Washington Gas Light Company

Quarterly Financial Report

For the Quarter Ended September 30, 2022

Washington Gas Light Company

For the Quarter Ended September 30, 2022

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SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

Washington Gas Light Company (Washington Gas) is an indirect, wholly owned subsidiary of, among other entities, AltaGas Ltd. (AltaGas) and WGL Holdings, Inc (WGL). WGL is an indirect wholly owned subsidiary of AltaGas. Except where the content clearly indicates otherwise, any reference in this report to “Washington Gas”,” “we,” “us”, “our” or “the Company” refers to Washington Gas Light Company. References to “WGL” refer to WGL Holdings, Inc. and all of its subsidiaries.

Certain matters discussed in this report, excluding historical information, include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the outlook for earnings, revenues and other future financial business performance, strategies, financing plans and other expectations. Forward-looking statements are typically identified by words such as, but not limited to, “estimates,” “expects,” “anticipates,” “intends,” “believes,” “plans” and similar expressions, or future or conditional terms such as “will,” “should,” “would” and “could.” Forward-looking statements speak only as of the posting date of this report, and the Company assumes no duty to update them. Factors that could cause actual results to differ materially from forward-looking statements or historical performance may include, but are not limited to the following:

- cyberattacks, including cyberterrorism, or other information technology security breaches or failures;
- leaks, mechanical problems, incidents, or other operational issues that could affect public safety and the reliability of Washington Gas’ distribution system;
- impacts related to the COVID-19 global health pandemic;
- political insecurity and civil unrest that could threaten Company property and personnel;
- the political climate globally, including potential escalation of military activity or acts of war, threats to strategic targets such as energy-related assets, or other civil unrest or activism that may have effects on general economic conditions;
- hazards involved in the storage, transportation, moving, and marketing of hydrocarbon products;
- the availability of natural gas supply or an inability to obtain an adequate supply of gas to satisfy present and future demands;
- challenges in securing the necessary transportation or storage capacity to deliver or acquire the volume of gas necessary to meet customer demands and future growth expectations;
- the outcome of new and existing matters before courts, regulators, government agencies or arbitrators;
- the extent, and the timing, to which we are allowed to recover from our customers, through the regulatory process, costs and expenses related to our operations and the ability of the Company to earn a reasonable rate of return on its invested capital;
- the inability to meet commitments under various orders and agreements associated with regulatory approvals for the 2018 merger between AltaGas and WGL (the Merger);
- the loss of certain administrative and management functions and services provided by AltaGas;
- changes in AltaGas' strategy or relationship with Washington Gas that could affect our performance or operations;
- the ability to access capital and the costs at which Washington Gas is able to access capital and credit markets, including changes in the credit ratings of Washington Gas, WGL, and AltaGas;
- disruptions or decline in the local economy in which Washington Gas operates;
- the credit-worthiness of customers, suppliers and derivatives counterparties;
- changes in the value of derivative contracts and the availability of suitable derivative counterparties;
- rules implementing the derivatives transaction provisions of the Dodd-Frank Act may impose costs on our derivatives activities;
- failures of Washington Gas service providers that could negatively impact the Company’s business;

- acts of nature and catastrophic events, including terrorist acts;
- an inability to attract and retain key management and sufficiently skilled operational personnel;
- strikes or work stoppages by unionized employees;
- changes in the costs of providing retirement plan benefits;
- concerns involving climate change, including physical and transition risks;
- unusual weather conditions and changes in natural gas consumption patterns;
- costs associated with certain legacy operations of Washington Gas and environmental remediation efforts;
- changes to government fiscal and trade policies;
- regulatory and financial risks related to pipeline safety legislation;
- changes to the tax code and our ability to quantify such changes and seek recovery for the manner in which corporate taxes are shared with customers; and
- changes in accounting principles and the effect of accounting pronouncements issued periodically by accounting standard-setting bodies.

All such factors are difficult to predict accurately and are generally beyond the direct control of the Company. Readers are urged to use care and consider the risks, uncertainties and other factors that could affect the Company's business as described in this Quarterly Financial Report.

GLOSSARY OF KEY TERMS AND DEFINITIONS

Arrearage Management Plan (AMP)**:** The AMP is designed to help customers in the District of Columbia lower or eliminate existing COVID-19 related arrearages and avoid disconnection by bringing their account balances current.

Accelerated Pipe Replacement Programs (APRPs): Programs focused on replacement activities, targeting specific piping materials, installed years and/or locations which are undertaken on an expedited basis in an effort to improve safety, system reliability and to reduce potential greenhouse gas (GHG) emissions. See below for APRPs relating to various jurisdictions (PROJECTpipes for the District of Columbia, SAVE for Virginia, and STRIDE for Maryland).

Accounting Standards Codification (ASC): The source of Authoritative generally GAAP.

Accounting Standards Update (ASU): An update issued to communicate changes to an ASC.

Active Customer Meters: Natural gas meters that are physically connected to a building structure within the Washington Gas distribution system that are receiving natural gas distribution service.

AltaGas Ltd. (AltaGas): AltaGas is a Canadian corporation that became the parent company of Washington Gas and WGL Holdings, Inc. upon consummation of the Merger Agreement on July 6, 2018.

AltaGas Services (U.S.) Inc. (ASUS): ASUS is a wholly owned subsidiary of AltaGas. It is the parent company of certain AltaGas' U.S. subsidiaries, including Washington Gas and WGL.

Area-Wide Contract: A contract between Washington Gas and the General Services Administration for utility and energy-management services.

Asset Optimization Program: A program to optimize the value of Washington Gas' long-term natural gas transportation and storage capacity resources during periods when these resources are not being used to physically serve customers.

CARE Ratemaking Adjustment (CRA): A billing mechanism in the state of Virginia that is designed to minimize the effect of conservation and other factors on utility net revenues.

Competitive Service Provider (CSP): Unregulated companies that sell natural gas and electricity directly to retail customers. WGL Energy Services, an affiliate of Washington Gas, is a CSP. Also referred to as Third-party Marketer.

Conservation and Ratemaking Efficiency (CARE) Plan: Provides for the CRA as well as cost effective conservation and energy efficient programs.

COVID-19: A novel coronavirus disease that has caused a global pandemic.

DC OPC: District of Columbia Office of People's Counsel represents the interests of Maryland residential utility consumers of electricity, natural gas and telecommunications in the District of Columbia and before federal agencies.

Federal Energy Regulatory Commission (FERC): An independent agency of the federal government that regulates the interstate transmission of electricity, natural gas, and oil. The FERC also reviews proposals to build liquefied natural gas terminals and interstate natural gas pipelines.

Firm Customers: Customers whose natural gas supply will not be disrupted by the regulated utility to meet the needs of other customers. Typically, this class of customer comprises residential customers and most commercial customers.

Generally Accepted Accounting Principles (GAAP): A standard framework of accounting rules used to prepare, present and report financial statements in the United States of America.

Hampshire: Hampshire Gas Company is a subsidiary of WGL that provides regulated interstate natural gas storage services to Washington Gas under a FERC approved interstate storage service tariff.

Heating Degree Day (HDD): A measure of the variation in weather based on the extent to which the daily average temperature falls below 65 degrees Fahrenheit.

Interruptible Customers: Large commercial customers whose service can be temporarily interrupted in order for the regulated utility to meet the needs of firm customers. These customers pay a lower delivery rate than firm customers and they must be able to readily substitute an alternate fuel for natural gas.

Mark-to-Market: The process of adjusting the carrying value of an asset or liability to reflect its current fair value.

MD OPC: Maryland Office of People's Counsel represents the interests of Maryland residential utility consumers of electricity, natural gas, telecommunications and private water services in state and federal regulatory and legislative proceedings.

Medium-term notes (MTNs): Unsecured notes issued under Washington Gas' previous shelf-registrations.

Merger Agreement: A reference to the agreement, consummated July 6, 2018, governing the merger of WGL into an indirect, wholly owned AltaGas subsidiary, with WGL surviving as an indirect wholly owned subsidiary of AltaGas (the Merger).

New Customer Meters Added: Natural gas meters that are newly connected to a building structure within the Washington Gas distribution system. Service may or may not have been activated.

NGQSS: Natural Gas Quality of Service Standards under the District of Columbia Municipal Regulations (DCMR)

Normal Weather: A forecast of expected HDDs based on historical HDD data.

PROJECTpipes: An APRP that provides a recovery mechanism for costs of eligible infrastructure replacements in the District of Columbia.

PSC of DC: The Public Service Commission of the District of Columbia, a three-member board that regulates Washington Gas' distribution operations in the District of Columbia.

PSC of MD: The Maryland Public Service Commission, a five-member board that regulates Washington Gas' distribution operations in Maryland.

Purchase of Receivables Program (POR): A program in Maryland and the District of Columbia, whereby Washington Gas purchases receivables from participating CSPs at approved discount rates.

Revenue Normalization Adjustment (RNA): A regulatory billing mechanism in the state of Maryland designed to stabilize the level of net revenues collected from customers by eliminating the effect of deviations in customer usage caused by variations in weather from normal levels, and other factors such as conservation.

Right of Use (ROU) Assets: ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease.

SCC of VA: The Commonwealth of Virginia State Corporation Commission is a three-member board that regulates Washington Gas' distribution operations in Virginia.

SEMCO: SEMCO Energy, Inc., an indirect, wholly owned subsidiary of AltaGas.

Service Territory: The region in which Washington Gas operates. The service territory includes the District of Columbia, and the surrounding metropolitan areas in Maryland and Virginia.

Steps to Advance Virginia's Energy Plan (SAVE Plan): An APRP that provides a recovery mechanism for costs of eligible infrastructure replacements in the state of Virginia.

Strategic Infrastructure Development and Enhancement Plan (STRIDE Plan): An APRP that provides a recovery mechanism for reasonable and prudent costs associated with infrastructure replacements in the state of Maryland.

Tariffs: Documents approved by the regulatory commission in each jurisdiction that set the prices Washington Gas may charge and the practices it must follow when providing utility service to its customers.

Therm: A natural gas unit of measurement that includes a standard measure for heating value. We report our natural gas sales and deliveries in therms. A therm of gas contains 100,000 British thermal units (BTUs) of heat, or the energy equivalent of burning approximately 100 cubic feet of natural gas under normal conditions. Ten million therms equal approximately one billion cubic feet of natural gas. A dekatherm is 10 therms and is abbreviated Dth.

Third-party Marketer: See definition under **Competitive Service Provider (CSP).**

Utility Net Revenues: A non-GAAP measure calculated as operating revenues less the associated cost of gas and applicable revenue taxes. The cost of gas associated with sales to customers and revenue taxes are generally pass through amounts.

Washington Gas: Washington Gas Light Company is an indirect, wholly owned subsidiary of, among other entities, WGL.

Weather Normalization Adjustment (WNA): A billing adjustment mechanism in Virginia that is designed to minimize the effect of variations from normal weather on utility net revenues.

WGL: WGL Holdings, Inc., a holding company that is the indirect parent company of Washington Gas and other affiliated subsidiaries of Washington Gas. It is an indirect wholly owned subsidiary of AltaGas.

WGL Energy Services: WGL Energy Services, Inc. is a subsidiary of WGL that sells natural gas and electricity to retail customers on an unregulated basis.

WGL Energy Systems: WGL Energy Systems, Inc. is a subsidiary of WGL that provides commercial energy efficient and sustainable solutions to government and commercial clients.

Wrangler SPE LLC (Wrangler): Wrangler SPE LLC is a bankruptcy remote special purpose entity that owns all the shares of the common stock of Washington Gas. It was established as a wholly owned subsidiary of WGL upon consummation of the Merger with AltaGas.

Washington Gas Light Company
Condensed Balance Sheets (Unaudited)
Financial Statements

(In thousands)	**September 30, 2022**	December 31, 2021
ASSETS		
Property, Plant and Equipment		
At original cost	**$ 7,140,192**	$ 6,783,719
Accumulated depreciation and amortization	**(1,834,771)**	(1,746,404)
Net property, plant and equipment	**5,305,421**	5,037,315
Current Assets		
Cash and cash equivalents	**—**	1
Receivables (net of allowance for doubtful accounts of $28,770 and $25,299, respectively)	**314,298**	394,889
Gas costs and other regulatory assets	**19,278**	24,836
Materials and supplies	**22,623**	21,398
Storage gas	**242,953**	137,468
Prepaid taxes	**6,414**	34,361
Other prepayments	**17,252**	34,527
Receivables from associated companies	**79,260**	5,795
Derivatives	**1,476**	1,358
Other	**6,303**	6,301
Total current assets	**709,857**	660,934
Deferred Charges and Other Assets		
Regulatory assets		
Gas costs	**114,495**	144,079
Pension and other post-retirement benefits	**2,769**	2,918
Other	**93,576**	94,377
Prepaid pension and other post-retirement benefits	**516,413**	507,578
Operating lease right of use asset	**34,795**	36,981
Derivatives	**62**	2,224
Other	**12,165**	13,716
Total deferred charges and other assets	**774,275**	801,873
Total Assets	**$ 6,789,553**	$ 6,500,122
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shareholder’s equity	**$ 2,058,204**	$ 2,022,274
Long-term debt	**1,728,713**	1,747,645
Total capitalization	**3,786,917**	3,769,919
Current Liabilities		
Current maturities of long-term debt	**21,122**	464
Notes payable	**237,557**	126,967
Accounts payable and other accrued liabilities	**371,463**	348,755
Customer deposits and advance payments	**47,719**	40,281
Gas costs and other regulatory liabilities	**60,295**	60,846
Accrued taxes	**25,241**	28,444
Payables to associated companies	**12,639**	22,399
Operating lease liability	**6,036**	5,883
Derivatives	**41,772**	16,069
Other	**5,464**	6,557
Total current liabilities	**829,308**	656,665
Deferred Credits		
Deferred income taxes	**819,945**	727,130
Accrued pensions and benefits	**35,327**	36,130
Asset retirement obligations	**224,808**	217,892
Regulatory liabilities		
Accrued asset removal costs	**218,235**	226,895
Pension and other post-retirement benefits	**319,002**	333,000
Excess deferred taxes and other	**353,804**	353,750
Operating lease liability	**45,981**	48,777
Derivatives	**115,427**	83,039
Other	**40,799**	46,925
Total deferred credits	**2,173,328**	2,073,538
Commitments and Contingencies (Note 9)		
Total Capitalization and Liabilities	**$ 6,789,553**	$ 6,500,122

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Condensed Statements of Operations (Unaudited)
Financial Statements (continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2022**	2021	**2022**	2021
OPERATING REVENUES	**$ 217,667**	$ 174,469	**$ 1,170,007**	$ 1,006,526
OPERATING EXPENSES				
Utility cost of gas	**49,762**	40,753	**457,058**	350,088
Operation and maintenance	**105,889**	102,143	**326,987**	298,449
Depreciation and amortization	**39,332**	37,220	**117,747**	110,798
General taxes and other assessments	**29,751**	27,384	**118,498**	114,780
Total Operating Expenses	**224,734**	207,500	**1,020,290**	874,115
OPERATING INCOME (LOSS)	**(7,067)**	(33,031)	**149,717**	132,411
Other income — net	**11,356**	10,698	**33,879**	29,914
Interest expense	**19,464**	16,640	**55,660**	48,557
INCOME (LOSS) BEFORE INCOME TAXES	**(15,175)**	(38,973)	**127,936**	113,768
INCOME TAX EXPENSE (BENEFIT)	**(7,385)**	(8,045)	**16,967**	23,534
NET INCOME (LOSS)	**$ (7,790)**	$ (30,928)	**$ 110,969**	$ 90,234

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Condensed Statements of Comprehensive Income (Unaudited)
Financial Statements (continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2022**	2021	**2022**	2021
NET INCOME (LOSS)	**$ (7,790)**	$ (30,928)	**$ 110,969**	$ 90,234
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE INCOME TAXES				
Pension and other post-retirement benefit plans				
Change in prior service cost	**(50)**	(81)	**(149)**	(245)
Change in actuarial net gain	**27**	31	**81**	1,664
Total pension and other post-retirement benefit	**$ (23)**	$ (50)	**$ (68)**	$ 1,419
INCOME TAX EXPENSE RELATED TO OTHER COMPREHENSIVE INCOME (LOSS)	**(17)**	(7)	**(29)**	428
OTHER COMPREHENSIVE INCOME (LOSS)	**$ (6)**	$ (43)	**$ (39)**	$ 991
COMPREHENSIVE INCOME (LOSS)	**$ (7,796)**	$ (30,971)	**$ 110,930**	$ 91,225

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Condensed Statements of Cash Flows (Unaudited)
Financial Statements (continued)

	Nine Months Ended September 30,	
(In thousands)	**2022**	2021
OPERATING ACTIVITIES		
Net income	**$ 110,969**	$ 90,234
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	**117,747**	110,798
Amortization of:		
Other regulatory assets and liabilities — net	**9,282**	9,099
Debt related costs	**719**	717
Deferred income taxes — net	**88,772**	42,578
Accrued/deferred pension and other post-retirement benefit cost (benefit)	**(24,528)**	(20,119)
Compensation expense related to stock-based awards	**8,365**	7,510
Provision for doubtful accounts	**13,230**	11,959
Unrealized (gain) loss on derivative contracts	**26,297**	(5,133)
Other non-cash charges (credits) — net	**2,005**	1,413
Changes in operating assets and liabilities (Note 14)	**(40,317)**	113,813
Net Cash Provided by Operating Activities	**312,541**	362,869
FINANCING ACTIVITIES		
Repayment of long-term debt and finance lease	**(449)**	(231)
Notes payable issued (retired) — net	**110,590**	27,983
Dividends on common stock	**(75,000)**	(75,000)
Other financing activities — net	**—**	(141)
Net Cash Provided by (Used in) Financing Activities	**35,141**	(47,389)
INVESTING ACTIVITIES		
Capital expenditures	**(349,301)**	(322,412)
Net Cash Used in Investing Activities	**(349,301)**	(322,412)
DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	**(1,619)**	(6,932)
Cash, Cash Equivalents, and Restricted Cash at Beginning of the Period	**14,369**	21,962
Cash, Cash equivalents and Restricted Cash at End of the Period	**$ 12,750**	$ 15,030
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION (Note 14)		

The accompanying notes are an integral part of these statements.

NOTE 1. ACCOUNTING POLICIES

Basis of Presentation

Washington Gas is an indirect, wholly owned subsidiary of, among other entities, AltaGas and WGL. Wrangler, a bankruptcy remote, special purpose entity, directly owns the common stock of Washington Gas. Wrangler was formed for the purpose of "ring fencing" Washington Gas, that is removing Washington Gas from the bankruptcy estate of AltaGas and its affiliates in the event that any parent or affiliate entity becomes the subject of bankruptcy or insolvency proceedings. Wrangler is a wholly owned subsidiary of WGL and AltaGas.

The condensed financial statements have been prepared in conformity with GAAP. Certain financial information and note disclosures accompanying annual financial statements are omitted in this interim report. The interim condensed financial statements and accompanying notes should be read in conjunction with the Washington Light Company Annual Report for the year ended December 31, 2021 (Annual Report). Due to the seasonal nature of our business, the results of operations for the periods presented in this report are not necessarily indicative of actual results for the full years ending December 31, 2022 and 2021.

The accompanying unaudited condensed financial statements for Washington Gas reflect all normal recurring adjustments that are necessary, in our opinion, to present fairly the results of operations in accordance with GAAP.

For a complete description of our significant accounting policies, refer to Note 1 — *Accounting Policies* of the Notes to Financial Statements of the Annual Report. We include herein certain updates to those policies.

Accounting Standards Adopted in the Calendar Year and Other Newly Issued Accounting Standards

The following table represents accounting standards adopted by Washington Gas during the nine months ended September 30, 2022.

ACCOUNTING STANDARDS ADOPTED IN CALENDAR YEAR 2022

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
ASU 2021-05, Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments	This standard amends the Codification to require lessors to classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if the lease would have been classified as a sales-type or direct financing lease and a day one loss would have been recognized.	January 1, 2022	The adoption of this standard did not have a material effect on our financial statements. The amendments are being applied prospectively.

OTHER NEWLY ISSUED ACCOUNTING STANDARDS

Standard	Description	Required date of adoption	Effect on the financial statements or other significant matters
ASU 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance	This standard requires the annual disclosure about transactions with a government entity, including the nature of the transaction, accounting method applied, line items on the financial statements affected by the transaction, and the significant terms and conditions of the transaction. The amendments could either be applied prospectively to all new transactions with a government that are entered into after the date of initial application or retrospectively to those transactions. Early adoption is permitted.	December 31, 2022	The adoption of this standard is not expected to have a material effect on our financial statements.

NOTE 2. CREDIT LOSSES

Customer Receivables: Washington Gas is exposed to customer credit risk resulting from the non-payment of utility bills. To manage this customer credit risk, Washington Gas customers are offered budget billing options, payment plans or higher risk customers may be required to provide a cash deposit until the requirement for deposit refunds are met. Low-income customers may also participate in governmental programs that provide assistance for utility bills. In the District of Columbia, Washington Gas also administers a program to assist low-income customers in paying their bills. Base rates include a provision for recovery of uncollectible accounts based on historical levels of charge offs of accounts receivable. Washington Gas also has a provision in its Gas Administrative Charge mechanism that includes an allowance for commodity amounts included in uncollectible accounts. For accounts receivable and unbilled revenue generated by the utility business, an allowance for doubtful accounts is recognized using a loss-rate based on historical payment and collection experience. This rate may be adjusted based on management's expectations of macroeconomic conditions and other factors. Washington Gas regularly evaluates the reasonableness of the allowance based on a combination of factors, such as the length of time receivables are past due, historical payment and collection experience, financial condition of customers, and other circumstances that could impact customers' ability or desire to make payments.

Washington Gas Asset Optimization: Washington Gas is exposed to wholesale counterparty credit risk through its asset optimization program. Credit limits are established for each counterparty and credit enhancements such as letters of credits, parent guarantees and cash collateral may be required. The creditworthiness of all counterparties is continuously monitored. Refer to Note 10 — *Derivatives* for a further discussion of our asset optimization program. Washington Gas operates under an existing wholesale counterparty credit policy that is designed to mitigate credit risk. At September 30, 2022 and December 31, 2021, the allowance for doubtful accounts associated with outstanding receivables under the asset optimization program was not significant.

Customer Service Matters: As of September 30, 2022, Washington Gas continues to suspend certain dunning activities, including disconnections, in Maryland. In Virginia and the District of Columbia, all dunning activities, including disconnections, resumed in February 2022 and April 2022, respectively. As of September 30, 2022, we have evaluated the adequacy of our allowance for credit losses. Our evaluation included an analysis of customer payment trends in light of the suspensions in dunning, economic conditions, receivables aging, considerations of past economic downturns, the actions the company is taking to assist customers with past due balances, and other stimulus programs, and customer account write-offs. Based on this evaluation, we have concluded that the allowance for credit losses as of September 30, 2022 adequately reflected the collection risk and net realizable value for our receivables. We will continue to monitor changing circumstances and will adjust our allowance for credit losses as additional information becomes available.

The following table presents the activity of allowance for doubtful accounts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2022**	2021	**2022**	2021
Balance, beginning of period	**$ 31.5**	$ 28.4	**$ 25.3**	$ 27.4
Provision[(a)]	**2.1**	2.0	**13.2**	12.0
Recorded to regulatory asset due to COVID-19	**—**	1.2	**(0.2)**	(4.0)
Write offs	**(5.2)**	(4.4)	**(11.5)**	(9.5)
Recoveries	**0.4**	0.5	**2.0**	1.8
Balance, end of period	**$ 28.8**	$ 27.7	**$ 28.8**	$ 27.7

[(a)] *The nine months ended September 30, 2021 includes a $0.1 million reversal of the provision related to asset optimization.*

NOTE 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company recognizes revenue from contracts with customers to depict the transfer of goods or services to customers at an amount it expects to be entitled to in exchange for those goods or services. Washington Gas sells natural gas and distribution services to residential, commercial, industrial and other customers through regulated tariff rates approved by regulatory commissions in the jurisdictions where we operate. Customers are billed monthly based on regular meter readings. Customer billings are based on two main components: (i) a fixed service fee and (ii) a variable fee based on usage. For customers who choose to purchase their natural gas commodity from Washington Gas, the bill will include a usage-based charge for the cost of the commodity. Revenue is recognized over time as natural gas is delivered or as service is performed. Because meter readings are performed on a cycle basis, Washington Gas recognizes unbilled revenue for any services rendered to its customers but not billed at month-end. The tariff sales are generally considered daily or "at-will" contracts as customers may cancel their service at any time (subject to notification requirements in the tariff), and revenue generally represents the amount Washington Gas has the right to invoice. There are certain contracts that have terms of one year or longer. For these contracts, revenue is recognized based on the amount Washington Gas has the right to invoice the customer.

Customers have the choice to purchase natural gas from CSPs. Washington Gas charges the CSPs balancing fees to manage the natural gas transportation imbalances. Where regulations require, Washington Gas issues customers a consolidated bill to include the natural gas supplied by the CSPs and distribution of natural gas. Washington Gas recognizes revenue only for distribution services that it has provided to the customer, and the balancing fees for the services provided to the CSP.

The following table disaggregates revenue by type of service for the periods.

Disaggregated Revenue by Type of Service

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2022**	2021	**2022**	2021
Revenue from contracts with customers				
Gas and transportation sales				
Gas sold and delivered	**$ 144.2**	$ 109.3	**$ 899.9**	$ 726.1
Gas delivered for others	**40.3**	38.9	**199.8**	192.4
Other [(a)]	**16.8**	14.0	**12.3**	40.8
Other revenues	**1.3**	1.4	**3.5**	3.6
Total revenue from contracts with customers	**$ 202.6**	$ 163.6	**$ 1,115.5**	$ 962.9
Other sources of revenue				
Revenue from alternative revenue programs [(b)]	**$ 13.1**	$ 10.2	**$ 48.7**	$ 39.7
Leasing revenue	**0.3**	0.2	**0.7**	0.6
Other	**1.7**	0.5	**5.1**	3.3
Total revenue from other sources	**$ 15.1**	$ 10.9	**$ 54.5**	$ 43.6
Total Operating Revenue	**$ 217.7**	$ 174.5	**$ 1,170.0**	$ 1,006.5

(a) During the nine months ended September 30, 2022, Washington Gas credited $32.3 million to customers and CSP's for a rate refund from an interstate pipeline.
(b) Washington Gas has determined that its RNA, WNA, and CRA billing adjustment mechanisms and APRPs are alternative revenue programs and accounted for under ASC Topic 980, Regulated Operations.

Washington Gas accrues unbilled revenues for gas delivered, but not yet billed at the end of each accounting period due to our customer billing cycles. Unbilled revenues of $46.0 million and $113.6 million are included within "Receivables" on Washington Gas' balance sheets at September 30, 2022 and December 31, 2021, respectively. Unbilled revenues represent performance obligations that have been satisfied and to which Washington Gas has an unconditional right to payment, except for contract assets that were related to Washington Gas' area-wide contract, which required project acceptance by the federal government for the right to payment to occur (refer to Project Financing in Note 12 — *Related Party Transactions* for further discussion of Washington Gas's area-wide contract).

The following table shows the opening and closing balances of contract assets from contracts with customers for the reporting periods, which were included within "Receivables" on Washington Gas' balance sheets.

	Nine Months Ended September 30,	
(In millions)	**2022**	2021
Contract assets at January 1	**$ 6.7**	$ 16.1
Contract assets at September 30	**—**	$ 6.7
Increase (decrease) in contract assets [(a)]	**$ (6.7)**	$ (9.4)

[(a)] *Decrease in 2022 is the result of all remaining projects being accepted by the Federal Government.*

The Company does not have transaction price amounts allocated to future performance obligations. The Company applies the practical expedient available under ASC Topic 606, Revenue from Contracts with Customers, and does not disclose information about the remaining performance obligations for *(i)* contracts with an original expected length of one year or less, *(ii)* contracts for which revenue is recognized at the amount to which the Company has the right to invoice for performance completed, and *(iii)* contracts with variable consideration that is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation.

NOTE 4. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

The table below provides details for the amounts included in "Accounts payable and other accrued liabilities" on the balance sheets.

(In millions)	**September 30, 2022**	December 31, 2021
Accounts payable—trade	**$ 301.0**	$ 270.9
Employee related accruals	**42.7**	39.1
Accrued interest	**5.0**	18.7
Other accrued liabilities	**22.8**	20.1
Total	**$ 371.5**	$ 348.8

NOTE 5. SHORT-TERM DEBT

Due to the seasonal nature of our operations, short-term financing requirements can vary significantly during the year. Revolving credit agreements are maintained to support outstanding commercial paper and to permit short-term borrowing flexibility. The policy of Washington Gas is to maintain bank credit facilities in amounts equal to or greater than the expected maximum short-term financing requirements.

Credit Facility

The following is a summary of committed credit available at September 30, 2022 and December 31, 2021.

Committed Credit Available

(In millions)	**September 30, 2022**	December 31, 2021
Committed credit agreements		
Unsecured revolving credit facility, expires July 19, 2024[(a)]	**$ 450.0**	$ 450.0
Less: Commercial Paper outstanding[(b)]	**(337.6)**	(227.0)
Net committed credit available	**$ 112.4**	$ 223.0
Weighted average interest rate	**3.26 %**	0.28 %

[(a)] *Washington Gas may increase its revolving credit facility by additional $100.0 million, with the bank groups' approval, for a total potential maximum facility of $550.0 million. The facility also provides for two one-year extension options, at the bank groups' approval.*
[(b)] *The amount represents carrying amount of commercial paper.*

Commercial Paper

At both September 30, 2022 and December 31, 2021, we classified $100.0 million of commercial paper balance as "Long-term debt" on Washington Gas' balance sheets due to our ability and intent to refinance these balances on a long-term basis, respectively. Accordingly, $237.6 million and $127.0 million of commercial paper remained in “Notes payable” at September 30, 2022 and December 31, 2021, respectively.

NOTE 6. LONG-TERM DEBT

Washington Gas has unsecured long-term debt in the form of MTNs and private placement notes with individual terms regarding interest rates, maturities and call or put options. In addition, Washington Gas classifies a portion of the commercial paper balance as "Long-term debt" due to its ability and intent to refinance these balances on a long-term basis.

The following table shows the long-term debt outstanding at September 30, 2022 and December 31, 2021.

Long Term Debt Outstanding

(In millions)	**September 30, 2022**	December 31, 2021
Washington Gas Unsecured Notes [(a)]	**$ 1,646.0**	$ 1,646.0
Commercial Paper	**100.0**	100.0
Total Principal Amounts of Long-Term Debt	**$ 1,746.0**	$ 1,746.0
Unamortized premium (discount) - net	**11.7**	12.0
Unamortized debt expense	**(11.6)**	(12.0)
Finance lease liability	**3.7**	2.1
Less-current maturities	**21.1**	0.5
Total Carrying Amount of Long-Term Debt	**$ 1,728.7**	$ 1,747.6
Weighted average interest rate [(b)]	**4.28 %**	4.28 %

[(a)] *Includes MTNs and private placement notes. The amount represents face value of long-term debt including current maturities.*
[(b)] *Weighted average interest rate is for the Washington Gas unsecured notes.*

There were no issuances or retirements of unsecured notes for the three and nine months ended September 30, 2022 and 2021.

NOTE 7. COMPONENTS OF TOTAL EQUITY

(In thousands, except shares)	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Total
Three Months Ended September 30, 2022						
Balance at June 30, 2022	**46,479,536**	**$ 46,479**	**$ 1,314,273**	**$ 728,312**	**$ 1,936**	**$ 2,091,000**
Net loss	**—**	**—**	**—**	**(7,790)**	**—**	**(7,790)**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(6)**	**(6)**
Dividends declared	**—**	**—**	**—**	**(25,000)**	**—**	**(25,000)**
Balance at September 30, 2022	**46,479,536**	**$ 46,479**	**$ 1,314,273**	**$ 695,522**	**$ 1,930**	**$ 2,058,204**
Three Months Ended September 30, 2021						
Balance at June 30, 2021	46,479,536	$ 46,479	$ 1,204,273	$ 674,758	$ 2,611	$ 1,928,121
Net loss	—	—	—	(30,928)	—	(30,928)
Other comprehensive loss	—	—	—	—	(43)	(43)
Dividends declared	—	—	—	(25,000)	—	(25,000)
Balance at September 30, 2021	46,479,536	$ 46,479	$ 1,204,273	$ 618,830	$ 2,568	$ 1,872,150
Nine Months Ended September 30, 2022						
Balance at December 31, 2021	**46,479,536**	**$ 46,479**	**$ 1,314,273**	**$ 659,553**	**$ 1,969**	**2,022,274**
Net income	**—**	**—**	**—**	**110,969**	**—**	**110,969**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(39)**	**(39)**
Dividends declared	**—**	**—**	**—**	**(75,000)**	**—**	**(75,000)**
Balance at September 30, 2022	**46,479,536**	**$ 46,479**	**$ 1,314,273**	**$ 695,522**	**$ 1,930**	**$ 2,058,204**
Nine Months Ended September 30, 2021						
Balance at December 31, 2020	46,479,536	$ 46,479	$ 1,204,273	$ 603,596	$ 1,577	$ 1,855,925
Net income	—	—	—	90,234	—	90,234
Other comprehensive income	—	—	—	—	991	991
Dividends declared	—	—	—	(75,000)	—	(75,000)
Balance at September 30, 2021	46,479,536	$ 46,479	$ 1,204,273	$ 618,830	$ 2,568	$ 1,872,150

NOTE 8. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The following table shows the components of the net periodic benefit cost (income) recognized in our financial statements.

Components of Net Periodic Benefit Costs (Income) [(a)]

	Three Months Ended September 30,			
	2022		2021	
(In millions)	**Pension Benefits**	**Health and Life Benefits**	Pension Benefits	Health and Life Benefits
Service cost	**$ 2.7**	**$ 1.6**	$ 3.0	$ 1.6
Interest cost	**7.8**	**2.1**	7.6	2.0
Expected return on plan assets	**(10.7)**	**(6.2)**	(10.7)	(5.7)
Recognized prior service cost (credit)	**—**	**(3.4)**	—	(3.4)
Recognized actuarial loss (gain)	**0.1**	**(1.4)**	0.4	(1.3)
Net periodic benefit cost (income)	**(0.1)**	**(7.3)**	0.3	(6.8)
Allocation to affiliates	**—**	**0.2**	(0.1)	(0.1)
Adjusted net periodic benefit cost (income)	**(0.1)**	**(7.1)**	0.2	(6.9)
Service cost capitalized to construction projects	**(0.7)**	**(0.4)**	(0.5)	(0.3)
Amount charged (credited) to expense	**$ (0.8)**	**$ (7.5)**	$ (0.3)	$ (7.2)

	Nine Months Ended September 30,			
	2022		2021	
(In millions)	**Pension Benefits**	**Health and Life Benefits**	Pension Benefits	Health and Life Benefits
Service cost	**$ 8.1**	**$ 4.7**	$ 9.0	$ 4.7
Interest cost	**23.5**	**6.3**	22.8	6.0
Expected return on plan assets	**(32.1)**	**(18.6)**	(32.1)	(17.0)
Recognized prior service cost (credit)	**0.1**	**(10.2)**	0.1	(10.2)
Recognized actuarial loss (gain)	**0.3**	**(4.2)**	1.2	(3.8)
Settlement charge[(b)]	**—**	**—**	1.2	—
Net periodic benefit cost (income)	**(0.1)**	**(22.0)**	2.2	(20.3)
Allocation to affiliates	**—**	**0.6**	—	0.5
Adjusted net periodic benefit cost (income)	**(0.1)**	**(21.4)**	2.2	(19.8)
Service cost capitalized to construction projects	**(1.9)**	**(1.1)**	(1.7)	(0.9)
Amount charged (credited) to expense	**$ (2.0)**	**$ (22.5)**	$ 0.5	$ (20.7)

[(a)] *The components of net benefit cost (income), other than service cost, are recorded in "Other income (expense)-net" on the accompanying statements of operations.*
[(b)] *Amounts relate to partial settlement charges associated with lump sum payments from the Washington Gas' defined benefit supplemental executive retirement plan (DB SERP) and defined benefit restoration supplemental executive retirement plan (DB SERP Restoration) that were paid in nine months ended September 30, 2021.*

At September 30, 2022 and December 31, 2021, the rabbi trust balance associated with the DB SERP and DB SERP Restoration plans were $10.0 million and $11.4 million, respectively. $6.1 million and $3.9 million were recorded in "Current Assets - Other" and "Deferred Charges and Other Assets - Other" on Washington Gas' balance sheets at September 30, 2022; $6.1 million and $5.3 million were recorded in "Current Assets - Other" and "Deferred Charges and Other Assets - Other" at December 31, 2021, respectively, along with other rabbi trust balances.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Commitments

Washington Gas has certain natural gas contracts entered into in the normal course of business that require fixed and determinable payments in the future, including unconditional purchase obligations for pipeline capacity, transportation and storage services, as well as natural gas purchase commitments that fluctuate based on market prices. There were no significant changes to contractual obligations that are out of the ordinary course of business during the three and nine months ended September 30, 2022.

Merger Commitments

In connection with the Merger in 2018, Washington Gas and AltaGas have made commitments related to the terms of the PSC of DC settlement agreement and the conditions of approval from the PSC of MD and the SCC of VA. Among other things, these commitments included rate credits distributable to both residential and non-residential customers, gas expansion and other programs, various public interest commitments, and safety programs. As of September 30, 2022, the amounts accrued for merger commitments was $7.0 million. Additionally, there are a number of operational commitments, including the funding of leak mitigation and reducing leak backlogs, the funding of damage prevention efforts, developing projects to extend natural gas service, maintaining pre-merger quality of service standards including odor call response times, increasing supplier diversity, achieving synergy savings benefits, as well as reporting and tracking related to all the commitments.

Contingencies

We account for contingent liabilities utilizing ASC Topic 450, Contingencies. By their nature, the amount of the contingency and the timing of a contingent event and any resulting accounting recognition are subject to our judgment of such events and our estimates of the amounts. Actual results related to contingencies may be difficult to predict and could differ significantly from the estimates included in reported earnings.

Regulatory Contingencies

Certain legal and administrative proceedings incidental to our business, including regulatory contingencies, involve Washington Gas. At September 30, 2022, we have recorded adequate provisions, as applicable, for probable losses or refunds to customers for regulatory contingencies related to any ongoing proceedings.

Environmental Matters

We are subject to federal, state and local laws and regulations related to environmental matters. These laws and regulations may require expenditures over a long time frame to control environmental effects. Almost all of the environmental liabilities we have recorded are for costs expected to be incurred to remediate sites where we or a predecessor affiliate operated manufactured gas plants (MGPs) or gas holder sites. Estimates of liabilities for environmental response costs are difficult to determine with precision because of the various factors that can affect their ultimate level. These factors include, but are not limited to, the following:

- the complexity of the site;
- changes in environmental laws and regulations at the federal, state and local levels;
- the number of regulatory agencies or other parties involved;
- new technology that renders previous technology obsolete or experience with existing technology that proves ineffective;
- the level of remediation required; and
- variations between the estimated and actual period of time that must be dedicated to respond to an environmentally-contaminated site.

Washington Gas has identified up to ten sites where it or its predecessors may have operated MGPs. Washington Gas last used any such plant in 1984. In connection with these operations, we are aware that coal tar and certain other by-products of the gas manufacturing process are present at or near some former sites and may be present at others.

At September 30, 2022 and December 31, 2021, Washington Gas reported a liability of $12.4 million and $13.7 million, respectively, on an undiscounted basis related to future environmental response costs. These estimates principally include the minimum liabilities associated with a range of environmental response costs expected to be incurred. At both September 30, 2022 and December 31, 2021, Washington Gas estimated the maximum liability associated with all of its sites to be approximately $39.2 million. The maximum liability at September 30, 2022 included $19.1 million related to the Anacostia river study and $13.6 million related to the East Station property, which are discussed further below. The estimates were determined by Washington Gas' environmental experts, based on experience in remediating MGP sites and advice from legal counsel and environmental consultants. The variation between the recorded and estimated maximum liability primarily results from differences in the number of expected years that will be required to perform environmental response processes and the extent of remediation that may be required.

Washington Gas is currently remediating its East Station property, located adjacent to the Anacostia River in Washington D.C., including ground water pump and treat, tar recovery, soil encapsulation and other treatment. Under a 2012 consent decree with the District of Columbia and the federal government, Washington Gas is also conducting a remedial investigation and feasibility study on an adjacent property owned by the District of Columbia. Additional remediation may be required at this property.

In addition, at another adjoining property known as the "Eastern Power Boat Club Property," located to the east of the property owned by the District of Columbia, Washington Gas agreed to perform a site investigation and report the findings pursuant to oversight by the DC Department of Energy and Environment (DOEE). This property was subject to a July 12, 2019, Administrative Order from the DOEE. That Administrative Order was withdrawn and the Company entered into a negotiated Administrative Order on Consent with the DOEE that was effective on March 11, 2020. Under the terms of the Administrative Order on Consent, the Company submitted a Remedial Investigative Report on February 26, 2021. On March 11, 2021, the Company received an Administrative Order related to the alleged presence of sheens in the Anacostia River. The Company filed an appeal of the Administrative Order with the District of Columbia Office of Administrative Hearings on March 26, 2021. The appeal is pending.

Washington Gas may be responsible for environmental cleanup and government costs associated with the Anacostia River Sediment Project (ARSP). In February 2016, Washington Gas received a letter from the DOEE and National Park Service (NPS) regarding the ARSP, indicating that the District of Columbia is conducting a separate remedial investigation and feasibility study of the river to determine if and what cleanup measures may be required and to prepare a natural resource damage assessment. Subsequently, the DOEE issued an Interim Record of Decision (ROD) for remediation of "Early Action Areas" in the Anacostia River. Although the Interim ROD identifies East Station as one of fifteen potential environmental cleanup sites, the DOEE is proposing to continue the remediation of East Station under Washington Gas' existing Consent Decree rather than as part of the ARSP. On June 14, 2021, Washington Gas received letters from the DOEE and NPS notifying the Company that it may be responsible for environmental cleanup and government costs associated with the ARSP. On November 12, 2021, Washington Gas was notified by DOEE, the U.S. Department of Interior, and the National Oceanic and Atmospheric Administration that those agencies, as Trustees, will perform a Natural Resource Damage Assessment of the Anacostia River and that Washington Gas was identified as a potentially responsible party.

Washington Gas has accrued an amount for estimated study costs based on a potential range of estimates. However, we are not able to estimate the total amount of potential costs or timing associated with the District of Columbia's environmental investigation on the Anacostia River at this time. In addition, an allocation method among the potential parties has not been established.

On May 27, 2021, Washington Gas submitted an application to the Maryland Department of Environment's Voluntary Cleanup Program (VCP) for a former gas holder site located in Chillum, Maryland. Based upon the VCP application, Washington Gas has accrued an amount for the Chillum site based on the potential costs of a range of remedial options.

Regulatory orders issued by the PSC of MD allow Washington Gas to recover the costs associated with the sites applicable to Maryland over the period ending in 2035. Regulatory orders issued by the PSC of DC allow Washington Gas a three-year recovery of prudently incurred environmental response costs and allow Washington Gas to defer additional costs incurred between rate cases. Regulatory orders from the SCC of VA have generally allowed the recovery of prudent environmental remediation costs to the extent they were included in the underlying financial data supporting an application for rate change.

At September 30, 2022 and December 31, 2021, Washington Gas reported a regulatory asset of $9.6 million and $10.0 million, respectively, for the portion of environmental response costs that are expected to be recoverable in future rates.

NOTE 10. DERIVATIVES

Washington Gas enters into contracts that qualify as derivative instruments and are accounted for under ASC Topic 815, Derivatives and Hedging (ASC Topic 815). These derivative instruments are recorded at fair value on our balance sheets and Washington Gas does not currently designate any derivatives as hedges under ASC Topic 815. Washington Gas' derivative instruments relate to Washington Gas' asset optimization program and managing price risk associated with the purchase of gas to serve utility customers. In prior periods, we have also entered into derivatives to manage interest rate risk.

Asset Optimization. Washington Gas optimizes the value of its long-term natural gas transportation and storage capacity resources during periods when these resources are not being used to physically serve utility customers. Specifically, Washington Gas utilizes its transportation capacity assets to benefit from favorable natural gas prices between different geographic locations and utilizes its storage capacity assets to benefit from favorable natural gas prices between different time periods. As part of this asset optimization program, Washington Gas enters into physical and financial derivative transactions in the form of forward, futures and option contracts with the primary objective of securing operating margins that Washington Gas will ultimately realize. The derivative transactions entered into under this program are subject to mark-to-market accounting treatment.

Regulatory sharing mechanisms provide for the annual realized profit from these transactions to be shared between Washington Gas' shareholders and customers; therefore, changes in fair value are recorded through earnings, or as regulatory assets or liabilities to the extent that it is probable that realized gains and losses associated with these derivative transactions will be included in the rates charged to customers when they are realized. Unrealized gains and losses recorded to earnings may cause significant period-to-period volatility; this volatility does not change the operating margins that Washington Gas expects to ultimately realize from these transactions through the use of its storage and transportation capacity resources.

Washington Gas has a collaborative arrangement with a third party to facilitate the asset optimization program. The collaborative arrangement allocates a tiered percentage of profits or losses to the third party as compensation for its participation. The costs recorded by Washington Gas related to the collaborative arrangement totaled $10.3 million and $2.3 million for the three months ended September 30, 2022 and 2021, respectively, and $17.5 million and $5.5 million for the nine months ended September 30, 2022 and 2021, respectively. These amounts were recorded in "Utility cost of gas" on Washington Gas' statements of operations. Either party may terminate the collaborative arrangement through the delivery of a termination notice. In such an event, Washington Gas may make a payment upon termination.

The following table presents the net margin recorded to "Utility cost of gas" after sharing and management fees associated with our asset optimization transactions.

Net Margins for Asset Optimization

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2022**	2021	**2022**	2021
Realized gain	**$ 30.3**	$ 5.4	**$ 50.0**	$ 12.2
Unrealized gain (loss)	**(0.6)**	5.6	**(26.3)**	5.1
Net margin gain (loss)	**$ 29.7**	$ 11.0	**$ 23.7**	$ 17.3

Managing Price Risk. To manage price risk associated with acquiring natural gas supply for utility customers, Washington Gas enters into physical and financial derivative transactions in the form of forward, option and other contracts, as authorized by its regulators. Any gains and losses associated with these derivatives are recorded as regulatory liabilities or assets, respectively, to reflect the rate treatment for these economic hedging activities.

Notional Summary

The following table presents notional amounts of our outstanding derivatives at September 30, 2022 and December 31, 2021.

Absolute Notional Amounts of Open Positions on Derivative Instruments

	September 30, 2022	December 31, 2021
Natural Gas (In millions of therms)		
Sales	**2,250.5**	2,429.7
Purchases	**5,030.7**	5,607.7
Swaps	**164.6**	500.6

Location, Fair Value and Offsetting of Derivative Assets and Liabilities Recognized in the Balance Sheets

The following table presents the balance sheet line items where derivatives are recognized. Washington Gas has elected to offset the fair value of recognized derivative instruments against the right to reclaim or the obligation to return collateral for derivative instruments executed under the same master netting arrangement in accordance with ASC Topic 815. All recognized derivative contracts and associated financial collateral subject to a master netting arrangement that is eligible for offset under ASC Topic 815 have been presented net on the balance sheets.

Balance Sheet Classification of Derivative Instruments

(In millions)	**Gross amounts of recognized assets/ (liabilities)**	**Gross amounts offset in balance sheet**	**Netting of collateral**	**Net amounts presented on balance sheet**
September 30, 2022				
Derivative assets [a]	**$ 6.4**	**$ (4.9)**	**$ —**	**$ 1.5**
Derivative liabilities [b]	**(162.1)**	**4.9**	**—**	**$ (157.2)**
Net derivative assets (liabilities)	**$ (155.7)**	**$ —**	**$ —**	**$ (155.7)**
December 31, 2021				
Derivative assets [a]	$ 6.5	$ (2.9)	$ —	$ 3.6
Derivative liabilities [b]	(105.1)	2.9	3.1	(99.1)
Net derivative assets (liabilities)	$ (98.6)	$ —	$ 3.1	$ (95.5)

[a] Derivative assets at September 30, 2022 include $1.5 million recorded in "Current assets — Derivatives" and an immaterial balance in" Deferred charges and other assets — Derivatives" on Washington Gas' balance sheets; Derivative assets at December 31, 2021 include $1.4 million recorded in "Current assets —Derivatives" and $2.2 million in" Deferred charges and other assets — Derivatives" on Washington Gas' balance sheets.
[b] Derivative liabilities at September 30, 2022 include $41.8 million recorded in "Current liabilities — Derivatives " and $115.4 million recorded in " Deferred credits — Derivatives" on Washington Gas' balance sheets; Derivative liabilities at December 31, 2021 include $16.1 million recorded in "Current liabilities — Derivatives " and $83.0 million recorded in " Deferred credits — Derivatives" on Washington Gas' balance sheets.

Gains and (Losses) on Derivatives

The following tables present all gains and losses associated with derivative instruments for the three and nine months ended September 30, 2022 and 2021.

Gains and (Losses) on Derivative Instruments

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2022**	2021	**2022**	2021
Recorded to income-Utility cost of gas	**$ (3.9)**	$ 3.4	**$ (40.1)**	$ (3.7)
Recorded to regulatory assets-Gas costs	**2.2**	6.1	**(62.8)**	(18.9)
Total	**$ (1.7)**	$ 9.5	**$ (102.9)**	$ (22.6)

Collateral

Washington Gas utilizes standardized master netting agreements, which facilitate the netting of cash flows into a single net exposure for a given counterparty. As part of these master netting agreements, cash, letters of credit and parent company guarantees may be required to be posted or obtained from counterparties in order to mitigate credit risk related to both derivatives and non-derivative positions. Under Washington Gas' offsetting policy, collateral balances are offset against the related counterparties' derivative positions to the extent the application would not result in the over-collateralization of those derivative positions on the balance sheets. Any collateral posted that is not offset against derivative assets and liabilities is included in "Other prepayments" on the balance sheets. Collateral received and not offset against derivative assets and liabilities is included in "Customer deposits and advance payments" on the accompanying balance sheets.

At September 30, 2022 and December 31, 2021, Washington Gas had $2.1 million and $7.2 million in collateral deposits posted with counterparties that are not offset against derivative asset and liabilities. At September 30, 2022 and December 31, 2021, Washington Gas had $0.8 million and $1.7 million, respectively, cash collateral held representing an obligation, and are not offset against derivative asset and liabilities.

Certain derivative instruments of Washington Gas contain contract provisions that require collateral to be posted if the credit rating of Washington Gas falls below certain levels or if counterparty exposure to Washington Gas exceeds a certain level (credit-related contingent features). At September 30, 2022 and December 31, 2021, Washington Gas was not required to post collateral related to a derivative liability that contained a credit-related contingent feature.

The following table shows the aggregate fair value of all derivative instruments with credit-related contingent features that are in a liability position, as well as the maximum amount of collateral that would be required if the most unfavorable credit-risk-related contingent features underlying these agreements were triggered on September 30, 2022 and December 31, 2021, respectively.

Potential Collateral Requirements for Derivative Liabilities with Credit-Risk-Contingent Features

(In millions)	**September 30, 2022**	December 31, 2021
Derivative liabilities with credit-risk-contingent features	**$ 17.5**	$ 2.0
Maximum potential collateral requirements	**$ 17.4**	$ 1.9

We do not enter into derivative contracts for speculative purposes.

Concentration of Credit Risk

We are exposed to credit risk from wholesale derivative counterparties, which is represented by the fair value of derivative instruments, the net receivable/payable outstanding for settled transactions and offsetting collateral posted at the reporting date. We actively monitor and work to minimize counterparty concentration risk through various practices. At September 30, 2022, two counterparties represented over 10% of Washington Gas' credit exposure to wholesale derivative counterparties for a total concentration of credit risk of $27.1 million.

NOTE 11. FAIR VALUE MEASUREMENTS

We measure the fair value of our financial assets and liabilities using a combination of the income and market approaches in accordance with ASC Topic 820, Fair Value Measurement (ASC Topic 820). These financial assets and liabilities primarily consist of derivatives recorded on our balance sheets under ASC Topic 815 and short-term investments, commercial paper and long-term debt outstanding required to be disclosed at fair value. Under ASC Topic 820, fair value is defined as the exit price, representing the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To value our financial instruments, we use market data or assumptions that market participants would use, including assumptions about credit risk (both our own credit risk and the counterparty's credit risk) and the risks inherent in the inputs to valuation.

We enter into derivative contracts in the futures and over-the-counter wholesale and retail markets. These markets are the principal markets for the respective wholesale and retail contracts. Our relevant market participants are our existing counterparties and others who have participated in energy transactions at our delivery points. These participants have access to the same market data as Washington Gas. Valuations are generally based on pricing service data or indicative broker quotes depending on the market location. We measure the net credit exposure at the counterparty level where the right to set-off exists. The net exposure is determined using the mark-to-market exposure adjusted for collateral, letters of credit and parent guarantees. We use published default rates from Standard & Poor's Ratings Services and Moody's Investors Service as inputs for determining credit adjustments.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1. Level 1 of the fair value hierarchy consists of assets or liabilities that are valued using observable inputs based upon unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date. Included in this category are cash equivalents and rabbi trust investments in money market funds which are recorded on the balance sheets at fair value on a recurring basis.

Level 2. Level 2 of the fair value hierarchy consists of assets or liabilities that are valued using directly or indirectly observable inputs either corroborated with market data or based on exchange traded market data. Level 2 includes fair values based on industry-standard valuation techniques that consider various assumptions: (i) quoted forward prices, including the use of mid-market pricing within a bid/ask spread; (ii) discount rates; (iii) implied volatility and (iv) other economic factors. Substantially all of these assumptions are observable throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the relevant market. Level 2 financial assets and liabilities included energy-related physical and financial derivative transactions such as forward, option and other contracts for deliveries at active market locations. Other Level 2 financial instruments include commercial paper and unsecured notes. The carrying cost of our commercial paper approximates fair value. The fair value of Washington Gas unsecured notes was estimated based on valuation techniques using indirectly observable inputs corroborated with market data.

Level 3. Level 3 of the fair value hierarchy consists of assets or liabilities that are valued using significant unobservable inputs at the reporting date. These unobservable assumptions reflect our assumptions about estimates that market participants would use in pricing the asset or liability, including natural gas basis prices and annualized volatilities of natural gas prices. A significant change to any one of these inputs in isolation could result in a significant upward or downward fluctuation in the fair value measurement. These inputs may be used with industry standard valuation methodologies that result in our best estimate of fair value for the assets or liabilities at the reporting date.

Level 3 derivative assets and liabilities included: (i) physical contracts valued at illiquid market locations with no observable market data; (ii) long-dated positions where observable pricing is not available over the majority of the life of the contract; (iii) contracts valued using historical spot price volatility assumptions and (iv) valuations using indicative broker quotes for inactive market locations.

Our level 2 and level 3 derivatives are recorded on the balance sheets at fair value on a recurring basis.

Summary of Carrying Amounts and Fair Value of Financial Instruments

The following table summarizes the carrying amounts and fair value of financial assets and liabilities. A financial instrument's classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy.

Fair Value Under the Fair Value Hierarchy

(In millions)	Carrying Amount	Level 1	Level 2	Level 3	Total
At September 30, 2022					
Financial assets					
Fair value through net income					
Cash equivalents [a]	**$ 0.8**	**$ 0.8**	**$ —**	**$ —**	**$ 0.8**
Rabbi trust investments - current [b]	**6.1**	**6.1**	**—**	**—**	**6.1**
Rabbi trust investments - deferred [b]	**6.6**	**6.6**	**—**	**—**	**6.6**
Derivative asset - current	**0.7**	**—**	**0.5**	**0.2**	**0.7**
Derivative asset - deferred	**—**	**—**	**—**	**—**	**—**
Fair value through regulatory assets/liabilities					
Derivative asset - current	**0.8**	**—**	**0.6**	**0.2**	**0.8**
Derivative asset - deferred	**—**	**—**	**—**	**—**	**—**
Total Assets	**$ 15.0**	**$ 13.5**	**$ 1.1**	**$ 0.4**	**$ 15.0**
Financial Liabilities					
Fair value through net income					
Derivative liabilities - current	**$ (14.8)**	**$ —**	**$ —**	**$ (14.8)**	**$ (14.8)**
Derivative liabilities - deferred	**(38.5)**	**—**	**—**	**(38.5)**	**(38.5)**
Fair value through regulatory assets/liabilities					
Derivative liabilities - current	**(27.0)**	**—**	**—**	**(27.0)**	**(27.0)**
Derivative liabilities - deferred	**(76.9)**	**—**	**—**	**(76.9)**	**(76.9)**
Amortized cost					
Commercial paper [c]	**(337.6)**	**—**	**(337.6)**	**—**	**(337.6)**
Current maturities of long-term debt	**(20.0)**	**—**	**(20.0)**	**—**	**(20.0)**
Unsecured notes [d]	**(1,626.1)**	**—**	**(1,317.0)**	**—**	**(1,317.0)**
Total Liabilities	**$ (2,140.9)**	**$ —**	**$ (1,674.6)**	**$ (157.2)**	**$ (1,831.8)**

(In millions)	Carrying Amount	Level 1	Level 2	Level 3	Total
At December 31, 2021					
Financial assets					
Fair value through net income					
Cash equivalents [a]	$ 0.2	$ 0.2	$ —	$ —	$ 0.2
Rabbi trust investments - current [b]	6.1	6.1	—	—	6.1
Rabbi trust investments - deferred [b]	8.3	8.3	—	—	8.3
Derivative asset - current	0.5	—	0.1	0.4	0.5
Derivative asset - deferred	0.9	—	—	0.9	0.9
Fair value through regulatory assets/liabilities					
Derivative asset - current	0.8	—	0.1	0.7	0.8
Derivative asset - deferred	1.4	—	—	1.4	1.4
Total Assets	$ 18.2	$ 14.6	$ 0.2	$ 3.4	$ 18.2
Financial Liabilities					
Fair value through net income					
Derivative liabilities - current	$ (3.1)	$ —	$ (0.1)	$ (3.0)	(3.1)
Derivative liabilities - deferred	(23.5)	—	—	(23.5)	(23.5)
Fair value through regulatory assets/liabilities					
Derivative liabilities - current	(12.9)	—	(0.8)	(12.1)	(12.9)
Derivative liabilities - deferred	(59.6)	—	—	(59.6)	(59.6)
Amortized cost					
Commercial paper [c]	(227.0)	—	(227.0)	—	(227.0)
Unsecured notes [d]	(1,646.0)	—	(1,691.9)	—	(1,691.9)
Total Liabilities	$ (1,972.1)	$ —	$ (1,919.8)	$ (98.2)	$ (2,018.0)

[(a)] Cash equivalents represent the amounts invested in money market funds and were included in "Cash and cash equivalents" of the accompanying balance sheets.
[(b)] Rabbi trust investments are restricted cash equivalents, which are invested in money market funds. Amounts are included in "Current assets — Other" and "Deferred charges and other assets — Other" of the accompanying balance sheets.
[(c)] The balance at September 30, 2022 included $237.6 million located in "Notes payable", and $100.0 million located in "Long-term debt" on the accompanying balance sheets. The balance at December 31, 2021 included $127.0 million located in "Notes payable", and $100.0 million located in "Long-term debt" on the accompanying balance sheets.
[(d)] Includes unamortized discounts/premiums and unamortized debt expense, as applicable. The carrying amount is included in "Long-term debt" on the accompanying balance sheets.

Quantitative Information About Unobservable Inputs

The following table includes quantitative information about the significant unobservable inputs used in the fair value measurement of our Level 3 financial instruments and the respective fair values of the net derivative asset and liability positions.

Quantitative Information about Level 3 Fair Value Measurements

(In millions)	Net Fair Value	Valuation Techniques	Unobservable Inputs	Weighted Average	Range
September 30, 2022	**$(156.8)**	Discounted Cash Flow	Natural Gas Basis Price (per dekatherm)	**$(0.60)**	**($2.420)-$9.820**
December 31, 2021	$(94.8)	Discounted Cash Flow	Natural Gas Basis Price (per dekatherm)	$(0.44)	$(1.335)-$4.498

Reconciliation of Level 3 Assets and Liabilities

The following table presents a reconciliation of changes in net fair value of Level 3 derivative instruments measured at fair value on a recurring basis.

Reconciliation of Fair Value Measurements Using Significant Level 3 Inputs

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2022**	2021	**2022**	2021
Balance at beginning of period	**$ (177.6)**	$ (87.4)	**$ (94.8)**	$ (80.0)
Realized and unrealized gains (losses)				
Recorded to income	**3.0**	7.1	**(29.8)**	6.5
Recorded to regulatory assets — Gas costs	**10.5**	5.3	**(50.3)**	(10.5)
Settlements	**7.3**	1.5	**18.1**	10.5
Balance at end of period	**$ (156.8)**	$ (73.5)	**$ (156.8)**	$ (73.5)

Transfers between different levels of the fair value hierarchy may occur based on fluctuations in the valuation inputs and on the level of observable inputs used to value the instruments from period to period. All amounts recorded to income are included in the utility cost of gas.

The following table presents the unrealized gains (losses) attributable to Level 3 derivative instruments measured at fair value on a recurring basis.

Unrealized Gains (Losses) Recorded for Level 3 Measurements

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2022**	2021	**2022**	2021
Recorded to income — Utility cost of gas	**$ 5.7**	$ 4.3	**$ (26.6)**	$ 9.1
Recorded to regulatory assets — Gas costs	**11.5**	8.1	**(46.3)**	3.6
Total	**$ 17.2**	$ 12.4	**$ (72.9)**	$ 12.7

NOTE 12. RELATED PARTY TRANSACTIONS

Corporate Service Allocation

As a subsidiary of AltaGas, Washington Gas is charged a proportionate share of corporate governance and other shared services costs from AltaGas, primarily related to general and administrative services. AltaGas charges Washington Gas for the total shared service costs at the lower of cost or market, and Washington Gas in turn allocates a portion of the costs to WGL's other subsidiaries at the higher of cost or market. Washington Gas records a payable for the total shared service costs allocated from WGL's other subsidiaries in "Payable to associated companies" and a receivable for the shared service costs allocated to WGL's other subsidiaries in "Receivables from associated companies" on its balance sheets. Additionally, Washington Gas receives certain corporate services from SEMCO. Washington Gas records in "Payable to associated companies" on its balance sheets for the services provided by SEMCO. The expenses associated with services provided by AltaGas and SEMCO are recorded to "Operation and maintenance" on Washington Gas' statements of operations.

Expenses of $5.4 million and $16.3 million were included in "Operation and maintenance" on the statements of operations for the three and nine months ended September 30, 2022, respectively, and $5.2 million and $15.5 million for the three and nine months ended September 30, 2021, respectively, reflecting the corporate service cost allocated to Washington Gas.

In addition, Washington Gas provides administrative and general support to WGL's subsidiaries and various AltaGas U.S. entities. Washington Gas bills affiliates to which it provides services in accordance with regulatory requirements for the actual cost of providing these services, which approximates their market value. To the extent such billings are outstanding, they are reflected in "Receivables from associated companies" on Washington Gas' balance sheets. Washington Gas assigns or allocates these costs directly to its affiliates and, therefore, does not recognize revenues or expenses associated with providing these services. Washington Gas believes that allocations based on broad measures of business activity are appropriate for allocating expenses resulting from common services. Affiliate entities are allocated a portion of common services based on a formula driven by appropriate indicators of activity, as approved by management.

Project Financing

WGL Energy Systems had obtained third-party project financing for energy management services projects with the federal government under Washington Gas' area-wide contract. As work was performed, Washington Gas established a contract asset in "Receivables" representing the government's obligation to remit principal and interest and recorded a "Payable to associated company" to WGL Energy Systems for the construction work performed for the same amount.

At September 30, 2022, Washington Gas had no contract assets and payables as all remaining projects were accepted by the government. At December 31, 2021, Washington Gas recorded $6.7 million of contract assets in "Receivables" and $6.7 million payable to WGL Energy Systems in "Payables to associated companies," for energy management services projects financed by WGL Energy Systems that were not complete.

Related Party Transactions with Hampshire

Hampshire, a wholly owned subsidiary of WGL, owns full and partial interests in underground natural gas storage facilities, including pipeline delivery facilities located in and around Hampshire County, West Virginia, and operates those facilities to serve Washington Gas, which purchases all of the storage services of Hampshire. Washington Gas includes the cost of these services in the bills sent to its customers and records the cost of the services in "Operation and maintenance" in its statements of operations. Hampshire operates under a "pass-through" cost of service-based tariff approved by the FERC and adjusts its billing rates to Washington Gas on a periodic basis to account for changes in its investment in utility plant and associated expenses. The arrangement between Hampshire and Washington Gas is classified as an operating lease. A ROU asset and lease liability were not recognized upon the adoption of ASC 842, Leases, because all the costs associated with the arrangement are variable. Washington Gas recorded expenses related to the cost of services provided by Hampshire in "Operation and maintenance " on Washington Gas' statements of operations of $3.1 million and $9.4 million for the three and nine months ended September 30, 2022, respectively, $2.3 million and $6.6 million for the three and nine months ended September 30, 2021, respectively. The outstanding balance not cleared between Washington Gas and Hampshire at the end of the reporting period was recorded in "Payable to associated companies" of Washington Gas' balance sheets.

Related Party Income Taxes

Washington Gas is included in the ASUS consolidated income tax returns. We have a tax sharing policy with ASUS that allocates consolidated tax liabilities and benefits using a ratio determined by the separate taxable income for each member applied to the consolidated return tax liability of the group. State income tax returns are filed on a separate company basis in most states and on a unitary basis as required, where we or the consolidated ASUS group have operations and/or a requirement to file.

At September 30, 2022, Washington Gas recorded a $60.8 million receivable in "Receivables from associated companies under the ASUS tax sharing policy on Washington Gas' balance sheets. Washington Gas had no receivable or payable with associated companies at December 31, 2021.

Other Related Party Transactions

In connection with billing for unregulated third-party marketers, including WGL Energy Services and with other miscellaneous billing processes, Washington Gas collects cash on behalf of affiliates and transfers the cash to the affiliates in a reasonable time period. Cash collected by Washington Gas on behalf of its affiliates but not yet transferred is recorded in “Payables to associated companies” on Washington Gas’ balance sheets.

Washington Gas provides gas balancing services related to storage, injections, withdrawals and deliveries to all third-party marketers participating in the sale of natural gas on an unregulated basis through the customer choice programs that operate in its service territory. Washington Gas records revenues in "Operating revenue" of its statements of operations for these balancing services pursuant to tariffs approved by the appropriate regulatory bodies. Washington Gas charged WGL Energy Services for balancing services of $3.6 million and $15.5 million for the three and nine months ended September 30, 2022, and $4.3 million and $18.0 million for the three and nine months ended September 30, 2021, respectively. Additionally, in June 2022, Washington Gas credited $3.9 million to WGL Energy Services for a rate refund from an interstate pipeline.

Washington Gas participates in a purchase of POR program as approved by the PSC of MD and separate program approved by the PSC of DC, whereby it purchases receivables from participating third-party marketers at approved discount rates. WGL Energy Services is one of the energy marketers that participates in these POR programs and sells its receivables to various utilities, including Washington Gas, at approved discount rates. The receivables purchased by Washington Gas are included in “Accounts receivable” in the accompanying balance sheet. At September 30, 2022 and December 31, 2021, Washington Gas had balances of $5.0 million and $10.0 million, respectively, of purchased receivables from WGL Energy Services.

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table shows the changes in accumulated other comprehensive income (AOCI) by component for the reporting periods.

Changes in Accumulated Other Comprehensive Income by Component

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2022**	2021	**2022**	2021
Beginning Balance	**$ 1,936**	$ 2,611	**$ 1,969**	$ 1,577
Amortization of prior service credit [(a)(b)]	**(50)**	(81)	**(149)**	(245)
Amortization of actuarial loss [(a)(b)]	**27**	31	**81**	96
Actuarial gain arising during the period [(a)]	**—**	—	**—**	1,568
Current-period other comprehensive income (loss)	**(23)**	(50)	**(68)**	1,419
Income tax expense related to pension and other post-retirement benefit plans retained in AOCI	**(17)**	(7)	**(29)**	428
Ending Balance	**$ 1,930**	$ 2,568	**$ 1,930**	$ 2,568

[(a)]*The accumulated other comprehensive income components are included in the computation of net periodic benefit cost.*
[(b)] *Amortization of prior service credit and amortization of actuarial loss represent the amounts reclassified out of AOCI to "Other income (expense)-net" of statements of operations for the reporting periods.*

NOTE 14. SUPPLEMENTAL CASH FLOW INFORMATION

The following table details the changes in operating assets and liabilities from operating activities, cash payments that have been included in the determination of earnings and non-cash investing and financing activities.

	Nine Months Ended September 30,	
(In thousands)	**2022**	2021
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Receivables	**$ 67,552**	117,361
(Receivable from)/Payable to associated companies — net	**(83,409)**	108,619
Gas costs and other regulatory assets/liabilities — net	**5,007**	(28,114)
Storage gas	**(105,485)**	(44,450)
Prepaid taxes	**27,947**	(13,169)
Accounts payable and other accrued liabilities	**(653)**	(42,366)
Customer deposits and advance payments	**7,438**	92
Accrued taxes	**(3,203)**	(8,869)
Other current assets	**15,463**	14,995
Other current liabilities	**(1,097)**	(1,092)
Deferred gas costs — net	**60,364**	32,443
Deferred assets — other	**(6,474)**	2,919
Deferred liabilities — other	**(24,741)**	(19,705)
Pension and other post-retirement benefits	**974**	(4,851)
Changes in operating assets and liabilities	**$ (40,317)**	$ 113,813
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid (refunded) — net	**$ (229)**	$ 10,400
Interest paid including interest for finance leases	**$ 68,655**	$ 63,964
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used for operating leases	**$ 4,331**	$ 4,336
Financing cash flows used for finance leases[(a)]	**$ 632**	$ 231
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Right-of-use assets obtained in exchange for new operating lease liabilities	**$ 369**	$ 1,796
Right-of-use assets obtained in exchange for new finance lease liabilities	**$ 1,935**	$ 1,722
Capital expenditure accruals included in accounts payable and other accrued liabilities	**$ 83,150**	$ 68,191

[(a)] *Operating cash flows related to finance leases are insignificant.*

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within Washington Gas' balance sheets that sums to the total of such amounts shown on the statements of cash flows.

(In thousands)	**September 30, 2022**	September 30, 2021
Cash and cash equivalents	**$ —**	$ 1
Restricted cash included in Current assets — Other	**6,102**	2,083
Restricted cash included in Deferred charges and other assets — Other	**6,648**	12,946
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	**$ 12,750**	$ 15,030

Restricted cash included in "Current assets — Other" and "Deferred charges and other assets — Other" on the balance sheets represents amount of investment in rabbi trusts to fund deferred compensation, pension and other post-retirement benefits for certain management personnel and directors. The rabbi trusts were funded pursuant to the agreement of merger with AltaGas. The funds in the rabbi trusts can only be used to pay for plan participant benefits and other plan expenses such as investment fees or trustee fees. The funds are invested in money market funds at the end of September 30, 2022 and 2021. Refer to Note 8 — *Pension and Other Post-Retirement Benefit Plans* for further discussion of rabbi trusts.

NOTE 15. SUBSEQUENT EVENTS

Subsequent events have been reviewed through October 28, 2022, the date these condensed financial statements were issued.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This Management's Discussion and Analysis analyzes the financial condition, results of operations and cash flows of Washington Gas. It includes management's narrative analysis of results of operations and reasons for material changes. This narrative discusses past financial results and potential factors that may affect future results, potential future risks and approaches that may be used to manage them. Except where the context clearly indicates otherwise, "Washington Gas," "we," "us," "our" or the "Company" refers to Washington Gas Light Company.

Management's Discussion and Analysis is designed to provide an understanding of our operations and financial performance and should be read in conjunction with the company's financial statements and the Notes to Condensed Financial Statements.

Results of Operations

Washington Gas has one operating segment that engages in its core business of delivering and selling natural gas under tariffs approved by regulatory commissions in the District of Columbia, Maryland and Virginia.

The following table summarizes the Company's financial and statistical data for the three and nine months ended September 30, 2022 and 2021.

Financial and Statistical Data

	Three Months Ended September 30,			Nine Months Ended September 30,		
($ in millions)	**2022**	2021	Increase/ (Decrease)	**2022**	2021	Increase/ (Decrease)
Financial Data						
Operating revenues	**$ 217.7**	$ 174.5	$ 43.2	**$ 1,170.0**	$ 1,006.5	$ 163.5
Less: Cost of gas	**49.8**	40.8	9.0	**457.1**	350.1	107.0
Less: Revenue taxes	**12.8**	11.3	1.5	**58.6**	55.8	2.8
Total net revenues	**155.1**	122.4	32.7	**654.3**	600.6	53.7
Operation and maintenance	**105.9**	102.1	3.8	**327.0**	298.4	28.6
Depreciation and amortization	**39.3**	37.2	2.1	**117.7**	110.8	6.9
General taxes and other assessments	**17.0**	16.1	0.9	**59.8**	59.0	0.8
Operating income (loss)	**(7.1)**	(33.0)	25.9	**149.8**	132.4	17.4
Other income (expense) - net	**11.4**	10.7	0.7	**33.9**	29.9	4.0
Interest expense	**19.5**	16.6	2.9	**55.7**	48.6	7.1
Income (loss) before income taxes	**(15.2)**	(38.9)	23.7	**128.0**	113.7	14.3
Income tax expense (benefit)	**(7.4)**	(8.0)	0.6	**17.0**	23.5	(6.5)
Net income (loss)	**$ (7.8)**	$ (30.9)	$ 23.1	**$ 111.0**	$ 90.2	$ 20.8
Statistical Data						
Sales Volumes *(millions of therms)* [(a)]						
Firm customers	**122.8**	112.6	10.2	**960.8**	937.2	23.6
Interruptible customers	**47.8**	46.6	1.2	**181.2**	175.9	5.3
Other	**39.6**	24.1	15.5	**78.9**	65.7	13.2
Total gas volumes	**210.2**	183.3	26.9	**1,220.9**	1,178.8	42.1
HDDs-Actual	**17**	—	17	**2,334**	2,310	24
Average active customer meters	**1,222,000**	1,207,000	15,000	**1,221,000**	1,207,000	14,000
Ending active customer meters	**1,222,529**	1,207,618	14,911	**1,222,529**	1,207,618	14,911
New customer meters added	**2,791**	3,247	(456)	**8,200**	8,947	(747)

[(a)] *Excludes sales volumes related to our asset optimization program.*

The $23.1 million improvement in the seasonal net loss for the three months ended September 30, 2022 compared to the same prior year period was primarily from higher net revenues driven by an increase in realized margins associated with our asset optimization program.

The $20.8 million increase in net income for the nine months ended September 30, 2022 compared to the same prior year period was primarily from higher net revenues driven by an increase in realized margins associated with our asset optimization program, the impact of rate cases and higher accelerated pipe replacement revenue surcharges. Partially offsetting the increase in net income was higher operation and maintenance costs primarily related to our customer call center and leak mitigation efforts.

Revenues

Operating revenues increased by $43.2 million in the three months ended September 30, 2022 compared to the three months ended September 30, 2021 mainly driven by an increase in the cost of gas recovered and higher accelerated pipe replacement surcharges.

Operating revenues increased by $163.5 million in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 mainly driven by an increase in the cost of gas recovered, the impact of rate cases and higher accelerated pipe replacement revenue surcharges.

We utilize the non-GAAP measure of net revenues, calculated as revenues less the associated cost of energy and applicable revenue taxes, to assist in the analysis of profitability. The cost of the natural gas commodity and revenue taxes are included in the rates that Washington Gas charges to customers as reflected in operating revenues. Accordingly, changes in the cost of gas and revenue taxes associated with sales made to customers generally have no direct effect on utility net revenues, operating income or net income. Net revenues should not be considered an alternative to, or a more meaningful indicator of our operating performance than operating revenues. Additionally, net revenues may not be comparable to similarly titled measures of other companies.

The table above reconciles net revenues to operating revenues for the reporting periods. Net revenues increased by $32.7 million in the three months ended September 30, 2022 compared to the three months ended September 30, 2021. Net revenues increased by $53.7 million in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The following explains the main drivers for the increase in net revenues.

Impact of rate cases

Favorable rate case impacts in the District of Columbia and Maryland caused a $13.6 million increase in net revenues for the nine months ended September 30, 2022 compared to the same prior year period due to new rates being effective April 2021 for the District of Columbia and March 2021 for Maryland. There was no impact for the three months ended September 30, 2022 compared to the same prior year period. The rate case impacts include increases from APRP revenues being transferred into base rates as a result of the rate cases.

APRP Revenues

Approved APRPs in all jurisdictions drove a $4.1 million and $8.6 million increase in net revenues for the three and nine months ended September 30, 2022 compared to the same prior year periods, driven by the associated surcharge mechanism to recover the cost, including a return, on those capital investments.

Asset optimization

Realized margins associated with our asset optimization program increased $24.9 million, which was partially offset by an increase in unrealized losses associated with derivatives of $6.2 million for the three months ended September 30, 2022 compared to the same prior year period. Realized margins associated with our asset optimization program increased $37.8 million, which was partially offset by an increase in unrealized losses associated with derivatives of $31.4 million for the nine months ended September 30, 2022 compared to the same prior year period. Refer to Note 10 — *Derivatives* for detail discussion.

Estimated effects of weather and consumption patterns

In the District of Columbia, Washington Gas does not have a billing mechanism to offset the effects of weather or usage on net revenues. Natural gas consumption patterns may be affected by shifts in weather patterns and non-weather-related factors such as customer conservation.

Weather, as measured by Heating Degree Days, did not vary significantly for the three and nine months ended September 30, 2022 compared to the same prior year periods.

Operation and Maintenance Expenses

Operating and maintenance expenses increased $3.8 million and $28.6 million for the three and nine months ended September 30, 2022, respectively, compared to the same prior year periods. The increase was primarily driven by increased costs related to our customer call center and leak mitigation efforts.

Depreciation and Amortization

Depreciation and amortization increased $2.1 million and $6.9 million for the three and nine months ended September 30, 2022, respectively, compared to the same prior year periods. The increase was driven mainly by capital additions.

General taxes and other assessments

General taxes and other assessments increased $0.9 million and $0.8 million for the three and nine months ended September 30, 2022, respectively, compared to the same prior year periods.

Other income (expense)

The increase in other income (expense) between the three and nine months ended September 30, 2022 and 2021 of $0.7 million and $4.0 million, respectively, was due to higher net periodic benefit income associated with our pension and post-retirement plans.

Interest expense

The increase in interest expense between the three and nine months ended September 30, 2022 and 2021 of $2.9 million and $7.1 million, respectively, was due to increased average long-term debt balances and higher interest rates on our commercial paper.

Income tax expense (benefit)

The income tax benefit for the three months ended September 30, 2022 was $7.4 million compared to $8.0 million for the same prior year period. The effective income tax rate for the nine months ended September 30, 2022 was 13.3% compared to 20.7% for the same prior year period. The change in effective tax rate for the nine months ended September 30, 2022 compared to the same prior year period was driven by tax return true ups which included the generation of research and development tax credits and state tax adjustments.

Liquidity and Capital Resources

General Factors Affecting Liquidity

Washington Gas generally meets its liquidity and capital needs through cash on hand, retained earnings, the issuance of commercial paper and long-term debt, and equity contributions from its parent companies. Access to short-term debt markets provides funding to our short-term liquidity requirements, the most significant of which include buying natural gas and pipeline capacity, and financing both accounts receivable and storage gas inventory. We have accessed long-term capital markets primarily to fund capital expenditures and retire matured long-term debt. Under the Merger commitments agreed to by AltaGas and Washington Gas, including other rules imposed by regulatory commissions or laws in Washington Gas' service territory, the Company is prohibited to make advances or issue loans to an affiliate or parent holding company without prior regulatory commission approval.

Generally, pursuant to its Merger commitments, Washington Gas can make dividend payments in the ordinary course of business unless any of the following regulatory limitations apply: *(i)* Washington Gas will not pay dividends to its parent company if Washington Gas' senior unsecured debt rating is below investment grade or *(ii)* Washington Gas will not make a dividend payment to its parent company if the payment would result in its equity level dropping below 48%. At September 30, 2022, we had no significant restrictions on our cash balances or retained earnings that would affect the payment of dividends.

As of September 30, 2022, we believe that our cash flows from operations and sources of funding will provide sufficient liquidity to satisfy our operating activities, capital expenditures and financial obligations. Based on market conditions, we will continue to assess our liquidity needs, the ability to access capital markets for commercial paper or long-term debt financing, and potential impacts due to the ability of our customers to pay for services.

Short-Term Cash Requirements and Related Financing

Washington Gas has seasonal short-term cash requirements to fund the purchase of storage gas inventory in advance of the winter heating season. The Company collects the cost of gas under cost recovery mechanisms approved by our regulators.

In the first and fourth quarters of each year, Washington Gas' large sales volumes cause its cash requirements to peak when combined storage inventory, accounts receivable, and unbilled revenues are at their highest levels. In the second and third quarters of each year, after the heating season, Washington Gas typically experiences a seasonal net loss due to reduced demand for natural gas. During this period, large amounts of Washington Gas' current assets are converted to cash, which Washington Gas generally uses to reduce its debt.

Washington Gas uses short-term debt primarily in the form of commercial paper to fund seasonal cash requirements. Our policy is to maintain back-up bank credit facilities in an amount equal to or greater than our expected maximum short-term financing requirements. Washington Gas classifies certain commercial paper balances as "Long-term debt" on the balance sheets based on its ability and intent to refinance these balances on a long-term basis. At both September 30, 2022 and December 31, 2021, $100.0 million of our commercial paper balance was classified as long term debt on Washington Gas' balance sheets, respectively. Bank credit balances available to Washington Gas under the existing credit facility, net of commercial paper balances, were $112.4 million and $223.0 million at September 30, 2022 and December 31, 2021, respectively.

Long-Term Cash Requirements and Related Financing

The primary drivers of our long-term cash requirements are capital expenditures and long-term debt maturities. Our capital expenditures primarily relate to adding new utility customers and system supply and maintaining the safety and reliability of Washington Gas' distribution system.

Security Ratings

The table below reflects the current credit ratings for the outstanding debt instruments of Washington Gas. Changes in credit ratings may affect Washington Gas' cost of short-term and long-term debt and our access to the capital markets. A security rating is not a recommendation to buy, sell or hold securities. Credit ratings are subject to revision or withdrawal at any time by the assigning rating organization and each rating should be evaluated independently of any other rating.

Rating Service	Senior Unsecured	Commercial Paper
Fitch Ratings	A	F2
Moody's Investors Service	A3	P-2
Standard & Poor's Ratings Services	A-	A-2

Ratings Triggers and Certain Debt Covenants

Under the terms of Washington Gas' revolving credit facility and private placement note agreements, the ratio of consolidated financial indebtedness to consolidated total capitalization cannot exceed 0.65 to 1.0 (65.0%). At September 30, 2022 and December 31, 2021, Washington Gas' ratios of consolidated financial indebtedness to consolidated total capitalization were 49% and 48%, respectively. In addition, Washington Gas is required to inform lenders of changes that might have a material effect on debt ratings. The failure to inform the lenders' agent of material changes might constitute default under the agreements. Additionally, failure to pay principal or interest on any other indebtedness may be deemed a default under our credit agreements. A default, if not remedied, may lead to obligations becoming immediately due and payable. In addition, the Washington Gas credit facility contain cross-default provisions, that would declare Washington Gas in default on its credit facility if it were to default on certain of its other indebtedness. At September 30, 2022 and December 31, 2021, we were in compliance with all of the covenants under our revolving credit facility and private placement notes.

Historical Cash Flows

Cash Flows Provided by Operating Activities

Washington Gas' cash flows from operating activities principally reflect receipts from gas sales and payments for gas deliveries and operating costs. Cash flows provided by operating activities were $312.5 million for the nine months ended September 30, 2022, compared to $362.9 million for the nine months ended September 30, 2021.

Cash Flows Provided by (Used in) Financing Activities

Net cash flows provided by financing activities were $35.1 million for the nine months ended September 30, 2022, compared to $47.4 million net cash flows used in for the same period in 2021. This reflects an increase in short term borrowings by $82.6 million.

Cash Flows Used in Investing Activities

Cash flows used in investing activities totaled $349.3 million and $322.4 million for the nine months ended September 30, 2022 and 2021, respectively, which reflects higher capital expenditures.

APRPs APRPs are in place in all three of our jurisdictions with an associated surcharge mechanism to recover the cost, including a return, on those capital investments between base rate cases. The following table summarizes the current status of our APRPs.

Jurisdiction	Estimated Cost	Expenditure to Date [(a)]	Status
District of Columbia	Estimated $150 million over the period from January 2021 to December 2023, plus additional expenditures in subsequent periods.	$67.1 million	The second phase of PROJECTpipes began in January 2021.
Maryland	Estimated $350 million over the five-year period from January 2019 to December 2023, plus additional expenditures in subsequent periods.	$259.8 million	The second phase of the STRIDE began in January 2019. On March 2, 2022, the PSC of MD issued an order reducing the calendar year 2022 STRIDE surcharge by 14.7% for the remainder of the year. The order noted that Washington Gas filed its revised surcharge in compliance with the order on February 11, 2022. Recovery of STRIDE expenditures not included in this surcharge will be requested through the normal rate-making process.
Virginia	Estimated $500 million over the five year period from January 2018 to December 2022 and $878 million over the five year period from January 2023 to December 2027.	$498.7 million	The second phase of the SAVE Plan will be completed by December 31, 2022. On May 26, 2022, the SCC of VA approved total Company investment of approximately $878 million (which may be exceeded by up to 5%) for the period January 1, 2023 to December 31, 2027.

[(a)] The APRPs are long-term projects with multiple phases for which expenditures are approved by the regulators and typically managed in multi-year increments. Expenditures to date only include amounts for the current programs described above, and exclude any expenditures made under prior increments of the programs. Actual regulatory filings may differ from reported amounts.

Refer to "*Rates and Regulatory Matters*" for a further discussion on rate case decisions during the periods including the transfer of costs from surcharge to base rate recovery.

Credit Risk

Retail Credit Risk

Washington Gas is at risk of non-payment of utility bills by customers. To manage this customer credit risk, Washington Gas may require cash deposits from high risk customers to cover payment of their bills until the requirements for the deposit refunds are met. Base rates include a provision for recovery of uncollectible accounts based on historical levels of charge offs of accounts receivable. Washington Gas also has a provision in its Gas Administrative Charge mechanism that includes an allowance for commodity amounts included in uncollectible accounts. In addition, Washington Gas has a POR program in Maryland and the District of Columbia, whereby it purchases receivables from participating energy marketers at approved discount rates, which incorporates the risk of non-payment by the retail customers for these receivables.

Rates and Regulatory Matters

Washington Gas makes its requests to modify existing rates based on its determination of the level of net investment in plant and equipment, operating expenses, and a level of return on invested capital that is just and reasonable. The following is an update of significant current regulatory matters in Washington Gas' jurisdictions.

District of Columbia 2022 Rate Case

On April 4, 2022, Washington Gas filed an application for authority to increase rates in the District of Columbia. The requested rates are designed to collect an incremental $53.0 million in total annual revenues requesting a 10.4% rate of return on equity. Of the requested revenue increase, $5.3 million represents costs currently collected through the PROJECTpipes surcharge; therefore, the incremental amount of the base rate increase is approximately $47.7 million. Washington Gas requests that new rates be implemented in February 2023. The PSC of DC adopted a procedural schedule on August 12, 2022, and supplemental testimony was filed on September 2, 2022. Discovery in the case is ongoing. The direct testimony of DC OPC and intervenors is due November 4, 2022. Rebuttal testimony is due to be filed on January 6, 2023, and evidentiary hearings are scheduled for February 2023.

Maryland 2020 Rate Case

On May 14, 2021, MD OPC submitted a petition for rehearing of the PSC of MD's finding on merger synergy savings and certain rate base additions included in the 2020 final rate case order. This petition was denied and the MD OPC filed an appeal with the Circuit Court of Baltimore City (the Circuit Court). On February 25, 2022, the Circuit Court reversed the PSC of MD's denial and remanded the two issues back to the PSC of MD. On March 10, 2022, the PSC of MD and Washington Gas jointly filed a Motion to Alter or Amend Judgment to the Circuit Court's ruling on the merger synergy savings issue and MD OPC filed a response. By order dated May 31, 2022, the Circuit Court granted the PSC of MD and Washington Gas' joint motion, determining that the PSC of MD properly permitted Washington Gas' recovery of corporate costs and relieving the PSC of MD of the obligation to rule on merger synergy savings on remand. The PSC of MD still must issue an order on the challenged rate base additions, per the Circuit Court's original ruling. On June 30, 2022, MD OPC filed an appeal of the Circuit Court's new order on merger synergy savings to the Maryland Court of Special Appeals. Washington Gas anticipates a final decision from the Maryland Court of Special Appeals by the end of the first quarter of 2023.

Virginia 2022 Rate Case

On June 29, 2022, Washington Gas filed an application for authority to increase rates in the Commonwealth of Virginia. The requested rates are designed to collect an incremental $48.0 million in total annual revenues requesting a 10.75% rate of return on equity. This base rate increase is separate from the $38.6 million revenue requirement relating to transferring expenditures incurred under the Company's SAVE plan, an accelerated infrastructure replacement program, to base rates (concurrently, the SAVE Plan surcharge will be reset). The total proposed base rate increase is $86.6 million. Under Virginia law, Washington Gas may implement the proposed rates, on an interim basis subject to refund on November 26, 2022, which is 150 days after its application was filed. The Staff testimony is due on March 10, 2023, Washington Gas' rebuttal testimony on April 7, 2023, and the hearing is scheduled for May 2, 2023.

Customer Service Matters

District of Columbia. On September 15, 2021, the PSC of DC issued an Order directing Washington Gas to submit a corrective action plan to bring Washington Gas into compliance with the NGQSS regarding call response time standards. The Order also stated that Washington Gas shall not disconnect gas customers for non-payment until Washington Gas complies with NGQSS or such time as the PSC of DC otherwise determines.

Washington Gas filed a corrective action plan with the PSC of DC on September 27, 2021, and has complied with the additional filing requirements. In March 2022, the Commission issued an order stating that Washington Gas may resume collection activities, but not disconnections, and shall not assess late fees for the calendar years 2020 and 2021 for all classes of customers. On April 1, 2022, Washington Gas filed a Motion Requesting Permission to Resume Non-Payment Disconnections demonstrating it met the threshold for compliance with the NGQSS. On April 22, 2022, the PSC of DC granted Washington Gas' motion to resume disconnections.

Maryland. On September 30, 2021, the MD OPC filed a motion to establish a corrective action plan to address customer service matters and impose civil penalties or, alternatively, to order Washington Gas to show cause why the Commission should not impose civil penalties. The MD OPC's request asserted that Washington Gas violated Condition 11 of the PSC of MD Order in the Washington Gas Merger proceeding with AltaGas because it had not devoted the resources necessary to ensure continued compliance with all Commission regulations. The MD OPC asserted that this failure made it impossible for customers to successfully and promptly communicate complaints and disputes resulting in Washington Gas being unable to satisfactorily resolve or report them pursuant to its obligations under the Code of Maryland regulations. On October 22, 2021, Washington Gas timely filed its response to MD OPC's motion with a 10-Step Corrective Action Plan.

On December 23, 2021, the PSC of MD issued an Order on MD OPC's motion which found, among other things that Washington Gas violated the Maryland Code of Regulations and the AltaGas Merger Order and accepted Washington Gas' Corrective Action Plan, subject to modifications, including the suspension of dunning letters, disconnections, and late fees until Washington Gas meets required customer service standards for three consecutive months. On March 17, 2022, the PSC of MD issued an order imposing a civil penalty of $1.1 million, which Washington Gas paid in full on March 31, 2022.

On September 2, 2022, Washington Gas filed with the PSC of MD a request to resume normal customer care operations. Washington Gas's request is currently pending before the PSC of MD.

Other Regulatory Matters

District of Columbia AMP

On October 6, 2022, the PSC of DC approved our request to automatically enroll District of Columbia energy assistance customers to AMP. In addition, the commission extended AMP for 2 years beginning November 1, 2022 and concluding October 31, 2024.

Virginia CARE Plan

Effective May 1, 2022, the SCC of VA approved Washington Gas' natural gas CARE plan modifying and expanding the existing portfolio of programs for residential customers with a total three-year budget of approximately $12 million. The approved CARE Plan also includes a new program for eligible commercial, industrial and group metered apartment customers, which allows Washington Gas to extend the CRA to include these participating customers.

Critical Accounting Policies

Our critical accounting estimates have not changed materially from those previously reported in our Annual Report for the year ended December 31, 2021.