

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
SUMMARY OF ORDER
Formal Case 1137
March 1, 2017

The Commission has issued its ruling in *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*.

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

A pre-hearing conference was held on March 23, 2016, the evidentiary hearings were held over 5 days in October and one day in November 2016, and community hearings were held in September and October, 2016. In addition to the Office of People's Counsel of the District of Columbia, which is a party as of right, the Apartment and Office Building Association of Metropolitan Washington, the District of Columbia Government, the General Services Administration and the District of Columbia Climate Action were granted intervention as parties in this case.

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

1. WGL's District of Columbia rate base for the test period would be \$255,674,210;
2. The allowed overall rate of return would be 7.57%, including a return on equity of 9.25%, based on an hypothetical adjusted capital structure;
3. The return requirement when the 7.57% rate of return is applied to the adjusted rate base of \$255,674,210 is \$19,354,538;
4. WGL's adjusted District of Columbia net operating income including AFUDC of \$12,944,307 for the test-year was deficient by the amount of \$6,410,231 and
5. The adjustment which would increase WGL's test-year revenue to the level of gross revenue requirements computed in accordance with the findings in this Opinion and Order is \$8,510,251 which includes a proper allowance for taxes. This increase represents approximately 49% of the company's original request.

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

1. Allows inclusion of the Vintage Mechanical Couplings Replacement (“VMCR”) Program and PROJECTpipes project costs that are closed to service and are providing service to customers into rate base.
2. Rejection of WGL’s request to move Construction Work In Progress (“CWIP”) for the VMCR Program occurring in the test year into base rates. Because WGL has expended the \$28 million in the Settlement Agreement for the VMCR Program, the surcharge is discontinued. The unrecovered amounts of CWIP for the VMCR Program totaling \$1,764,443 will be moved into a new regulatory asset account and included in rate base for recovery.
3. Rejection of WGL’s request to move CWIP for the PROJECTpipes Program occurring in the test year into base rates. Approval of the continuation of the surcharge for PROJECTpipes. The PROJECTpipes CWIP will remain in the PROJECTpipes surcharge until the next base rate proceeding.
4. Approval to amortize the District’s portion of the abandoned peaking plant, or \$1,504,114, over a 15-year period consistent with the average service life of the plant equipment. However, the Commission denies WGL’s request to include the unamortized portion of the adjustment in rate base;
5. Approval of WGL’s lead/lag study and cash working capital allowance modified with Commission approved flow-through ratemaking adjustments, which reduces rate base by \$545,634;
6. Approval of the Company’s weather normalization adjustment based on the most recent 30 years of weather data from an independent source and accepts WGL’s weather normalization methodology and Normal Weather Study;
7. Approval of WGL’s Peak Usage Charge calculations and accepts WGL’s proposed billing determinants for Peak Usage;
8. Allows WGL’s use of composite rates to calculate late payment charge revenues as reasonable;
9. Rejects WGL’s proposed Revenue Normalization Adjustment (“RNA”);
10. Approval of rate recovery for WGL’s short-term incentive compensation for its employees; however WGL’s requested Short-Term Incentive Compensation (“STIP”) recovery is reduced by 20%. This adjustment includes a modification to payroll taxes resulting in an increase in operating income by \$146,039;
11. Rejection of WGL’s recovery for its long-term incentive compensation costs, which increases operating income \$1,447,269, and Supplemental Executive Retirement Plan (“SERP”) costs, which increases operating income by \$486,492;

12. Approval, with modification to the average service life of five accounts, of the Company's new depreciation rates and the associated adjustment to the Accumulated Reserve for Depreciation; WGL shall file a new depreciation study at least 90 days before WGL's next rate case, and shall revisit its policy to allocate 16.5% of the cost of main and service replacements to cost of removal in developing its new depreciation study;

13. Approval of WGL's request to amortize ENSCAN meter equipment;

14. Approval of WGL's expense adjustment for the Company's Fee Free Credit Card in the amount of \$161,343.16;

15. Rejection of the use of ratepayers' funds to support WGL's proposed participation in the Utilization Technology Development and Operations Technology Development Programs, because those projects were not shown to directly benefit ratepayers;

16. Accepts continued amortization of WGL's Pension and Other Post-Employment Benefits ("OPEB") Trackers and carrying as consistent with Order No. 17132 and rejects OPC's requests to re-establish trackers to track the amortization amounts to avoid over-collection and to have carrying charges be based on the cost of debt only;

17. The Commission will examine WGL's Default Customer Billing Charges in *Formal Case No. 1138, In the Matter of the Investigation into WGL's New Billing System and Process and the Potential Impact on Customers and Competitive Natural Gas Suppliers in the District of Columbia* to ensure that WGL is properly separating its distribution business from its supply business. Further to ensure WGL is providing distribution service on a comparable basis between default customers and those served by third party suppliers; the Commission directs WGL within 60 days from the date of this Order to file revised tariffs that fully separate all distribution and sales components of natural gas service in the District.

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

1. Approval of a rate design that makes moderate progress toward eliminating negative class rates of return and recognition that WGL is primarily a distribution company whose major costs are fixed costs, recovering more of the revenue increase through increases in the Customer Charge, Peak Usage Charges and the remainder through volumetric charges;

2. Allows the Company to collect 69.1% of its revenue increase from the Residential class, 20.3% from its Commercial and Industrial class of customers, and 10.2% from Group Metered customers, with a small amount from Interruptible Service customers; and

3. Approval to increase to the Residential Customer Charge, from \$9.90 per month to \$13.10 per month, for heating/cooling customers, resulting in an average increase to the total bill of around \$3.20 per month.

WGL is to file, in accordance with our decision, revised rate schedules, together with supporting tables, by no later than March 17, 2017. Rates authorized in this Order shall be effective on or after March 24, 2017, at 12:01 A.M., unless otherwise ordered by the Commission