AOBA's argument, claiming that WGL may not be able to earn more CHP customers in the future, is true. Therefore, the Commission will continue to monitor these classes, as suggested by WGL.

628. The Commission also agrees that WGL's Revenue Allocation is in line with its principle of rate parity. By varying the revenue allocation percentage among the various

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[1380] Order No. 18712, ¶ 377.

[1381] Order No. 21939, ¶¶ 406-407.

[1382] Order No. 21939, ¶ 408.

over- and under-earning classes, WGL will be able to see greater rate parity in the future. OPC's suggestion to treat the Residential Heating/Cooling and C&A Heating/Cooling < 3,075 therms classes in the same manner as the over-earning classes will only cause greater disparity between the well below system-wide average rate of return customer classes and the over-earning classes, which goes against WGL's objective.

XVI. CUSTOMER CLASS DISTRIBUTION OF THE RATE INCREASE AND RATE DESIGN

629. 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.

630. **WGL.** WGL proposes a 25% increase to the Customer Charges for all customers. After deducting the Customer Charge increase and the increase due to General Service Provisions changes, WGL seeks to collect the remaining increase through increases to the Distribution Charge or the Peak Usage Charge. These changes are proposed to move charges towards fixed cost recovery and to distribute more of the rate increase on customer classes earning below the system average.[1383] WGL represents that recovering fixed distribution costs through fixed charges instead of variable charges promotes bill stability and affordability by decreasing bill spikes.[1384]

631. **OPC.** OPC believes that WGL's proposed Customer Charge should not be adopted; instead, the current Customer Charge should not be changed.[1385] Although WGL's proposal for the small commercial Customer Charge is close to the regional average, OPC argues that the proposed Residential Customer Charge would be 33% higher than the regional average, 75% above WGL's customers in Maryland, and 67% above WGL's customers in Virginia.[1386] In OPC's view, low income customers would bear the brunt of this increase, which raises rate equity considerations.[1387] OPC also contends that increasing the Customer Charge would negatively impact energy efficiency goals,[1388] and that several state commissions and industry white papers have made findings that support this conclusion.[1389] While WGL argues that increasing the Customer Charge would create more stability, OPC contends that WGL has not performed any studies to support this

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[1383] WGL Application at 7.

[1384] WGL (2O) at 3:9-16 (Lawson Supplemental Direct Testimony).

[1385] OPC (A) at 38:21-22 (Dismukes Direct Testimony).

[1386] OPC (A) at 5:17-21; 33:8-10 (Dismukes Direct Testimony).

[1387] OPC (A) at 32:13-15; 37:8-38:13 (Dismukes Direct Testimony).

[1388] OPC (A) at 5:17-21; 34:4-7 (Dismukes Direct Testimony).

[1389] OPC (A) at 34:11 – 37:4 (Dismukes Direct Testimony).

argument.[1390]

632. OPC argues that costs should not be the sole determinant in rate design.[1391] In OPC's view, customer demand is more relevant than cost in setting two-part tariffs.[1392]

633. **AOBA.** AOBA asserts that the Customer Charge is not supported by any assessment of WGL's actual monthly costs per customer by rate class.[1393] AOBA proposes to set a single set of Distribution and Peak Use charges for all C&I and GMA Heating/Cooling and Non-Heating service. AOBA argues that its proposal would simplify rates while not affecting residential rate classifications and minimally affecting individual C&I Heating/Cooling and Non-Heating rate classifications.[1394] Should the Commission approve a lower rate increase than WGL proposes, AOBA recommends that its proposal be scaled proportionally downward.[1395]

634. Even though the number of Interruptible Service customers is declining in the District, AOBA still represents Interruptible Service customers and argues that this service is still valuable.[1396] AOBA asserts that Interruptible Service customers permit WGL to plan for less capacity and reduces planning inefficiencies. AOBA argues that these advantages exist whether or not there is a weather event that requires Interruptible Service customers to interrupt their service.[1397] AOBA contends that WGL's Interruptible Service proposals decrease the price differential between Interruptible and Firm Service and provide an incentive to switch to non-gas alternatives.[1398]

635. **DCG.** DCG argues that WGL's proposal to increase the volumetric charge more than the fixed charge for Residential Heating customers creates a worse competitive position for WGL on a marginal basis, while reducing the cost savings for disconnecting from gas service.[1399] If, however, fixed costs rise more than volumetric costs, then electrification could be less advantageous on the margins but there is a greater incentive for

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1390 OPC (A) at 32:9-12 (Dismukes Direct Testimony).

1391 OPC (A) at 31:16-18 (Dismukes Direct Testimony).

1392 OPC (A) at 32:1-2 (Dismukes Direct Testimony).

1393 AOBA (B) at 26:8-11 (B. Oliver Direct Testimony).

1394 AOBA (B) at 33:1-7 (B. Oliver Direct Testimony).

1395 AOBA (B) at 36:4-6 (B. Oliver Direct Testimony).

1396 AOBA (B) at 36:20 – 37:13 (B. Oliver Direct Testimony).

1397 AOBA (B) at 38:19 – 39:2 (B. Oliver Direct Testimony).

1398 AOBA (B) at 38:1-4 (B. Oliver Direct Testimony).

1399 DCG (A) at 38:19-23 (Hopkins Direct Testimony).

customers to disconnect.[1400]

636. **Sierra Club.** Contrary to WGL's assertions, Sierra Club argues that it is not economically efficient to assign costs based on the fixed or variable nature of the cost. Instead, Sierra Club argues that economic efficiency is achieved when prices reflect long-run marginal costs.[1401] Sierra Club argues that any ratemaking method that aggregates all types of fixed costs and collects them through a single charge is unjust and deviates from cost causation.[1402] Sierra Club argues that WGL's proposal is regressive, shifting costs to low volume users.[1403] Further, Sierra Club claims that fixed charges do not incentivize conservation. Sierra Club argues that WGL did not produce a WGL- or District-specific elasticity study that quantifies the effects of the weakening of price signals.[1404] Sierra Club argues that fixed charges obscure the volatility of gas prices, which benefits WGL to the detriment of customers and the District's climate goals.[1405]

637. Sierra Club recommends that the Commission shift from recovering more costs in straight fixed variable rates, arguing that this approach to ratemaking is inconsistent with the District's climate goals and electrification. Sierra Club contends that straight fixed variable rates provide an incentive for WGL to spend on projects that have costs classified as "fixed" by accountants, a position that has no statutory or economic support.[1406] Sierra Club claims that bill volatility can be better addressed through peak use reduction, electrification, and energy efficiency rather than using rate design.[1407]

638. **WGL Rebuttal.** Regarding the proposed increased Customer Charge, WGL argues that the percentage of the bill recovered through the Customer Charge only increases in this proceeding because of the portions of the bill (*e.g.* the PGC, taxes) that are not impacted by this case.[1408] Even under WGL's proposal, WGL asserts that a lower percentage of tariffed rate revenue will be recovered under WGL's proposed Customer Charge.[1409] Contrary to OPC and Sierra Club's contentions, WGL argues that the Customer Charge

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1400 DCG (A) at 38:23-26 (Hopkins Direct Testimony).

1401 Sierra Club (A) at 32:6-9 (Rábago Direct Testimony).

1402 Sierra Club (A) at 32:21 – 33:1 (Rábago Direct Testimony).

1403 Sierra Club (A) at 33:11-13; 34:11-14 (Rábago Direct Testimony).

1404 Sierra Club (A) at 33:11-20 (Rábago Direct Testimony).

1405 Sierra Club (A) at 36:3-8 (Rábago Direct Testimony).

1406 Sierra Club (A) at 36:11-17 (Rábago Direct Testimony).

1407 Sierra Club (A) at 36:17 – 37:2 (Rábago Direct Testimony).

1408 WGL (3O) at 18:15-21 (Lawson Rebuttal Testimony).

1409 WGL (3O) at 18:22 – 19:1 (Lawson Rebuttal Testimony).

proposal will not decrease energy efficiency efforts or fall disproportionately on low-income customers.[1410] While the Customer Charge is higher in the District than other jurisdictions, WGL asserts that there is full rate decoupling in other jurisdictions, reducing the need for rate stability through a higher Customer Charge.[1411] WGL also argues that the Commission should reject AOBA's proposal to charge uniform distribution and peak usage charges for C&I and GMA customer classes.[1412]

639. **OPC Surrebuttal.** OPC claims that WGL's comparison of the Customer Charge to tariffed rate revenues instead of total rate revenues masks the magnitude of the increase to the fixed cost portion of the customer bill. [1413] To OPC, this increase in fixed charges negatively impacts public policy goals such as encouraging energy efficiency. Additionally, low use customers are disadvantaged by the larger fixed Customer Charge.[1414]

640. **Sierra Club Surrebuttal.** Sierra Club argues that WGL did not rebut its argument that WGL is moving towards straight fixed variable rates. Sierra Club also contends that WGL did not rebut Sierra Club's contention that the proposed increase to the fixed Customer Charge is extreme.[1415] Further, Sierra Club argues that WGL did not rebut Sierra Club's contention that price signals and the economics of energy efficiency and electrification are weakened when costs are recovered through fixed, not volumetric, rates.[1416]

641. **WGL Brief.** WGL argues that the purpose of rate design is to move towards rates that reflect how costs are incurred. WGL contends that its proposed 25% Customer Charge increase will assist in reflecting the fixed and variable costs of service, as will the increase in the Discontinuation of Service and Service Initiation charges and the increase in either the Distribution Charge or the Peak Usage Charge.[1417] In WGL's view, the Customer Charge increase would better align WGL's rate structure with cost causation principles. WGL contends that this increase is consistent with Commission precedent, since the Commission approved a 10% Customer Charge increase in *Formal Case No. 1169*, and the Commission has indicated that WGL's major fixed costs should be recoverable through fixed

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[1410] WGL (3O) at 19:14-16 (Lawson Rebuttal Testimony).

[1411] WGL (3O) at 20:2-10 (Lawson Rebuttal Testimony).

[1412] WGL (3O) at 20:14-19 (Lawson Rebuttal Testimony).

[1413] OPC (3A) at 15:14-18 (Dismukes Surrebuttal Testimony).

[1414] OPC (3A) at 15:18 – 16:1 (Dismukes Surrebuttal Testimony).

[1415] Sierra Club (2A) at 8:9-14 (Rábago Surrebuttal Testimony).

[1416] Sierra Club (2A) at 8:18 – 9:2 (Rábago Surrebuttal Testimony).

[1417] WGL Brief at 248.

monthly charges in *Formal Case No. 1137*.[1418]

642. While OPC and Sierra Club posit that the increased Customer Charge will disproportionately affect low use customers, WGL argues that they fail to recognize that the Customer Charge is only a small increase in the proportion of the total customer bill collected through fixed charges. Contrary to DCG's contentions, WGL argues that it not moving towards Straight Fixed Variable rate design, since the percentage of tariff rate revenues recovered by the Customer Charge will slightly decrease under WGL's proposal.[1419]

643. In response to OPC and Sierra Club's arguments that an increase in the Customer Charge will discourage gas conservation, WGL notes that the Customer Charge is a fixed charge, not a volumetric charge. Thus, the proposed change to the Customer Charge will actually increase energy efficiency, since even with the Customer Charge increase, a greater percentage of revenue will be collected by volumetric rates.[1420] WGL urges the Commission to reject OPC and Sierra Club's challenges to the Customer Charge increase.[1421]

644. **OPC Brief.** OPC argues that the Customer Charges should remain unchanged.[1422] OPC claims that WGL's proposed Customer Charges are different from those proposed by other utilities in the region. OPC also claims that the proposed Customer Charge will burden low-use customers with a higher than average portion of the rate increase.[1423] OPC argues that WGL has not demonstrated that fixed charges promote bill stability and affordability.[1424] In contrast, OPC claims that it prepared an analysis comparing customer charges in the mid-Atlantic region. According to OPC, this analysis shows that WGL's current Customer Charge is a dollar higher than the average customer charge. If the proposed Customer Charge were approved, OPC argues that the District Customer Charge would be 74% higher than the Maryland WGL Customer Charge and 66% higher than the Virginia Customer Charge.[1425]

645. OPC also charges that the increased Customer Charge would disincentivize energy efficiency activities by customers. OPC argues that other jurisdictions have limited customer charge increases for that reason, while NARUC and the National Action Plan for

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[1418] WGL Brief at 248-250.

[1419] WGL Brief at 251.

[1420] WGL Brief at 251.

[1421] WGL Brief at 252.

[1422] WGL Brief at 135.

[1423] OPC Brief at 130.

[1424] OPC Brief at 130.

[1425] OPC Brief at 131-132.

Energy Efficiency recognize that high fixed charges do not encourage energy efficiency.[1426]

646. OPC challenges the increased Customer Charge on equity concerns, arguing that the rate burden would be shifted to low-use customers, who tend to be low-income.[1427] OPC argues that WGL's attempt to justify the customer rate increase fails because WGL compares the Customer Charge increase to tariff rate revenue rather than pay total rate revenues.[1428]

647. **AOBA Brief.** AOBA argues that WGL's proposed steep increases for Interruptible customers demonstrates that WGL does not recognize the value of Interruptible Service. AOBA asserts that WGL does not expect peak usage to require requests for customer curtailment, which AOBA interprets as that WGL has overbuilt its distribution network. AOBA asserts that WGL sees little value to WGL in the investments made by Interruptible customers to be able to curtail service.[1429] AOBA claims that these increases incentivize Interruptible customers to abandon Interruptible Service. Any cost increases for Interruptible customers should be gradual, measured, and proportional to cost responsibility.[1430] AOBA recommends that the Commission reject WGL's price increases for Interruptible customers and adopt a more balanced approach, which encourages participation in Interruptible Service and coverage of reasonable costs.[1431]

Decision

648. In Order No. 17132, the Commission required WGL to collect the revenue increase in significant measure through increases in the Customer Charge.[1432] There, the Commission ordered 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 Commission determined that 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.[1433]

649. In *Formal Case No. 1169*, the Commission determined that Customer

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[1426] OPC Brief at 132-133.

[1427] OPC Brief at 133-134.

[1428] OPC Brief at 135.

[1429] AOBA Brief at 46-47.

[1430] AOBA Brief at 47.

[1431] AOBA Brief at 48.

[1432] Order No. 17132, ¶ 294.

[1433] Order No. 17132, ¶¶ 294-296.

Charges should increase by 10% for all rate classes. The Commission reasoned that this approach provided bill stability for customers. Furthermore, a higher fixed Customer Charge also was a more consistent method to collect the significant fixed costs that WGL incurs in providing service in the District, thus improving the Company's revenue stability, while maintaining the incentives for gas energy conservation.[1434]

650. In this proceeding, WGL proposes to increase its Customer Charge by 25% for all rate classes, a marked increase from the 10% increase approved in *Formal Case No. 1169*. The Commission finds that a more gradual increase is appropriate. The Commission believes that a 15% increase to the Fixed Customer Charge for all rate classes will still assist in collecting the significant fixed costs that WGL incurs in providing service in the District, thus improving the Company's revenue stability, while continuing to preserve usage rate incentives for gas conservation. The Commission also believes that an increase in the Customer Charge will lessen the impact of not approving a decoupling mechanism , consistent with our precedent in *Formal Case No. 1169*. While the Commission approves a Fixed Customer Charge increase of 15% for all rate classes, the Commission notes that low-income customers will remain shielded from the full increase through the RES Program.

651. Contrary to OPC's assertion that the increased Customer Charges unfairly shift the burden to low-use, low-income customers, the RES program will continue to protect low-income heating customers from the majority of gas distribution rate increases throughout the year. RES customers will continue to receive a WGL bill credit equal to the total winter distribution charge. In other words, RES customers will continue receiving free winter gas distribution services. For the average RES customer, the typical winter month distribution bill savings will be $84.37. Additionally, RES customers will also continue to receive a WGL bill credit equal to half of the monthly distribution charge during the summer. For the average RES customer, the summer month distribution bill saving is $9.52.[1435]

652. The Commission is not convinced by OPC's argument that WGL's proposed Customer Charges are much higher compared to other major gas utility companies operating in the Mid-Atlantic region. The data used by OPC to defend this point is no longer accurate, as there have been numerous proposed and approved changes to the Customer Charges since the publication of Exhibit OPC (7) - A. Further, the Commission notes that the majority of the companies identified in OPC's comparison have a form of decoupling in effect, resulting in lower customer charges.

653. The Commission does not agree with OPC and Sierra Club's claims that rate design is moving WGL towards a straight-fixed variable rate design. The Company is not moving toward a straight fixed-variable rate design because its proposed changes to the Customer Charge result in only a modest shift in how costs are recovered. As WGL has noted, the percentage of tariff rate revenues recovered by the Customer Charge will slightly decrease. Therefore, the overall structure of the rate design continues to rely primarily on

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[1434] Order No. 21939, ¶ 420.

[1435] *See* Order No. 21939, ¶ 8.

variable charges, rather than transitioning to a predominantly fixed-cost recovery model. The Commission does not agree with AOBA's proposal for uniform distribution and peak usage charges for C&I and GMA customer classes. The concern regarding fluctuations in base gas use from *Formal Case No. 1169* to *Formal Case No. 1180* can be explained by fluctuations in gas usage by businesses during the Covid-19 pandemic, making this argument invalid.

XVII. AFFORDABILITY CONSIDERATIONS

654. **WGL.** WGL reaffirms its commitment to provide energy safely, reliability, affordably, and sustainably. WGL notes that in *Formal Case No. 1160*, it filed an Energy Efficiency Program Plan on April 28, 2023, proposing over 75 offerings, some targeted to low income and moderate income residents.[1436] In *Formal Case No. 1167*, WGL pointed out that it filed its Climate Change Action Program containing 13 proposals on December 15, 2021 and an Application for approval of four climate change projects in August 2024.[1437] WGL asserts that it deploys capital to repair leak-prone infrastructure, which will reduce GHG.[1438] WGL asserts that it has not changed its capital investments based on the District's climate policies because WGL is obligated to provide safe and reliable natural gas service, which requires capital investment. Additionally, WGL has not changed its depreciation lives, basing its depreciation study on current industry practice.[1439]

655. WGL contends that its new JANA Lighthouse risk ranking methodology takes equity concerns into account by assigning a common value for all property/structures.[1440]

656. **OPC.** While OPC argues that there is no set definition of "unaffordability" in relation to utility bills, OPC contends that energy bills should equal no more than six percent of a customer's income.[1441] OPC claims that WGL's proposals would increase the energy burden for low-income households to 6.4% of customer income, above the 6.0% threshold.[1442]

657. After the end of this proceeding, OPC recommends that the Commission open a generic proceeding to investigate low income and affordability issues due to the large

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[1436] WGL (A) at 19:7-19 (Steffes Direct Testimony).

[1437] WGL (A) at 20:1-23 (Steffes Direct Testimony).

[1438] WGL (2A) at 4:21-24 (Steffes Supplemental Direct Testimony).

[1439] WGL (2A) at 6:12-19 (Steffes Supplemental Direct Testimony).

[1440] WGL (2A) at 5:1-5 (Steffes Supplemental Direct Testimony).

[1441] OPC (A) at 40:10-17 (Dismukes Direct Testimony).

[1442] OPC (A) at 49:4-9 (Dismukes Direct Testimony).

number of rate cases and rate increases.[1443] OPC asserts that the revenue that WGL collects from customers has steadily increased since 2005, outpacing inflation.[1444] OPC contends that the gas rates for Residential customers in the District are above the regional average. In 2023, OPC points out that the gas rate for Residential customers in the District was 18% higher than the gas rates for Residential customers in surrounding regions.[1445]

658. **WGL Rebuttal.** WGL argues that OPC's own testimony shows that the energy burden for customers in the 15th and 20th income percentiles has decreased over the past decade.[1446] While WGL acknowledges that the energy burden on low income customers is above the 6.0% threshold, WGL argues that this threshold is below the national average of 8.3% of customer income. Additionally, WGL contends that OPC does not factor RES assistance into its arguments.[1447] WGL objects to OPC's exclusion of rent payments from the affordability calculations.[1448] Additionally, WGL does not believe that a separate affordability docket is necessary, since affordability issues are considered in many of the Commission's existing dockets.[1449]

659. **OPC Surrebuttal.** OPC claims that the energy burden on low income households still exists. In OPC's view, any perceived easing of this burden is due to the availability of government assistance programs. OPC also points that there have been several recent rate increases, which affect affordability and make low income customers more reliant on government assistance.[1450]

660. **WGL Brief.** In planning capital projects, WGL explains that it uses a risk ranking methodology that is "unbiased in terms of equity by providing a common value for property/structures."[1451] WGL also argues that it pays prevailing wages to contractors. Additionally, WGL represents that it did not modify the expected lives for distribution assets or depreciation rates for ratemaking purposes. WGL maintains that it has no plans, programs, or tariffs that direct WGL to evaluate customers' costs for alternative to the use of natural gas.[1452]

1443 OPC (A) at 6:8-15 (Dismukes Direct Testimony).

1444 OPC (A) at 13:11-14 (Dismukes Direct Testimony).

1445 OPC (A) at 14:3-9; 50:14-21 (Dismukes Direct Testimony).

1446 WGL (3O) at 22:19 – 23:2 (Lawson Rebuttal Testimony).

1447 WGL (3O) at 23:3-14 (Lawson Rebuttal Testimony).

1448 WGL (3O) at 23:17-24 (Lawson Rebuttal Testimony).

1449 WGL (3O) at 24:12-22 (Lawson Rebuttal Testimony).

1450 OPC (3A) at 16:6-14 (Dismukes Surrebuttal Testimony).

1451 WGL Brief at 285, *citing* WGL (2A) at 5 (Steffes Supplemental Testimony).

1452 WGL Brief at 286.

661. **OPC Brief.** OPC recommends that the Commission open a proceeding to examine low-income and affordability issues given the large number of recent requests for rate increases.[1453] OPC contends that in its rate cases, WGL has overestimated the amount of incremental revenues required by a significant margin. OPC claims that District gas rates have been higher than the regional average.[1454] OPC argues that these requests for rate increases is concerning given affordability concerns in the District.[1455] While WGL has presented an average residential monthly bill analysis show little to no growth in average residential bills, OPC argues that this analysis is flawed because WGL did not present sufficient detail to permit independent verification and supporting evidence.[1456] OPC contends that its own affordability studies, showing negative impacts on low-income customers.[1457] OPC argues that WGL does not respond substantively to OPC's criticism. Further, OPC argues that WGL does not respond to the arguments that government transfer payments provide a false appearance of affordability improvement.[1458] OPC argues that the Commission should recognize the large number of rate requests while many ratepayers have affordability concerns.[1459]

Decision

662. The Commission is highly sensitive to the disproportionate impact that the approved rate increases have on residential customers, particularly low-income households who face a significantly higher energy burden. The Commission also recognizes economic hardship experienced by many WGL customers at this time, as noted at the Community Hearings. In recent years, the Commission has worked to address these concerns, by expanding RES eligibility and benefits and mandating the creation of a WGL AMP.[1460] The Commission granted WGL a provisional one-year extension of the AMP program through December 31, 2025. The Joint Report on a proposed AMP program was filed on July 30, 2025, and is currently under Commission consideration.[1461] In *Formal Case No. 1167*, WGL's revised Climate Business Plan contains energy efficiency proposals, some of which

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1453 OPC Brief at 136.

1454 OPC Brief at 137.

1455 OPC Brief at 138.

1456 OPC Brief at 140-141.

1457 OPC Brief at 141-142.

1458 OPC Brief at 143.

1459 OPC Brief at 143.

1460 *Formal Case No. 1164, In the Matter of an Inquiry into the Impacts of the Covid-19 Pandemic on District Utilities and Consumers,* Order No. 20749, rel. May 27, 2021 (amending RES eligibility criteria); Order No. 20990, rel. August 9, 2021 (establishing the WGL AMP).

1461 *See Formal Case No. 1164,* Order No. 22692, rel. July 29, 2025.

WGL claims are geared to low-income customers.[1462] The Commission remains open to proposals that will assist customers in paying their utility bills or reducing energy usage. In its next base rate case, WGL should consider other ways to expand RES or propose other programs to assist low-income customers, particularly in this time of economic uncertainty. Regarding OPC's proposal to open an affordability docket, the Commission defers a decision at this time.

XVIII. CLIMATE CONSIDERATIONS

663. **DCG.** According to DCG, WGL has not accounted for the District's climate and energy policies when planning the capital investments proposed for inclusion in rate base in this case, despite the fact that those policies will have a material impact on demand for WGL's services and thus the prices it may sustainably charge its customers. DCG further states that WGL does not conduct capital planning that looks out more than a few years, despite investing in assets with multi-decade useful lives while customers make choices about retaining or reducing WGL's service on a much shorter timeframe (*e.g.*, every 10 to 20 years). DCG criticizes WGL for not evaluating or using NPAs as opposed to replacing assets, despite the opportunity to use alternatives to lower costs, increase safety, reduce pollution, and align with competitive and policy drivers. DCG argues that WGL does not track all the information required to conduct good planning and that WGL does not acknowledge or analyze the financial risks of stranded assets on its system, despite orders from the Commission directing WGL to plan system investments in a manner that minimizes the risk of stranded assets.[1463]

664. **Sierra Club**. Sierra Club argues that WGL does not adequately address how the District's climate and energy policies affect WGL's proposed programs and rates.[1464] Sierra Club argues that WGL has not linked its return on equity, incentive compensation, or rate design to the District's climate goals.[1465] While AltaGas has recognized substantial climate risks and prepared a substantive risk assessment, Sierra Club argues that WGL has not presented such a risk assessment in its Application.[1466] Sierra Club asserts that AltaGas and WGL have "not strategically internalized the trend toward decarbonization, electrification, climate responsibility, and reductions of Scope 1, 2, and 3 GHG emissions."[1467]

665. Sierra Club believes that WGL's plans appear to conflict with the District's

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[1462] *See Formal Case No. 1167*, WGL 15-Year Plan at 33-37, filed June 9, 2025.

[1463] DCG (A) at 4-6:4-2 (Hopkins Direct Testimony).

[1464] Sierra Club (A) at 11:8-14 (Rábago Direct Testimony).

[1465] Sierra Club (A) at 12:4-7 (Rábago Direct Testimony).

[1466] Sierra Club (A) at 17:3-16 (Rábago Direct Testimony).

[1467] Sierra Club (A) at 23:19 – 24:1 (Rábago Direct Testimony).

climate policies, which could lead to disruptive impacts and stranded costs.[1468] Sierra Club contends that WGL faces immense economic risks if WGL does not address the District's climate goals.[1469]

666. Sierra Club argues that in WGL's 2021-2025 Climate Change Action Plan, WGL identifies only one initiative that would reduce GHG: purchasing a fleet of methane-powered vehicles.[1470] Sierra Club contends that any GHG emissions reduction from this initiative would be very small.[1471]

667. Sierra Club argues that the effect of all of WGL's rate design proposals is to incentivize customers to use more gas and use it less efficiently, delaying the transition to less fossil fuel use. Sierra Club contends that the effect of these proposals would increase energy bills and lead to stranded costs. Additionally, for low income consumers, the portion of the bill not covered by RES would expand.[1472]

668. **WGL Brief.** WGL argues that it is more appropriate for the Commission to evaluate WGL's policies and plans to effectuate the District's climate policy goals in *Formal Case No. 1167* than in this proceeding.[1473] Nonetheless, WGL claims in this proceeding that its core obligations are to operate its system in a safe manner and provide reliable service to customers following all federal and District laws and regulations. WGL represents that there "is no impact to the Company's planned capital investments based on the District's climate policies" because its obligations require continued investment in WGL's system.[1474]

669. WGL claims that many of the climate arguments made by other parties in this proceeding are irrelevant to this rate case proceeding, which is based on a historical test year instead of forward-looking.[1475] WGL objects to efforts to link this proceeding to electrification efforts because electrification efforts are not relevant.[1476]

670. Additionally, WGL argues that the climate proposals offered by other parties are not in the best interest of WGL's customers and inconsistent with WGL's obligation to

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1468 Sierra Club (A) at 24:1-5 (Rábago Direct Testimony).

1469 Sierra Club (A) at 24:7-9 (Rábago Direct Testimony).

1470 Sierra Club (A) at 24:19 – 25:3 (Rábago Direct Testimony).

1471 Sierra Club (A) at 25:11-13 (Rábago Direct Testimony).

1472 Sierra Club (A) at 29:1-8 (Rábago Direct Testimony).

1473 WGL Brief at 284.

1474 WGL Brief at 285, *citing* WGL (2A) at 6 (Steffes Supplemental Testimony).

1475 WGL Brief at 286.

1476 WGL Brief at 287.

provide natural gas pursuant to its federal charter. WGL contends that the other parties have not demonstrated that WGL's investments were not needed to serve the public or were not cost effective.[1477]

671. WGL disagrees with DCG's argument that the prudency review is a proxy for the competitive market. WGL contends that a prudency review is undertaken to determine whether the investment was reasonably made by the utility based on the facts and circumstances when the investment was made. WGL claims that DCG's argument that WGL did not comply with the District's climate policies is premised on the position that there is a mandate to electrify in the District. WGL argues that there is no such mandate. Further, DCG's emphasis on electrification ignores WGL's energy efficiency program and climate proposals in *Formal Case No. 1167*. WGL also argues that OPC's proposal for long-term gas planning is better evaluated in *Formal Case No. 1167*[1478] and DCG's proposal for NPAs is better evaluated in *Formal Case Nos. 1167* and *1179*.[1479]

672. While DCG and Sierra Club discuss the risk of stranded assets, WGL contends that these risks are not quantified or quantifiable in this proceeding.[1480] There is no substantial evidence of the risk of stranded assets in this proceeding. WGL also argues that Sierra Club seeks to alter the used and useful test to focus on whether the gas plant will be used or useful in the future. Contrary to Sierra Club's contentions, WGL represents that it has shown that it has incurred substantial costs to provide reasonable, safe, reliable, and adequate service in the District pursuant to the mandates of D.C. Code § 34-1101(a).[1481]

673. WGL contends that no party has provided any basis for reducing WGL's revenue requirement due to climate concerns. WGL argues that these climate issues are irrelevant, unsupported by substantial evidence, inconsistent with law, and harmful to WGL and its customers that rely on natural gas.[1482]

674. **DCG Brief.** DCG objects to WGL's claim that District climate laws are not relevant to this proceeding. While WGL cites its GHG emissions reductions in pipe replacement, DCG argues that over half of the pipes on the replacement list have not experienced leaks. DCG also argues that WGL's insistence that District policies are irrelevant in this proceeding is belied by WGL's lobbying expenses against the District's climate policies.[1483]

[1477] WGL Brief at 287-288.

[1478] WGL Brief at 288.

[1479] WGL Brief at 289.

[1480] WGL Brief at 289.

[1481] WGL Brief at 290.

[1482] WGL Brief at 290-291.

[1483] DCG Brief at 16.

675. **Sierra Club Brief.** Sierra Club argues that WGL has not explained how it complies with District climate laws. Regarding PROJECT*pipes*, Sierra Club asserts that WGL has not asserted how this program would tangibly reduce emissions in the District or how costs of the PROJECT*pipes* justify the program.[1484] Sierra Club contends that WGL does not intend to reduce its investment and spending on the natural gas distribution system.[1485]

Decision

676. D.C. Code § 34-808.02 requires the Commission to "consider the public safety, the economy of the District, the conservation of natural resources, and the preservation of environmental quality, including effects on global climate change and the District's public climate commitments."[1486] One element of the Commission's prudency review has been to determine whether WGL's capital projects have assisted in reducing GHG emissions. The Commission considered the climate impacts of Capital Projects included in rate base, among other factors such as safe and reliable service. As noted in Order No. 21960, the safety and reliability of the natural gas distribution system is the Commission's paramount responsibility, and any decision must be made after appropriate and informed deliberation that must consider, among other matters, pipe replacement based on the severity of safety risks, the risks of stranded assets resulting from electrification, and the District's climate goals.[1487]

677. As the parties note, the Commission has an ongoing climate proceeding, *Formal Case No. 1167*, in which WGL's climate proposals will be evaluated. Further discussion regarding WGL's compliance with the District's climate goals will occur in that proceeding.

678. The other issues raised by the parties, including NPAs and the risk of stranded assets, are currently under Commission consideration in *Formal Case No. 1179*.

XIX. <u>TARIFF CHANGES</u>

A. GSP NO. 4 - CREDIT AND DEBIT CARD PAYMENTS

679. **WGL.** Currently, when a customer pays its bill by credit or debit card, WGL pays the vendor fees associated with the payment. In this proceeding, WGL proposes to amend this tariff to remove WGL's payment of vendor fees when a customer pays by credit

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[1484] Sierra Club Brief at 8.

[1485] Sierra Club Brief at 9.

[1486] D.C. Code § 34-808.02.

[1456] *Formal* Case *No. 1154*, Order No. 21960, ¶ 13, rel. February 23, 2024.

or debit card. Instead, customers will be responsible for paying these fees.[1488] WGL proposes this change due to the growing costs of this program; during the Test Year, WGL asserts that it paid $480,000 in transaction fees, far more than it expected when it began this program. Additionally, WGL asserts that the transaction fee that it charges for direct payments has decreased, rendering the fee closer to the fees charged by credit or debit cards. WGL believes that it is more appropriate that customers using credit or debit cards pay for the cost of those transactions, instead of having WGL subsidize these costs.[1489] Additionally, WGL believes that customers will move to more cost effective ways of paying their bill if this change is approved.[1490] Customers will not be impaired in their ability to pay their bills, WGL claims.[1491] WGL argues that the MD PSC has already approved this change. WGL is also proposing this change in Virginia.[1492]

680. **OPC.** As long as WGL promotes other alternatives for bill payment that do not include processing fees, OPC does not oppose WGL's proposal.[1493]

Decision

681. Since the Commission has accepted WGL RMA 28 and permits WGL to discontinue paying credit or debit card fees, the Commission accepts WGL's proposal to amend GSP No. 4 so that customers are responsible for paying credit or debit card fees when they pay by credit or debit card. The Commission finds that there are several ways to pay WGL bills electronically, many of which do not incur additional fees. Thus, it is no longer reasonable for WGL to continue to incur credit or debit card fees that are passed on to other ratepayers. WGL has demonstrated that this expense is not trivial, so eliminating the payment of credit and debit card fees by WGL will result in cost savings. With this change, however, the Commission directs WGL to inform its customers that it will no longer be paying credit card fees 30 days before this change becomes effective, so that customers can change payment practices. WGL is directed to file a tariff consistent with this decision within five (5) days of the date of this Order. Additionally, WGL shall file a notice indicating how it informed its customers of its discontinuance of paying credit card fees within 60 days of the date of this Order. To allow time for proper customer communication and implementation, the Commission authorizes WGL to begin collecting credit card vendor fees from customers no earlier than 90 days after the date of this Order.

1488 WGL (O) at 19:17-23 (Lawson Direct Testimony).

1489 WGL (O) at 22:16-21 (Lawson Direct Testimony); WGL Brief at 262.

1490 WGL (O) at 22:16-21 (Lawson Direct Testimony).

1491 WGL (O) at 22:24 – 23:7 (Lawson Direct Testimony).

1492 WGL (O) at 21:5 – 22:12 (Lawson Direct Testimony).

1493 OPC (A) at 39:14-17 (Dismukes Direct Testimony); OPC Brief at 135-136.

B. GENERAL SERVICES PROVISIONS 11 AND 19

682. **WGL.** WGL proposes to increase several charges in the General Services Provisions, most notably General Services Provision 11, Discontinuance of Service and 19, Service Initiation Charge. WGL asserts that increases are needed to reflect the costs of providing these services. Without these increases, WGL contends that firm customers are subsidizing these services. Also, WGL notes that these rates have not been increased for some time.[1494]

683. Under General Services Provision 11, WGL proposes to increase the charge for Individual Reconnections and Multi-Unit Reconnections by 20% and the Field Collection Charge by no more than 10%.[1495] WGL bases these increases on contractor fees to perform these services.[1496] WGL limits the proposed increase in the Field Connection Charge because it is not a common charge and impacts customers who may be having difficulty paying bills.[1497]

684. For General Service Provision 19, WGL proposes to raise the "Gas Not Flowing" service initiation fee by 20%.[1498] WGL argues that this increase is necessary to cover contractor charges that are not currently covered in the Service Initiation Fee.[1499]

685. **AOBA.** AOBA argues that WGL arbitrarily increased these charges and provided no cost support for the amount of these increases.[1500] Instead, AOBA asserts that any increase should be supported by cost data, which is lacking in this proceeding. AOBA notes that a disproportionate number of the customers being assessed these charges are customers experiencing financial hardship.[1501] While WGL has characterized these increases as modest and consistent with industry practice, AOBA argues that those arguments do not address the lack of cost support for the increases. AOBA recommends that the Commission require cost support for each service charge that it proposes to increase.[1502] AOBA argues that the Commission should require WGL to develop more cost-based Miscellaneous

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1494 WGL (O) at 23:19 – 24:5 (Lawson Direct Testimony).

1495 WGL (O) at 25:8-10 (Lawson Direct Testimony).

1496 WGL (O) at 25:19 – 26:20 (Lawson Direct Testimony).

1497 WGL (O) at 26:20 – 27:9 (Lawson Direct Testimony).

1498 WGL (O) at 27:21-22 (Lawson Direct Testimony).

1499 WGL (O) at 28:7-9 (Lawson Direct Testimony).

1500 AOBA (B) at 45:3-12 (B. Oliver Direct Testimony).

1501 AOBA Brief at 51.

1502 AOBA Brief at 52.

Charges.[1503]

686. **WGL Rebuttal.** Regarding the increase to the Miscellaneous Charges, WGL argues that AOBA has not presented an alternative to WGL's proposal.[1504] WGL proposes to limit the increase to the Field Collection Fee to no more than a 10% increase, since the Field Collection Fee imposes a financial burden on customers seeking to maintain gas service. WGL also may discontinue this fee in the future if few field collections continue to occur.[1505] Likewise, WGL sought to limit the Reconnect Fee increase to minimize the effect on customers.[1506] WGL reiterates that its Service Initiation Fee is cost-based.[1507]

687. **AOBA Surrebuttal.** AOBA indicates that it appears that WGL and AOBA are in agreement about the elimination of the Field Connection Charge and urges the Commission to consider this elimination. While the Miscellaneous Charges appear to be small, AOBA recommends that the Commission periodically review the cost basis for these charges to ensure that other charges are not adversely affected by the Miscellaneous Charges.[1508] AOBA asserts that WGL has provided no cost support for the Miscellaneous Charges.[1509]

688. **WGL Brief.** Contrary to AOBA's arguments, WGL argues that it provided support for the proposed increases. WGL contends that customers that cause WGL to incur costs should bear responsibility for those costs. WGL also argues that AOBA did not provide alternatives. WGL encourages the Commission to approve these tariff changes.[1510]

Decision

689. While AOBA's testimony is generally supportive of these changes, the Commission determines that WGL has not provided enough support for its Miscellaneous Charge increases and rejects these proposed tariff changes. Should WGL seek to propose these changes in its next rate case application, then WGL should provide workpapers in its next rate case application supporting the proposals to (1) increase the charge for Individual Reconnections and Multi-Unit Reconnections by 20%, (2) increase the "Gas Not Flowing" service initiation fee by 20%, and (3) increase the Field Collection Charge by no more than

[1503] AOBA (B) at 52:13-17 (B. Oliver Direct Testimony).

[1504] WGL (3O) at 21:10-11 (Lawson Rebuttal Testimony).

[1505] WGL (3O) at 21:12-22 (Lawson Rebuttal Testimony).

[1506] WGL (3O) at 21:23 – 24:2 (Lawson Rebuttal Testimony).

[1507] WGL (3O) at 24:3-6 (Lawson Rebuttal Testimony).

[1508] AOBA (2B) at 22:12-20 (B. Oliver Surrebuttal Testimony).

[1509] AOBA (2B) at 23:1-18 (B. Oliver Surrebuttal Testimony).

[1510] WGL Brief at 263.

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C. ADMINISTRATIVE AMENDMENTS

690. WGL also proposes to update P.S.C. of D.C. No. 3, Page Number 41A to replace names and include updated effective dates in the tariff.[1511]

Decision

691. The Commission approves WGL management personnel changes on the referenced pages in the previous paragraph and related nomenclature referencing the update. However, the effective dates of service in this document should be changed from May 1, 2025, to January 1, 2026. WGL is directed to file a tariff consistent with this decision by November 28, 2025.

XX. PROCEDURAL ISSUES IN DISCOVERY

692. In their briefs, many of the parties express concern about the responsiveness of other parties in the discovery process. The Commission reminds the parties that they have the obligation to provide the information sought by other parties unless they have a valid objection. If parties have an objection, then they need to inform the requesting party of the objection. If the requesting party continues to seek the information, then that party should first meet to discuss the provision of this information and then file a motion to compel if the negotiations are unsuccessful. The Commission cannot compel the production of information from a party absent a motion to compel. Additionally, the parties cannot rely on arguments that they did not receive the information sought in their briefs if they did not file a motion to compel with the Commission.

693. The Commission notes that it is currently seeking information in *GD-2023-2/RM1-2025-01/RM2-2025-01* to determine what additional information, if any, needs to be included in base rate case applications. The Commission invites parties with requests for particular types of information to be included to file comments in that proceeding.

XXI. CONCLUSION

694. The Commission having duly considered the entire record in this proceeding, including all of the filed testimony and exhibits, the parties' data requests and responses introduced into the evidentiary record, testimony at the evidentiary hearing, and taking into account Commission precedent and recent ratemaking practices, and comments from the community hearings and other public comments, the Commission approves a base rate net increase of approximately $21 million (excluding an approximate $12.5 million revenue transfer of the PROJECT*pipes* surcharges), equating to about 62% of WGL's initial net request of $33.9 million. The Commission approves a gross increase in distribution rates of approximately $33.4 million, reflecting the above $12.5 million PROJECT*pipes* revenue transfer. Much of this increase is driven by WGL's increase in GPIS, which is used and

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[1511] WGL (O) at 25:11-14 (Lawson Direct Testimony).

useful to customers during the Test Year. The Commission has reviewed the expenditures on these Capital Projects and has determined that these costs are prudent. The Capital Projects increase the safety and reliability of WGL's gas distribution system in the District.

695. Based on the above authorized gross rate increase, the average Residential Heating customer will experience an estimated overall bill increase of about $11.24 or 12.87% on a total estimated bill of $98.57. This estimate assumes average monthly Residential Heating customer gas usage of approximately 52 therms and includes the combined impacts of an increase in the Fixed Customer Charge and the volumetric rate, as discussed earlier. For the same customer, the gross increase (including any PROJECT*pipes* transfer) represents about 20% of the distribution-only components of the bill. This authorized increase will be the first approved increase in base distribution rates since the previously authorized increase became effective on January 19, 2024, which was approximately 22 months ago.

696. WGL is also expected to file an updated Current Factor filing report to recalibrate the PROJECT*pipes* surcharge within 30 days of this Order to reflect the transfer of about $100.7 million of PROJECT*pipes* rate base from the surcharge to base rates and the associated revenue transfer of $12.5 million, as discussed earlier.

XXII. FINDINGS OF FACT AND CONCLUSIONS OF LAW

697. Washington Gas Light Company is authorized to recover its requested annual base rate revenue increase of $33.4 million for natural gas distribution service in the District of Columbia.

698. Washington Gas Light Company is authorized to transfer $12.5 million from its PROJECT*pipes* surcharge into base rates.

699. Washington Gas Light Company's proposed historic test year ended March 31, 2024, is the appropriate period to determine Washington Gas Light Company's revenue requirements during the period of time for which the authorized rates will be in effect.

700. Washington Gas Light Company's proposed net rate base, as modified by the Commission, is based upon the reasonable and prudent cost of plant that was used and useful in providing natural gas distribution service in the District in the Test Year.

701. The Capital Projects added during the Test Year for PROJECT*pipes* and non-PROJECT*pipes* were reasonably incurred to support system needs.

702. The Capital Projects added during the Test Year for PROJECT*pipes* and non-PROJECT*pipes* enhance the safety and reliability of Washington Gas Light Company's distribution network in the District.

703. The expenses for Capital Projects added during the Test Year for PROJECT*pipes* and non-PROJECT*pipes* were prudently incurred.

704. The appropriate PROJECT*pipes* net rate base as of March 31, 2024, is $100.7 million in proposed rates on a ratemaking basis.

705. Washington Gas Light Company's proposed 2024 Depreciation Study, and the depreciation rates proposed in the same, with the modifications approved in this Order, are reasonable and appropriate.

706. The most reasonable and appropriate rate of depreciation for plastic mains and services, Accounts 376.20 and 380.20, is demonstrated by a survivor curve of 67-R3.5 and 65-R2.5, respectively.

707. The appropriate PROJECT*pipes* depreciation expense for Washington Gas Light Company is $2,706,400.

708. Washington Gas Light Company's Distribution-only, adjusted net rate base for District operations in the Test Year was $782.9 million.

709. A reasonable overall rate of return on Washington Gas Light Company's Distribution-only, adjusted net rate base for District operations in the Test Year is 7.43% including a 9.65% cost of common equity.

710. Washington Gas Light Company's proposed capital structure of 42.88% long-term debt, 4.63% short-term debt and 52.49% common equity is reasonable and appropriate, consistent with the peer group presented by the Company, and comparable to the capital structure for utilities with reasonably comparable investment grade credit ratings.

711. Washington Gas Light Company's proposed cost of debt is reasonable and accurate. The Company's cost of long-term debt is 4.84%, and its cost of short-term debt is 6.202%.

712. Washington Gas Light Company's proposed Normal Weather Study based on thirty (30) years is methodologically sound and is a reasonable representation of usage under normal weather conditions.

713. Washington Gas Light Company is not authorized to implement a decoupling mechanism proposed as the Weather Normalization Adjustment.

714. Washington Gas Light Company's Distribution-only, adjusted net revenues at present rates for District operations in the Test Year were $211.6 million.

715. Washington Gas Light Company's Distribution-only, adjusted operating expenses for District operations in the Test Year was $177.5 million.

716. Using the five (5)-year average methodology to determine uncollectibles is reasonable and appropriate, as it normalizes the uncollectible expenses results over time.

717. The lead/lag study filed in this proceeding is consistent with the lead/lag study filed in *Formal Case No. 1169.*

718. Washington Gas Light Company's methodology to calculate the base amount for its proposed pay raise adjustments is consistent with Commission precedent.

719. Washington Gas Light Company's proposed Union test period pay raises of three percent (3%) effective in 2023 and 2024 are known and measurable.

720. A 3% management pay increase for 2024 and the first three (3) months of 2025 is appropriate, reasonable, and consistent with the current inflation rate.

721. Washington Gas Light Company Ratemaking Adjustment 13 is appropriate because the Involuntary Separation Program resulted in a permanent reduction in WGL's headcount and this adjustment correctly reduces gross payroll costs.

722. The Office of the People's Counsel's BCO-5 Adjustment related to the Voluntary Separation Program costs is rejected because it fails two (2) of the three (3)-prong test, since the amounts are: (1) unknown and uncertain, and thus cannot be calculated with precision; and (2) are too remote in time.

723. Washington Gas Light Company Ratemaking Adjustment 14 is consistent with U.S. GAAP accounting standards.

724. The Office of the People's Counsel's BCO-6 Adjustment is inconsistent with U.S. GAAP accounting standards.

725. Washington Gas Light Company's Ratemaking Adjustment 5 includes an evaluation of financial performance in determining Short Term Incentives.

726. The Office of the People's Counsel's BCO-13 Adjustment properly removes evaluation of financial performance in the determination of Short Term Incentives.

727. Washington Gas Light Company removed Long-Term Incentive costs from its cost of service.

728. Executive fringe benefits are not included in Washington Gas Light Company's cost of service.

729. Washington Gas Light Company did not justify its overtime expenses.

730. The Office of the People's Counsel's BCO-7 Adjustment, proposing a $0.593 million revenue requirement reduction, accurately captures overtime expenses.

731. Washington Gas Light Company's Ratemaking Adjustment 15, Covid-19

Regulatory Asset Treatment, is consistent with Order No. 21939.

732. Washington Gas Light Company's Ratemaking Adjustment 16, Regulatory Commission Expenses, is reasonable.

733. Washington Gas Light Company's Ratemaking Adjustment 17, Environmental Expenses, is reasonable.

734. Washington Gas Light Company's Ratemaking Adjustment 18, Insurance Expenses, is reasonable.

735. The methodology used to calculate Washington Gas Light Company's Ratemaking Adjustment 19, Interest on Customer Deposits, is consistent with the methodology used in *Formal Case Nos. 1137* and *1169*.

736. The Office of the People's Counsel's BCO-8 Adjustment, related to Non-Labor Inflation, is consistent with our precedent.

737. Normalization of affiliate expenses, as sought in the Office of The People's Counsel's BCO-9 Adjustment, Affiliate Expenses, is not appropriate.

738. Test Year Call Center expenses are reasonable.

739. Washington Gas Light Company's Distribution-only, adjusted operating and maintenance expenses for District operations excludes all costs associated with lobbying expenses recorded in FERC USOA Account 426.4.

740. Washington Gas Light Company demonstrated that the $14,189 in litigation costs included in the Company's Distribution-only, adjusted operating and maintenance expenses for District operations are reasonable and appropriate.

741. Washington Gas Light Company's proposed ratemaking treatment in Ratemaking Adjustment No. 32 addresses the inadvertent normalization violation that it may have incurred related to its DTA-NOLC and is modified.

742. Washington Gas Light Company is ordered to obtain a Private Letter Ruling from the IRS.

743. Washington Gas Light Company's Ratemaking Adjustment 28, Credit/Debit Card Transaction Fee Elimination, is reasonable.

744. Washington Gas Light Company's long-term plan for capital expenditure projects is reasonable and supports goals to provide safe and reliable, natural gas distribution service in the District.

745. Washington Gas Light Company's application of its jurisdictional cost

allocation study is reasonable and consistent with the Commission's previously approved methodology, and it produces results that are reasonable and appropriate.

746. Washington Gas Light Company's Class Cost of Service Study as modified by its December 5, 2024 Errata, is reasonable.

747. Washington Gas Light Company's allocation of the revenue requirement amongst its customer classes is reasonable and appropriate.

748. An increase to the Fixed Customer Charge of fifteen percent (15%) is reasonable and appropriate.

749. Washington Gas Light Company's proposed revisions and modifications to its GSP No. 4 tariff applicable to District operations are reasonable and appropriate.

750. Washington Gas Light Company's proposed revisions and modifications to its GSP Nos. 11 and 19 tariff applicable to District operations are unsupported by record evidence.

751. Washington Gas Light Company's proposed revisions and modifications to P.S.C. of D.C. No. 3, Page Number 41A, as amended, are appropriate.

752. The Joint Report on Washington Gas Light Company's Affiliate Cost of Service Study contains a comprehensive list of information that should be included in an Affiliate Class Cost of Service Study.

753. Washington Gas Light Company's Affiliate Cost of Service Study complies with the Commission's directives in *Formal Case No. 1169* and the Joint Report on Washington Gas Light Company's Affiliate Cost of Service Study, and provides sufficient transparency regarding the services provided to Washington Gas Light Company by its affiliates (and the charges for the same)

754. Washington Gas Light Company's affiliate transactions are not negatively impacting the transparency of the Company's ratemaking cost determinations.

755. Washington Gas Light Company's Service Agreements enhance economies of scale and scope for Washington Gas Light Company, which serves to reduce the costs of these services for ratepayers.

756. Washington Gas Light Company's Cost Allocation Manual establishes reasonable requirements for the assignment and allocation of costs associated with affiliate transactions.

757. Washington Gas Light Company has demonstrated that the services provided to the Company by its affiliates are necessary and reasonable, and that the charges for those services that are recovered through base rates are reasonable and appropriate.

758. Washington Gas Light Company's base rate Application complies with *Formal Case No. 1142* Merger Term Nos. 24 and 72.

THEREFORE, IT IS ORDERED THAT:

759. The Motions to Correct the Transcript of the August 14, 2025 evidentiary hearing filed by Washington Gas Light Company, Office of the People's Counsel for the District of Columbia, Apartment and Office Building Association of Metropolitan Washington, District of Columbia Government, and Sierra Club are **GRANTED**;

760. The Application of the Washington Gas Light Company filed August 5, 2024, seeking to increase rates for gas distribution service by $45.6 million is hereby **GRANTED in part and DENIED in part;**

761. A rate increase in the amount of $33.4 million based on a rate of return of 7.43% on Washington Gas Light Company's Test Year rate base of $782.9 million and a net operating income of $34.1 million is hereby **GRANTED**;

762. The Commission rejects the proposed decoupling mechanism presented as the Weather Normalization Adjustment;

763. The Weather Normalization and Climate Working Group shall be convened within ninety (90) days of the date of this Order;

764. The Weather Normalization and Climate Working Group shall file a report on weather normalization methodologies by June 30, 2026;

765. The Weather Normalization and Climate Working Group shall file its Report on a mechanism that would assist WGL in recovering losses due to WGL's support of the District's climate initiatives by December 31, 2026;

766. Washington Gas Light Company shall request a Private Letter Ruling from the Internal Revenue Service regarding the Deferred Tax Asset for Net Operating Loss Carryforwards Tax Normalization and file a copy of this request with the Commission within sixty (60) days of the date of this Order;

767. Washington Gas Light Company shall file a notice indicating how it informed its customers of its discontinuance of paying credit card fees within sixty (60) days of the date of this Order;

768. To allow time for proper customer communication and implementation, the Commission authorizes WGL to begin collecting credit card vendor fees from customers no earlier than ninety (90) days after the date of this Order.

769. Washington Gas Light Company is authorized to file revised tariffs that

increase gas distribution rates by no more than $33.4 million pursuant to a rate design that shall be consistent with the findings of this Order;

770. Washington Gas Light Company 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 November 28, 2025. Rates authorized in this Order shall be effective on or after January 1, 2026 at 12:01 A.M.;

771. Consistent with the Commission's tariff approvals in this Order, Washington Gas Light Company is **DIRECTED** to file new or revised tariff provisions for GSP No. 3, Page Number 41A and No. 4 tariffs with the changes mandated by this Order by November 28, 2025; and

772. Washington Gas Light Company 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:**

Brinda Westbrook-Sedgwick

CHIEF CLERK: **BRINDA WESTBROOK-SEDGWICK**
COMMISSION SECRETARY

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA **Formal Case No. 1180**
Schedule 1

Washington Gas Light Company - District of Columbia Jurisdiction
Twelve Months Ended March 31, 2024
Commission Approved Revenue Requirement

Line	Description	WGL Application	Adjustments	Approved Total
		(A)	(B)	(C)
1	**Rate Base**			
2	Gas Plant in Service	$ 1,343,519,841	$ 27,525,439	$ 1,371,045,280
3	Construction Work in Progress	6,884,576	(6,884,577)	-
4	Materials and Supplies	2,941,147	-	2,941,147
5	Cash Working Capital	40,826,326	(1,249,321)	39,577,004
6	Unamortized East Station	1,766,327	-	1,766,327
7	Reserve for Depreciation	(456,197,363)	3,334,718	(452,862,645)
8	Non-Plant ADIT	(3,355,922)	-	(3,355,922)
9	Accumulated Deferred Income Taxes	(216,066,145)	(803,420)	(216,869,566)
10	Customer Advances for Construction	(305,769)	-	(305,769)
11	Customer Deposits	(1,432,785)	-	(1,432,785)
12	NOL Carryforward	45,430,017	-	45,430,017
13	Deferred Tenant Allowance	(3,017,287)	-	(3,017,287)
14	**Total Rate Base**	**760,992,963**	**21,922,838**	**782,915,802**
15	**Rate of Return**	7.87%		7.43%
16	**Return Requirement**	**$ 59,918,493**		**$ 58,151,838**
17	**Operating Revenues**			
18	Operating revenue	$ 211,627,531	$ -	$ 211,627,531
19	Total Operating Revenues	$ 211,627,531	$ -	$ 211,627,531
20	**Operating Expenses**			
21	Operation	$ 56,816,665	$ (2,712,773)	$ 54,103,892
22	Maintenance	25,925,811	(68,174)	25,857,637
23	Depreciation	31,830,254	(6,397,222)	25,433,031
24	Amortization of General Plant	1,878,281	-	1,878,281
25	Amortization of Capitalized Software	3,659,183	-	3,659,183
26	Amortization of Unrecovered Plant Loss	100,274	-	100,274
27	Interest on Customer Deposits	77,084	-	77,084
28	General Taxes	63,436,331	-	63,436,331
29	Income Taxes	614,762	2,383,039	2,997,801
30	Total Operating Expenses	$ 184,338,646	$ (6,795,131)	$ 177,543,515
31	**Net Operating Income**	$ 27,288,885	$ 6,795,131	$ 34,084,016
32	Allowance for Funds Used During Construction	$ 467,443		$ 467,443
33	**Net Operating Income - Adjusted**	$ 27,756,328	$ 6,795,131	$ 34,551,459
34	**Income Deficiency**	$ 32,162,165	$ (6,795,131)	$ 23,600,380
35	Revenue Conversion Factor	1.4170	1.4170	1.4170
36	**Total Revenue Deficiency**	**$ 45,572,411**	**$ (12,131,684)**	**$ 33,440,728**
37	Percentage of Original Request			73.38%

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA **Formal Case No. 1180**

Schedule 2

Washington Gas Light Company - District of Columbia Jurisdiction

Twelve Months Ended March 31, 2024

Commission Approved Rate of Return

Line	Description	Ratio	Cost %	Weighted Cost %
	(A)	(B)	(C)	(D)
	Approved			
1	Long-Term Debt	42.88%	4.84%	2.08%
2	Short-Term Debt	4.63%	6.20%	0.29%
3	Common Equity	52.49%	9.650%	5.06%
4	**Total**	**100.00%**		**7.43%**

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA | **Formal Case No. 1180**
Schedule 3

Washington Gas Light Company - District of Columbia Jurisdiction
Twelve Months Ended March 31, 2024
Commission Approved Revenue Deficiency

Line	Description (A)			Revenue Requirement (B)
1	**Company's Starting Revenue Deficiency**		**$**	**45,572,411**
2	**Impact of Recommended Rate of Return**		$	(4,810,563)
3	**Impact of Approved Ratemaking Adjustments**			
4	RMA-1	PROJECTpipes - WGL RMA 2 & 3	$	1,757,498
5	RMA-2	Adjust Depreciation Rates - WGL RMA 4		(5,888,965)
6	RMA-3	Wages and Salaries Expense - WGL RMA 5		(196,352)
7	RMA-4	Short-Term Incentives - OPC BCO 12		(994,738)
8	RMA-5	Overtime Expense - OPC BCO 7		(593,201)
9	RMA-6	Non-labor Inflation - OPC BCO 8		(1,071,870)
10	RMA-7	Interest Synchronization - WGL RMA 29		(202,007)
11	RMA-8	Cash Working Capital - WGL RMA 30		(131,486)
12		**Approved Ratemaking Adjustments Subtotal**	$	(7,321,121)
13	**Approved Gross Revenue Deficiency (Approximately 73 % of Company Gross Request)**		**$**	**33,440,728**
14	**Transfer of PROJECTpipes Surcharge Revenues to Base Rates**		$	(12,487,220)
15	**Approved Net Revenue Deficiency**		**$**	**20,953,508**

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA

Washington Gas Light Company - District of Columbia Jurisdiction
Twelve Months Ended March 31, 2024
Commission Approved Ratemaking Adjustments

Line	Description	WGL Application	PROJECTpipes Adjustment 1	Depreciation Rates Adjustment 2	Wages and Salaries Adjustment 3
		(A)	(B)	(C)	(D)
	Reference Schedule		Schedule 3.1	Schedule 3.2	Schedule 3.3
1	**Rate Base**				
2	Gas Plant in Service	$ 1,343,519,841	$ 27,525,439	$ -	$ -
3	Reserve for Depreciation	(456,197,363)	123,824	3,210,894	-
4	CWIP	6,884,576	(6,884,577)	-	-
5	Materials and Supplies	2,941,147	-	-	-
6	Cash Working Capital	40,826,326	-	-	-
7	Non-Plant ADIT	(3,355,922)	-	-	-
8	ADIT: M.A.C.R.S. Depreciation	(216,026,702)	(1,686,978)	883,558	-
9	ADIT: Gains/Losses on reaquired Debt (Federal)	(29,300)	-	-	-
10	ADIT: Gains/Losses on reaquired Debt (State)	(10,143)	-	-	-
11	Customer Advances for Construction	(305,769)	-	-	-
12	Customer Deposits	(1,432,785)	-	-	-
13	Supplier Refunds	-	-	-	-
14	FC 1027 - Rate Base CWIP (Reg Asset)	-	-	-	-
15	Unamortized East Station	1,766,327	-	-	-
16	Deferred Tenant Allowance	(3,017,287)	-	-	-
17	NOL Carryforward Federal	35,762,076	-	-	-
18	NOL: Carryforward state	12,237,900	-	-	-
19	NOL Federal Benefit of State	(2,569,959)	-	-	-
20	**Total Rate Base**	**760,992,963**	**19,077,708**	**4,094,452**	**-**
21	**Rate of Return**	**7.87%**	**7.43%**	**7.43%**	**7.43%**
22	**Return Requirement**	**$ 59,918,493**	**$ 1,417,015**	**$ 304,119**	**$ -**
23	**Operating Revenues**				
24	Operating revenue	$ 211,627,531	$ -	$ -	$ -
25	Total Operating Revenues	$ 211,627,531	$ -	$ -	$ -
26	**Operating Expenses**				
27	Operation	$ 56,816,665	$ -	$ -	$ (123,007)
28	Maintenance	25,925,811	-	-	(68,174)
29	Depreciation	31,830,254	(243,759)	(6,153,463)	-
30	Amortization of General Plant	1,878,281	-	-	-
31	Amortization of Capitalized Software	3,659,183	-	-	-
32	Amortization of Unrecovered Plant Loss	100,274	-	-	-
33	Interest on Customer Deposits	77,084	-	-	-
34	Interest on Supplier Refunds	-	-	-	-
35	General Taxes	63,436,331	-	-	-
36	Income Taxes	$ 614,762	67,076	1,693,279	52,608
37	Total Operating Expenses	$ 184,338,646	$ (176,683)	$ (4,460,184)	$ (138,573)
38	**Total Operating Income**	$ 27,288,885	$ 176,683	$ 4,460,184	$ 138,573
39	Allowance for Funds Used During Construction	$ 467,443	$ -	$ -	$ -
40	**Adjusted Total Operating Income**	$ 27,756,328	$ 176,683	$ 4,460,184	$ 138,573
41	**Income Deficiency**	$ 32,162,165	$ 1,240,333	$ (4,156,064)	$ (138,573)
42	Revenue Conversion Factor	1.4170	1.4170	1.4170	1.4170
43	**Revenue Deficiency**	**$ 45,572,411**	**$ 1,757,498**	**$ (5,888,965)**	**$ (196,352)**

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA

Formal Case No. 1180
Schedule 4

Washington Gas Light Company - District of Columbia Jurisdiction
Twelve Months Ended March 31, 2024
Commission Approved Ratemaking Adjustments

Line	Description	WGL Application	Short-Term Incentives Adjustment 4	Overtime Expenses Adjustment 5	Non-Labor Inflation Adjustment 6
		(A)	(E)	(G)	(F)
	Reference Schedule		Schedule 3.4	Schedule 3.5	Schedule 3.6
1	**Rate Base**				
2	Gas Plant in Service	$ 1,343,519,841	$ -	$ -	$ -
3	Reserve for Depreciation	(456,197,363)	-	-	-
4	CWIP	6,884,576	-	-	-
5	Materials and Supplies	2,941,147	-	-	-
6	Cash Working Capital	40,826,326	-	-	-
7	Non-Plant ADIT	(3,355,922)	-	-	-
8	ADIT: M.A.C.R.S. Depreciation	(216,026,702)	-	-	-
9	ADIT: Gains/Losses on reaquired Debt (Federal)	(29,300)	-	-	-
10	ADIT: Gains/Losses on reaquired Debt (State)	(10,143)	-	-	-
11	Customer Advances for Construction	(305,769)	-	-	-
12	Customer Deposits	(1,432,785)	-	-	-
13	Supplier Refunds	-	-	-	-
14	FC 1027 - Rate Base CWIP (Reg Asset)	-	-	-	-
15	Unamortized East Station	1,766,327	-	-	-
16	Deferred Tenant Allowance	(3,017,287)	-	-	-
17	NOL Carryforward Federal	35,762,076	-	-	-
18	NOL: Carryforward state	12,237,900	-	-	-
19	NOL Federal Benefit of State	(2,569,959)	-	-	-
20	**Total Rate Base**	**760,992,963**	**-**	**-**	**-**
21	**Rate of Return**	**7.87%**	**7.43%**	**7.43%**	**7.43%**
22	**Return Requirement**	**$ 59,918,493**	**$ -**	**$ -**	**$ -**
23	**Operating Revenues**				
24	Operating revenue	$ 211,627,531	$ -	$ -	$ -
25	Total Operating Revenues	$ 211,627,531	$ -	$ -	$ -
26	**Operating Expenses**				
27	Operation	$ 56,816,665	$ (968,543)	$ (577,580)	$ (1,043,643)
28	Maintenance	25,925,811	-	-	-
29	Depreciation	31,830,254	-	-	-
30	Amortization of General Plant	1,878,281	-	-	-
31	Amortization of Capitalized Software	3,659,183	-	-	-
32	Amortization of Unrecovered Plant Loss	100,274	-	-	-
33	Interest on Customer Deposits	77,084	-	-	-
34	Interest on Supplier Refunds	-	-	-	-
35	General Taxes	63,436,331	-	-	-
36	Income Taxes	$ 614,762	266,519	158,935	287,185
37	Total Operating Expenses	$ 184,338,646	$ (702,024)	$ (418,644)	$ (756,459)
38	**Total Operating Income**	$ 27,288,885	$ 702,024	$ 418,644	$ 756,459
39	Allowance for Funds Used During Construction	$ 467,443	$ -	$ -	$ -
40	**Adjusted Total Operating Income**	$ 27,756,328	$ 702,024	$ 418,644	$ 756,459
41	**Income Deficiency**	$ 32,162,165	$ (702,024)	$ (418,644)	$ (756,459)
42	Revenue Conversion Factor	1.4170	1.4170	1.4170	1.4170
43	**Revenue Deficiency**	**$ 45,572,411**	**$ (994,738)**	**$ (593,201)**	**$ (1,071,870)**

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA

Washington Gas Light Company - District of Columbia Jurisdiction
Twelve Months Ended March 31, 2024
Commission Approved Ratemaking Adjustments

Line	Description	WGL Application	Interest Sync Adjustment 7	Cash Working Capital Adjustment 8	Adjustments Subtotal
		(A)	(H)	(H)	(J)
	Reference Schedule		Schedule 3.7	Schedule 3.7	Schedule 3.9
1	**Rate Base**				
2	Gas Plant in Service	$ 1,343,519,841		$ -	$ 27,525,439
3	Reserve for Depreciation	(456,197,363)		-	3,334,718
4	CWIP	6,884,576		-	(6,884,577)
5	Materials and Supplies	2,941,147		-	-
6	Cash Working Capital	40,826,326		(1,249,321)	(1,249,321)
7	Non-Plant ADIT	(3,355,922)		-	-
8	ADIT: M.A.C.R.S. Depreciation	(216,026,702)		-	(803,420)
9	ADIT: Gains/Losses on reaquired Debt (Federal)	(29,300)		-	-
10	ADIT: Gains/Losses on reaquired Debt (State)	(10,143)		-	-
11	Customer Advances for Construction	(305,769)		-	-
12	Customer Deposits	(1,432,785)		-	-
13	Supplier Refunds	-		-	-
14	FC 1027 - Rate Base CWIP (Reg Asset)	-		-	-
15	Unamortized East Station	1,766,327		-	-
16	Deferred Tenant Allowance	(3,017,287)		-	-
17	NOL Carryforward Federal	35,762,076		-	-
18	NOL: Carryforward state	12,237,900		-	-
19	NOL Federal Benefit of State	(2,569,959)		-	-
20	**Total Rate Base**	**760,992,963**	**-**	**(1,249,321)**	**21,922,838**
21	**Rate of Return**	**7.87%**	**7.43%**	**7.43%**	**7.43%**
22	**Return Requirement**	**$ 59,918,493**	**$ -**	**$ (92,795)**	**$ 1,628,340**
23	**Operating Revenues**				
24	Operating revenue	$ 211,627,531		$ -	$ -
25	Total Operating Revenues	$ 211,627,531	$ -	$ -	$ -
26	**Operating Expenses**				
27	Operation	$ 56,816,665		$ -	$ (2,712,773)
28	Maintenance	25,925,811		-	(68,174)
29	Depreciation	31,830,254		-	(6,397,222)
30	Amortization of General Plant	1,878,281		-	-
31	Amortization of Capitalized Software	3,659,183		-	-
32	Amortization of Unrecovered Plant Loss	100,274		-	-
33	Interest on Customer Deposits	77,084		-	-
34	Interest on Supplier Refunds	-		-	-
35	General Taxes	63,436,331		-	-
36	Income Taxes	$ 614,762	(142,564)	-	2,383,039
37	Total Operating Expenses	$ 184,338,646	$ (142,564)	$ -	$ (6,795,131)
38	**Total Operating Income**	$ 27,288,885	$ 142,564	$ -	$ 6,795,131
39	Allowance for Funds Used During Construction	$ 467,443		$ -	$ -
40	**Adjusted Total Operating Income**	$ 27,756,328	$ 142,564	$ -	$ 6,795,131
41	**Income Deficiency**	$ 32,162,165	$ (142,564)	$ (92,795)	$ (5,166,790)
42	Revenue Conversion Factor	1.4170	1.4170	1.4170	1.4170
43	**Revenue Deficiency**	**$ 45,572,411**	**$ (202,007)**	**$ (131,486)**	**$ (7,321,121)**

Washington Gas Light Company - District of Columbia Jurisdiction
Twelve Months Ended March 31, 2024
Commission Approved Ratemaking Adjustments

Line	Description	WGL Application	Adjusted Totals
		(A)	(K)
	Reference Schedule		**Schedule 3.10**
1	**Rate Base**		
2	Gas Plant in Service	$ 1,343,519,841	$ 1,371,045,280
3	Reserve for Depreciation	(456,197,363)	(452,862,645)
4	CWIP	6,884,576	(0)
5	Materials and Supplies	2,941,147	2,941,147
6	Cash Working Capital	40,826,326	39,577,004
7	Non-Plant ADIT	(3,355,922)	(3,355,922)
8	ADIT: M.A.C.R.S. Depreciation	(216,026,702)	(216,830,123)
9	ADIT: Gains/Losses on reaquired Debt (Federal)	(29,300)	(29,300)
10	ADIT: Gains/Losses on reaquired Debt (State)	(10,143)	(10,143)
11	Customer Advances for Construction	(305,769)	(305,769)
12	Customer Deposits	(1,432,785)	(1,432,785)
13	Supplier Refunds	-	-
14	FC 1027 - Rate Base CWIP (Reg Asset)	-	-
15	Unamortized East Station	1,766,327	1,766,327
16	Deferred Tenant Allowance	(3,017,287)	(3,017,287)
17	NOL Carryforward Federal	35,762,076	35,762,076
18	NOL: Carryforward state	12,237,900	12,237,900
19	NOL Federal Benefit of State	(2,569,959)	(2,569,959)
20	**Total Rate Base**	**760,992,963**	**782,915,801**
21	**Rate of Return**	**7.87%**	**7.43%**
22	**Return Requirement**	**$ 59,918,493**	**$ 58,151,838**
23	**Operating Revenues**		
24	Operating revenue	$ 211,627,531	$ 211,627,531
25	Total Operating Revenues	$ 211,627,531	$ 211,627,531
26	**Operating Expenses**		
27	Operation	$ 56,816,665	$ 54,103,892
28	Maintenance	25,925,811	25,857,637
29	Depreciation	31,830,254	25,433,031
30	Amortization of General Plant	1,878,281	1,878,281
31	Amortization of Capitalized Software	3,659,183	3,659,183
32	Amortization of Unrecovered Plant Loss	100,274	100,274
33	Interest on Customer Deposits	77,084	77,084
34	Interest on Supplier Refunds	-	-
35	General Taxes	63,436,331	63,436,331
36	Income Taxes	$ 614,762	2,997,801
37	Total Operating Expenses	$ 184,338,646	$ 177,543,515
38	**Total Operating Income**	$ 27,288,885	$ 34,084,016
39	Allowance for Funds Used During Construction	$ 467,443	$ 467,443
40	**Adjusted Total Operating Income**	$ 27,756,328	$ 34,551,459
41	**Income Deficiency**	$ 32,162,165	$ 23,600,380
42	Revenue Conversion Factor	1.4170	1.4170
43	**Revenue Deficiency**	**$ 45,572,411**	**$ 33,440,728**

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA

Schedule 5

Comparison of Current and SFAS 143 Accrual Rates
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.35 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)	2.39%	0.76%	3.15%	2.06%	0.44%	2.50%
Virginia (Ravensworth)	2.47%	0.50%	2.97%	2.11%	0.42%	2.53%
Total Account 361.00	2.43%	0.64%	3.06%	2.08%	0.43%	2.51%
362.00 Gas Holders						
Maryland (Rockville)	1.69%	0.57%	2.26%	1.11%	0.27%	1.38%
Virginia (Ravensworth)	1.79%	0.34%	2.13%	1.51%	0.29%	1.80%
Total Account 362.00	1.74%	0.47%	2.20%	1.29%	0.28%	1.57%
363.50 Other Equipment						
Maryland (Rockville)	5.37%	0.11%	5.48%	2.24%	0.05%	2.29%
Virginia (Ravensworth)	1.97%	1.54%	3.51%	2.90%	0.42%	3.32%
Total Account 363.50	3.93%	0.72%	4.64%	2.52%	0.21%	2.73%
Total Allocated Property	2.14%	0.53%	2.67%	1.60%	0.30%	1.90%
Total Storage and Processing Plant	2.14%	0.53%	2.67%	1.60%	0.30%	1.90%
TRANSMISSION PLANT						
Assigned Property						
365.20 Rights of Way						
366.00 Meas. and Reg. Station Structures						
367.10 Mains - Steel	0.50%	0.10%	0.60%	1.09%	0.14%	1.23%
369.00 Measuring and Regulating Equipment	1.09%	0.20%	1.29%	1.18%	0.26%	1.44%
Total Assigned Property	0.88%	0.16%	1.05%	1.15%	0.22%	1.37%

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA

Comparison of Current and SFAS 143 Accrual Rates
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.35 Percent

Account Description	Current Investment	Current Net Salvage	Current Total	SFAS 143 Investment	SFAS 143 Net Salvage	SFAS 143 Total
A	B	C	D=B+C	E	F	G=E+F
Allocated Property						
365.20 Rights of Way						
District	0.33%		0.33%	-4.47%		-4.47%
Maryland	1.60%		1.60%	1.40%		1.40%
Virginia	1.15%		1.15%	0.73%		0.73%
Total Account 365.20	1.45%		1.45%	1.17%		1.17%
366.00 Meas. and Reg. Station Structures						
Maryland	0.33%	1.24%	1.57%	2.13%	1.01%	3.14%
Virginia	1.33%	0.02%	1.35%	2.06%	0.21%	2.27%
Total Account 366.00	1.19%	0.19%	1.38%	2.00%	0.39%	2.39%
367.10 Mains - Steel						
District	1.05%	0.10%	1.15%	1.66%	0.14%	1.80%
Maryland	1.44%	-0.03%	1.41%	1.67%	-0.11%	1.56%
Virginia	1.47%	0.10%	1.57%	1.67%	0.08%	1.75%
Total Account 367.10	1.43%	0.05%	1.48%	1.67%	0.01%	1.68%
369.00 Measuring and Regulating Equipment						
District	-0.18%	0.20%	0.02%	-1.06%	0.26%	-0.80%
Maryland	0.29%	2.40%	2.69%	-0.70%	7.49%	6.79%
Virginia	0.55%		0.55%	-0.92%	-4.95%	-5.87%
Total Account 369.00	0.33%	1.79%	2.13%	-0.76%	4.49%	3.73%
Total Allocated Property	1.04%	0.66%	1.69%	0.85%	1.57%	2.42%
Total Transmission Plant	1.01%	0.56%	1.57%	0.91%	1.32%	2.22%
DISTRIBUTION PLANT						

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA

Schedule 5

Comparison of Current and SFAS 143 Accrual Rates
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.35 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
Assigned Property						
375.00 Structures and Improvements						
376.10 Mains - Steel	0.87%	0.39%	1.26%	1.07%	0.62%	1.69%
376.20 Mains - Plastic	1.53%	0.57%	2.10%	1.41%	0.55%	1.96%
376.30 Mains - Cast Iron	-1.78%	1.14%	-0.64%	-0.91%	1.88%	0.97%
378.00 Measuring and Regulating Equipment	1.08%	0.11%	1.19%	1.83%	0.24%	2.07%
380.10 Services - Steel	1.18%	0.91%	2.09%	1.56%	0.69%	2.25%
380.20 Services - Plastic	1.42%	0.73%	2.15%	1.42%	0.67%	2.09%
380.30 Services - Copper	-1.86%	1.46%	-0.40%	-0.79%	1.39%	0.60%
381.20 Meters - Hard Case	3.13%		3.13%	3.35%		3.35%
381.30 Meters - Electronic Devices	2.39%		2.39%	4.61%		4.61%
381.50 Meters - Electronic Demand Recorders	-0.33%		-0.33%	-2.56%		-2.56%
382.00 Meter Installations	1.42%	0.12%	1.54%	1.97%	0.16%	2.13%
383.00 House Regulators	1.76%	1.52%	3.28%	2.09%	1.87%	3.96%
384.00 House Regulator Installations	1.51%		1.51%	1.64%	0.12%	1.76%
386.20 Gas Lights	-0.10%	2.49%	2.39%	0.56%	2.74%	3.30%
Total Assigned Property	1.41%	0.60%	2.01%	1.44%	0.59%	2.03%
Allocated Property						
375.00 Structures and Improvements						
District						
Maryland						
Virginia						
Total Account 375.00						
377.00 Compressor Station Equipment						
District						

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA

Comparison of Current and SFAS 143 Accrual Rates
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.35 Percent

	Account Description	Current			SFAS 143		
		Investment	Net Salvage	Total	Investment	Net Salvage	Total
	A	B	C	D=B+C	E	F	G=E+F
	Maryland						
	Virginia						
	Total Account 377.00						
378.00	Measuring and Regulating Equipment						
	District						
	Maryland	3.85%	-0.10%	3.75%	3.37%	0.35%	3.72%
	Virginia	5.21%	0.55%	5.76%	3.35%	0.33%	3.68%
	Total Account 378.00	4.04%	-0.01%	4.03%	3.37%	0.35%	3.71%
	Total Allocated Property	4.04%	-0.01%	4.03%	3.37%	0.35%	3.71%
	Total Distribution Plant	1.41%	0.60%	2.01%	1.45%	0.59%	2.03%
GENERAL PLANT							
Allocated Property (Depreciable)							
390.00	Structures and Improvements						
	District	2.14%	0.21%	2.35%	1.96%	0.14%	2.10%
	Maryland	2.27%	0.14%	2.41%	1.89%	0.21%	2.10%
	Virginia	1.96%	0.20%	2.16%	1.91%	0.20%	2.11%
	Total Account 390.00	2.03%	0.19%	2.22%	1.91%	0.20%	2.11%
	Total Allocated Property (Depreciable)	2.03%	0.19%	2.22%	1.91%	0.20%	2.11%
Assigned Property (Amortizable)							
303.05	Software - 5 year	20.00%		20.00%	← 5 Year Amortization →		20.00%
303.06	Software (DC POR) - 10 year	10.00%		10.00%	← 10 Year Amortization →		10.00%
303.10	Software - 10 year	10.00%		10.00%	← 10 Year Amortization →		10.00%
391.10	Office Furniture and Equipment (DC POR)	5.00%		5.00%	← 20 Year Amortization →		5.00%

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Schedule 5

Comparison of Current and SFAS 143 Accrual Rates

Current: VG Procedure / RL Technique

Updated: VG Procedure / RL Technique

Accretion Rate: 3.35 Percent

Account Description	Current Investment	Current Net Salvage	Current Total	SFAS 143 Investment	SFAS 143 Net Salvage	SFAS 143 Total
A	B	C	D=B+C	E	F	G=E+F
391.11 Office Furniture and Equipment	5.00%		5.00%	← 20 Year Amortization →		5.00%
391.21 Computer Equipment	14.29%		14.29%	← 7 Year Amortization →		14.29%
393.00 Stores Equipment	5.00%		5.00%	← 20 Year Amortization →		5.00%
394.00 Tools, Shop & Garage Equipment	5.00%		5.00%	← 20 Year Amortization →		5.00%
395.00 Laboratory Equipment	5.00%		5.00%	← 15 Year Amortization →		5.00%
397.10 Communication Equipment - Telephones						
397.20 ENSCAN Equipment	5.93%		5.93%	← 18 Year Amortization →		5.93%
398.00 Miscellaneous Equipment	6.67%		6.67%	← 15 Year Amortization →		6.67%
Total Assigned Property (Amortizable)	7.49%		7.49%	7.49%		7.49%
Total General Plant	5.50%	0.07%	5.57%	5.46%	0.07%	5.53%
TOTAL JURISDICTION	1.64%	0.56%	2.21%	1.66%	0.59%	2.25%

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: 3.35 Percent

Account Description	12/31/23 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
STORAGE AND PROCESSING PLANT								
Allocated Property								
361.00 Structures and Improvements								
Maryland (Rockville)	$ 1,311,110	$ 31,336	$ 9,965	$ 41,301	$ 27,009	$ 5,769	$ 32,778	$ (8,523)
Virginia (Ravensworth)	1,183,946	29,243	5,919	35,162	24,981	4,973	29,954	(5,208)
Total Account 361.00	$ 2,495,056	$ 60,579	$ 15,884	$ 76,463	$ 51,990	$ 10,742	$ 62,732	$ (13,731)
362.00 Gas Holders								
Maryland (Rockville)	$ 4,460,885	$ 75,389	$ 25,427	$ 100,816	$ 49,516	$ 12,044	$ 61,560	$ (39,256)
Virginia (Ravensworth)	3,676,243	65,805	12,500	78,305	55,511	10,661	66,172	(12,133)
Total Account 362.00	$ 8,137,128	$ 141,194	$ 37,927	$ 179,121	$ 105,027	$ 22,705	$ 127,732	$ (51,389)
363.50 Other Equipment								
Maryland (Rockville)	$ 818,973	$ 43,979	$ 900	$ 44,879	$ 18,345	$ 409	$ 18,754	$ (26,125)
Virginia (Ravensworth)	604,207	11,903	9,305	21,208	17,522	2,538	20,060	(1,148)
Total Account 363.50	$ 1,423,180	$ 55,882	$ 10,205	$ 66,087	$ 35,867	$ 2,947	$ 38,814	$ (27,273)
Total Allocated Property	$ 12,055,364	$ 257,655	$ 64,016	$ 321,671	$ 192,884	$ 36,394	$ 229,278	$ (92,393)
Total Storage and Processing Plant	$ 12,055,364	$ 257,655	$ 64,016	$ 321,671	$ 192,884	$ 36,394	$ 229,278	$ (92,393)
TRANSMISSION PLANT								
Assigned Property								
365.20 Rights of Way	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
366.00 Meas. and Reg. Station Structures								
367.10 Mains - Steel	4,258,093	21,290	4,258	25,548	46,413	5,961	52,374	26,826
369.00 Measuring and Regulating Equipment	7,874,665	85,834	15,749	101,583	92,921	20,474	113,395	11,812
Total Assigned Property	$ 12,132,758	$ 107,124	$ 20,007	$ 127,131	$ 139,334	$ 26,435	$ 165,769	$ 38,638
Allocated Property								
365.20 Rights of Way								
District	$ 470	$ 2	$ -	$ 2	$ (21)	$ -	$ (21)	$ (23)
Maryland	803,227	12,852		12,852	11,245		11,245	(1,607)
Virginia	401,040	4,612		4,612	2,928		2,928	(1,684)
Total Account 365.20	$ 1,204,737	$ 17,466	$ -	$ 17,466	$ 14,152	$ -	$ 14,152	$ (3,314)
366.00 Meas. and Reg. Station Structures								
Maryland	$ 499,988	$ 1,650	$ 6,200	$ 7,850	$ 10,650	$ 5,050	$ 15,700	$ 7,850
Virginia	3,153,657	41,944	631	42,575	64,965	6,623	71,588	29,013
Total Account 366.00	$ 3,653,645	$ 43,594	$ 6,831	$ 50,425	$ 75,615	$ 11,673	$ 87,288	$ 36,863

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Schedule 5

Comparison of Current and SFAS 143 Accruals
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.35 Percent

	12/31/23	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	$ 1,833,775	$ 19,255	$ 1,834	$ 21,089	$ 30,441	$ 2,567	$ 33,008	$ 11,919
Maryland	11,899,374	171,351	(3,570)	167,781	198,720	(13,089)	185,631	17,850
Virginia	15,473,955	227,467	15,473	242,940	258,415	12,379	270,794	27,854
Total Account 367.10	$ 29,207,104	$ 418,073	$ 13,737	$ 431,810	$ 487,576	$ 1,857	$ 489,433	$ 57,623
369.00 Measuring and Regulating Equipment								
District	$ 599,848	$ (1,080)	$ 1,200	$ 120	$ (6,358)	$ 1,560	$ (4,798)	$ (4,918)
Maryland	13,331,810	38,662	319,963	358,625	(93,323)	998,553	905,230	546,605
Virginia	3,963,721	21,800		21,800	(36,466)	(196,204)	(232,670)	(254,470)
Total Account 369.00	$ 17,895,379	$ 59,382	$ 321,163	$ 380,545	$ (136,147)	$ 803,909	$ 667,762	$ 287,217
Total Allocated Property	$ 51,960,865	$ 538,515	$ 341,731	$ 880,246	$ 441,196	$ 817,439	$ 1,258,635	$ 378,389
Total Transmission Plant	$ 64,093,623	$ 645,639	$ 361,738	$ 1,007,377	$ 580,530	$ 843,874	$ 1,424,404	$ 417,027
DISTRIBUTION PLANT								
Assigned Property								
375.00 Structures and Improvements	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
376.10 Mains - Steel	96,886,105	842,909	377,856	1,220,765	1,036,681	600,694	1,637,375	416,610
376.20 Mains - Plastic	454,106,167	6,947,824	2,588,405	9,536,229	6,402,897	2,497,584	8,900,481	(635,748)
376.30 Mains - Cast Iron	6,002,962	(106,853)	68,434	(38,419)	(54,627)	112,856	58,229	96,648
378.00 Measuring and Regulating Equipment	11,225,235	121,233	12,348	133,581	205,422	26,941	232,363	98,782
380.10 Services - Steel	53,992,928	637,117	491,336	1,128,453	842,290	372,551	1,214,841	86,388
380.20 Services - Plastic	357,615,007	5,078,133	2,610,590	7,688,723	5,078,133	2,396,021	7,474,154	(214,569)
380.30 Services - Copper	3,030,970	(56,376)	44,252	(12,124)	(23,945)	42,130	18,185	30,309
381.20 Meters - Hard Case	23,438,610	733,628		733,628	785,193		785,193	51,565
381.30 Meters - Electronic Devices	2,491,253	59,541		59,541	114,847		114,847	55,306
381.50 Meters - Electronic Demand Recorders	852,990	(2,815)		(2,815)	(21,837)		(21,837)	(19,022)
382.00 Meter Installations	35,599,234	505,509	42,719	548,228	701,305	56,959	758,264	210,036
383.00 House Regulators	4,735,146	83,339	71,974	155,313	98,965	88,547	187,512	32,199
384.00 House Regulator Installations	3,728,682	56,303		56,303	61,150	4,474	65,624	9,321
386.20 Gas Lights	107,165	(107)	2,668	2,561	600	2,936	3,536	975
Total Assigned Property	$ 1,053,812,454	$ 14,899,385	$ 6,310,582	$ 21,209,967	$ 15,227,074	$ 6,201,693	$ 21,428,767	$ 218,800

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: 3.35 Percent

Account Description	12/31/23 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	170,682	6,571	(171)	6,400	5,752	597	6,349	(51)
Virginia	28,078	1,463	154	1,617	941	93	1,034	(583)
Total Account 378.00	$ 198,760	$ 8,034	$ (17)	$ 8,017	$ 6,693	$ 690	$ 7,383	$ (634)
Total Allocated Property	$ 198,760	$ 8,034	$ (17)	$ 8,017	$ 6,693	$ 690	$ 7,383	$ (634)
Total Distribution Plant	$ 1,054,011,214	$ 14,907,419	$ 6,310,565	$ 21,217,984	$ 15,233,767	$ 6,202,383	$ 21,436,150	$ 218,166
GENERAL PLANT								
Allocated Property (Depreciable)								
390.00 Structures and Improvements								
District	$ 607,056	$ 12,991	$ 1,275	$ 14,266	$ 11,898	$ 850	$ 12,748	$ (1,518)
Maryland	5,474,473	124,271	7,664	131,935	103,468	11,497	114,965	(16,970)
Virginia	20,131,767	394,583	40,264	434,847	384,517	40,264	424,781	(10,066)
Total Account 390.00	$ 26,213,296	$ 531,845	$ 49,203	$ 581,048	$ 499,883	$ 52,611	$ 552,494	$ (28,554)
Total Allocated Property (Depreciable)	$ 26,213,296	$ 531,845	$ 49,203	$ 581,048	$ 499,883	$ 52,611	$ 552,494	$ (28,554)

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Schedule 5

Comparison of Current and SFAS 143 Accruals
Current: VG Procedure / RL Technique
Updated: VG Procedure / RL Technique
Accretion Rate: 3.35 Percent

Account Description	12/31/23 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	$ 3,181,844	$ 636,369	$ -	$ 636,369	636,369	$ -	$ 636,369	$ -
303.06 Software (DC POR) - 10 year	762,920	76,292		76,292	76,292		76,292	
303.10 Software - 10 year	14,210,276	1,421,028		1,421,028	1,421,028		1,421,028	
391.10 Office Furniture and Equipment (DC POR)	7,234	362		362	362		362	
391.11 Office Furniture and Equipment	3,831,631	191,582		191,582	191,582		191,582	
391.21 Computer Equipment	1,902,016	271,798		271,798	271,798		271,798	
393.00 Stores Equipment	31,298	1,565		1,565	1,565		1,565	
394.00 Tools, Shop & Garage Equipment	2,286,711	114,336		114,336	114,336		114,336	
395.00 Laboratory Equipment	18,011	901		901	901		901	
397.10 Communication Equipment - Telephones	7,532,335							
397.20 ENSCAN Equipment	11,521,899	683,249		683,249	683,249		683,249	
398.00 Miscellaneous Equipment	414,859	27,671		27,671	27,671		27,671	
Total Assigned Property (Amortizable)	$ 45,701,034	$ 3,425,153	$ -	$ 3,425,153	$ 3,425,153	$ -	$ 3,425,153	$ -
Total General Plant	$ 71,914,330	$ 3,956,998	$ 49,203	$ 4,006,201	$ 3,925,036	$ 52,611	$ 3,977,647	$ (28,554)
TOTAL JURISDICTION	$ 1,202,074,531	$ 19,767,711	$ 6,785,522	$ 26,553,233	$ 19,932,217	$ 7,135,262	$ 27,067,479	$ 514,246

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Schedule 5

Depreciation Reserve Summary - SFAS 143

Accretion Rate: 3.35 Percent
December 31, 2023

Account	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)	$ 1,311,110	$ -		$ 409,445	$ 71,971	$ 481,416	$ 431,068	$ 75,771	$ 506,839	38.66%
	Virginia (Ravensworth)	1,183,946			406,797	79,805	486,602	428,280	84,020	512,300	43.27%
	Total Account 361.00	$ 2,495,056	$ 1,019,139	40.85%	$ 816,242	$ 151,776	$ 968,018	$ 859,348	$ 159,791	$ 1,019,139	40.85%
362.00	Gas Holders										
	Maryland (Rockville)	$ 4,460,885	$ -		$ 2,683,388	$ 488,685	$ 3,172,073	$ 3,310,114	$ 602,821	$ 3,912,935	87.72%
	Virginia (Ravensworth)	3,676,243			2,011,003	413,857	2,424,860	2,480,688	510,517	2,991,205	81.37%
	Total Account 362.00	$ 8,137,128	$ 6,904,140	84.85%	$ 4,694,391	$ 902,542	$ 5,596,933	$ 5,790,802	$ 1,113,338	$ 6,904,140	84.85%
363.50	Other Equipment										
	Maryland (Rockville)	$ 818,973	$ -		$ 131,303	$ (5,501)	$ 125,802	$ 271,149	$ (11,361)	$ 259,789	31.72%
	Virginia (Ravensworth)	604,207			122,186	(24,583)	97,603	252,321	(50,766)	201,555	33.36%
	Total Account 363.50	$ 1,423,180	$ 461,344	32.42%	$ 253,489	$ (30,084)	$ 223,405	$ 523,470	$ (62,126)	$ 461,344	32.42%
Total Allocated Property		$ 12,055,364	$ 8,384,623	69.55%	$ 5,764,122	$ 1,024,234	$ 6,788,355	$ 7,173,620	$ 1,211,003	$ 8,384,623	69.55%
Total Storage and Processing Plant		$ 12,055,364	$ 8,384,623	69.55%	$ 5,764,122	$ 1,024,234	$ 6,788,355	$ 7,173,620	$ 1,211,003	$ 8,384,623	69.55%
TRANSMISSION PLANT											
Assigned Property											
365.20	Rights of Way	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	
366.00	Meas. and Reg. Station Structures		(617)								
367.10	Mains - Steel	4,258,093	2,358,062	55.38%	753,626	72,479	826,105	1,960,776	72,479	2,033,255	47.75%
369.00	Measuring and Regulating Equipment	7,874,665	2,890,627	36.71%	1,146,821	159,349	1,306,170	3,055,468	159,349	3,214,817	40.82%
Total Assigned Property		$ 12,132,758	$ 5,248,072	43.26%	$ 1,900,447	$ 231,828	$ 2,132,275	$ 5,016,244	$ 231,828	$ 5,248,072	43.26%
Allocated Property											
365.20	Rights of Way										
	District	$ 470	$ -		$ 440	$ -	$ 440	$ 579	$ -	$ 579	123.27%
	Maryland	803,227			261,069		261,069	343,965		343,965	42.82%
	Virginia	401,040			236,277		236,277	311,302		311,302	77.62%
	Total Account 365.20	$ 1,204,737	$ 655,846	54.44%	$ 497,786	$ -	$ 497,786	$ 655,846	$ -	$ 655,846	54.44%
366.00	Meas. and Reg. Station Structures										
	Maryland	$ 499,988	$ -		$ 210,177	$ (6,804)	$ 203,373	$ 189,066	$ (6,121)	$ 182,946	36.59%
	Virginia	3,153,657			765,286	76,529	841,814	688,418	68,842	757,260	24.01%
	Total Account 366.00	$ 3,653,645	$ 940,206	25.73%	$ 975,463	$ 69,724	$ 1,045,187	$ 877,485	$ 62,721	$ 940,206	25.73%
367.10	Mains - Steel										
	District	$ 1,833,775	$ -		$ 324,554	$ 31,214	$ 355,767	$ 320,056	$ 31,214	$ 351,270	19.16%
	Maryland	11,899,374			2,052,711	3,015,739	5,068,450	2,026,762	2,977,615	5,004,376	42.06%
	Virginia	15,473,955			2,160,476	2,068,137	4,228,613	2,133,163	2,041,992	4,175,156	26.98%
	Total Account 367.10	$ 29,207,104	$ 9,530,802	32.63%	$ 4,537,741	$ 5,115,090	$ 9,652,831	$ 4,479,981	$ 5,050,821	$ 9,530,802	32.63%
369.00	Measuring and Regulating Equipment										
	District	$ 599,848	$ -		$ 87,358	$ 12,138	$ 99,497	$ 930,595	$ 12,138	$ 942,733	157.16%
	Maryland	13,331,810			1,919,340	(2,619,690)	(700,350)	18,185,773	(24,821,597)	(6,635,824)	-49.77%
	Virginia	3,963,721			615,399	616,553	1,231,952	5,830,916	5,841,851	11,672,767	294.49%
	Total Account 369.00	$ 17,895,379	$ 5,979,676	33.41%	$ 2,622,097	$ (1,990,998)	$ 631,099	$ 24,947,283	$ (18,967,607)	$ 5,979,676	33.41%
Total Allocated Property		$ 51,960,865	$ 17,106,530	32.92%	$ 8,633,087	$ 3,193,816	$ 11,826,903	$ 30,960,596	$ (13,854,066)	$ 17,106,530	32.92%
Total Transmission Plant		$ 64,093,623	$ 22,354,602	34.88%	$ 10,533,534	$ 3,425,644	$ 13,959,179	$ 35,976,840	$ (13,622,238)	$ 22,354,602	34.88%

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Schedule 5

Depreciation Reserve Summary - SFAS 143

Accretion Rate: 3.35 Percent
December 31, 2023

	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	$ -	$ 6,901,348		$ -	$ -	$ -	$ -	$ -	$ -	
376.10	Mains - Steel	96,886,105	57,624,364	59.48%	34,422,294	12,630,394	47,052,688	43,564,976	12,630,394	56,195,370	58.00%
376.20	Mains - Plastic	454,106,167	115,809,363	25.50%	78,116,305	27,612,584	105,728,889	98,660,203	27,612,584	126,272,787	27.81%
376.30	Mains - Cast Iron	6,002,962	6,301,728	104.98%	5,108,889	3,139,458	8,248,347	6,711,603	3,139,458	9,851,061	164.10%
378.00	Measuring and Regulating Equipment	11,225,235	7,022,939	62.56%	3,570,837	302,193	3,873,030	4,323,395	302,193	4,625,588	41.21%
380.10	Services - Steel	53,992,928	(7,227,772)	-13.39%	8,772,631	3,623,181	12,395,813	11,181,228	3,623,181	14,804,410	27.42%
380.20	Services - Plastic	357,615,007	173,693,884	48.57%	83,018,755	32,377,823	115,396,578	105,441,155	32,377,823	137,818,978	38.54%
380.30	Services - Copper	3,030,970	4,798,254	158.31%	2,550,977	1,084,915	3,635,892	3,257,458	1,084,915	4,342,373	143.27%
381.20	Meters - Hard Case	23,438,610	3,965,240	16.92%	9,583,989		9,583,989	11,446,228		11,446,228	48.83%
381.30	Meters - Electronic Devices	2,491,253	50,039	2.01%	768,377		768,377	917,679		917,679	36.84%
381.50	Meters - Electronic Demand Recorders	852,990	592,306	69.44%	772,685		772,685	922,823		922,823	108.19%
382.00	Meter Installations	35,599,234	12,346,701	34.68%	8,646,065	505,374	9,151,439	10,424,257	505,374	10,929,631	30.70%
383.00	House Regulators	4,735,146	1,870,032	39.49%	1,954,308	1,194,630	3,148,938	2,566,170	1,194,630	3,760,800	79.42%
384.00	House Regulator Installations	3,728,682	1,078,046	28.91%	974,797	54,447	1,029,244	1,174,787	54,447	1,229,234	32.97%
386.20	Gas Lights	107,165	118,482	110.56%	72,534	59,148	131,681	98,120	59,148	157,268	146.75%
Total Assigned Property		$ 1,053,812,454	$ 384,944,954	36.53%	$ 238,333,444	$ 82,584,148	$ 320,917,591	$ 300,690,083	$ 82,584,148	$ 383,274,231	28.53%
Allocated Property											
375.00	Structures and Improvements										
	District	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	
	Maryland										
	Virginia										
	Total Account 375.00	$ -	$ (39,753)		$ -	$ -	$ -	$ -	$ -	$ -	
377.00	Compressor Station Equipment										
	District	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	
	Maryland										
	Virginia										
	Total Account 377.00	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	
378.00	Measuring and Regulating Equipment										
	District	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	
	Maryland	170,682			62,354	4,935	67,289	24,949	1,975	26,923	15.77%
	Virginia	28,078			9,065	849	9,914	3,627	340	3,967	14.13%
	Total Account 378.00	$ 198,760	$ 70,643	35.54%	$ 71,419	$ 5,785	$ 77,203	$ 28,575	$ 2,315	$ 30,890	15.54%
Total Allocated Property		$ 198,760	$ 30,890	15.54%	$ 71,419	$ 5,785	$ 77,203	$ 28,575	$ 2,315	$ 30,890	15.54%
Total Distribution Plant		$ 1,054,011,214	$ 384,975,844	36.52%	$ 238,404,862	$ 82,589,933	$ 320,994,795	$ 300,718,658	$ 82,586,462	$ 383,305,121	36.37%
GENERAL PLANT											
Allocated Property (Depreciable)											
390.00	Structures and Improvements										
	District	$ 607,056	$ -		$ 124,411	$ 19,966	$ 144,377	$ 152,465	$ 19,966	$ 172,430	28.40%
	Maryland	5,474,473			1,198,158	350,737	1,548,894	1,430,968	418,888	1,849,856	33.79%
	Virginia	20,131,767			3,595,964	326,525	3,922,489	4,294,686	389,971	4,684,657	23.27%
	Total Account 390.00	$ 26,213,296	$ 4,836,555	18.45%	$ 4,918,533	$ 697,227	$ 5,615,760	$ 5,878,119	$ 828,824	$ 6,706,943	25.59%
Total Allocated Property (Depreciable)		$ 26,213,296	$ 4,836,555	18.45%	$ 4,918,533	$ 697,227	$ 5,615,760	$ 5,878,119	$ 828,824	$ 6,706,943	25.59%

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA
Depreciation Reserve Summary - SFAS 143

Accretion Rate: 3.35 Percent
December 31, 2023

		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	$ 3,181,844	$ 2,432,114	76.44%	$ 2,585,951	$ -	$ 2,585,951	$ 2,585,951	$ -	$ 2,585,951	81.27%
303.06	Software (DC POR) - 10 year	762,920	371,918	48.75%	343,314		343,314	343,314		343,314	45.00%
303.10	Software - 10 year	14,210,276	12,569,180	88.45%	9,236,680		9,236,680	9,236,680		9,236,680	65.00%
391.10	Office Furniture and Equipment (DC POR)	7,234	3,501	48.40%	1,628		1,628	1,628		1,628	22.50%
391.11	Office Furniture and Equipment	3,831,631	1,290,530	33.68%	1,705,647		1,705,647	1,705,647		1,705,647	44.51%
391.21	Computer Equipment	1,902,016	1,615,555	84.94%	1,610,056		1,610,056	1,610,056		1,610,056	84.65%
393.00	Stores Equipment	31,298	22,803	72.86%	23,435		23,435	23,435		23,435	74.88%
394.00	Tools, Shop & Garage Equipment	2,286,711	559,414	24.46%	1,211,963		1,211,963	1,211,963		1,211,963	53.00%
395.00	Laboratory Equipment	18,011	15,852	88.01%	17,211		17,211	17,211		17,211	95.56%
397.10	Communication Equipment - Telephones	7,532,335	2,926,614	38.85%	3,919,733		3,919,733	3,919,733		3,919,733	52.04%
397.20	ENSCAN Equipment	11,521,899	5,784,387	50.20%	6,754,352		6,754,352	6,754,352		6,754,352	58.62%
398.00	Miscellaneous Equipment	414,859	263,184	63.44%	245,417		245,417	245,417		245,417	59.16%
Total Assigned Property (Amortizable)		$ 45,701,034	$ 27,855,052	60.95%	$ 27,655,387	$ -	$ 27,655,387	$ 27,655,387	$ -	$ 27,655,387	60.51%
Total General Plant		$ 71,914,330	$ 32,691,607	45.46%	$ 32,573,920	$ 697,227	$ 33,271,147	$ 33,533,506	$ 828,824	$ 34,362,330	47.78%
TOTAL JURISDICTION		$ 1,202,074,531	$ 448,406,676	37.30%	$ 287,276,438	$ 87,737,038	$ 375,013,476	$ 377,402,624	$ 71,004,052	$ 448,406,676	37.30%

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA

Schedule 5

Net Salvage Accrual Rates - SFAS 143

Accretion Rate (r): 3.35 Percent

Account Description	12/31/23 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)	$ 1,311,110	$ -	$ -	47.36	0.44%		0.44%
Virginia (Ravensworth)	1,183,946			46.13	0.42%		0.42%
Total Account 361.00	$ 2,495,056	$ -	$ -	46.77	0.43%		0.43%
362.00 Gas Holders							
Maryland (Rockville)	$ 4,460,885	$ -	$ -	58.55	0.27%		0.27%
Virginia (Ravensworth)	3,676,243			47.42	0.29%		0.29%
Total Account 362.00	$ 8,137,128	$ -	$ -	52.94	0.28%		0.28%
363.50 Other Equipment							
Maryland (Rockville)	$ 818,973	$ -	$ -	35.49	0.05%		0.05%
Virginia (Ravensworth)	604,207			25.17	0.42%		0.42%
Total Account 363.50	$ 1,423,180	$ -	$ -	30.23	0.21%		0.21%
Total Allocated Property	$ 12,055,364	$ -	$ -	47.43	0.30%		0.30%
Total Storage and Processing Plant	$ 12,055,364	$ -	$ -	47.43	0.30%		0.30%
TRANSMISSION PLANT							
Assigned Property							
365.20 Rights of Way	$ -	$ -	$ -				
366.00 Meas. and Reg. Station Structures							
367.10 Mains - Steel	4,258,093	88,415	145,313	60.40	0.03%	0.11%	0.14%
369.00 Measuring and Regulating Equipment	7,874,665	327,021	441,139	60.70	0.07%	0.19%	0.26%
Total Assigned Property	$ 12,132,758	$ 415,436	$ 586,452	60.59	0.06%	0.16%	0.22%
Allocated Property							
365.20 Rights of Way							
District	$ 470	$ -	$ -	80.96		$ -	$ -
Maryland	803,227			60.58			
Virginia	401,040			74.92			
Total Account 365.20	$ 1,204,737	$ -	$ -	64.71			
366.00 Meas. and Reg. Station Structures							
Maryland	$ 499,988	$ 17,250	$ 93,326	50.48	0.38%	0.63%	1.01%
Virginia	3,153,657			50.11	0.21%		0.21%
Total Account 366.00	$ 3,653,645	$ 17,250	$ 93,326	50.16	0.23%	0.09%	0.32%

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Schedule 5

Net Salvage Accrual Rates - SFAS 143

Accretion Rate (r): 3.35 Percent

Account Description		12/31/23 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
367.10	Mains - Steel							
	District	$ 1,833,775	$ 38,077	$ 62,580	60.40	0.03%	0.11%	0.14%
	Maryland	11,899,374			59.94	-0.11%		-0.11%
	Virginia	15,473,955			60.02	0.08%		0.08%
	Total Account 367.10	$ 29,207,104	$ 38,077	$ 62,580	60.01	0.00%	0.01%	0.01%
369.00	Measuring and Regulating Equipment							
	District	$ 599,848	$ 24,911	$ 33,603	60.70	0.07%	0.19%	0.26%
	Maryland	13,331,810			60.50	7.49%		7.49%
	Virginia	3,963,721			60.48	-4.95%		-4.95%
	Total Account 369.00	$ 17,895,379	$ 24,911	$ 33,603	60.50	4.49%	0.01%	4.49%
Total Allocated Property		$ 51,960,865	$ 80,238	$ 189,509	59.46	1.56%	0.01%	1.57%
Total Transmission Plant		$ 64,093,623	$ 495,674	$ 775,961	59.67	1.28%	0.04%	1.32%
DISTRIBUTION PLANT								
Assigned Property								
375.00	Structures and Improvements	$ -	$ -	$ -				
376.10	Mains - Steel	96,886,105	5,203,378	15,982,376	80.02	0.07%	0.55%	0.62%
376.20	Mains - Plastic	454,106,167	37,446,949	58,587,350	66.91	0.12%	0.43%	0.55%
376.30	Mains - Cast Iron	6,002,962	448,249	3,214,995	87.15	0.09%	1.79%	1.88%
378.00	Measuring and Regulating Equipment	11,225,235	382,123	581,849	49.26	0.07%	0.17%	0.24%
380.10	Services - Steel	53,992,928	5,605,574	8,352,353	60.87	0.17%	0.52%	0.69%
380.20	Services - Plastic	357,615,007	31,498,925	56,519,568	64.83	0.14%	0.53%	0.67%
380.30	Services - Copper	3,030,970	247,365	1,126,872	59.61	0.14%	1.25%	1.39%
381.20	Meters - Hard Case	23,438,610			25.85			
381.30	Meters - Electronic Devices	2,491,253			19.81			
381.50	Meters - Electronic Demand Recorders	852,990			33.99			
382.00	Meter Installations	35,599,234	807,899	1,138,831	47.35	0.05%	0.11%	0.16%
383.00	House Regulators	4,735,146	1,049,095	1,812,984	37.41	0.59%	1.28%	1.87%
384.00	House Regulator Installations	3,728,682	62,901	102,198	56.42	0.03%	0.09%	0.12%
386.20	Gas Lights	107,165	28,677	69,361	46.85	0.57%	2.17%	2.74%
Total Assigned Property		$ 1,053,812,454	$ 82,781,134	$ 147,488,736	62.90	0.12%	0.47%	0.59%

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Schedule 5

Net Salvage Accrual Rates - SFAS 143

Accretion Rate (r): 3.35 Percent

Account Description	12/31/23 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
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	170,682			39.91	0.35%		0.35%
Virginia	28,078			38.44	0.33%		0.33%
Total Account 378.00	$ 198,760	$ -	$ -	39.70	0.35%		0.35%
Total Allocated Property	$ 198,760	$ -	$ -	39.70	0.35%		0.35%
Total Distribution Plant	$ 1,054,011,214	$ 82,781,134	$ 147,488,736	62.90	0.12%	0.47%	0.59%
GENERAL PLANT							
Allocated Property (Depreciable)							
390.00 Structures and Improvements							
District	$ 607,056	$ 11,684	$ 17,438	48.16	0.04%	0.10%	0.14%
Maryland	5,474,473	72,902	214,202	49.94	0.08%	0.13%	0.21%
Virginia	20,131,767			50.05	0.20%		0.20%
Total Account 390.00	$ 26,213,296	$ 84,586	$ 231,641	49.98	0.17%	0.03%	0.20%
Total Allocated Property (Depreciable)	$ 26,213,296	$ 84,586	$ 231,641	49.98	0.17%	0.03%	0.20%
Assigned Property (Amortizable)							
303.05 Software - 5 year	$ 3,181,844	$ -	$ -	5.00			
303.06 Software (DC POR) - 10 year	762,920			10.00			
303.10 Software - 10 year	14,210,276			10.00			
391.10 Office Furniture and Equipment (DC POR)	7,234			20.00			
391.11 Office Furniture and Equipment	3,831,631			20.00			
391.21 Computer Equipment	1,902,016			7.00			

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA

Schedule 5

Net Salvage Accrual Rates - SFAS 143

Accretion Rate (r): 3.35 Percent

Account Description	12/31/23 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
393.00 Stores Equipment	31,298			20.00			
394.00 Tools, Shop & Garage Equipment	2,286,711			20.00			
395.00 Laboratory Equipment	18,011			15.00			
397.10 Communication Equipment - Telephones	7,532,335			18.00			
397.20 ENSCAN Equipment	11,521,899			18.00			
398.00 Miscellaneous Equipment	414,859			15.00			
Total Assigned Property (Amortizable)	$ 45,701,034	$ -	$ -	12.02			
Total General Plant	$ 71,914,330	$ 84,586	$ 231,641	16.63	0.06%	0.01%	0.07%
TOTAL JURISDICTION	$ 1,202,074,531	$ 83,361,394	$ 148,496,338	53.64	0.18%	0.41%	0.59%

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA

Schedule 5

Current and Proposed Parameters
Vintage Group Procedure

		Current Parameters						Proposed Parameters					
	Account Description	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.
	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	46.05	31.91	-32.2	-31.0	45.00	R4	47.36	32.57	-21.1	-20.0
	Virginia (Ravensworth)	45.00	R4	45.97	28.58	-20.3	-20.0	45.00	R4	46.13	30.28	-20.2	-20.0
	Total Account 361.00									46.77	31.47	-20.7	-20.0
362.00	Gas Holders												
	Maryland (Rockville)	45.00	R3	48.61	23.71	-32.6	-31.0	45.00	R4	58.55	23.33	-22.7	-20.0
	Virginia (Ravensworth)	45.00	R4	46.32	23.08	-19.1	-20.0	45.00	R4	47.42	21.48	-19.3	-20.0
	Total Account 362.00									52.94	22.40	-21.2	-20.0
363.50	Other Equipment												
	Maryland (Rockville)	15.00	O3	15.78	14.61	-0.6		35.00	L0	35.49	29.80	-0.8	
	Virginia (Ravensworth)	35.00	L0	35.73	30.92	-19.0		25.00	L1.5	25.17	20.08	-5.1	
	Total Account 363.50									30.23	24.84	-2.6	
Total Allocated Property										47.43	24.75	-18.9	-17.6
Total Storage and Processing Plant										47.43	24.75	-18.9	-17.6
TRANSMISSION PLANT													
Assigned Property													
365.20	Rights of Way												
366.00	Meas. and Reg. Station Structures												
367.10	Mains - Steel	80.00	R3	80.51	58.54	97.3	-15.0	60.00	R4	60.40	49.71	124.3	-15.0
369.00	Measuring and Regulating Equipment	50.00	S3	50.14	39.30	-72.9	-15.0	60.00	L0.5	60.70	51.86	-91.8	-30.0
Total Assigned Property										60.59	51.10	78.8	-21.3
Allocated Property													
365.20	Rights of Way												
	District	60.00	R3	73.48	7.71			60.00	R3	80.96	5.21		
	Maryland	60.00	R3	60.39	42.77			60.00	R3	60.58	40.89		
	Virginia	60.00	R3	77.71	34.78			60.00	R4	74.92	30.78		
	Total Account 365.20									64.71	37.97		
366.00	Meas. and Reg. Station Structures												
	Maryland	43.00	S4	43.01	28.20	-20.2		50.00	R3	50.48	29.26	-19.6	-10.0
	Virginia	50.00	R3	50.06	41.61	-7.7	-10.0	50.00	R3	50.11	37.95	-10.0	-10.0
	Total Account 366.00									50.16	36.77	-11.3	-10.0

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Schedule 5

Current and Proposed Parameters

Vintage Group Procedure

	Account Description	Current Parameters						Proposed Parameters					
		P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.
	A	B	C	D	E	F	G	H	I	J	K	L	M
367.10	Mains - Steel												
	District	80.00	R3	80.51	58.54	97.3	-15.0	60.00	R4	60.40	49.71	124.3	-15.0
	Maryland	60.00	R3	59.98	44.15	1.5		60.00	R4	59.94	49.60	12.5	-15.0
	Virginia	60.00	R4	60.04	45.70	-7.3	-15.0	60.00	R4	60.02	51.64	-1.9	-15.0
	Total Account 367.10									60.01	50.69	11.9	-15.0
369.00	Measuring and Regulating Equipment												
	District	50.00	S3	50.14	39.30	-72.9	-15.0	60.00	L0.5	60.70	51.86	-91.8	-30.0
	Maryland	45.00	R2	45.32	36.51	-33.3	-11.0	60.00	L0.5	60.50	51.79	-58.0	-30.0
	Virginia	60.00	L0.5	60.39	50.89	-28.3	-30.0	60.00	L0.5	60.48	51.09	-17.1	-30.0
	Total Account 369.00									60.50	51.64	-50.1	-30.0
Total Allocated Property										59.46	49.58	-11.4	-19.5
Total Transmission Plant										59.67	49.86	-11.4	-19.5
DISTRIBUTION PLANT													
Assigned Property													
375.00	Structures and Improvements												
376.10	Mains - Steel	80.00	R3	79.92	49.16	-69.3	-50.0	80.00	R3	80.02	51.59	-75.6	-75.0
376.20	Mains - Plastic	55.00	R4	54.84	41.69	-51.6	-50.0	67.00	R3.5	66.91	55.40	-75.6	-75.0
376.30	Mains - Cast Iron	70.00	R2.5	83.43	15.19	-43.6	-50.0	70.00	R2.5	87.15	12.98	-73.1	-75.0
378.00	Measuring and Regulating Equipment	80.00	L1.5	80.46	61.49	-20.1	-20.0	45.00	L0	49.26	33.59	-16.0	-15.0
380.10	Services - Steel	50.00	SC	54.49	32.85	-82.9	-60.0	60.00	S-.5	60.87	50.98	-155.9	-75.0
380.20	Services - Plastic	55.00	L2	54.95	39.03	-60.1	-60.0	65.00	R2.5	64.83	49.78	-76.8	-75.0
380.30	Services - Copper	55.00	R3	57.48	12.72	-53.0	-60.0	55.00	R3	59.61	9.44	-44.1	-50.0
381.20	Meters - Hard Case	24.00	S1	23.90	14.63	0.8		25.00	R1	25.85	15.28	0.2	
381.30	Meters - Electronic Devices	18.00	L3	19.10	8.09			19.00	L2	19.81	13.70		
381.50	Meters - Electronic Demand Recorders	22.00	R3	24.55	6.62			22.00	R3	33.99	3.20		
382.00	Meter Installations	63.00	R0.5	63.92	52.26	-15.1	-15.0	45.00	L0	47.35	35.85	-9.6	-10.0
383.00	House Regulators	40.00	R4	40.14	27.32	-75.9	-75.0	37.00	R4	37.41	21.97	-75.4	-75.0
384.00	House Regulator Installations	54.00	SC	56.63	41.74	-1.0		54.00	SC	56.42	41.67	-13.0	-10.0
386.20	Gas Lights	40.00	R1	44.53	17.99	-169.5	-100.0	40.00	R1	46.85	15.14	-173.4	-100.0
Total Assigned Property										62.90	48.68	-73.7	-70.0

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA

Schedule 5

Current and Proposed Parameters
Vintage Group Procedure

		Current Parameters						Proposed Parameters					
	Account Description	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.
	A	B	C	D	E	F	G	H	I	J	K	L	M
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	56.30	36.52	-7.6	-1.0	35.00	L0	39.91	25.33	-11.2	-10.0
	Virginia	35.00	L0	38.18	26.16	-9.1	-10.0	35.00	L0	38.44	26.03	-10.3	-10.0
	Total Account 378.00									39.70	25.43	-11.1	-10.0
Total Allocated Property										39.70	25.43	-11.1	-10.0
Total Distribution Plant										62.90	48.67	-11.1	-10.0
GENERAL PLANT													
Allocated Property (Depreciable)													
390.00	Structures and Improvements												
	District	40.00	S4	36.58	26.17	-50.4	-10.0	50.00	R2	48.16	38.29	-39.3	-10.0
	Maryland	37.00	R1	37.56	27.47	-4.0		50.00	R2	49.94	39.01	-4.6	-10.0
	Virginia	50.00	R2	49.97	47.58	-10.2	-10.0	50.00	R2	50.05	41.11	-10.2	-10.0
	Total Account 390.00									49.98	40.60	-9.7	-10.0
Total Allocated Property (Depreciable)										49.98	40.60	-9.7	-10.0

WASHINGTON GAS LIGHT COMPANY - DISTRICT OF COLUMBIA Schedule 5

Current and Proposed Parameters

Vintage Group Procedure

	Current Parameters						Proposed Parameters					
Account Description	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.
A	B	C	D	E	F	G	H	I	J	K	L	M
Assigned Property (Amortizable)												
303.05 Software - 5 year	5.00	SQ	5.00	2.86			5.00	SQ	5.00	1.00		
303.06 Software (DC POR) - 10 year	10.00	SQ	10.00	3.36			10.00	SQ	10.00	5.50		
303.10 Software - 10 year	10.00	SQ	10.00	3.36			10.00	SQ	10.00	3.50		
391.10 Office Furniture and Equipment (DC POR)	20.00	SQ	20.00	12.17			20.00	SQ	20.00	15.50		
391.11 Office Furniture and Equipment	20.00	SQ	20.00	12.17			20.00	SQ	20.00	11.10		
391.21 Computer Equipment	7.00	SQ	7.00	3.32			7.00	SQ	7.00	1.07		
393.00 Stores Equipment	20.00	SQ	20.00	8.59			20.00	SQ	20.00	5.02		
394.00 Tools, Shop & Garage Equipment	20.00	SQ	20.00	9.71			20.00	SQ	20.00	9.40		
395.00 Laboratory Equipment	20.00	SQ	20.00	6.58			15.00	SQ	15.00	2.74		
397.10 Communication Equipment - Telephones	15.00	SQ	15.00	9.72			18.00	SQ	18.00	8.63		
397.20 ENSCAN Equipment	18.00	SQ	18.00	8.36			18.00	SQ	18.00	7.45		
398.00 Miscellaneous Equipment	15.00	SQ	15.00	10.94			15.00	SQ	15.00	6.13		
Total Assigned Property (Amortizable)									12.02	4.76		
Total General Plant									16.63	9.11	-3.5	-3.6
TOTAL JURISDICTION									53.64	40.82	-7.9	-10.9

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

November 20, 2025

FORMAL CASE NO. 1180, IN THE MATTER OF THE APPLICATION OF WASHINGTON GAS LIGHT COMPANY FOR AUTHORITY TO INCREASE EXISTING RATES AND CHARGES FOR GAS SERVICE,

DISSENT OF COMMISSIONER BEVERLY TO ORDER NO. 22741

1. In past utility rate cases, I have urged the Commission to rigorously review any request for a rate increase so that the captive customers of a monopoly service only pay rates that are reasonable and necessary. It should come as no surprise that my approach is the same in this case.

2. Determining the Company's revenue requirement can be expressed as a simple formula: (Ratebase x Rate of Return) + Expenses. The largest portion of the increase in rates approved in this Order comes from a staggering increase to ratebase. The majority has approved a 35% increase, from the $580.4 million approved in *Formal Case No. 1169* to $782.9 million.[1] About half of the addition to ratebase (or about $100 million) is attributable to the PIPES program, which has consistently been criticized as both inexplicably slow and inordinately expensive. This comes on top of the over $100 million increase to ratebase approved in *Formal Case No. 1169* only two years ago.[2] When you add the increase from *Formal Case No. 1169* to the increase the majority is approving now, WGL's ratebase has ballooned 70% in just two years.[3]

3. PIPES program costs are rolled into ratebase and the Commission said that it would conduct a prudency review of those costs in the next rate case.[4] The Commission gave no

[1] I have not seen a useful list of the individual plant that have been added into service since the last rate case. WGL's supplemental testimony submitted November 4, 2024, contains a partial list of plant with very little description, and lacks sufficient information for me to determine the prudence of the plant expenditures. There is also no documentation that the plant is used and useful and serving District (rather than Maryland or Virginia) ratepayers.

[2] I note that WGL's last rate increase in Maryland was only a fraction of what this Commission awarded the Company in *Formal Case No. 1169*, even though only about 16% of WGL's total sales are in the District compared with about 44% in Maryland. WGL's DC ratebase of $783 million is now over 55% of the approved rate base for WGL in Maryland, despite WGL's footprint in DC being about 36% of the footprint in Maryland.

[3] In ¶ 202, the majority states: "[OPC] even acknowledges that the infrastructure constructed in these projects is used and useful." However, the cost can be exorbitant even if the infrastructure is used and useful, and the infrastructure is not necessarily used and useful when it consists of abandoned pipes.

[4] In Order No. 22294, ¶ 8, in *Formal Case No. 1154,* the majority stated: "As noted in Order No. 20671, denying any specific project only denies accelerated cost recovery, and approving a project does not determine whether the investment was prudent. We will assess the prudence of the investment in a future base rate case when WGL seeks to recover these costs through base rates." I dissented from the Order but do not disagree with this statement.

prior notice as to how it would conduct a prudency review, and instead, the majority appears to be using the PIPES management audit as a substitute. The problem with that approach is that it conflates a management audit (performed by a Company-hired auditor to review ways in which the Company's management team can improve performance) with a Commission prudence review whose purpose is to ensure that only just and reasonable costs are passed on to ratepayers. While both reviews may involve the same information, a management audit does not determine what's in the public interest. Suggesting that infrastructure investments are prudent simply because they are beneficial to the Company indirectly weakens our oversight and falls far short of what I consider to be a rigorous review of a rate case application. This problem is exacerbated by using the management audit as a substitute for a prudency review with no prior notice to the parties and no opportunity to object.[5]

4. Additionally, it is not clear whether certain capital expenditures already incurred by ratepayers may have been collected a second time and subsequently rolled into ratebase from the PIPES cases, with the Company earning a rate of return on them. For instance, the majority has approved an addition of $13.6 million in costs to ratebase for abandoning pipes under the PIPES program.[6] DCG questioned this practice in *Formal Case No. 1154*, when they pointed out that a large number of WGL's pipe list projects were abandonment-only, noting that such expenses were inappropriate to include in the PIPES surcharge. I shared DCG's concerns, so my office reviewed the regular filings by the Company. The costs of removal of pipes under the PIPES program, for both pipes that are being replaced and retired, are already calculated in the depreciation rates paid by ratepayers for those pipes.[7] I do not see any documentation or Commission explanation showing that the removal costs have been disaggregated and/or trued up against what ratepayers have already paid through depreciation. Without clarity on these issues, it is not possible for me to verify the value of the Company's ratebase. It is also not clear to me that abandoned pipes have been removed from ratebase at the same time that the costs of their removal have been added into it.

5. The Accumulated Deferred Income Tax ("ADIT") is another problem. One piece of information missing from the record is an IRS letter ruling specific to WGL and the potential tax normalization violation that they have flagged in this rate case. Although recent IRS tax rulings give WGL good reason to believe that they have a normalization violation, these rulings by their own terms are not precedential and do not substitute for an IRS ruling specific to WGL. The majority, in this Order, acts to add WGL's net operating loss carryforward ("NOLC") into ratebase prior to the Company requesting an IRS ruling. I don't have a particular problem with this approach in concept, but I do have a problem with the assumption built into it. Even if WGL gets a PLR ruling finding a normalization violation, the evidentiary record does not include sufficient documentation to determine the magnitude of the NOLC balance that may have been inappropriately removed from the ratebase. In order to make such a determination, the

5 This lack of oversight is further exacerbated by the Commission limiting the concept of a prudency review to cost variances, apparently without regard to whether any of the actual project costs are reasonable.

6 ¶ 241.

7 In this Order, for example, the majority reviews the cost of removal portion of WGL's depreciation study and calculation.

Commission may need to scrutinize each tax transaction between WGL and its affiliates since the origin of the potential normalization violation. Otherwise, the Commission is simply taking WGL's word for the NOLC balance to be placed onto the backs of ratepayers.

6. The rate of return approved by the majority in this proceeding is, in my view, significantly higher than WGL's cost of capital. I believe it's time to consider gradually reducing the return on equity ("RoE") to be closer to a reasonable estimate of WGL's cost of equity, relying on its market-to-book ratio, rather than pegging the number to a group of handpicked utilities that also have inflated RoE.

7. Turning to WGL's affiliate transactions, I find them both voluminous and opaque. The only difference between this case and the application filed under *Formal Case No. 1169* is the requirement of WGL to file an ACOSS. The majority has determined that WGL's ACOSS is adequate because it "includes comprehensive information on the issues agreed upon by the parties in the Joint Report."[8] As the majority notes in paragraph 86, AOBA and WGL agreed in their joint report that the ACOSS would include: "each individual inbound and outbound charge separately."[9] However, I cannot find, nor does the majority identify, anything in the ACOSS that includes individual inbound and outbound charges,[10] as AOBA has pointed out throughout this proceeding.[11]

8. Unlike the Virginia SCC, this Commission has not approved the service agreements between WGL and its affiliates. In order to verify WGL's expenses, this Commission would need to review individual transactions between WGL and each of its affiliates for the test year, (in both directions, not netted). Since WGL has provided "pools" rather than individual transactions, there is not enough evidence in the record to substantiate WGL's expenses, to determine their prudence, or whether services have been provided at a reasonable cost. Instead of requiring WGL to provide this information, the majority shifted the burden of persuasion onto AOBA, stating: "AOBA could not identify particular problematic transactions," and "[t]he Commission is not persuaded that AOBA presented a serious doubt that WGL's affiliate

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[8] ¶ 87.

[9] *Formal Case No. 1169,* Joint Report on Washington Gas Light Company's Affiliate Cost of Service Study. July 26, 2024.

[10] Instead, the majority concludes in N. 213 that it does not need to review individual outbound charges because it believes they do not impact the cost of service. It is troubling to me that the majority thinks the charges the Company incurs to provide services to its regulated and un-regulated affiliates in other jurisdictions are unrelated to the cost of service to our ratepayers.

[11] AOBA Direct Testimony of Timothy B. Oliver, January 24, 2025, at 41-42: "The Company's most recent CAM, filed with this Commission by Washington Gas on April 30, 2024, identifies more than 30 affiliated entities (including a significant number of AltaGas affiliates that are outside of the WGL Holdings corporate umbrella) for which Washington Gas Light Company has contracted to provide services. Those categories of services represent a wide range of activities that Washington Gas may be called upon to provide. Yet, nothing in the Company's development and presentation of its revenue requirements for this proceeding clearly documents any adjustments to Washington Gas Light Company's 'per books' costs and revenues to reflect allocations or assignments of costs the Company has incurred to provide services to affiliated entities or reflect payments (i.e., revenues) received from such entities."

transactions are questionable, unsupported, or deficient."[12] In other words, it's AOBA's fault that WGL didn't give them enough information to examine WGL's individual affiliate transactions. Just as AOBA doesn't have enough information to examine WGL's affiliate transactions, I don't have it either.

9. It's difficult to reconcile this approach with the majority's language in Order No. 22446, where WGL's affiliate transactions were the subject of a material issue of fact in dispute. Specifically, the majority stated:

> This dispute constitutes a factual issue because determining whether affiliate charges contain actual costs incurred requires objective examination of documented cost allocation methodologies, expense records, and billing calculations that can be "proven true or false through objective evidence." Unlike a general policy debate over cost allocation, this disagreement centers on concrete accounting evidence that can be objectively verified. This factual determination involves analyzing specific cost components, allocation methods, and documentation to verify whether charges reflect genuine expenses versus inflated allocations that could subsidize non-regulated affiliates at ratepayer expense. This issue is material because accurate affiliate cost allocation directly affects rate base calculations and ensures that ratepayers are not improperly subsidizing WGL's unregulated activities, making this factual verification essential to proper ratemaking determinations.[13]

10. It is not clear to me from the current Order that the Commission has reviewed expense records, billing calculations, and other documentation to verify WGL's affiliate transactions, as the majority said they would do in Order No. 22446.[14] The majority states: "the Commission finds that these service agreements enhance economies of scale and scope for WGL, which serves to reduce the costs of these services for ratepayers," and "AOBA acknowledges that certain corporate synergies may lead to reduced operational and corporate costs. The Commission determines that this admission is equivalent to recognizing that the theory of economies of scale and scope applies to affiliate transaction matters."[15] The fact that economies of scale can reduce costs does not ipso facto establish that non-DC costs (whether reduced or not) should be shouldered by DC ratepayers. Without supporting documentation in the record regarding these costs, I'm no more able than AOBA to determine whether or to what extent DC ratepayers may be subsidizing WGL's affiliate transactions. The majority argues that AOBA's concern about WGL subsidizing affiliates should be given no weight because AOBA was unable to provide a calculation of the magnitude of the subsidy even though AOBA is unable to make this calculation because we won't require the Company to give AOBA the necessary information with sufficient

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12 ¶ 89.

13 Order No. 22446, ¶ 14.

14 ¶ 89. Instead, the majority appears to push this review onto a consultant's biennial review of WGL's CAM, which does not contain the information required to review an ACOSS.

15 ¶ 92.

granularity to perform the calculation.[16] If WGL cannot or will not provide the necessary level of data granularity to adequately review their affiliate transactions, then maybe we should consider terminating WGL's role as a service company.[17]

11. A further problem is WGL's expenses related to lobbying and litigation costs. Since WGL consistently refused to provide itemized budget information for both activities, it is not possible to determine the amount included in rates. The evidentiary record lacks information about employee titles, salaries, and time coding that would allow this Commission to calculate any expenses that should be disallowed. When the Sierra Club tried to get information through discovery, and ultimately through a request that the Commission enforce its own discovery order, the majority watered down the discovery order and limited enforcement. This hobbled the Sierra Club's ability to get information.

12. Yet, in Order 22446, the majority made these same lobbying/litigation costs an issue of fact by stating:

> This factual determination involves analyzing specific accounting entries, fund source documentation, expense categorization methods, and verification of actual cost allocations to determine whether ratepayer funds are improperly used to subsidize WGL's legal and lobbying activities. Federal and state utility regulations prohibit utilities from recovering lobbying expenses and certain legal costs from ratepayers, with most jurisdictions requiring that such expenses be funded from shareholder profits rather than customer bills. The issue is material because accurate verification of expense allocation directly affects rate base calculations and ensures that ratepayers are not improperly subsidizing WGL's political and legal activities that primarily benefit shareholders rather than customers, making this factual verification essential to proper ratemaking determinations.[18]

When the Sierra Club attempted to question WGL's witness regarding these costs at the hearing, the Commission disallowed it based on the prior ruling limiting discovery despite having expressly designated these costs as an issue of fact.

13. The Sierra Club also requested that the Commission investigate the Company's litigation and lobbying costs but everything the Sierra Club had to say regarding these costs, whether addressing an issue of fact or as a basis for launching an investigation, was dismissed by the majority as "speculative" due to a lack of evidence – the same evidence that the majority

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[16] ¶ 91: "Nor has AOBA quantified the level of subsidization it claims. The Commission has examined the claims of subsidization that AOBA argues exists and could not find definitive evidence of subsidization."

[17] I note that the majority is silent on AOBA's concerns regarding WGL's deviation from traditional FERC accounting, WGL's decision to delist from the Securities and Exchange Commission, and WGL's increased reliance on private placements of long-term debt.

[18] Order No. 22446, ¶ 15.

prevented the Sierra Club from obtaining.[19] The result is an implicit blanket Commission endorsement to use ratepayer (rather than just shareholder) funds to undermine the Council's climate initiatives.

14. In a rate case, our role is to determine what's in the public interest by balancing ratepayer interests against shareholder interests. I don't think this Order does that and for that reason, I respectfully dissent.[20]

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[19] ¶ 501.

[20] I note that while the Order sets a rate effect period starting January 1, 2026, there is no discussion in the Order of the impacts of a large winter rate increase, nor any consideration of alternatives.

COMMISSION ACTION

FORMAL CASE NO. 1180, IN THE MATTER OF THE APPLICATION OF WASHINGTON GAS LIGHT COMPANY FOR THE AUTHORITY TO INCREASE EXISTING RATES AND CHARGES FOR GAS SERVICE,

Date 11/20/25 **Formal Case No.** 1180 **Tariff No.**________ **Order No.** 22741

	Approve Initial & Date	Dissent Initial & Date	Abstain Initial & Date
Chairman Emile Thompson	ET/DJ 11/20/25		
Commissioner Richard A. Beverly		RB/DJ 11/20/25	
Commissioner Ted Trabue	TT/DJ 11/20/25		

Certification of Action

Dionne Joemah
General/Deputy General Counsel

Lara Walt
OGC Counsel/Staff