Washington Gas

Rate Case Processes and Procedures

Jim Wagner
Manager, Rates

Utility Operations

Washington Gas

- Begins with an assessment of the earned Return on Equity for Utility Operations
  - Net Income / Common Equity
  - Currently Authorized at 10.0% in all three jurisdictions.
- Utility Operations consist of:
  - The investment in facilities to deliver service to utility customers (rate base)
  - The costs to provide those services on a daily basis (operating expenses)
- Historical financial data serves as the starting point for this determination
  - Adjusted for known and measurable changes

Capitalization

$3.3 billion of plant in the ground

Washington Gas

- Capital structure comprises the actual components that finance utility operations and their component cost.
- The Company uses a combination of short-term debt, long-term debt, preferred stock and common stock to finance utility operations.
- The cost of short-term debt, long-term debt and preferred stock is the actual cost paid to the investor holding the instrument.
- The allowed cost of common stock is established through the individual jurisdictions base rate case proceeding.

Capitalization

Washington Gas

Capitalization ($000's)	Amount	Ratio	Cost	Return
Common Shareholders Equity	$ 1,009,247	57.86%	**10.50%**	6.08%
Preferred Stock	38,189	2.20%	4.79%	0.13%
Long-Term Debt, Including Current Maturities	666,598	38.21%	6.21%	2.37%
Short-Term Debt	30,224	1.73%	0.18%	0.00%
Total Capitalization	$1,744,258	100.00%		8.58%

Rate Base

Washington Gas

- Rate Base is the valuation of the Company's assets used and useful in utility operations and upon which the Company is allowed to earn a return and determining the rates the utility is permitted to charge its customers.
- The District of Columbia and Maryland employ a 13-month average rate base in their rate determinations, which is the simple average of the 13 month end balances of the individual components of rate base. Virginia employs an end-of-period rate base.
- Rate base traditionally excludes "non-utility" property, such as land and structures owned but not dedicated to utility operations (such as St. John Street in Martinsburg WV and E. Church St. in Frederick MD)

Rate Base

Washington Gas

	($000's)
Property, Plant and Equipment	$3,206,576
Accumulated Depreciation	(1,269,879)
Other Rate Base	154,069
Deferred Income Taxes	(326,921)
Net Rate Base	$1,763,845

Revenue Requirement

Washington Gas

Rate Base X Rate of Return = Allowed Return

Allowed Return + Operating Expense = Revenue Requirement

Revenue Requirement - Revenues Generated from Normal Weather Therm Sales = Revenue Increase

Revenue Requirement

Washington Gas

Revenue Requirement	($000's)
Rate Base	$719,146
Rate of Return	8.58%
Required Return	61,703
Utility Operating Income	43,691
Return Deficiency	18,007
Taxes	11,593
Revenue Requirement	$ 29,600

debt + preferred stock are < 10% ROE.

Pro Forma Adjustments

Washington Gas

- Pro Forma adjustments are made to the test year to incorporate the effects if items that are not representative of the level of revenues and expenses the Company expects to incur when new rates go into effect.
- Commissions employ a "known and measurable" standard when assessing adjustments
  - Contractual cost changes, required accounting computations and actual post-test year spending are solid examples of known and measurable changes.
  - Planned, budgeted or anticipated spending is more likely to be challenged.
- Examples:
  - Collectively-bargained wage increases
  - Actuarial cost studies
  - Contractual locating cost changes
  - Effects of colder or warmer than normal weather