ERRATA

IN THE MATTER OF THE APPLICATION OF WASHINGTON GAS LIGHT COMPANY FOR AUTHORITY TO INCREASE ITS EXISTING RATES AND CHARGES AND TO REVISE ITS TERMS AND CONDITIONS FOR GAS SERVICE.	* * * *	BEFORE THE PUBLIC SERVICE COMMISSION OF MARYLAND CASE NO. 9651

February 12, 2021

PROPOSED ORDER OF PUBLIC UTILITY LAW JUDGE

I. Executive Summary

1. Washington Gas Light Company ("Washington Gas" or the "Company") is a regulated domestic corporation that provides natural gas retail sales and delivery service to Maryland customers in Calvert, Charles, Frederick, Montgomery, Prince George's and St. Mary's Counties. On August 28, 2020, the Company filed an application seeking authority for a $28.4 million increase in annual base rate revenues, and to make certain other changes to its terms and conditions of service. The Company's last base rate case, Case 9605, ended in a Settlement that was accepted by the PULJ on September 30, 2019, authorizing a $27.0 million increase in base rates, with an overall rate of return ("ROR") of 7.42%, established a return on equity ("ROE") of 9.70%. Prior to that, the Company's last base rate case that was litigated before the Commission, Case 9481, was decided by the Commission in December 2018 following the Company's July 6, 2018 merger with Alta Gas Ltd.[1]

[1]*See, In the Matter of the Merger of Alta Gas Ltd., and WGL Holdings, Inc.*, Case No. 9449, Order No. 88631 (issued April 4, 2018).

II. Background

2. On August 28, 2020, Washington Gas filed an application for authority to increase its annual base rate revenues and to revise certain terms and conditions applicable to gas service in Maryland. As filed, the application proposed to increase the Company's annual base rate revenues by $28.4 million, based on an actual test year ending March 31, 2020. On September 8, 2020, in its Rebuttal Testimony, the Company updated its revenue requirement, decreasing its request to $26.8 million, which includes $5.4 million of STRIDE revenues, thus requesting an incremental increase in base rates of $22.6 million, or 3.95%. The Company's application was based on a proposed overall ROR of 7.73%, including a return on common equity of 10.45%. The Company asserts that, taking into account growth in the Company's rate base, increases in its operation and maintenance costs, including employee-related costs, depreciation, increased leak management costs, and the prevailing cost of capital, its current rates are not just and reasonable.[2]

3. The Company sponsored the testimony of Donald Jenkins, Executive Vice President, who adopted the previous testimony of John D. O'Brien summarizing the rate request and generally described the proposals made by other witnesses; Douglas I. Bonawitz, Senior Vice President, Chief Financial Officer, and Treasurer, who discussed the Company's capital structure, cost of capital and financing strategy, and post-merger developments; Dylan D'Ascendis, Direct of ScottMadden, Inc. on cost of common equity capital; Robert E. Tuoriniemi, Chief Regulatory Accountant, regarding the jurisdictional cost of service and ratemaking adjustments and who sponsored two Class Cost of Service

[2] Application at p. 3.

Studies ("COSSs"), the first using the class coincident peak and the second using the class non-coincident peak; Aaron B. Gibson, Manager of Regulatory Accounting, regarding ratemaking and labor and labor-related adjustments; Maria Frazzini, Director of Sales & Economic Development, adopting the testimony of Nekole N. Johnson, Director of Marketing, who discussed the Company's marketing program; James B. Wagner, Assistant Vice President of Rates and Regulatory Affairs, who supported the Company's rate design and tariff language proposals; the panel of Angel Rodriguez, Vice President, People & Culture and Amanda Stoucker, Manager, Organization Effectiveness, who testified in rebuttal regarding compensation-related costs; Stephen J. Price, Assistant Vice President of EHS-Utilities, who testified in rebuttal concerning leak management; Wayne A. Jacas, Director of Construction Program Strategy and Management, who testified in rebuttal on issues related to the Strategic Infrastructure Development and Enhancement ("STRIDE") program, Matthew Esmacher, Director of Project Engineering and Management, who provided rebuttal testimony regarding project cost overruns; Frederick John Morrow, III, Director of Construction for Maryland and the District of Columbia, who testified on rebuttal concerning management and oversight of the STRIDE plan costs; and Donald A. Clasen, Vice President Digital Utilities Technology, who provided rebuttal testimony regarding project cost overruns. The Company also sponsored the testimony of Paul H. Raab who provided rebuttal testimony for WGL regarding the Company's use of the declining block rate.

4. The Office of People's Counsel ("OPC") presented testimony from three witnesses. Sebastian Coppola, an independent consultant, testified regarding revenue requirement and rate base additions; Glenn A. Watkins, President and Senior

Economist with Technical Associates, Inc., who evaluated the Company's COSS and rate design proposals; and David J. Garrett, managing member of Resolve Utility Consulting PLLC, regarding cost of capital, rate of return, and capital structure.

5. The Apartment and Office Building Association of Metropolitan Washington ("AOBA") provided testimony from Bruce R. Oliver, President of Revilo Hill Associates, Inc., who testified about the Company's gas system safety and the proposed SRT mechanism. AOBA witness Timothy Oliver, an analyst with Revilo Hill Associates, testified about the Company's capital structure, ROE, COSS, and rate design.

6. The Staff of the Public Service Commission ("Staff") provided testimony from the following witnesses: Drew M. McAuliffe, Director of Electricity Division of Staff, who testified about Company's return on equity ("ROE") and capital structure; Negussie Tesfaye, a gas pipeline safety engineer, who commented on the Company's Engineering and STRIDE issues; Afton Hauer, a regulatory economist, who provided COSS testimony; Olivia Kuykendall, a regulatory economist, who provided rate design analysis; and David L. Valcarenghi, Assistant Director of the Staff Accounting Division, who provided rate base and operating income analysis.

7. OPC, AOBA and Staff filed direct testimony on November 20, 2020. Parties filed rebuttal testimony on December 8, 2020, including rebuttal testimony from The U.S. Department of General Services ("GSA") witness Dennis W. Goins, a consultant and operator of Potomac Management Group, regarding rate design and COSS. OPC, AOBA, and Staff filed surrebuttal testimony on December 21, 2020. On

January 5, 2020, Staff filed a Comparison Chart reflecting the final positions of the parties with regard to the Company's revenue deficiency.[3]

8. Two evening public hearings were conducted, both held virtually on January 27, 2020, at 6:00 and 7:30 p.m. No members of the public spoke at the evening public hearings in this matter. The hearings were used to provide information to the public on the PULJ's YouTube channel, which was broadcast live. The Applicant gave a description of its request, and the Parties described their roles in the proceeding.

9. Counsel for Montgomery County participated in the hearings but did not submit and testimony in this matter.

10. As discussed below, after thoroughly reviewing the testimony filed by all parties and the evidence introduced at the hearings, I authorize WGL to increase its Maryland natural gas distribution rates by $**12,973,000**, which will result in an increase to the average monthly residential heat/cool bill of $**1.80** or **2.33**%. After carefully considering WGL's request together with the evidence presented by the other parties related to the cost of capital, I find that a return of equity of 9.70% provides for a fair and appropriate return. I further find that an overall rate of return of **7.08**% is justified by the record in this proceeding.

III. Discussion and Findings

A. Adjustments to Rate Base and Operating Income

11. Proposed adjustments to the Company's rate base request were offered and disputed by the parties. I have reviewed the evidence in the record and hereby accept

[3] Bench Ex. 1.

the uncontested rate base and operating income adjustments. Discussion of the disputed adjustments is contained below.

1. WGL Adjustment 1: Revenues

12. The OPC proposed an adjustment to combat WGL's annualization of incremental gas sales for new meters from April through July of 2020. WGL asserts that the data provided presents actual test year gas sales revenues as adjusted to remove the effect of warmer than normal weather, that they are not annualized, and that they are unadjusted, synchronized with the 13-month average rate base used in the remainder of the cost of service. I find that WGL's data was presented as stated and therefore reject OPC's proposed adjustment regarding incremental gas sales.

2. WGL Adjustment 2: Uncollectible Gas Accounts/Gas Administrative Charge

13. OPC recommends a reduction to uncollectible accounts to normalize the anomaly of a cease in collection activity in prior years. WGL contends that it performs a 5-year net charge-off computation. OPC sponsored a similar adjustment in Case No. 9481, in which the Commission found that WGL's adjustment is reasonable.[4] In this case, as was found in the previous case, I find that WGL's approach to normalization is appropriate and reject OPC's proposed adjustment.

[4] Case No. 9481, Commission Order No. 88944, December 11, 2018.

3. WGL Adjustments 6 through 9 – Plant in Service – STRIDE and Safety-Related Plant

14. OPC objects to the terminal, or end-of-period approach used by WGL in including safety related plant in rate base, as it uses the balance of capital additions at a point in time instead of the average amount of rate base additions over a 13-month period, thus inflating the amount of capital expenditures included in rate base.[5] OPC also recommends discontinuation of the transfer of construction work in progress from STRIDE to base rates. WGL and Staff agree that the revised STRIDE and safety-related expenditures and ADIT, as updated by WGL in its rebuttal testimony as appropriate and consistent with WGL's approved approach in recent cases.[6]

15. I find that the approach used by WGL in this case to include year end of period safety related plant in rate base and transfer of CWIP from the STRIDE rider to be appropriate and consistent with Commission precedent. I therefore reject OPC's proposed adjustment to Pant in Service for STRIDE and safety-related plant.

16. OPC recommends further adjustments to WGL's STRIDE construction expenses. Testimony at length was presented at the hearings in this matter regarding STRIDE projects, prudency, and cost overruns. OPC proposes the disallowance of costs associated with 2 specific non-STRIDE safety and reliability projects, 9 specific STRIDE projects, and 3 large capital projects. OPC used in its arguments a 20% variance threshold, any overrun above which OPC asked costs be disallowed.

17. I find that the costs associated with these projects are actual, not estimated costs. WGL sponsored testimony as to the actual projects and expenses placed at issue

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[5] OPC Ex. 1 at p. 14.
[6] Case No. 9481, Order No. 88944, p. 75.

by OPC. WGL agreed to decrease its Maryland revenue request by $29,718 by removing Project C1002415 – CH-Plan, Design, Devlop-HROD T RM project from inclusion in rate base at this time.[7] OPC's proposed adjustments in this area are hereby rejected.

4. WGL Adjustment 13 through 15 – STI and LTI Compensation, OPEB, and Pension Expense

18. WGL removed 20% of short-term incentive ("STI") compensation and 50% of long-term incentive ("LTI") compensation as Adjustment 13. OPC's position is that a 65% adjustment to STI and disallowance of LTI is appropriate, as the benefit is to shareholders, rather than ratepayers. AOBA suggest that 25% of STI costs should be removed. I find that, consistent with prior Commission decisions in Case Nos. 9267, 9322, and 9481, WGL's removal of 20% of STI and 50% of LTI is appropriate. Furthermore, I find that WGL eliminated in its entirety the Defined Benefit Supplemental Employee Retirement Plan ("SERP"), the Defined Benefit Restoration Plan, and the Defined Contribution SERP expenses in accordance with previous Commission directives.

5. WGL Adjustment 19 – Wages and Salaries

19. Staff proposes an adjustment to remove STI increases in the derivation of wage increases, arguing that STI are bonuses, i.e. non-recurring forms of compensation that are variable or at risk pay based on attaining a certain set of conditions.[8] Staff asserts that these costs cannot be known and measurable, as they are not guaranteed. I find Staff's argument compelling and accept Staff's proposed adjustment at this time.

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[7] WGL Post-Hearing Brief at p. 15.
[8] Staff Ex. 11, p. 25.

6. WGL Adjustment 20 – Leak Management Expenses

20. Merger Condition 11b required WGL to file a report detailing actions taken in the past and a plan going forward on how WGL intends to be materially more aggressive toward increase safety going forward, said report to propose "specific leak mitigation process or other specific measurable safety measures in the Washington Gas service territory, the costs of which will be $4 million and will not be recovered by Washington Gas in utility rates."[9] WGL filed said report on July 8, 2019 in Maillog 225989. In the cover letter to the report, WGL stated "As the Commission is aware, Washington Gas has proposed to credit its Maryland customers $4 million in Case No. 9605 to comply with Commitment 11B's requirement that the costs associated with leak mitigation and other safety measures will not be recovered by Washington Gas in utility rates." Concurrently, in Case No. 9605, WGL proposed a Safety Response Tracker to expedite recovery of leak mitigation costs as part of a proposal to credit ratepayers $800,000 yearly for 5 years to fulfill Merger Commitment 11B. Case No. 9605 was settled in a black box settlement which expressly rejected the proposed Safety Response Tracker and expressly excluded Condition 11A refund.

21. WGL is seeking $37.9 million in leak management costs in this proceeding. WGL loosely offers that it has generally incurred $24.4 million in "leak management and other safety related response costs" since 2018, of which it has not recovered.

22. I find that WGL has not met its burden with regards to Merger Commitment 11B. No specific evidence has been offered to show a credit of $4 million to customers.

[9] Order 88631, Appendix A, p. A-9.

As such, I direct that $4 million should be credited to customers, amortized over 5 years, and specifically include an adjustment of $800,000 ($580,000 net of income taxes).

7. WGL Adjustment 21 – Inflation on Non-Labor Expenses

23. AOBA proposes elimination of Inflation for Non-Labor Expenses. Staff, likewise, proposes the elimination of WGL Adjustment 21, arguing that based on its analysis, customer growth in the rate year balances out any growth in non-labor O&M expense. A proposed inflation adjustment must be considered on a case by case basis. In this case, I find that the adjustment proposed by WGL to reflect the inflationary impacts on the Company's non-labor expenses is unwarranted.

8. WGL Adjustment 28 – Interest Costs Synchronization

24. The calculation and application of the Interest synchronization of interest deduction for Federal tax purposes was not at issue in this matter. This adjustment is necessary to reflect pro forma interest tax effects.

9. WGL Adjustment 33 – Advertising Costs

25. Staff proposes to disallow $591,000 in advertising and marketing expenses, asserting that WGL has failed to prove a nexus between those costs and a benefit to customers. WGL offered testimony that its informational advertising enables customers to make wise energy decisions in a competitive market regarding environmental benefits and energy and cost saving of the use of natural gas. WGL offered further testimony that its marketing materials were relied upon by customers in coming to their decisions about natural gas. I find that the testimony offered by WGL regarding the classification of its advertisement programs and the direct benefit of these programs to ratepayers to be

sufficiently detailed to justify recovery of its advertising expenses and therefore reject Staff's proposed adjustment.

10. WGL Adjustment 36 – Cash Working Capital

26. Cash working capital is the amount of investor-supplied cash a company must have in order to provide the funds necessary to operate the day to day business functions. This is determined by a lead/lag study used to measure the difference between a company's revenue lag (the average number of days from the date service is rendered to the date payment is received for that service rendered) and its expense lag (the number of days from an expense occurred until the company makes its payment). The net lag is then applied to the average daily amount of operating expense. This calculation was not at issue between the Parties to this case.

B. Cost of Capital

27. The cost of capital of a company is dependent on the return on equity ("ROE") and the return on the cost of debt. This is an expression of the overall rate of return ("ROR"), or the total of the weighted returns the utility must earn on its stocks and bonds (equity and debts) to attract and retain investors in those securities in a competitive market.[10] Determination of appropriate ROE is calculated by a comparison to other companies and investments of comparable risk. The Parties submitted varying analyses based on differing methodology.

Capital Structure

[10] *Bluefield Water Works and Improvement Co. v. PSC of West Virginia*, 262 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas CO.*, 320 U.S. 591 (1944).

28. The Company, Staff, OPC, and AOBA each proposed differing capital structure as appropriate for use in ratemaking as follows:

	WGL	WGL Alternative[11]	Staff	OPC	AOBA
Long-Term Debt	41.75%	39.20%	40.19%	48.00%	40.63%
Short-Term Debt	3.70%	7.31%	7.78%	3.70%	7.78%
Preferred Dividend	0.00%	0.00%	0.00%	0.00%	0.00%
Common Equity	54.55%	53.49%	52.03%	48.30%	51.58%

WGL Witness Bonawitz normalized the actual capital structure at the end of the test year to reflect a debt issuance in September of 2019 and an equity infusion in March of 2020. Staff and AOBA used an average of the 4 quarters of financing within the test year. WGL contends that this "strict adherence" to the actual data points without normalization for the two financing events late in the test year fail to recognize known costs of operating the utility going forward. The OPC offered a hypothetical capital structure, not directly related to the actual capital structure reported by the Company.

29. The Commissions has long stated its strong preference for use of the actual test-year-ending capital structure.[12] It should also be noted that in Case 9449, Merger Commitment 35 mandated WGL's equity ratio remain between a 48% and 55% range.[13] WGL's proposal falls close to the high end of this range. OPC's proposal falls close to the low end of this range. Staff and AOBA's recommendations, slightly differing in computation, fall closest to the actual capital structure without further alteration. I find that use of Staff's proposed capital structure is appropriate in this case.

Return on Equity

[11] Actual Test Year Ending Capital Structure

[1212] See, e.g. Case No. 9645, *Application of Baltimore Gas and Electric Company for an Electric and Gas Multi-Year Plan,* Order No. 89678, Paragraph 348, December 16, 2020.

[13] WGL Ex. 8 at p. 5.

30. An appropriate ROE should be (1) comparable to returns investors expect to earn on investments of similar risk; (2) sufficient to assure confidence in the company's financial integrity, and (3) adequate to maintain and support the company's credit and to attract capital.[14]

31. The Parties' analyses greatly varied in execution and result. A summary of the Parties' position on ROE follows:

	WGL	Staff	OPC	AOBA
Range High	11.92%	9.87%	9.00%	9.73%
Range Low	9.90%	9.44%	7.20%	7.92%
Recommendation	10.45%	9.60%	9.00%	9.25%

32. The Company recommended an ROE of 10.45% (10.25 unadjusted for size). WGL used a discounted cash flow ("DCF") and capital asset pricing model ("CAPM") and risk premium model ("RPM") analyses, an unregulated proxy group, and a regulated proxy group limited by the following qualifiers: first, 60% or more of the company income must be from regulated operations; second, not currently involved in a merger; and third, has not reduced its dividend in the last 5 years. WGL argues that due to the Coronavirus epidemic, stock prices are more volatile, affecting risk and overall market returns. WGL also adjusts its ROE proposal by 20 basis points due to the greater risk caused by its smaller size compared to other utilities.[15]

33. Staff recommended an ROE of 9.65% based on a proxy group gleaned from Value Line and through use of DCF, CAPM, and risk premium models. OPC recommended an ROE of 9.00% through use of a DCF and CAPM-based analysis.

[14] *Potomac Edison*, Case No. 9490, Order No. 89072, p. 71, March 22, 2019.
[15] WGL Ex. 10 at p. 40.

AOBA produced recommendations both for an 8.85% ROE based on an average of its DCF and CAPM models, but then adjusted that recommendation to 9.60% in recognition of the Commission's recognition of gradualism.[16]

34. This Commission has given Maryland utilities the ability to track and treat as a regulatory asset certain Coronavirus related expenses and uncollectibles to be earmarked for a decision in future rate cases, thereby giving the utilities the ability to address costs at a later date. The Commission has also denied a request for an adjustment based on the idea of greater risk for a smaller sized utility.[17]

35. Recent decisions of this Commission on the issue of ROE include an order of a 9.65% ROE for Baltimore Gas & Electric Company ("BGE") on the gas side in 2020.[18] Though jurisdictionally different and thus an indirect comparison, it could also be noted that WGL has an awarded ROE of 9.2% for its Virginia operations and a 9.25% for its operations in the District of Columbia.[19]

36. WGL's awarded ROE in Maryland has been 9.70% based on the settlement in Case No, 9605 in September of 2019, and before that was 9.70% as decided by the Commission in Case No. 9481 in December of 2018. Prior to that, WGL was awarded a 9.50% ROE by the Commission in 2013.[20]

37. In this case, I do not accept any one of the Parties' specific methodologies, but note the range of the Parties' recommendations.[21] Rather, considering each of the

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[16] AOBA Ex. 3 at p. 32.
[17] *Potomac Edison*, Case No. 9490, Order No. 89072 at p. 75.
[18] Case No. 9645, *Application of Baltimore Gas and Electric Company for an Electric and Gas Multi-Year Plan*, Order No. 89678, Paragraph 348, December 16, 2020.
[19] DC PSC Docket FC 1137 at p. 28. Virginia Corporation Commission Docket No. PUR-2018-00080.
[20] *In Re Washington Gas Light Company*, 1045 MD PSC 576 (2013).
[21] *See In Re Baltimore Gas and Electric Company*, 104 MD PSC 653, 695 (2013).

analyses in evidence, I find that an ROE of 9.70% remains appropriate for the Company at this time, resulting in an ROR of **7.08**%.

C. Rate Design and Cost of Service Study

38. The Company proposes to collect the requested revenue requirement by making increases to the System Charge (the fixed monthly charge) and Distribution Charge (volumetric charge based on usage). The proposal would result in a 5% increase to the System Charge for all customer classes except the Commercial and Industrial Non Heating and Non-Cooling class which has a current Rate of Return ("ROR") above the system average. The balance of the requested revenue requirement collected through the Distribution Charge would be allocated so that each customer class ROR would move closer to the system average.[22] The Company relies on the class Cost of Service Study ("COSS") to demonstrate the current ROR for each class as compared to the overall ROR to appropriately allocate the revenue increase. Under the current rate design, classes that are providing higher than system average ROR's are subsidizing those classes providing less than the system average ROR. The Company contends the proposed rate design will moderate changes to reflect how costs are incurred and implement a gradual movement towards parity of return for each customer class resulting in a more equitable distribution of revenue responsibility.[23]

1. OPC

[22] Exhibit , Direct Testimony of Witness James B. Wagner ("Wagner Direct") p. 3-4.
[23] WGL Ex. 26, Wagner Direct, p. 7-8.

39. OPC witness Watkins described the Company's current and proposed rate structure. Witness Watkins does not agree with the Company's recommendations to increase the residential customer charge. He recommends a smaller increase to no more than $11.25 per month, which would equate to a 2.27% increase. This would comport with other recent authorized increases as well as comporting with the Commission's policy of gradualism.[24]

40. Witness Watkins also recommends gradual elimination of the declining-block volumetric rate structure. He asserts first that this structure is contrary to conservation efforts as it sends price signals that encourage additional consumption of natural gas. Second, PURPA specifically makes it a clear policy to eliminate declining-block energy rates unless supported by costs. Most states and commissions have switched to flat, or inverted, block rates because the declining- block rates are at odds with energy conservation. He explains that the incremental price of energy decreases as consumption increases, causing an incentive to use more and more electricity.

41. In this case, Witness Watkins further contends the declining-block rate structure is not supported from a cost perspective. Witness Watkins conducted an intra-class cost study of residential customers to evaluate customer usage patterns. His analysis compared the average usage and peak month usage during the winter months. This analysis shows how under the current rate structure, small volume residential customers have a higher load factor than large volume users, yet the large volume customers impose a greater cost on the system.[25]

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[24] OPC Ex. 3, Direct Testimony of Glenn A. Watkins, p. 21.
[25] Watkins Direct, p. 25.

42. Witness Watkins goes on to explain that the declining-block rate structure will be phased out for the Company's Virginia customers. In the Company's most recent rate case before the Virginia State Corporation Commission, the Commission ordered the Company to transition to a single volumetric rate to reduce subsidies among the Residential class. In so doing, they recognized that large volume Residential users impose more costs on the distribution system than smaller-volume customers during times of peak usage and that the current declining-block rate structure discourages conservation.[26]

43. In this case, Witness Watkins recommends a gradual elimination of the current residential declining-block rate structure by moving the second usage block one-third of the way to the first usage block and moving the third usage block halfway to the second usage block. This will avoid rate shock or disproportionally large increases to large volume residential customers and in the Company's next rate case, the declining-block rate can be totally eliminated.[27]

2. Staff

44. Staff witness Kuykendall described the Company's current rate structure. There are eight customer classes, each having a rate schedule made up of a fixed monthly System Charge and a volumetric Distribution Charge, per therm. Each class's Distribution Charge consists of a three-block declining rate structure, except the Interruptible class, which employs a two-block structure.

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[26] Id. at 26-27.
[27] Id. at 27.

45. Witness Kuykendall agrees with the first step of the Company's proposed revenue allocation method for a 15 percent first-step increase to under-earning classes, however, it is based on Staff Witness Hauer's corrected COSS. Witness Kuykendall applies the first step to three classes: the RES-H/C, C&I<3k, and the Interruptible classes. In addition, she does not reallocate revenue to the Interruptible class as the Company recommends, as she is not aware of any Commission precedent for doing so.[28]

46. Although the Company's proposed 5 percent increase to the System Charge is consistent with Commission precedent, Witness Kuykendall argues it should increase proportionate to the revenue requirement. The proportion of the increase in revenue to the total distribution revenue rounded to the nearest whole number is 3 percent which is what Staff recommends as it is a more modest increase. Staff Witness Kuykendall highlights that in the last two rate cases for the Company, customers had a 2.5% increase and no increase in the case before. Additionally, the 5 percent increase to the RES-NH/NC system charge, with Staff's recommended revenue requirement, would result in a decrease in its distribution rates. Staff's recommended 3% increase is proportional to the recommended revenue requirement, reasonable and would not result in a decrease to any classes' Distribution charge.[29] Staff witness Kuykendall recommends the 3% increase to the System Charge of all classes except the C&I-NH/NC class for which there is no increase recommended.[30]

47. Witness Kuykendall recommends removing block rates in the Company's next rate case either gradually or entirely change to uniform rates provided it does not

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[28] Staff Ex. 16, Corrected Direct Testimony of Olivia Kuykendall, p. 7.
[29] Id. at 8-9.
[30] Id. at 10-11.

result in rate shock. Using Staff's recommended revenue requirement and rate design, the average customer utilizing delivery and sales service would experience a monthly bill increase of less than two percent.[31]

3. AOBA Direct

48. AOBA Witness Timothy Oliver agrees in part with the Company's proposed changes to the customer charge and distribution charge. Witness Oliver supports an increase of 5% to the customer component charge, but rather than the Company's proposed increase, supports an equal percentage increase to each rate block of the distribution component.[32] Witness Oliver takes issue with the bill comparisons provided by the Company as it does not reflect the actual increase customers can expect. The Montgomery County Fuel Energy Tax is significant in comparison to other counties so without a county by county breakdown, it is not necessarily accurate.[33]

4. Company Rebuttal

49. Company witness Wagner responds to Staff's testimony and explains inclusion of a third-step in revenue allocation among the classes. Witness Wagner removed the increase from the C&I N/H, N/C class given in Step 2 of the allocation process, and applied it to the Interruptible class, allowing more movement to parity of return for both classes.[34]

50. Company witness Wagner disputes the Direct Testimony of AOBA Witness Oliver on rate design as either incorrect or irrelevant. He provides examples and cites the

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[31] Id. at 14.
[32] AOBA Ex. 1, Direct Testimony of Timothy Oliver, p. 23-24.
[33] Id. at 24-25.
[34] WGL Ex. 27, Rebuttal Testimony of James B. Wagner, p.4. and Exhibit JBW-R1.

Company's adjusted proposed revenue increase of $26.8 million as well as an incorrect assertion by Witness Oliver that revenue increase amounts are different between Page 1 and 2 of Schedule C Exhibit JBW-1.[35]

51. Company witness Wagner maintains the 5% System Charge is reasonable, follows the Commission's Order in the Company's 2018 rate case, and is well below the current residential system charges for other Maryland gas providers.[36] Witness Wagner also clarifies that despite the $1.6 million revenue decrease, the proposed 5% increase to the System Charge should remain the same with the identified decrease being applied to a lower Distribution Charge.[37]

52. Company witness Raab conducted an intra-class cost study to measure the cost of providing services to customers served within the same rate class but have different load characteristics to support the Company's declining-block rate structure.[38] Company Witness Raab argues the most important part of rate structure designed to enhance conservation objectives is to reduce inter and intra-class subsidies. He proposes that system costs should be increased and distribution costs reduced to minimize intra-class subsidies.[39] He argues that the demand for natural gas is relatively inelastic and there is no empirical research to suggest customers will consume more, because the higher the consumption, the lower their unit cost.[40] Witness Raab maintains that prices be set equal to the cost of providing service and that inefficient pricing based on Staff and

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[35] Id. at 5-6.
[36] Id. at 10.
[37] Id.
[38] WGL Ex. 24, Rebuttal Testimony of Raab, p. 10-14.
[39] Id. at 19-20.
[40] Id. at 15-19.

OPC's proposed rate design, will cause an increased consumption of energy.[41] He further contends the way to adhere to conservation objectives would be an increase to the system charge which would eliminate the inter- and intra- class subsidies.[42]

5. OPC Rebuttal

52. OPC Witness Watkins disagrees with the Company, AOBA and Staff's proposal of no increase for the C&I NH/Cooling class. He recommends a modest increase at 50% of the system average overall increase based on gradualism and that all classes should share any overall authorized increase in revenue requirement.[43] Based on the high rate of return at current rates and other witnesses' recommendations, Witness Watkins also offers an alternate class revenue distribution that excludes the C&I NH/Cooling class.[44]

53. Witness Watkins also reinforces his recommended relative increase to the Interruptible Class as it makes a modest movement toward rate parity while Staff and AOBA's recommended increase barely changes this class' relative rate of return.[45]

6. USGSA Rebuttal

54. USGSA Witness Goins does not agree with utilizing Staff's COSS, both of which are variants of the Peak and Average method for allocating the cost of distribution mains. Because Staff's proposed revenue spread is based on the NCP COSS, Witness

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[41] Id. at 23.
[42] Id. at 28-29.
[43] OPC Ex. 4, Rebuttal Testimony of Glenn Watkins, p. 8-9.
[44] Id. at 10, Schedule GAW-3R
[45] Id. at 9, Schedule GAW-4R

Goins recommends the revenue spread proposed by AOBA which reflects the results of the Company's COSS.[46]

7. Staff Surrebuttal

55. Staff Witness Kuykendall presents an alternative revenue allocation and rate design based on Staff Witness Valcarenghi's updated recommended revenue requirement to $7.981 million. Witness Kuykendall provides an updated total bill impact and continues to recommend a 3 percent increase to the system charge.[47] She supports the 3 percent recommendation by distinguishing the Commission's decision in Case No. 9481, on which Company Witness Wagner relies to support the 5 percent increase. [48] In that case, the Commission's authorized revenue increase was much greater than the system charge increase. In this case, Witness Kuykendall bases the increase to the system charge by the same ratio as Staff's recommended revenue requirement to the distribution revenue.[49]

56. Staff Witness Kuykendall disagrees with OPC Witness Watkins that the C&I NH/NC class should receive an increase. Using either Staff or the Company's COSS, this class is overearning and according to Commission precedent[50], classes that are overearning would not receive an increase to its base revenue.

57. Staff Witness Kuykendall explains that the comparison tables provided by OPC Witness Watkins are based on the Company's recommended COSS and revenue requirement, where her recommendations are based on Staff's COSS. Staff Witness

[46] USGA Ex. 1, Rebuttal Testimony of Dennis Goins, p. 12.
[47] Staff Ex. 17, Surrebuttal Testimony of Olivia Kuykendall, p. 2-3.
[48] Id. at 5-6.
[49] Id. Staff recommends excluding the C&I NH/NC class from the system charge.
[50] Order No. 88499, Case No. 9481.

Kuykendall presents an alternate revenue allocation and rate design that utilizes Staff Witness Hauer's alternate COSS that utilizes the Peak and Average methodology.[51] In this alternate recommendation, the Interruptible class experiences a much larger increase compared to the other classes because it is largely under-earning, even more than in Staff's original COSS and revenue allocation.[52]

58. Staff Witness Kuykendall addresses Company Witness Raab's testimony regarding block rates verses flat ("uniform") rates. Staff Witness Kuykendall does not argue with the Company's methodology for the Intra-class study but it is based on the Company's COSS which Staff does not recommend. She disagrees with the Company's assumptions regarding customers' response to price changes and maintains that the Commission should move to eliminate the block rates in the next case. She cites a recent Time of Use ("TOU") study filed that shows Maryland customers respond to price signals by changing their usage.[53]

59. Finally, Staff Witness Kuykendall recommends an alternative revenue allocation and rate design based on Staff's alternate COSS that utilizes the Peak and Average methodology with a corrected non-coincident peak.[54]

8. OPC Surrebuttal

60. OPC Witness Watkins maintains that the Company's alternative intra-class study does not relate to proper rate design and does not support the declining-block rate structure they are recommending.[55] Witness Watkins explains that the Company's short-

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[51] Surrebuttal Kuykendall, p. 13. Exhibit OK-3S
[52] Id.
[53] Id. at 11-12.
[54] Id. at 13-14. Staff Exhibit OK-3S
[55] OPC Exhibit 5, Surrebuttal Testimony of Glenn Watkins, p. 7.

run fixed costs and volumetric usage do not correlate with intra-class cost incidence.[56] He also testifies that both PURPA and most utility commissions do not support the declining-block rate structure as a matter of policy as it is contrary to energy conservation.[57] Finally, Witness Watkins does agree with the Company's assertion that residential demand for natural is relatively inelastic, however he disagrees that a flat volumetric rate structure encourages consumers to convert their appliances from natural gas to electricity and increase energy use overall. Witness Watkins uses the Company's website and the Company's comparison study to demonstrate the price advantage natural gas has over all other energy sources. Witness Watkins contends it is a stretch to assert customers will convert to other forms of energy based on the elimination of the declining-block rate structure.[58]

61. I adopt Staff's Rate Design methodology as described above. I find that Staff's allocation reaches the best balance of moving all rate classes towards a UROR of 1.0 without any significant rate shock to under-earning classes. However, I reject Staff's Cost of Service Study and instead apply Staff's Rate Design to the NCP COSS proposed by the Company as discussed below.

Cost of Service Study

62. WGL filed two class cost-of-service studies ("CCOSS"), a coincident peak ("CP") CCOSS and a non-coincident peak ("NCP") CCOSS. In both of these approaches, WGL uses annual usage in its allocation factors for demand-related capacity costs. WGL offered evidence that the company has designed its system to meet

[56] Id. at 8-9.
[57] Id. at 9.
[58] Id. at 10-11.

coincident peak demands. WGL's customer base is mainly residential heating customers, with very few major industrial users in its Maryland operations.[59]

63. Staff, following its testimony in previous cases, insists that a non-coincident peak study better reflects the differing costs of WGL's rate classes. Thus, Staff proffered its own non-coincident peak class cost of service study ("NCP COSS"). Staff's proposal adjust the peak and average, modifying WGL's demand component with respect to the interruptibles class based on a peak day for that class. Staff points to recent cases brought before the Commission in the case of BGE and Columbia Gas, in which both companies provided several different CCOSS for consideration by the Commission and in which variations of an NCP CCOSS were used in Settlements and the Commission's decisions.

Decision

64. Evaluation of which COSS most closely reflects cost causation should be made on a case by case basis, based on the attributes of the specific Company's customer base and system design, and the Commission should continue be provided with CP and NCP CCOSS approaches, including non-interruptible peak study, for evaluation by the parties. I find in this case, based on WGL's unique customer base and design, Staff's approach in this case unfairly assigns costs unreflective of cost causation to non-firm customers. WGL should continue in future rate cases to provide both a CP and an NCP CCOSS so that the Commission can continue to consider the appropriate cost allocation in future cases. In this case, WGL's NCP COSS is adopted for the purpose of allocating rates.

[59] WGL Ex. 15, p. 29.

65. In Case 9481, the Commission employed a two-step methodology with a Step 1 allocation of 15% to the under-earning classes and a Step 2 allocation of the remaining 85% to all classes based on adjusted revenues. I reject WGL's proposed third step in this case. I approve Staff's rate design and the use of 15% in step 1 of the allocation. This should result in a **5**% Residential and Non-Residential System Charge increase using the approved revenue requirement. The settlement in WGL's last rate case called for a similar 5% increase to Non Residential System charges, but a lesser increase for Residential. The approach in this case to increasing fixed charges is in line with the Commission's Case 9481 decision that "[i]t is important that customers who cause certain costs incur those costs, but the principle of gradualism applies" and that "policy concerns... such as energy conservation incentives and the effect of an increased surcharge on low income customers" apply.[60]

66. The estimated bill impact based on average monthly usage follows:

Customer Class	Current Avg. Total Bill	Avg. Total Bill Change ($/mo)	Avg. Total Bill Change (%)
RES - Heat/Cool	$ 77.32	**$ 1.80**	**2.33%**
RES - Non-Heat/Non-Cool	$ 45.53	**$ 0.93**	**2.05%**
C&I- Heat/Cool < 3K therms	$ 115.84	**$ 2.24**	**1.93%**
C&I- Heat/Cool > 3K therms	$ 1,399.03	**$ 19.24**	**1.38%**
C&I- Non-Heat/Non-Cool	$ 697.59	$ -	0.00%
GMA - Heat/Cool	$ 1,555.65	**$ 20.38**	**1.31%**
GMA- Non-Heat/Non-Cool	$ 244.30	**$ 3.57**	**1.46%**

[60] Order No. 88944 at 126-27.

IV. Conclusion

67. The goal of any ratemaking proceeding is for the Commission to ensure that the rates approved for a public utility to charge customers for regulated service are just and reasonable. Public Utilities Article Section 4-101 defines a "just and reasonable rate" as a rate that:

> (1) does not violate any provision of this article;
> (2) fully considers and is consistent with the public good; and
> (3) except for rates of a common carrier, will result in an operating income to the public service company that yields, after reasonable deduction for depreciation and other necessary and proper expenses and reserves, a reasonable return on the fair value of the public service company's property used and useful in providing service to the public.[61]

68. Having duly considered the entire record in this proceeding, including all of the filed and oral testimony and exhibits, taking into account recent Commission decisions, I authorize an increase in rates of $**12,973** million with a Rate of Return of **7.08**%. This incorporates a Return on Equity of 9.70%. I adopt Staff's recommended Capital Structure and Rate Design. I utilized the Company's NCP COSS. I authorize a $4 million adjustment (return) based on leak management expenses pursuant to Merger Commitment 11B, amortized over 5 years. I remove STI from wages pursuant to Staff's recommendation. I eliminate Company Adjustment 21 regarding inflation on non-labor expenses as per Staff and OPC. I remove the costs of Project C1002415. I authorize a $4 million adjustment (return) based on leak management expenses pursuant to Merger Commitment 11B, amortized over 5 years. I find that the terms and final rates herein are

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[61] *Md. Code Ann.*, Pub. Util. § 4-101.

just and reasonable and will not induce rate shock, and will not unduly burden any one class of customers.

IT IS, THEREFORE, this 12th day of February, in the year Two Thousand Twenty One,

ORDERED: (1) That the Application filed by Washington Gas Light Company filed on August 28, 2020, is hereby denied, as discussed in the body of this Proposed Order;

(2) That Washington Gas is hereby authorized, pursuant to § 4-204 of the Public Utilities Article, Annotated Code of Maryland, to file tariffs to increase rates for the delivery of natural gas by no more than $**12,973,000** and that such rates shall become effective for service rendered on and after the date of the Commission's final order in this matter;

(3) That Washington Gas shall file clean tariff pages consistent with this Proposed Order, subject to acceptance by the Commission;

(4) That any motions or requests not granted herein shall be denied; and

(6) That this Proposed Order will become a final order of the Commission on March 26, 2020, unless before that date an appeal is noted[62] with the Commission by any party to this proceeding as provided in Section 3-113(d)(2) of the Public Utilities Article, or the Commission modifies or reverses the Proposed Order or

[62] By agreement of the Parties and as provided in the Notice of Procedural Schedule, any memorandum on appeal shall be filed concurrently with the notice of appeal by Friday, February 26, 2021. Any reply memorandum on appeal shall be filed by Tuesday, March 9, 2021.

initiates further proceedings in this matter as provided in Section 3-114(c)(2) of the Public Utilities Article.

/s/ Jennifer J. Grace
Jennifer J. Grace
Public Utility Law Judge
Public Service Commission of Maryland