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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JANUARY 29, 2002

APPLICATION OF

WASHINGTON GAS LIGHT COMPANY

and CASE NO. PUE010075

THE SHENANDOAH GAS DIVISION OF
WASHINGTON GAS LIGHT COMPANY

For Annual Informational Filings

ORDER DISMISSING PROCEEDING

On March 12, 2001, Washington Gas Light Company ("WGL") and the Shenandoah Gas Division of WGL ("Shenandoah") (hereinafter collectively referred to as "Companies"), by counsel, jointly filed a Petition with the State Corporation Commission ("Commission"). In their Petition, the Companies requested that they be permitted to file their respective Annual Informational Filings ("AIFs") for the twelve months ending December 31, 2000, by May 31, 2001, rather than by April 30, 2001.

In its March 19, 2001, Order Authorizing Extension of Time, the Commission docketed the Petition, authorized the Companies to file their respective AIFs for the twelve months ending December 31, 2000, on or before May 31, 2001, and left the captioned docket open to receive the Companies' AIFs and accompanying documents.

On May 31, 2001, the Companies submitted separate AIFs for the test year ended December 31, 2000, to the Commission. However, the AIFs were incomplete because WGL and Shenandoah did not each file a complete Schedule 25 showing affiliate transactions by month and Uniform System of Accounts ("USOA") distribution for the test year. On July 30, 2001, WGL and Shenandoah each filed a revised Schedule 25 with the required information, and the Companies' AIFs were determined to be complete.

On December 21, 2001, the Commission Staff filed its report on WGL's and Shenandoah's AIFs in the captioned docket. This report contained both an accounting and financial analysis for the Companies. Staff analyzed WGL's cost of capital and capital structure. WGL's weighted cost of capital ranged between 8.904% to 9.393% and included a cost rate for its common equity within the range 11.00% to 12.00%. Shenandoah's weighted cost of capital ranged from 8.513% to 9.002% and included a cost rate for its common equity within the range 10.20% to 11.20%.

In its accounting analysis for the Companies, the Staff noted that it had made revisions to WGL's accounting adjustments for payroll, pension, and employee benefits expense and state income tax expense. Staff also revised Shenandoah's accounting adjustments including its normal weather, customer growth rate

case expense, depreciation study, and state income tax adjustments.

Shenandoah's depreciation study adjustment reflected estimated depreciation study costs of $35,000, to be amortized over two years. Staff explained that Shenandoah estimated the costs to total $30,000 but that Shenandoah had not received an invoice from the consultant that prepared the study and had not requested permission from the Commission to defer the study costs. Staff asserted that the study's unbilled charge was not "known and certain" and removed the depreciation study adjustment of $17,500 from Shenandoah's fully adjusted rate of return.

After its cost of service revisions, Staff concluded that WGL's fully adjusted return on common equity fell below WGL's currently authorized return on equity range of 11.00% to 12.00% established by the Commission's September 28, 1995, Final Order in WGL's last general rate case, Case No. PUE940031. With regard to Shenandoah's cost of service, Staff concluded that Shenandoah was earning a fully adjusted return on common equity of 11.66%, which was 46 basis points above Shenandoah's currently authorized return on equity range of 10.20% to 11.20% established by the Commission's July 16, 1998, Final Order in Case No. PUE970616.

Staff commented that in Shenandoah's prior AIF, i.e., Case No. PUE000278, the Commission had directed Shenandoah to provide in future filings a fully adjusted rate of return statement that included adjustments like those that would be made in a general rate case. To comply with this directive, Staff recommended that the Commission direct Shenandoah to provide actual updates to customer growth, payroll and related benefits, and rate base in both future filings and during Staff's review process.

Staff also noted that WGL's and Shenandoah's recently filed depreciation studies indicated large reserve deficiencies and the need for substantial increases in depreciation accruals based on a study period ending December 2000. Staff related that the Companies have requested a delay in the implementation of the new depreciation rates until October 1, 2002. Staff stated that it would investigate whether the requested delay would require the establishment of a new regulatory asset or if an earlier implementation of revised depreciation rates would be appropriate in its report on WGL's and Shenandoah's depreciation study filings and in Staff's next review of the Companies' operations.

On January 18, 2002, the Companies, by counsel, filed their joint response to the Staff Report. The Companies commented that they do not accept all of the adjustments proposed by Staff relative to their respective costs of service and that they

intend to file a general rate case in 2002 to begin, if not complete, the merger of the rates and terms and conditions of service of said Companies. They asserted that their anticipated rate application will provide an opportunity for the Staff and interested parties to review the Companies' separate and combined costs of service and to propose adjustments to any element of their costs of service. The Companies contended that it would be more appropriate to review the cost of service and the proposed adjustments thereto in the rate case filing anticipated for later this year. Accordingly, they did not request a hearing on the issues raised in the Staff Report and requested that the captioned proceeding be terminated.

NOW, upon consideration of the Companies' AIFs, Staff's Report thereon, and the joint comments on Staff's Report, the Commission is of the opinion and finds that good cause has been shown for the dismissal of this proceeding, particularly in light of Companies' representation that they intend to file a general rate application this year to begin the merger of their rates and terms and conditions of service. We agree that it would be a more efficient use of the Commission's docket and resources to examine the Companies' separate and combined costs of service on both a fully adjusted stand-alone and combined basis when the Companies file their rate application later this year. However, if Shenandoah and WGL subsequently decide not to

file a rate application this year, then Shenandoah and WGL must file separate AIF filings wherein Shenandoah shall provide actual updates to its customer growth, payroll and related benefits, rate base, and other significant elements of its cost of service for the calendar year ending December 31, 2001.

Accordingly, IT IS ORDERED THAT:

(1) Based upon the Companies' representation that they will file a general rate application utilizing fully adjusted cost of service data on a stand-alone and combined basis later this year, this matter shall be dismissed from the Commission's docket of active proceedings, and the papers filed herein shall be placed in the Commission's file for ended causes.

(2) In the event WGL and Shenandoah later determine not to file a rate application to begin the merger of their rates and terms and conditions of service, they shall continue to file separate AIFs, which shall include for Shenandoah actual updates to customer growth, payroll and related benefits, and rate base, as well as updates to other significant elements of cost of service for the test year for the twelve months ending December 31, 2001.