Washington Gas Light Company

Annual Financial Report

For the Year Ended December 31, 2021

Washington Gas Light Company

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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 issue 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:

- Impacts related to the COVID-19 global health pandemic;
- political insecurity and civil unrest that could threaten Company property and personnel; hazards involved in the storage, transportation, moving, and marketing of hydrocarbon products;
- leaks, mechanical problems, incidents, or other operational issues that could affect public safety and the reliability of Washington Gas’ distribution system;
- cyberattacks, including cyberterrorism, or other information technology security breaches or failures;
- 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;
- concerns involving climate change and the movement for carbon neutral energy sources;
- the extent 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 financial risks, and the movement for carbon neutral energy sources;
- 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 registrant. Readers are urged to use care and consider the risks, uncertainties and other factors that could affect the registrant's business as described in this Annual Report.

GLOSSARY OF KEY TERMS AND DEFINITIONS

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 (PROJECT*pipes* for the District of Columbia, SAVE for Virginia, and STRIDE for Maryland).

Accounting Standards Codification (ASC): The source of authoritative generally accepted accounting principles (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.

Bundled Service: Service in which customers purchase both the natural gas commodity and the distribution or delivery of the commodity from the local regulated utility. When customers purchase bundled service from Washington Gas, no mark-up is applied to the cost of the natural gas commodity that is passed through to 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.

City Gate: A point or measuring station at which a gas distribution company, such as Washington Gas, receives natural gas from an unaffiliated pipeline or transmission system.

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.

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.

Financial Contract: A contract in which no commodity is transferred between parties and only cash payments are exchanged in amounts equal to the financial benefit of holding the contract.

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.

Lower-of-Cost or Net Realizable Value: The process of adjusting the value of inventory to reflect the lesser of its original cost or its net realizable value.

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

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

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.

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 (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.

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: 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.

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 content 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 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 years ended December 31, 2021, 2020 and 2019.

Financial and Statistical Data

	Years Ended December 31,			Increase/(Decrease)	
($ in millions)	**2021**	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Financial Data					
Operating revenues	**$ 1,449.1**	$ 1,234.3	$ 1,330.7	$ 214.8	$ (96.4)
Less: Cost of gas	**520.2**	328.2	461.6	192.0	(133.4)
Less: Revenue taxes	**77.6**	77.5	81.8	0.1	(4.3)
Total net revenues	**851.3**	828.6	787.3	22.7	41.3
Operation and maintenance	**407.1**	399.5	405.0	7.6	(5.5)
Depreciation and amortization	**148.3**	145.6	142.6	2.7	3.0
General taxes and other assessments	**77.1**	75.1	67.8	2.0	7.3
Operating income	**218.8**	208.4	171.9	10.4	36.5
Other income - net	**40.3**	21.7	5.9	18.6	15.8
Interest expense	**65.7**	65.4	62.6	0.3	2.8
Income before income taxes	**193.4**	164.7	115.2	28.7	49.5
Income tax expense	**37.4**	32.8	18.1	4.6	14.7
Net income	**$ 156.0**	$ 131.9	$ 97.1	$ 24.1	$ 34.8
Statistical Data					
Sales Volumes *(millions of therms)* [(a)]					
Firm	**1,324.0**	1,267.8	1,410.0	56.2	(142.2)
Interruptible	**239.9**	244.9	259.4	(5.0)	(14.5)
Other	**95.5**	96.7	103.8	(1.2)	(7.1)
Total sales volumes	**1,659.4**	1,609.4	1,773.2	50.0	(163.8)
HDDs-actual	**3,400**	3,269	3,552	131	(283)
Average active customer meters	**1,208,000**	1,201,000	1,189,000	7,000	12,000
Ending active customer meters	**1,217,179**	1,205,529	1,192,462	11,650	13,067
New customer meters added	**13,695**	12,480	11,898	1,215	582

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

The $24.1 million improvement in net income for the year ended December 31, 2021 compared to the prior year was mainly from higher net revenues driven by the impact of rate cases and accelerated pipe replacement programs. The improvement in net income was also due to higher other income-net driven by higher net periodic benefit income associated with our pension and post-retirement plans. Partially offsetting the improvement in net income were higher employee incentives and customer experience costs along with lower margins associated with our asset optimization program.

Revenue

Operating revenues increased by $214.8 million in the year ended December 31, 2021 compared to the prior year mainly driven by an increase in the cost of gas recovered, the impact of rate cases and higher accelerated pipe replacement program 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 $22.7 million in the year ended December 31, 2021 compared to the prior year. The following explains the main drivers noted above for the change in operating revenues, as well as the additional drivers for the increase in net revenues.

Impact of rate cases

Favorable rate case impacts caused a $14.4 million increase in net revenues for the year ended December 31, 2021 compared to the prior year, due to higher rates in the District of Columbia and Maryland, partially offset by a prior period true-up to a Virginia rate refund liability to reflect higher final commission approved rates. The rate case impacts include accelerated replacement program revenue being transferred into base rates as a result of the rate cases.

APRPs

Approved APRPs drove a $10.5 million increase in net revenues for the year ended December 31, 2021 compared to the prior year driven by the associated surcharge mechanism to recover the cost, including a return, on those capital investments.

Asset optimization

Realized and unrealized margins associated with our asset optimization program decreased $7.5 million for the year ended December 31, 2021, compared to the prior year, primarily due to a decrease in unrealized mark-to-market valuations associated with derivatives used in the program. Refer to Note 14 — *Derivatives* for a discussion of our asset optimization program and the related derivative transactions.

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 HDDs, was colder for the year ended December 31, 2021 compared to the prior year; however, the estimated effects of weather and consumption patterns was minimal.

Operation and Maintenance Expenses

Operating and maintenance expenses increased $7.6 million for the year ended December 31, 2021 compared to the prior year. The increase was driven mainly by higher stock-based compensation expense as well as increased costs related to the transition of our call center, partially offset by lower bad debt expense and operational efficiencies.

Depreciation and Amortization

Depreciation and amortization increased $2.7 million for the year ended December 31, 2021 compared to the prior year. The increase was driven mainly by capital additions.

General taxes and other assessments

The $2.0 million increase in general taxes and other assessments for the year ended December 31, 2021 compared to the prior year was associated with property taxes.

Other income-net

The increase in other income for the year ended December 31, 2021 compared to the prior year of $18.6 million was due to higher net periodic benefit income associated with our pension and post-retirement plans.

Income tax expense

The effective income tax rate for the year ended December 31, 2021 was 19.3% compared to 19.9% for the prior year. Refer to Note 9 — *Income Taxes* of the Notes to Financial Statements for details.

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 to drop below 48%. At December 31, 2021, we had no significant restrictions on our cash balances or retained earnings that would affect the payment of dividends.

As of December 31, 2021, we believe that our cash flows from operations and sources of funding will provide sufficient liquidity to satisfy our operating activities, capital expenditures, financial obligations, and the potential effects of COVID-19. Depending on the duration and severity of economic impacts caused by the pandemic, 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.

Washington Gas uses short-term debt in the form of commercial paper or unsecured short-term bank loans 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 commercial paper position. 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 December 31, 2021 and 2020, $100.0 million of our commercial paper balance was classified as long term debt on Washington Gas' balance sheets. Bank credit balances available to Washington Gas under the existing credit facility, net of commercial paper balances, were $223.0 million and $165.0 million at December 31, 2021 and 2020, 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.

During the years ended December 31, 2021, Washington Gas issued unsecured private placement notes with an aggregate principal amount of $200.0 million and 2.98% fixed interest rate that are due in December 2051. The proceeds are to be used by the Company primarily for general corporate purposes, including the retirement of short-term debt, capital expenditures, and working capital.

During the years ended December 31, 2021 and 2020, Washington Gas received equity contributions from Wrangler in the total amount of $110.0 million and $225.0 million, respectively. On December 10, 2020, Washington Gas issued MTNs with an aggregate principal amount of $100.0 million and 3.65% fixed interest rate that are due in September 2049.

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)]	A	F2
Moody's Investors Service[(b)]	A3	P-2
Standard & Poor's Ratings Services[(c)]	A-	A-2

(a) Fitch affirmed Washington Gas' long-term debt ratings outlook as stable in April 2020.
(b) On January 30, 2020, Moody's downgraded Washington Gas' senior unsecured debt credit rating from A2 to A3, and its commercial paper rating from P-1 to P-2, and adjusted its long-term debt rating outlook from negative to stable.
(c) On December 11, 2019, Standard & Poor raised Washington Gas' senior unsecured debt credit rating from BBB+ to A- and adjusted its outlook from negative to stable. Its commercial paper rating remained A-2.

Ratings Triggers and Certain Debt Covenants

Under the terms of Washington Gas' revolving credit agreements and private placement notes, the ratio of consolidated financial indebtedness to consolidated total capitalization cannot exceed 0.65 to 1.0 (65.0%). At December 31, 2021 and 2020, Washington Gas' ratios of consolidated financial indebtedness to consolidated total capitalization were 48%. 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 December 31, 2021 and 2020, we were in compliance with all of the covenants under our revolving credit facility and private placement notes.

Historical Cash Flows

The following table summarizes Washington Gas' net cash provided by (used in) operating, investing and financing activities for the years ended December 31, 2021, 2020 and 2019.

(In millions)	Years Ended December 31, 2021	2020	2019	Increase (decrease) 2021 vs. 2020	2020 vs. 2019
Cash provided by (used in):					
Operating activities	**$ 315.2**	$ 224.8	$ 203.3	$ 90.4	$ 21.5
Financing activities	**$ 150.7**	$ 125.8	$ 219.4	$ 24.9	$ (93.6)
Investing activities	**$ (473.6)**	$ (389.8)	$ (433.0)	$ (83.8)	$ 43.2

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 $315.2 million for 2021, compared to $224.8 million in 2020. The increase was mainly due to the collection of receivables under our tax sharing agreement with associated companies, partially offset by higher cash payments for gas purchases due to higher gas costs coupled with an increase in customer accounts receivable.

Cash Flows Provided by Financing Activities

Net cash flows provided by financing activities was $150.7 million in 2021 compared to $125.8 million in 2020. This increase reflects a net increase in long and short term borrowing by $139.9 million, partially offset by a decline in capital contributions from parent of $115.0 million.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities totaled $473.6 million and $389.8 million for the years ended December 31, 2021 and 2020, respectively, which consists of capital expenditures.

The following table depicts our actual capital expenditures for the years ended December 31, 2021, 2020, and 2019. Our capital outlays include expenditures to extend service to new areas, and to ensure safe, reliable and improved service for our customers.

Capital Expenditures

(In millions)	Years Ended December 31, 2021	2020	2019
New business[(a)]	**$ 134.4**	$ 96.9	$ 135.1
Replacements:			
Accelerated Replacement Programs[(b)]	**219.3**	167.8	167.1
Replacements - Other	**98.7**	97.9	87.8
Other utility [(d)]	**21.2**	27.2	43.0
Total [(c)]	**$ 473.6**	$ 389.8	$ 433.0

[(a)] Includes certain projects that support the existing distribution system.
[(b)] Represents capital expenditures (excluding cost of removal) approved under our Accelerated Pipeline Replacement Programs in all jurisdictions. Refer to the section entitled "Accelerated Pipeline Replacement Programs" below for a further discussion.
[(c)] Excludes Allowance for Funds Used During Construction and cost of removal.
[(d)] Represents capital expenditures on storage & pumping facilities, general plant and distribution equipment.

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.	$33.3 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.	$206.5 million	The second phase of 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, including cost of removal, plus additional expenditures in subsequent periods.	$401.7 million	The second phase of SAVE began in January 2018.

[(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.

Off-Balance Sheet Arrangements

Washington Gas did not have any material off-balance sheet arrangements as of, or subsequent to, December 31, 2021 or upon the date these consolidated financial statements were issued.

Credit Risk

Wholesale Credit Risk

Washington Gas enters into transactions with wholesale counterparties for the purpose of meeting firm ratepayer commitments, to optimize the value of its long-term capacity assets, and for hedging natural gas costs. Certain wholesale suppliers that sell natural gas to Washington Gas may have relatively low credit ratings or may not be rated by major credit rating agencies. In the event of a counterparty's failure to deliver contracted volumes of gas or fulfill its payment obligations, Washington Gas may incur losses if they are not passed through to its sales customers under the purchased gas cost adjustment mechanisms.

Washington Gas operates under an existing wholesale counterparty credit policy that is designed to mitigate credit risks through requirements for credit enhancements including, but not limited to, letters of credit, parent guarantees and cash collateral when deemed necessary. In accordance with this policy, Washington Gas has obtained credit enhancements from certain of its counterparties. If certain counterparties or their guarantors meet the policy's creditworthiness criteria, Washington Gas may grant unsecured credit to those counterparties or their guarantors. The creditworthiness of all counterparties is continuously monitored.

The following table provides information on our credit exposure, net of collateral, to wholesale counterparties as of December 31, 2021.

Credit Exposure to Wholesale Counterparties *(In millions)*

Rating[(a)]	Exposure Before Credit Collateral[(b)]	Offsetting Credit Collateral Held[(c)]	Net Exposure	Number of Counterparties Greater Than 10%[(d)]	Net Exposure of Counterparties Greater Than 10%
Investment Grade	$ 38.5	$ —	$ 38.5	2	$ 21.8
Non-Investment Grade	14.8	4.0	10.8	1	10.8
No External Ratings	3.3	1.8	1.5	—	—

[(a)] Investment grade is primarily determined using publicly available credit ratings of the counterparty. If the counterparty has provided a guarantee by a higher-rated entity (e.g., its parent), it is determined based upon the rating of its guarantor. Included in "Investment grade" are counterparties with a minimum Standard & Poor's or Moody's Investor Service rating of BBB- or Baa3, respectively.
[(b)] Includes the net of all open positions on energy-related derivatives subject to mark-to-market accounting requirements and the net receivable/payable for the realized transactions. Amounts due from counterparties are offset by liabilities payable to those counterparties to the extent that contractual netting arrangements are in place.
[(c)] Represents cash deposits and letters of credit received from counterparties, not adjusted for probability of default.
[(d)] Using a percentage of the net exposure.

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 Gas Administrative Charge mechanism in all jurisdictions 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.

COVID-19 created challenges which could impact the ability of the Company's customers to pay for services. As a result of regulatory orders related to the COVID-19 pandemic, Washington Gas temporarily suspended dunning activities, including, customer disconnections for non-payment, temporarily suspended collection activities and temporarily waived assessing and billing late payment fees. While many of these COVID-19 regulatory suspensions were lifted in 2021, as a result of customer service matters, Washington Gas continues to suspend certain dunning activities, including disconnections, in Maryland and the District of Columbia. In Virginia, we voluntarily suspended dunning activities until February 1, 2022. Additionally, each of the jurisdictions has disconnection restrictions during the winter period from November 1-March 31. Refer to "*Rates and Regulatory Matters*" for updates on customer service matters, and COVID-19 related orders. Refer to Note 2 — *Credit Losses* for further discussions on COVID-19 impact.

Market Risk

We are exposed to various forms of market risk including commodity price risk, weather risk and interest-rate risk. The following discussion describes these risks and our management of them.

Price Risk

Washington Gas faces price risk associated with the purchase and sale of natural gas. Washington Gas generally recovers the cost of the natural gas to serve customers through purchased gas cost adjustment mechanisms as approved in jurisdictional tariffs; therefore, a change in the price of natural gas generally has no direct effect on Washington Gas' net income. However, Washington Gas is responsible for following competitive and reasonable practices in purchasing natural gas for its customers.

To manage price risk associated with its natural gas supply to its firm customers, Washington Gas: *(i)* actively manages its gas supply portfolio to balance sales and delivery obligations; *(ii)* injects natural gas into storage during the summer months when prices are generally lower, and withdraws that gas during the winter heating season when prices are generally higher and *(iii)* enters into hedging contracts and other contracts that may qualify as derivative instruments related to the sale and purchase of natural gas.

Washington Gas executes commodity-related physical and financial contracts in the form of forward, futures and option contracts as part of an asset optimization program that is managed by its internal staff. Under this program, Washington Gas realizes value from its long-term natural gas transportation and storage capacity resources when they are not being fully used to serve utility customers. Regulatory sharing mechanisms in all three jurisdictions allow the profit from these transactions to be shared between Washington Gas' customers and shareholders.

Refer to Note 14 — *Derivatives* and Note 15 — *Fair Value Measurements* of the Notes to Financial Statements for a further discussion of our derivative activities and fair value measurements.

Weather Risk

The Company is exposed to various forms of weather risk due to seasonal operations, with a significant portion of its revenues derived from the delivery of natural gas to residential and commercial heating customers during the winter heating season. Weather conditions directly influence the volume of natural gas delivered by Washington Gas. Weather patterns tend to be more volatile during "shoulder" months within our calendar year. "Shoulder" months are those months in which Washington Gas is going into or coming out of the winter heating season. During the shoulder months within quarters ending June 30 (particularly in April and May) and December 31 (particularly in October and November), customer heating usage may not highly correlate with historical levels or with the level of heating degree days that occur, particularly when weather patterns experienced are not consistently cold or warm.

Washington Gas does not have a weather-related instrument or billing adjustment mechanism in the District of Columbia and as a result, its revenues are volume driven and current rates are based upon an assumption of normal weather. Without weather protection strategies, variations from normal weather will cause our earnings to increase or decrease depending on the weather pattern.

Billing Adjustment Mechanisms. In Maryland, Washington Gas has an RNA billing mechanism that is designed to stabilize the level of net revenues collected from Maryland customers by eliminating the effect of deviations in customer usage caused by variations in weather from normal levels and other factors such as conservation. In Virginia, Washington Gas has a WNA billing adjustment mechanism that is designed to eliminate the effect of variations in weather from normal levels on utility net revenues for residential, commercial and industrial and group metered apartment customers. Additionally, in Virginia, as part of the CARE plan, Washington Gas has a CRA mechanism that eliminates the effect of conservation and other usage variations for residential customers.

Interest-Rate Risk

We are exposed to interest-rate risk associated with our short-term and long-term financing. Washington Gas has previously utilized derivative instruments to reduce its exposure to the risk of interest-rate volatility, with resulting gains and losses typically being recovered through each jurisdiction's overall allowed rate of return.

At December 31, 2021 and 2020, Washington Gas had outstanding commercial paper of $227.0 million and $285.0 million, respectively. The carrying amount of commercial paper approximates their fair value. At December 31, 2021, a change of 100 basis points in the underlying average interest rate for our commercial paper would have caused a change in interest expense of approximately $0.4 million.

At December 31, 2021 and 2020, Washington Gas had outstanding fixed-rate MTNs and other long-term debt of $1,646.0 million and $1,446.9 million, respectively, excluding current maturities and commercial paper. At December 31, 2021, the fair value of Washington Gas' fixed-rate debt was $1,691.9 million. Our sensitivity analysis indicates that fair value would increase by approximately $84.8 million or decrease by approximately $79.5 million if interest rates were to decline or increase by 10%, respectively, from current market levels. In general, such an increase or decrease in fair value would impact earnings and cash flows only if Washington Gas were to reacquire some or all of these instruments in the open market prior to their maturity.

At December 31, 2021, a total of $1,502.5 million, or approximately 91.3% of the face amount of Washington Gas' outstanding long-term debt, excluding current maturities and commercial paper, have make-whole call options which would require us to pay a premium over the face amount if we were to exercise them.

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.

Summary of Major Rate Increase Applications and Results

Jurisdiction	Application Filed	Effective Date	Test Year 12 Months Ended	Increase in Annual Revenues (Millions) Requested		Granted		Allowed Rate of Return Overall	Equity
District of Columbia	1/13/2020	4/01/2021	12/31/2019	$ 35.2	14.70 %	$ 19.5	8.14 %	7.05 %	9.25 %
Maryland	8/28/2020	03/26/2021	3/31/2020	$ 28.4	7.80 %	$ 13.1	3.60 %	7.09 %	9.70 %
Maryland	4/22/2019	10/15/2019	3/31/2019	$ 35.9	6.64 %	$ 27.0	4.10 %	7.42 %	9.70 %
Maryland	5/15/2018	12/11/2018	3/31/2018	$ 56.3	10.96 %	$ 28.6	5.69 %	7.30 %	9.70 %
Virginia	7/31/2018	1/2/2019	12/31/2017	$ 37.6	7.94 %	$ 13.2	2.60 %	7.22 %	9.20 %

The following is a discussion of significant current regulatory matters. Refer to the section "Accelerated Pipe Replacement Programs" above for a discussion of regulatory matters associated with those programs.

Maryland 2020 Rate Case

On August 28, 2020, Washington Gas filed a rate increase application in Maryland. The requested rates were designed to collect approximately $28.4 million in total annual revenues representing a 10.45% rate of return on equity. On April 9, 2021, a final order was received from PSC of MD authorizing Washington Gas to increase its Maryland natural gas distribution rates by $13.1 million (including $5.0 million currently collected through the STRIDE surcharge), reflecting a return of equity of 9.70%. The revenue increase became effective on March 26, 2021. 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. On July 29, 2021, the PSC of MD issued an order denying OPC's request for rehearing. On August 31, 2021, MD OPC filed an appeal of the Commission's denial of the OPC's petition for a rehearing with the Circuit Court of Baltimore City. Washington Gas has filed a notice of intervention. The MD OPC's Initial Memorandum was filed on December 15, 2021, and the PSC of MD and Washington Gas filed their Answering Memoranda on January 14, 2022. The MD OPC's following Reply Memorandum was filed on January 31, 2022; and the Circuit Court trial took place on February 16, 2022. On February 25, 2022, the Circuit Court of Baltimore City reversed the July 29, 2021 order from the PSC of MD and remanded the two issues back to the PSC of MD.

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. The PSC of DC also found that costs incurred by complying with this Order are not to be included in Washington Gas' COVID-19 regulatory asset. Finally, the Order stated that the PSC of DC found that although it cannot stop Washington Gas from seeking a rate increase, any petition for a rate increase may be held in abeyance either at the request of a party or by the PSC of DC until this performance issue is satisfactorily addressed.

Washington Gas filed a Corrective Action Plan with the PSC of DC on September 27, 2021. Washington Gas has participated in status calls with the PSC of DC and Office of People's Counsel on this filing. Washington Gas is complying with the additional filing requirements directed by the September 15, 2021 order. Pursuant to an Order issued by the PSC of DC on February 10, 2022, Washington Gas will not resume disconnections until authorized by the PSC of DC.

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 asserts that Washington Gas has violated Condition 11 of the PSC of MD Order in the Washington Gas Merger proceeding with AltaGas because it has not devoted the resources necessary to ensure continued compliance with all Commission regulations. In particular, the MD OPC asserts that Washington Gas's failure to devote enough resources to customer service has made it impossible for customers to successfully and promptly communicate complaints and disputes. Finally, MD OPC asserts that because Washington Gas cannot receive complaints and disputes, it is unable to satisfactorily resolve them or report them pursuant to its obligations under the Code of Maryland regulations. On October 15, 2021, the PSC of MD issued a show cause order directing Washington Gas to respond to the MD OPC motion and to show cause why the PSC of MD should not impose civil penalties. Additionally, the PSC of MD ordered Washington Gas to include a proposed Corrective Action Plan, which addresses the decline in customer service post-merger.

On October 22, 2021, Washington Gas timely filed its response to MD OPC's motion. Washington Gas's response includes the same 10-Step Corrective Action Plan with its District of Columbia and Maryland regulators. The Corrective Action Plan focuses on growing customer agent resources, enhancing agent training and reducing agent churn.

On December 23, 2021 the PSC of MD issued an Order on MD OPC's motion which found, among other things that: (1) Washington Gas violated the Maryland Code of Regulations from 2016 through June 22, 2021; (2) Washington Gas violated Conditions 11 and 11F of the AltaGas Merger Order from June 2018 through June 22, 2021; (3) the Commission will schedule a hearing to address whether and to what extent civil penalties are appropriate, and; (4) Washington Gas's Corrective Action Plan is accepted subject to the modifications described in this order, including the suspension of dunning letters, disconnections, and late fees until Washington Gas meets required customer service standards for three consecutive months. On January 24, 2022, Washington Gas filed for rehearing of two issues from the Order, including the imposition of certain call center performance metrics and creation of a regulatory liability to account for past costs. Refer to Note 13 — *Commitments and Contingencies* for discussion about Washington Gas' accrual in anticipation of civil penalties related to reporting violations. The Commission held a hearing for February 9, 2022 to address civil penalties and to consider Washington Gas' rehearing request. A decision is pending.

COVID-19 Related Orders

District of Columbia. On March 16, 2020, the Council of the District of Columbia (DC Council) passed legislation prohibiting the disconnection of electric and gas services for non-payment of fees during a public health emergency. On April 15, 2020, the PSC of DC issued an order authorizing Washington Gas to establish a regulatory asset to capture and track the incremental costs related to COVID-19 that were prudently incurred beginning March 11, 2020.

On July 13, 2021, the DC Council approved legislation allowing utility companies to begin shutting off gas, electric, water, and telephone services on October 12, 2021 for residents who owe more than $600, but utilities must give at least 60 days advance notice, provide information about payment assistance programs, and turn service back on if the consumer enters a payment plan and makes a minimum $10 payment. Low-income residents who receive or have applied for various forms of public assistance such as Medicaid are protected from shutoffs for an additional 90 days. However, the September 15, 2021 PSC of DC Order related to customer service matters prevented disconnections until the Company met the Commission Rules. Washington Gas will not resume disconnections until authorized by the PSC of DC.

On April 19, 2021, the Company filed an Arrearage Management Plan (AMP) proposal designed to help customers: 1) lower or eliminate existing COVID-19 related arrearages, 2) bring accounts current, 3) improve payment behavior on customers' new bills, and 4) avoid disconnection and allow customers to remain current in their Company payment obligations. Under the proposed AMP plan, each participating customer would be enrolled in the plan for approximately 12-months in duration. After an eligible customer enrolls in the program and timely pays each new monthly amount due, the Company will grant a pro-rated monthly arrearage reduction amount toward the goal of full arrearage elimination at the end of the 12 month period. The AMP was approved by the PSC of DC on August 9, 2021 and implemented by the Company in November 2021.

Maryland. On March 16, 2020, the Governor of MD issued an executive order directing regulated utilities to cease disconnections and billing of late fees for residential customers through May 1, 2020, which was subsequently amended to extend the order through August 31, 2020. On September 22, 2020, the PSC of MD took an action that had the effect of extending the moratorium on service disconnections through November 15, 2020. Due to the winter moratorium on disconnections (November 1 to March 31), residential terminations were delayed until April 1, 2021. The MD PSC updated its moratorium on disconnects through November 1, 2021 for "special needs" customers or anyone "who has received or qualified to receive the Maryland Office of Home Energy Programs (OHEP) Energy Assistance after February 15, 2017" (Tier 1 and 2 customers). However, as a result of customer service matters, dunning activities, including service disconnections were suspended for all customers beginning in September 2021. Washington Gas will not resume disconnections until authorized by the PSC of MD.

On April 9, 2020, the PSC of MD issued an order and authorized each utility company to establish a regulatory asset to record the effects of incremental collection and other costs related to COVID-19 prudently incurred beginning on March 16, 2020. On February 15, 2021, the Maryland General Assembly passed the Recovery for the Economy, Livelihoods, Industries, Entrepreneurs and Families Act (RELIEF Act). The RELIEF Act includes $83.0 million in funds to help MD residential customers who are in arrears. MD residential customers need to meet the qualifications established by The RELIEF Act to get the funds. On June 15, 2021, PSC of MD issued an order allocating $5.7 million of RELIEF Act funds to Washington Gas to be reflected on qualifying customer bills. The funds were fully applied to the customer bills as of September 30, 2021.

Virginia. On March 16, 2020, the SCC of VA issued an order which prohibited disconnections of electricity, gas, water and sewer utility services during the coronavirus public health emergency and established certain consumer protection measures.

The Virginia General assembly approved legislation on October 16, 2020 that codified the consumer protection plans, requiring utilities to offer customers in arrears fee-free repayment plans without deposit or eligibility requirements, which took effect in November 2020. The moratorium on disconnections ended on June 30, 2021 and Washington Gas was required to wait 60 days before making disconnections on residential customers. However, as a result of customer service matters, in September 2021, Washington Gas voluntarily suspended dunning activities, including disconnections. Dunning activities, including disconnections, recommenced on February 1, 2022, subject to normal winter restrictions. On April 29, 2020, the SCC of VA issued an order approving a request from Washington Gas and other Virginia utilities to create a regulatory asset to record incremental prudently incurred costs and suspended late payment fees attributable to the COVID-19 pandemic. On December 8, 2020, Washington Gas was awarded $7.7 million of Coronavirus Relief Funds from the SCC of VA to use for customer arrearages. the funds were fully applied as of June 30, 2021. In August 2021, the Virginia General Assembly appropriated $120.0 million of American Rescue Plan Act Funds (ARPA Funds) as direct financial assistance to residential utility customers with arrearages over 60 days as of August 31, 2021. On October 28, 2021, Washington Gas was awarded $6.9 million of ARPA Funds, of which $6.5 million was applied to Virginia customer arrearages as of December 31, 2021.

Critical Accounting Policies

Preparation of financial statements and related disclosures in compliance with GAAP requires the selection and the application of appropriate technical accounting guidance to the relevant facts and circumstances of our operations, as well as our use of estimates to compile the financial statements. The application of these accounting policies involves judgment regarding estimates and projected outcomes of future events, including the likelihood of success of particular regulatory initiatives, the likelihood of realizing estimates for legal and environmental contingencies, and the probability of recovering costs and investments.

We have identified the following critical accounting policies discussed below that require our judgment and estimation, where the resulting estimates have a material effect on our net income.

Accounting for Revenue

Revenue from contracts with customers is recognized in the period in which customers obtain control of promised goods or services and performance obligations are satisfied in an amount that reflects the consideration to which the Company is entitled in exchange for those goods or services. Generally, control of the promised goods or services is transferred to the customer when the natural gas is delivered.

For regulated deliveries of natural gas, the billing cycles for customers do not coincide with the accounting periods used for financial reporting purposes. Washington Gas accrues estimated unbilled revenues for gas that has been delivered but not yet billed at the end of an accounting period by jurisdiction and customer class, including the estimated effects of billing adjustment mechanisms.

See Note 1 — *Accounting Policies* and Note 3 — *Revenue from Contracts with Customers* of the Notes to Financial Statements for additional information.

Accounting for Regulatory Operations—Regulatory Assets and Liabilities

Washington Gas accounts for its regulated operations in accordance with FASB ASC Topic 980, Regulated Operations (ASC Topic 980), which results in differences in the application of GAAP between regulated and unregulated businesses. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates. Regulatory liabilities are recorded when it is probable that a regulator will require the Company to make refunds to customers or reduce rates to customers for previous collections or deferred revenue for costs that have yet to be incurred.

Future regulatory changes or changes in the competitive environment could result in Washington Gas discontinuing the application of ASC Topic 980 for some of its business and require the write-off of the portion of any regulatory asset or liability for which recovery or refund is no longer probable. If Washington Gas were required to discontinue the application of ASC Topic 980 for any of its operations, it would record a non-cash charge or credit to income for the net book value of its regulatory assets and liabilities. Other adjustments might also be required.

As required by regulated accounting rules, significant judgment can be required to determine if an otherwise recognizable incurred cost qualifies to be deferred for future recovery as a regulatory asset. Significant judgment can also be required to determine if revenues previously recognized are for entity specific costs that are no longer expected to be incurred or have not yet been incurred and are therefore a regulatory liability. The current regulatory environment and Washington Gas' specific facts and circumstances support both the continued application of ASC Topic 980 for our regulatory activities and the conclusion that all of our regulatory assets and liabilities as of December 31, 2021 are recoverable or refundable through rates charged to customers. See Note 5 — *Regulated Operations* of the Notes to Financial Statements for further discussion of our regulated operations.

Accounting for Derivatives

We enter into both physical and financial contracts for the purchase and sale of natural gas and apply the fair value requirements of ASC Topic 815, Derivatives and Hedging. The financial and physical contracts that qualify as derivative instruments and are subject to the mark-to-market accounting requirements are recorded on the balance sheet at fair value. Changes in the fair value of derivative instruments which are recoverable or refundable to customers when they settle are subject to ASC Topic 980 and are recorded as regulatory assets or liabilities while changes in the fair value of derivative instruments not affected by rate regulation are reflected in earnings.

Judgment is required in determining the appropriate accounting treatment for our derivative instruments, including our ability to: (i) evaluate contracts and other activities as derivative instruments subject to the accounting guidelines of ASC Topic 815; (ii) determine whether or not our derivative instruments are recoverable from or refundable to customers in future periods and (iii) derive the estimated fair value of our derivative instruments. See Note 14 — *Derivatives* of the Notes to Financial Statements for a discussion of our derivatives.

Accounting for Pension and Other Post-Retirement Benefit Plans

Washington Gas maintains defined benefit pension plans and other post-retirement benefit plans for eligible employees (the "Plans"). The measurement of the Plans' obligations and costs is dependent on a variety of factors, such as employee demographics, the level of contributions made to the Plans, earnings on the Plans' assets and mortality rates. The following assumptions are also critical to this measurement. These assumptions are derived on an annual basis with the assistance of a third-party actuarial firm:

- Discount rate,
- Expected long-term return on plan assets,
- Rate of compensation increase,
- Healthcare cost trend rate and
- Projected increases to the Health Reimbursement Account (HRA) plan stipend.

The following table illustrates the effect of changing these actuarial assumptions, while holding all other assumptions constant:

Effect of Changing Critical Actuarial Assumptions

(In millions)		Pension Benefits		Health and Life Benefits	
Actuarial Assumptions	Percentage-Point Change in Assumption	Increase (Decrease) in Ending Obligation	Increase (Decrease) in Annual Cost	Increase (Decrease) in Ending Obligation	Increase (Decrease) in Annual Cost
Expected long-term return on plan assets	+/- 1.00 pt.	n/a	$(9.0) / $9.0	n/a	$(6.7) / $6.7
Discount rate	+/- 0.25 pt.	$(34.7) / $34.5	$(0.3) / $2.8	$(9.2) / $9.7	$(0.7) / $0.7
Rate of compensation increase	+/- 0.25 pt.	$3.7 / $(5.6)	$0.8 / $(0.8)	n/a	n/a
Healthcare cost trend rate	+/- 1.00 pt.	n/a	n/a	$6.7 / $(5.7)	$1.3 / $(1.1)
Projected increases to the HRA plan stipend	+/- 1.00 pt.	n/a	n/a	$28.0 / $(22.9)	$4.5 / $(3.5)

See Note 10 — *Pension and Other Post-retirement Benefits* of the Notes to Financial Statements for additional discussion of the Plans.

Washington Gas Light Company
Balance Sheets
Financial Statements

(In thousands)	**December 31, 2021**	December 31, 2020
ASSETS		
Property, Plant and Equipment		
At original cost	**$ 6,783,719**	$ 6,363,392
Accumulated depreciation and amortization	**(1,746,404)**	(1,668,491)
Net property, plant and equipment	**5,037,315**	4,694,901
Current Assets		
Cash and cash equivalents	**1**	1
Receivables (net of allowance for doubtful accounts of $25,299 and $27,283, respectively)	**394,889**	339,759
Gas costs and other regulatory assets	**24,836**	31,376
Materials and supplies	**21,398**	20,389
Storage gas	**137,468**	70,582
Prepaid taxes	**34,361**	23,547
Other prepayments	**34,527**	30,980
Receivables from associated companies	**5,795**	128,254
Derivatives	**1,358**	5,049
Other	**6,301**	6,836
Total current assets	**660,934**	656,773
Deferred Charges and Other Assets		
Regulatory assets		
Gas costs	**144,079**	109,034
Pension and other post-retirement benefits	**2,918**	3,880
Other	**94,377**	99,793
Prepaid pension and other post-retirement benefits	**507,578**	433,319
Operating lease right of use asset	**36,981**	38,097
Derivatives	**2,224**	11,263
Other	**13,716**	22,637
Total deferred charges and other assets	**801,873**	718,023
Total Assets	**$ 6,500,122**	$ 6,069,697
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shareholder’s equity	**$ 2,022,274**	$ 1,855,925
Long-term debt	**1,747,645**	1,547,202
Total capitalization	**3,769,919**	3,403,127
Current Liabilities		
Notes payable	**126,967**	184,953
Accounts payable and other accrued liabilities	**348,755**	292,454
Customer deposits and advance payments	**40,281**	38,743
Gas costs and other regulatory liabilities	**60,846**	72,197
Accrued taxes	**28,444**	26,637
Payables to associated companies	**22,399**	29,526
Operating lease liability	**5,883**	5,734
Derivatives	**16,069**	7,053
Other	**7,021**	6,543
Total current liabilities	**656,665**	663,840
Deferred Credits		
Deferred income taxes	**727,130**	656,876
Accrued pensions and benefits	**36,130**	65,276
Asset retirement obligations	**217,892**	212,161
Regulatory liabilities		
Accrued asset removal costs	**226,895**	239,259
Pension and other post-retirement benefits	**333,000**	262,411
Excess deferred taxes and other	**353,750**	376,975
Operating lease liability	**48,777**	50,894
Derivatives	**83,039**	88,559
Other	**46,925**	50,319
Total deferred credits	**2,073,538**	2,002,730
Commitments and Contingencies (Note 13)		
Total Capitalization and Liabilities	**$ 6,500,122**	$ 6,069,697

The accompanying notes are an integral part of these statements.

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

(In thousands)	Years Ended December 31, **2021**		2020		2019	
OPERATING REVENUES	**$**	**1,449,107**	$	1,234,315	$	1,330,651
OPERATING EXPENSES						
Utility cost of gas		**520,160**		328,244		461,574
Operation and maintenance		**407,127**		399,498		404,961
Depreciation and amortization		**148,344**		145,585		142,565
General taxes and other assessments		**154,745**		152,654		149,618
Total Operating Expenses		**1,230,376**		1,025,981		1,158,718
OPERATING INCOME		**218,731**		208,334		171,933
Other income — net		**40,333**		21,737		5,822
Interest expense		**65,733**		65,352		62,567
INCOME BEFORE INCOME TAXES		**193,331**		164,719		115,188
INCOME TAX EXPENSE		**37,374**		32,844		18,083
NET INCOME	**$**	**155,957**	$	131,875	$	97,105
Loss on preferred stock extinguishment		**—**		—		556
Dividends on preferred stock		**—**		—		1,169
NET INCOME APPLICABLE TO COMMON STOCK	**$**	**155,957**	$	131,875	$	95,380

The accompanying notes are an integral part of these statements.

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

(In thousands)	Years Ended December 31, 2021	2020	2019
NET INCOME	**$ 155,957**	$ 131,875	$ 97,105
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE INCOME TAXES:			
Pension and other post-retirement benefit plans			
Change in prior service cost	**(326)**	(1,493)	(649)
Change in actuarial net gain (loss)	**929**	(2,607)	16,459
Total pension and other post-retirement benefit plans	**603**	(4,100)	15,810
INCOME TAX EXPENSE (BENEFIT) RELATED TO OTHER COMPREHENSIVE INCOME (LOSS)	**211**	(1,101)	4,128
OTHER COMPREHENSIVE INCOME (LOSS)	**$ 392**	$ (2,999)	$ 11,682
COMPREHENSIVE INCOME	**$ 156,349**	$ 128,876	$ 108,787

The accompanying notes are an integral part of these statements.

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

(In thousands)	Years Ended December 31, 2021	2020	2019
OPERATING ACTIVITIES			
Net income	**$ 155,957**	$ 131,875	$ 97,105
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Depreciation and amortization	**148,344**	145,585	142,565
Amortization of:			
Other regulatory assets and liabilities — net	**12,127**	9,761	8,491
Debt related costs	**961**	1,405	1,501
Deferred income taxes — net	**37,787**	41,525	18,741
Accrued/deferred pension and other post-retirement benefit cost (benefit)	**(27,204)**	(8,400)	2,190
Compensation expense related to stock-based awards	**10,495**	2,826	3,626
Provision for doubtful accounts	**12,296**	15,958	17,266
Impairment loss	**—**	—	2,042
Unrealized (gain) loss on derivative contracts	**4,738**	(3,579)	(5,429)
Other non-cash charges — net	**1,039**	(268)	1,778
Changes in operating assets and liabilities (Note 18)	**(41,294)**	(111,930)	(86,547)
Net Cash Provided by Operating Activities	**$ 315,246**	$ 224,758	$ 203,329
FINANCING ACTIVITIES			
Capital contributions from parent	**110,000**	225,000	—
Long-term debt issued	**200,000**	116,606	298,482
Repayment of long-term debt and finance lease	**(365)**	(10)	(50,000)
Debt issuance costs	**(929)**	(1,252)	(3,130)
Notes payable issued (retired) — net	**(57,989)**	(114,530)	103,483
Dividends on common stock and preferred stock	**(100,000)**	(100,000)	(100,736)
Payment for preferred stock extinguishment	**—**	—	(28,729)
Net Cash Provided by Financing Activities	**$ 150,717**	$ 125,814	$ 219,370
INVESTING ACTIVITIES			
Capital expenditures	**(473,556)**	(389,758)	(432,974)
Net Cash Used in Investing Activities	**$ (473,556)**	$ (389,758)	$ (432,974)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	**(7,593)**	(39,186)	(10,275)
Cash, Cash Equivalents, and Restricted Cash at Beginning of the Year	**21,962**	61,148	71,423
Cash, Cash equivalents and Restricted Cash at End of the Year	**$ 14,369**	$ 21,962	$ 61,148
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION (Note 18)			

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Statements of Common Shareholder's Equity
Financial Statements (continued)

(In thousands, except shares)	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
Balance, December 31, 2018	46,479,536	$ 46,479	$ 979,273	$ 552,884	$ (7,106)	1,571,530
Net income	—	—	—	97,105	—	97,105
Other comprehensive income	—	—	—	—	11,682	11,682
Loss on preferred stock extinguishment [(a)]	—	—	—	(556)	—	(556)
Dividends declared:						
Common stock	—	—	—	(100,000)	—	(100,000)
Preferred stock [(a)]	—	—	—	(1,169)	—	(1,169)
Balance, December 31, 2019	46,479,536	$ 46,479	$ 979,273	$ 548,264	$ 4,576	$ 1,578,592
Net income	—	—	—	$ 131,875	—	131,875
Other comprehensive loss	—	—	—	—	(2,999)	(2,999)
Capital contribution from parent	—	—	225,000	—	—	225,000
ASU 2016-13 implementation [(b)]	—	—	—	(1,543)	—	(1,543)
Common stock dividends declared	—	—	—	(75,000)	—	(75,000)
Balance, December 31, 2020	46,479,536	$ 46,479	$ 1,204,273	$ 603,596	$ 1,577	$ 1,855,925
Net income	**—**	**—**	**—**	**155,957**	**—**	**155,957**
Other comprehensive income	**—**	**—**	**—**	**—**	**392**	**392**
Capital contribution from parent	**—**	**—**	**110,000**	**—**	**—**	**110,000**
Common stock dividends declared	**—**	**—**	**—**	**(100,000)**	**—**	**(100,000)**
Balance, December 31, 2021	**$ 46,479,536**	**$ 46,479**	**$ 1,314,273**	**$ 659,553**	**$ 1,969**	**$ 2,022,274**

[(a)] On December 20, 2019, Washington Gas redeemed all outstanding shares of its preferred stock for the respective call price per share for a total amount of $28.7 million, plus all accrued and unpaid dividends. A loss of $0.6 million was recorded in "Loss on preferred stock extinguishment" on Washington Gas' statements of operations. Following the redemption, Washington Gas no longer pays quarterly preferred stock dividends. Since Washington Gas' preferred shares had voting rights, as a result of this redemption, Washington Gas became an indirect wholly owned subsidiary of AltaGas.

[(b)] Due to implementation of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, see Note 2 — Credit Losses for further information.

The accompanying notes are an integral part of these statements.

NOTE 1. ACCOUNTING POLICIES

Nature of Operations and Basis of Presentation

Following the 2018 Merger Agreement, Washington Gas became an indirect, majority owned subsidiary of, among other entities, AltaGas and WGL. In connection with the Merger and as required by Washington Gas' regulators, WGL formed a wholly owned subsidiary, Wrangler, a bankruptcy remote, special purpose entity to own the common stock of Washington Gas. In addition, WGL owns all of the shares of common stock of certain affiliated non-utility subsidiaries, some of which provide services to Washington Gas, and some of which own interests in other entities. On December 20, 2019, Washington Gas redeemed all the outstanding shares of its preferred stock. As a result, as of December 20, 2019, Washington Gas is a wholly owned subsidiary of AltaGas and WGL. As a public utility company, Washington Gas sells and delivers natural gas to more than one million customers primarily in the District of Columbia and the surrounding metropolitan areas in Maryland and Virginia.

The Financial Statements of Washington Gas have been prepared in conformity with GAAP.

The information presented in this annual report are presented solely for Washington Gas on a stand-alone basis.

Use of Estimates in the Preparation of Financial Statements

In accordance with GAAP, we make certain estimates and assumptions regarding: (i) reported assets and liabilities; (ii) disclosed contingent assets and liabilities at the date of the financial statements and (iii) reported revenues, revenues subject to refund, and expenses during the reporting period. Actual results could differ from those estimates.

Property, Plant and Equipment

Property, plant and equipment are stated at original cost, including labor, materials, taxes and overhead costs incurred during the construction period. The cost of utility plant of Washington Gas includes an allowance for funds used during construction (AFUDC) that is calculated under a formula prescribed by our regulators in Maryland and the District of Columbia. AFUDC equity is reported on the statements of operations as non-cash income in "Other income (expense)". AFUDC debt is reported as a non-cash offset to interest expense. After construction is completed, the Company is permitted to recover these costs through inclusion in rate base and the corresponding subsequent depreciation or amortization of those regulated assets. The rates for AFUDC for the years ended December 31, 2021, 2020 and 2019 were 3.28%, 2.33%, 3.48%, respectively.

Costs of replacement and betterments that extend the useful life of property, plant, and equipment are also capitalized. The cost of maintenance and repairs, which do not extend the useful life or increase the expected output of the asset, are expensed as incurred. Depreciation applicable to utility gas plant in service primarily uses a straight-line method over the estimated remaining life of the plant. The composite annual depreciation and amortization rate was 2.39%, 2.48%, and 2.53% for the years ended December 31, 2021, 2020 and 2019, respectively. In accordance with regulatory requirements, such rates include a component related to asset removal costs for Washington Gas. Washington Gas periodically reviews the adequacy of its depreciation rates by considering estimated remaining lives and other factors.

The following table represents the components of Washington Gas' Property, Plant and Equipment at original cost.

	December 31,			
($ In millions)	**2021**		2020	
Distribution, transmission and storage	**$ 5,850.9**	**86.3 %**	$ 5,502.6	86.5 %
General, miscellaneous, intangibles and finance leases	**523.2**	**7.7 %**	547.9	8.6 %
Construction work in progress (CWIP)	**409.6**	**6.0 %**	312.9	4.9 %
Total	**$ 6,783.7**	**100.0 %**	$ 6,363.4	100.0 %

Impairment of Long-Lived Assets

Management regularly reviews property and equipment and other long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable.

For property and equipment, the indicators of potential impairment may include a deteriorating business or legal climate, a significant adverse change in asset condition, specific regulatory disallowance, advances in technology or plans to dispose of an asset significantly before the end of its useful life, among others. Management performs a recoverability test whenever the indicators show a possible impairment. The amount used to test recoverability is determined based on an estimate of undiscounted cash flows, and measurement of an impairment loss is determined based on the fair value of the asset, using assumptions about future cash inflows and outflows over the life of an asset.

During the years ended December 31, 2021, 2020 and 2019, Washington Gas did not record any impairments related to our long-lived assets.

Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents

We consider all investments with original maturities of three months or less to be cash equivalents.

Restricted cash and cash equivalents represent funds that are restricted and are not available for general use by the Company. Restricted cash and cash equivalents available to satisfy designated current liabilities are classified as current assets. Restricted cash and cash equivalents expected to satisfy non-current liabilities are classified as non-current assets. Pursuant to the Merger Agreement with AltaGas, rabbi trust funds were funded to satisfy certain executives and outside director retirement benefit plan obligations. The rabbi trust funds are invested in money market funds which are considered cash equivalents. The rabbi trust funds that are used for the settlement of benefit plans in long-term liabilities are classified in “Deferred charges and other assets-other” and current liabilities are classified in “Current Assets-Other” on Washington Gas’ balance sheets. Refer to Note 10 — *Pension and Other Post-Retirement Benefits* for a further discussion of the rabbi trusts.

Receivables and Allowance for Doubtful Accounts

Receivables on the balance sheets include account receivables and unbilled revenues, including contract assets. Accounts receivable, which consists of amounts owed to Washington Gas from residential, commercial, industrial and other customers, were $299.9 million and $238.2 million at December 31, 2021 and 2020, respectively.

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 represent performance obligations that have been satisfied and to which Washington Gas has an unconditional right to payment, except for contract assets related to Washington Gas’ area-wide contract, which requires project acceptance by the federal government for the right to payment to occur. Total unbilled revenues and contract assets were $120.3 million and $128.8 million at December 31, 2021 and 2020, respectively, were included in "Receivables" on Washington Gas' balance sheets. Refer to Note 3 — *Revenue from Contracts with Customers* for further discussion on unbilled revenue and contract assets.

Receivables are recorded net of allowance for doubtful accounts. Washington Gas estimates its bad debt expense based on current sales and establishes the allowance. Periodically, Washington Gas evaluates the reasonableness of the allowance utilizing a variety of factors including historical payment and collection experience, current economic conditions, receivable aging, and the financial health of its customers. If the financial condition of its customers deteriorates or other circumstances occur that impact the customers’ ability or desire to make payments, Washington Gas considers these factors in its evaluation of the adequacy of the allowance. Accounts are written off to the allowance when collection efforts are complete and future recovery is unlikely. Refer to Note 2 — *Credit Losses* for further discussion of allowance for doubtful accounts.

Regulatory Assets and Liabilities

Washington Gas accounts for its regulated operations in accordance with ASC Topic 980, Regulated Operations (ASC Topic 980), which results in differences in the application of GAAP between regulated and unregulated businesses. ASC Topic 980 requires recording regulatory assets or liabilities for certain transactions that would have been treated as expense or revenue in unregulated businesses. Washington Gas defers the recognition of an incurred cost and records a regulatory asset when it is probable that these costs will be recovered in future rates. Washington Gas defers the recognition of revenue and records a regulatory liability when it is probable that it will refund an amount previously collected from customers or refund a gain to customers. Additionally, Washington Gas records a regulatory liability when a regulator provides current rates intended to recover costs that will be incurred in the future. Future regulatory changes or changes in the competitive environment could result in Washington Gas discontinuing the application of ASC Topic 980 for some of its business and require the write-off of the portion of any regulatory asset or liability for which recovery or refund is no longer probable. If Washington Gas were required to discontinue the application of ASC Topic 980 for any of its operations, it would record a non-cash charge or credit to income for the net book value of its regulatory assets and liabilities. Other adjustments might also be required.

The current regulatory environment and Washington Gas’ specific facts and circumstances support both the continued application of ASC Topic 980 for our regulatory activities and the conclusion that all of our regulatory assets and liabilities as of December 31, 2021 are recoverable or refundable through rates charged to customers. See Note 5 — *Regulated Operations* for further discussion of our regulated operations.

Leases

We determine if an arrangement is a lease and the lease classification at inception. Washington Gas has operating leases for our corporate headquarters and other corporate offices, communication tower space, and certain office equipment. Operating leases are included in "Operating lease right of use assets", "Current liabilities-Operating lease liability", and "Deferred credits-Operating lease liability". The Company also has leases of vehicles which are classified as finance leases. Finance leases are included in "Property, Plant and Equipment", "Current liabilities-Other", and "Long-term debt" on the balance sheets. Depreciation and interest expense are recorded on finance leases.

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. For the operating leases in which we are the lessee, a ROU asset and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. We use the rate implicit in the lease to determine the present value of the lease payments when the rate is readily determinable or we use our incremental borrowing rate. Our ROU assets are adjusted for lease incentives, any lease payments made in advance, and initial direct costs incurred. Lease expenses are recognized on a straight-line basis over the lease term. The estimated lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. For our lessee building and certain equipment leases, we do not separate the lease and non-lease components. Variable lease payments are recognized as lease expense when incurred, and are dependent on various external factors, including real estate taxes, common area maintenance and usage charges. The Company has elected not to record a ROU asset and lease liability for short-term leases. Short-term leases are defined as leases with a term of 12 months or less at the commencement date, including extension options that are reasonably certain of being exercised, and do not include an option to purchase the underlying asset.

For our multiple office location leases classified as operating leases, the lease term begins on the date when construction of the leasehold improvements can start and the lessor has allowed us to occupy the respective locations. Leasehold improvement costs are classified as “Property, Plant, and Equipment” on the balance sheet, and are being amortized to “Depreciation and amortization” expense on a straight-line basis over the non-cancelable period of the leases.

The Company also has lessor leases for land, office space and communication tower space that are classified as operating leases. Lease payments under operating leases are recognized on a straight-line basis over the lease term.

Revenue and Cost of Gas Recognition

Revenues. Washington Gas generally recognizes revenue from contracts with customers when natural gas is delivered. The billing cycles for customers do not coincide with the accounting periods used for financial reporting purposes; therefore, Washington Gas accrues unbilled revenues for gas delivered, but not yet billed, at the end of each accounting period. Refer to Note 3 — *Revenue from Contracts with Customers* for further discussion of revenue from contracts with customers.

Alternative Revenue Programs. Certain ratemaking mechanisms of Washington Gas qualify as alternative revenue programs in accordance with ASC Topic 980, if (i) the program is established by an order from a regulatory commission and allows for automatic adjustment of future rates, (ii) additional program revenues (above those amounts currently reflected in base rates) are objectively determinable and probable of recovery, and (iii) the collection of the additional revenues is allowed within 24 months of the end of the period in which they were recognized. The Company has determined that its RNA, WNA and CRA billing adjustment mechanisms and APRPs are alternative revenue programs. Alternative revenue program revenues represent the initial recognition of revenue related to these programs. When amounts are billed and collected from customers through rates, the amounts are recorded as a recovery of the associated regulatory asset or liability.

Cost of Gas. Washington Gas’ jurisdictional tariffs contain mechanisms that provide for the recovery of the cost of gas incurred on behalf of firm customers, including related pipeline transportation and storage capacity charges. Under these mechanisms, Washington Gas periodically adjusts its firm customers’ rates to reflect increases and decreases in these costs. Under or over-collections of gas costs in the current cycle are charged or credited to deferred charges or credits on the balance sheet as non-current regulatory assets or liabilities. Amounts deferred at the end of the cycle, August 31 of each year, are fully reconciled and transferred to current assets or liabilities under the balance sheet captions “Gas costs and other regulatory assets” and “Gas costs and other regulatory liabilities.” These balances are recovered or refunded to customers over the subsequent 12 month period.

Revenue Taxes. Revenue taxes such as gross receipts taxes, regulatory fees, franchise fees and energy taxes are reported gross in operating revenues. During the years ended December 31, 2021, 2020, and 2019, $77.6 million, $77.5 million, and $81.8 million, respectively, were recorded to "Operating revenues" of Washington Gas' statements of operations.

Transportation Gas Imbalance. Interruptible shippers and third-party marketer shippers transport gas to Washington Gas’ distribution system as part of the unbundled services offered. The delivered volumes of gas from third-party shippers into Washington Gas’ distribution system rarely equal the volumes billed to third-party marketer customers, resulting in transportation gas imbalances. These imbalances are usually short-term in duration, and Washington Gas monitors the activity and regularly notifies the shippers when their accounts have an imbalance. In accordance with regulatory treatment, Washington Gas does not record a receivable from or liability to third-party marketers associated with gas volumes related to these transportation imbalances but, rather, reflects the financial impact as a regulatory asset or liability related to its gas cost adjustment mechanism, thereby eliminating any profit or loss that would occur because of the imbalance. The regulatory treatment combines the imbalance for all marketers, including our affiliate WGL Energy Services, into a single "net" adjustment to the regulatory asset or liability.

Asset Optimization Program. Washington Gas optimizes the value of its long-term natural gas transportation and storage capacity resources by entering into physical and financial transactions in the form of forwards, futures and option contracts for periods when these resources are not being used to physically serve utility customers. Refer to "Derivative Activities" below for further discussion of the accounting for derivative transactions entered into under this program. Regulatory sharing mechanisms in all three jurisdictions outline how the profits from these transactions should be shared with Washington Gas' customers.

All unrealized fair value gains and losses, and margins generated from the physical and financial settlement of these asset optimization contracts are recorded in "Utility cost of gas" on the statements of operations or, in the case of amounts to be shared with rate payers, regulatory assets/liabilities on the balance sheets.

Materials, Supplies and Storage Gas

Washington Gas values materials, supplies and storage gas using a weighted-average cost method. These materials, supplies and storage gas are carried at the lower of weighted-average cost or net realizable value. Interim period inventory losses attributable to lower of cost or net realizable value adjustments may be reversed if the net realizable value of the inventory is recovered by the end of the same year. In general, commodity costs and variable transportation costs are capitalized as gas in underground storage. Fixed costs, primarily pipeline demand charges and storage charges, are expensed as incurred through the cost of gas.

Washington Gas did not record a material lower-of-cost or net realizable value adjustment to net income for the years ended December 31, 2021, 2020,and 2019.

Derivative Activities

Washington Gas enters into both physical and financial derivative contracts for the purchase and sale of natural gas that are subject to mark-to-market accounting. Changes in the fair value of derivative instruments which are recoverable or refundable to customers when they settle are subject to ASC Topic 980 and are recorded as regulatory assets or liabilities while changes in the fair value of derivative instruments not affected by rate regulation are reflected in earnings.

As part of its asset optimization program, Washington Gas enters into derivative contracts related to the sale and purchase of natural gas at a future price with the primary objective of securing operating margins that Washington Gas expects to ultimately realize. The fair value changes of derivatives used under this program may cause significant period-to-period volatility in earnings for the portion of net profits retained for shareholders; however, this earnings volatility will not change the realized margins that Washington Gas expects to earn. In accordance with ASC Topic 815, all financially and physically settled contracts under our asset optimization program are reported on a net basis in the statements of operations in "Utility cost of gas".

Washington Gas historically utilized derivative instruments that are designed to minimize the risk of interest-rate volatility associated with planned issuances of long-term debt. Gains or losses associated with these derivative transactions are deferred as regulatory assets or liabilities and amortized to interest expense in accordance with regulatory accounting requirements. Refer to Note 14 — *Derivatives* for further discussion of our derivative activities.

Income Taxes

We recognize deferred income tax assets and liabilities for all temporary differences between the financial statement basis and the tax basis of assets and liabilities computed on a separate company basis. Regulatory assets or liabilities, corresponding to such additional deferred income tax assets or liabilities, may be recorded to the extent recoverable from or payable to customers through the ratemaking process in future periods. Refer to Note 5 — *Regulated Operations* for Washington Gas' regulatory assets and liabilities associated with income taxes due from and due to customers. Amounts applicable to income taxes due from and due to customers primarily represent differences between the financial statement basis and tax basis of net utility plant in service. Refer to Note 9 — *Income Taxes* which provides detailed financial information related to our income taxes.

Long-Term Incentive Compensation

We account for stock-based compensation expense in accordance with ASC Topic 718, Compensation-Stock Compensation. If a long-term incentive compensation award does not meet the definition of a stock-based award under ASC 718, it is accounted for under ASC Topic 710, Compensation - General. All outstanding stock-based awards at December 31, 2021 and 2020 are liability-classified awards.

We recognize stock-based compensation expense based on their fair value at the end of each reporting period. Compensation expense for awards subject to ASC 710 is recognized based on the probable outcome of the award at the end of each reporting period. For all awards, we estimate forfeitures over the requisite service period when recognizing compensation expense; these estimates are periodically adjusted to the extent to which actual forfeitures differ from such estimates. Refer to Note 11 — *Stock-Based Compensation* for further discussion of the accounting for our stock-based compensation plans.

Asset Retirement Obligations

Washington Gas accounts for its AROs in accordance with ASC Subtopic 410-20, Asset Retirement and Environmental Obligations—Asset Retirement Obligations. Our AROs include the costs to cut, purge and cap Washington Gas' distribution and transmission system. These standards require recording the estimated retirement cost over the life of the related asset by depreciating the present value of the retirement obligation, measured at the time of the asset's acquisition, and accreting the liability until it is settled. There are timing differences between the ARO-related accretion and depreciation amounts being recorded pursuant to GAAP and the recognition of depreciation expense for legal asset removal costs that we are currently recovering in rates. These timing differences are recorded as a reduction to "Regulatory liabilities — Accrued asset removal costs" in accordance with ASC Topic 980. We do not have any assets that are legally restricted related to the settlement of asset retirement obligations.

Changes in Asset Retirement Obligations

	Years Ended December 31,		
(In millions)	**2021**	2020	2019
Asset retirement obligations at beginning of the period	**$ 217.2**	$ 211.6	$ 308.1
Liabilities incurred in the period	**2.0**	1.7	1.7
Revaluation of asset retirement obligation	**—**	—	(101.0)
Liabilities settled in the period	**(5.1)**	(4.8)	(7.4)
Accretion expense	**8.9**	8.7	10.2
Asset retirement obligations at the end of the period[(a)]	**$ 223.0**	$ 217.2	$ 211.6

[(a)] *Includes short-term asset retirement obligations of $5.1 million, $5.0 million and $4.8 million for years ended December 31, 2021, 2020,and 2019, respectively.*

Dividend Restrictions

Generally, 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 to drop below 48%. We had no significant restrictions on our cash balances or retained earnings that would affect the payment of dividends during the reported periods.

Accounting Standards Adopted in 2021 and Other Newly Issued Accounting Standards

The following tables represent accounting standards adopted by Washington Gas during the year ended December 31, 2021, and other newly issued accounting standards that will be adopted by Washington Gas in the future.

ACCOUNTING STANDARDS ADOPTED IN 2021

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
ASU 2019-12, Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes	As part of FASB's Simplification Initiative, this standard amends ASC Topic 740 by removing certain exceptions to the general principles and clarifying and amending other current guidance. Early adoption is permitted.	January 1, 2021	The adoption of this standard did not have a material effect on our financial statements.
ASU 2020-04, Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting, including other subsequent ASUs further amending and clarifying the guidance.	This standard provides optional expedients and exceptions to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. The amendments may be elected prospectively to contract modifications and hedging relationships existing on or after the date of adoption and through December 31, 2022.	January 1, 2021	Currently, our credit facility references LIBOR. The discontinuation of LIBOR will require these arrangements to be modified to an alternative interest rate. The credit facility includes fallback provisions that contemplate the replacement of LIBOR. The Company has made a policy election to adopt the optional expedients related to contract modifications related to its debt and will apply the relief on a prospective basis as modifications are made. As a result of electing these optional expedients, contract modifications due to LIBOR are not expected to have a material effect on our financial statements. As a result of electing these option expedients, contract modification due to LIBOR are not expected to have a material effect on our financial statements. The Company continues to monitor the activities of regulators and financial institutions to transition to an alternative reference rate, and also continues to review additional arrangements for references to LIBOR. Accordingly, the Company may make additional optional elections in the future.
ASU 2020-10, Codification Improvements	The amendments in this ASU provide clarification and improve the codification in recently issued accounting standards.	January 1, 2021	The adoption of this standard did not have a material effect on our financial statements.

OTHER NEWLY ISSUED ACCOUNTING STANDARDS

Standard	Description	Required 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. The amendments may be applied retrospectively to leases that commenced or were modified on or after the adoption of ASC 842 or prospectively after adoption to new or modified leases.	January 1, 2022	The adoption of this standard is not expected to have a material effect on our financial statements.
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, 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

On January 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) model. Upon implementation of ASU 2016-13, we recorded a $1.5 million increase to the Company's allowance for doubtful accounts and a decrease to retained earnings.

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. Washington Gas can recover a portion of non-payments from customers in future periods through the rate-setting process. For accounts receivable and unbilled revenue generated by the utility business, an allowance for doubtful accounts is recognized using a historical 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.

Based on previous collection experience, Washington Gas has not recorded an allowance for doubtful accounts for its contract assets associated with our energy management services projects with the federal government. Refer to Note 16 — *Related Party Transactions* for further information.

***Washington Gas Asset Optimization*:** Washington Gas optimizes the value of its long-term natural gas transportation and storage capacity resources by entering into physical and financial transactions in the form of forwards, futures and option contracts for periods when these resources are not being used to physically serve utility customers. Refer to Note 14 — *Derivatives* for further discussion of asset optimization program. Washington Gas operates under an existing wholesale counterparty credit policy that is designed to mitigate credit risk. Credit limits are established for each counterparty and credit enhancements such as letters of credit, parent guarantees and cash collateral maybe required. The creditworthiness of all counterparties is continuously monitored. The allowance for doubtful accounts is estimated by applying 30-year historical default rates for one-year receivables sourced from external credit rating agencies to the accounts receivable and unbilled revenue balances associated with counterparties Washington Gas has determined to be below investment grade. In the event that a counterparty no longer exhibits similar risk characteristics, the associated receivable is evaluated individually.

COVID-19 and Other Collection Matters: As a result of regulatory orders related to the COVID-19 pandemic, Washington Gas temporarily suspended dunning activities, including, customer disconnections for non-payment, temporarily suspended collection activities and temporarily waived assessing and billing late payment fees. While many of these COVID-19 regulatory suspensions were lifted in 2021, as a result of customer service matters, Washington Gas continues to suspend certain dunning activities, including disconnections, in Maryland and the District of Columbia. In Virginia, we voluntarily suspended dunning activities until February 1, 2022. Additionally, each of the jurisdictions has disconnection restrictions during the winter period from November 1-March 31.

All jurisdictions have issued orders authorizing Washington Gas to establish a regulatory asset to capture and track incremental COVID-19 related costs. In December 2020 and October 2021, Washington Gas received $7.7 million and $6.9 million, respectively, of Coronavirus Relief Funds from the SCC of VA to provide direct assistance to Virginia customers with balances over 30 days in arrears. Amounts not applied to customer bills are recorded as regulatory liability, which totaled $0.5 million and $7.7 million at December 31, 2021 and 2020, respectively. In June 2021, the PSC of MD issued an order allocating $5.7 million of funds to Washington Gas under the Recovery for the Economy, Livelihoods, Industries, Entrepreneurs and Families Act (RELIEF Act), to be reflected on qualifying customer bills. After considering these Virginia and Maryland funds, Washington Gas' COVID-19 regulatory asset balance was $4.7 million at December 31, 2021, which included $3.1 million of incremental bad debt expense related to the District of Columbia.

As of December 31, 2021 and 2020, we have evaluated the adequacy of our allowance for credit losses in light of these suspensions and the economic downturn. Our evaluation included an analysis of customer payment trends, 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. In addition, we considered benefits available under government COVID-19 relief programs. Based on this evaluation, we have concluded that the allowance for credit losses as of December 31, 2021 and 2020 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 by types.

	Account Receivables and Unbilled Revenue		Asset Optimization	
	Years Ended December 31,		Years Ended December 31,	
(In millions)	**2021**	2020	**2021**	2020
Balance, beginning of period	**$ 27.3**	$ 18.7	**$ 0.1**	$ —
Provision	12.5	15.7	(0.1)	—
Recorded to regulatory asset due to COVID-19	(3.2)	6.3	—	—
Write offs	(14.1)	(16.9)	—	—
Recoveries	2.8	2.1	—	—
Adjustment upon adoption of ASC 326	—	1.4	—	0.1
Balance, end of period	**$ 25.3**	$ 27.3	**$ —**	$ 0.1

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 governmental customers through regulated tariff rates approved by regulatory commissions in the jurisdictions where it operates. 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 accrued 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 is entitled 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 is entitled to bill the customer.

Customers have the choice to purchase natural gas from competitive service providers. Washington Gas charges the competitive service providers 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 competitive service providers 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 competitive service provider.

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

Disaggregated Revenue by Type of Service

	Years Ended December 31,		
(In millions)	**2021**	2020	2019
Revenue from contracts with customers			
Gas and transportation sales			
Gas sold and delivered	**$ 1,045.6**	$ 856.0	$ 975.8
Gas delivered for others	**269.3**	265.0	270.7
Other	**58.4**	35.0	46.5
Other revenues	**4.9**	3.4	5.6
Total revenue from contracts with customers	**$ 1,378.2**	$ 1,159.4	$ 1,298.6
Other sources of revenue			
Revenue from alternative revenue programs [(a)]	**$ 70.1**	$ 69.8	$ 19.6
Other [(b)]	**0.8**	5.1	12.5
Total revenue from other sources	**70.9**	74.9	32.1
Total Operating Revenue	**$ 1,449.1**	$ 1,234.3	$ 1,330.7

[(a)] *Washington Gas has determined that its RNA, WNA, and CRA billing adjustment mechanisms and accelerated pipe replacement programs are alternative revenue programs and accounted for under ASC Topic 980.*

[b)] *The amount includes late fees billed. The decreases from prior periods were primarily caused by waiving late payment fees due to both COVID-19 and customer service matters.*

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 $113.6 million and $112.7 million are included within "Receivables" on Washington Gas' balance sheets at December 31, 2021 and 2020, 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 related to Washington Gas' area-wide contract, which requires project acceptance by the federal government for the right to payment to occur (refer to Project Financing in Note 16 — *Related Party Transactions* for further discussion of Washington Gas's area-wide contract). Washington Gas did not have any contract liabilities at December 31, 2021 and 2020. The Company does not have transaction price amounts allocated to future performance obligations. The Company applies the practical expedient available under ASC Topic 606 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.

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.

(In millions)	**2021**	2020
Contract assets at January 1	**$ 16.1**	$ 44.2
Contract assets at December 31	**6.7**	$ 16.1
Increase (decrease) in contract assets [(a)]	**$ (9.4)**	$ (28.1)

[(a)] *Decrease in 2021 is the result of projects accepted by the Federal Government which decrease the contract asset balance with a corresponding decrease to "Payable to associated companies".*

NOTE 4. LEASES

Lessee Leases

Washington Gas has operating leases for our corporate headquarters and other corporate offices, communication tower space, and certain office equipment. The Company also has finance leases for vehicles. Our leases have remaining lease terms from 1 to 20 years. Some of the leases include options to extend the lease terms for 1 to 5 years with prior written notice or automatically renew if either party does not provide intent to terminate. The leases generally have options to terminate with notice prior to the end of the lease term based on the contract terms. Refer to Note 16 — *Related Party Transactions* for discussion of leases with associated companies.

The following table provides our expected operating and finance lease payments at December 31, 2021.

Maturity of Operating and Finance Lease Liabilities

(In millions)	Operating Leases	Finance Leases
2022	$ 6.0	$ 0.5
2023	6.1	0.5
2024	6.2	0.5
2025	5.6	0.5
2026	5.4	0.2
Thereafter	36.9	—
Total lease payments	**$ 66.2**	**$ 2.2**
Less: Interest	(11.5)	(0.1)
Present Value of Lease Liabilities	**$ 54.7**	**$ 2.1**

The following table provides the components of lease expense.

Components of Lease Expense

	Years Ended December 31,		
(In millions)	**2021**	**2020**	**2019**
Operating lease cost [(a)]			
Rent expense	**$ 5.2**	$ 5.3	$ 5.2
Variable lease cost	**1.9**	1.9	1.9
Financing lease cost [(b)]			
Amortization of right-of-use assets	**$ 0.3**	$ —	n/a
Total Operating lease cost	**$ 7.4**	$ 7.2	$ 7.1

[(a)] *Short-term lease cost for the periods was insignificant.*
[(b)] *Interest cost was insignificant.*

The following table provides supplemental cash flow information related to operating and finance leases.

Supplemental Cash Flow Information

	Years Ended December 31,		
($ in millions)	**2021**	**2020**	**2019**
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows used for operating leases	**$ 6.1**	$ 6.2	$ 2.9
Financing cash flows used for finance leases[a]	**$ 0.4**	$ —	n/a
Right-of-use assets obtained in exchange for lease liabilities			
Operating leases	**2.3**	1.6	1.5
Finance leases	**$ 1.9**	$ 0.4	n/a

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

The following table provides balance sheet location and amounts for finance leases, weighted average remaining lease term and weighted average discount rates for operating and finance leases.

Supplemental Balance Sheet Information for Finance Leases

($ in millions)	**2021**	**2020**
Finance leases		
Property, plant and equipment, at original cost	**$ 2.4**	$ 0.4
Accumulated depreciation and amortization	**(0.3)**	—
Net property, plant and equipment	**$ 2.1**	$ 0.4
Current finance lease liability included in "Current liabilities-Other"	**0.5**	0.1
Non-current finance lease liability included in "Long-term Debt"	**$ 1.6**	$ 0.3
Weighted average remaining lease term		
Operating leases	**11.5 years**	12.4 years
Finance leases	**4.3 years**	4.9 years
Weighted average discount rate		
Operating leases	**3.20 %**	3.27 %
Finance leases	**1.59 %**	1.69 %

Lessor Leases

The Company also has lessor leases for land, office space and communication tower space that are classified as operating leases. Washington Gas has elected not to separate the lease and non-lease components for its building leases. Our leases have remaining lease terms ranging from less than a year to 79 years. Some of the leases include options to extend the lease terms for 1 to 5 years with prior written notice or automatically renew if the lessee provides notice of intent not to renew. The leases generally have options to terminate the leases with notice prior to the end of the lease term based on the contract terms. The lease agreements do not contain material residual value guarantees. Additionally, the company has entered into a sub-lease for a portion of its office space that has a term of approximately 5 years.

The following table summarizes the future operating lease payments to be received associated with these leases as of December 31, 2021:

Maturity of Operating Lease Payments to be Received[(a)]

(In millions)	Lease	Sub-lease
2022	$ 1.0	$ 0.5
2023	0.9	0.5
2024	0.8	0.5
2025	0.6	0.7
2026	0.6	0.7
Thereafter	56.9	0.1
Total lease payments	**$ 60.8**	**$ 3.0**

[(a)] *The payments are presented on an undiscounted basis*

The property, plant and equipment associated with these leases are not significant. The following table provides the operating lease income recognized for the periods.

Operating Lease Revenue Recognized

	Years Ended December 31,		
($ in millions)	**2021**	**2020**	**2019**
Leasing revenue included in Operating Revenue	**$ 0.8**	$ 0.7	$ 0.7
Lease revenue included in Other income (expense) — net	**0.4**	0.4	0.4
Sub-lease revenue included in Operating Expense	**0.1**	—	—
Total	**$ 1.3**	**$ 1.1**	**$ 1.1**

During the years ended December 31, 2021, 2020 and 2019, Washington Gas did not record any impairments related to our leased assets.

NOTE 5. REGULATED OPERATIONS

Washington Gas accounts for its regulated operations in accordance with ASC Topic 980. This standard includes accounting principles for companies whose rates are determined by independent third-party regulators. When setting rates, regulators may require us to record expense in different periods than may be appropriate for unregulated enterprises. When this occurs, Washington Gas defers the associated costs as assets (regulatory assets) on its balance sheet and records them as expenses on its statements of operations as it collects the revenues designed to recover these costs through customers' rates. Further, regulators can also impose liabilities upon a company for gains previously realized or for amounts previously collected from customers for expenses expected to be incurred in the future (regulatory liabilities).

When Washington Gas files a request with certain regulatory commissions to modify customers' rates, it may be permitted to charge customers new rates, subject to refund, until the regulatory commission renders a final decision on the amount of the authorized change in rates. During this interim period, Washington Gas records a provision for a rate refund regulatory liability based on the difference between the amount it collects in rates and the amount it expects to recover from a final regulatory decision. Similarly, Washington Gas periodically records provisions for rate refunds related to other transactions. Actual results for these regulatory contingencies are often difficult to predict and could differ significantly from the estimates reflected in the financial statements. Refer to Note 13 — *Commitments and Contingencies* for further discussion of regulatory matters and related contingencies.

At December 31, 2021 and 2020, we recorded the following regulatory assets and liabilities on our balance sheets. These assets and liabilities will be recognized as revenues or expenses in future periods as they are reflected in customers' rates.

Regulatory Assets and Liabilities

	Regulatory Assets		Regulatory Liabilities	
	December 31,		December 31,	
(In millions)	**2021**	2020	**2021**	2020
Current:				
Gas costs due from/to customers[(a)]	**$ 6.2**	$ 10.9	**$ 56.7**	$ 47.3
Interruptible sharing[(a)]	**—**	0.7	**3.2**	1.0
Revenue normalization mechanisms for Maryland and Virginia[(a)]	**12.8**	15.1	**—**	—
Accelerated replacement recovery mechanisms[(j)]	**5.8**	4.7	**—**	0.3
Virginia Coronavirus Relief Fund[(m)]	**—**	—	**0.5**	7.7
Tax Cuts and Jobs Act rate refunds[(d)]	**—**	—	**0.4**	15.9
Total current	**$ 24.8**	$ 31.4	**$ 60.8**	$ 72.2
Deferred:				
Accrued asset removal costs[(k)]	**$ —**	$ —	**$ 226.9**	$ 239.3
Deferred gas costs[(a)(b)]	**144.1**	109.0	**—**	—
Pension and other post-retirement benefits:				
ASC Topic 715 unrecognized costs/income[(a)(e)]:				
Pension	**2.9**	3.9	**59.8**	9.8
Other post-retirement benefits	**—**	—	**273.2**	252.6
Total pension and other post-retirement benefits	**2.9**	3.9	**333.0**	262.4
Other:				
Income tax-related amounts due from/to customers[(f)]	**28.0**	29.8	**351.0**	373.5
Losses/gains on issuance and extinguishment of debt and interest-rate derivative instruments[(a)(g)]	**12.3**	13.0	**1.1**	1.1
Non-retirement employee benefits[(a)(h)]	**14.7**	16.5	**—**	—
Recoverable portion of abandoned liquified natural gas facility[(a)]	**1.6**	2.0	**—**	—
Environmental response costs[(a)(i)]	**10.0**	7.4	**—**	—
Energy efficiency program-Maryland[(l)]	**18.2**	14.3	**—**	—
COVID-19 related costs[(n)]	**4.7**	7.9	**—**	—
Other regulatory items	**4.9**	5.8	**1.7**	2.4
Total other	**$ 94.4**	$ 99.1	**$ 353.8**	$ 377.0
Total deferred	**$ 241.4**	$ 212.0	**$ 913.7**	$ 878.7
Total	**$ 266.2**	$ 243.4	**$ 974.5**	$ 950.9

[(a)] *Washington Gas does not earn its overall rate of return on these assets.*
[(b)] *Washington Gas is allowed to recover and required to pay, using short-term interest rates, the carrying costs related to billed gas costs due from and to its customers in the District of Columbia and Virginia jurisdictions. Includes fair value of derivatives, which are not included in customer bills until settled.*
[(c)] *Represents estimated refunds related to customers billed at a higher rate during the interim period as part of the 2019 Virginia Rate Case.*
[(d)] *Represents amounts accrued for future refunds due to the Tax Cuts and Jobs Act of 2017. For a further discussion, see Note 9 — Income Taxes in the Notes to Financial Statements.*
[(e)] *Refer to Note 10 — Pension and Other Post-Retirement Benefit Plans for a further discussion of these amounts.*
[(f)] *This balance represents amounts due from customers for deferred tax liabilities related to tax benefits on deduction flowed directly to customers prior to the adoption of income tax normalization for ratemaking purposes and to tax rate changes including the latest reduction as a result of the Tax Cuts and Jobs Act of 2017.*
[(g)] *The losses or gains on the issuance and extinguishment of debt and interest-rate derivative instruments include unamortized balances from transactions executed in prior years. These transactions create gains and losses that are amortized over the remaining life of the debt as prescribed by regulatory accounting requirements.*
[(h)] *Represents the timing difference between the recognition of workers compensation and short-term disability costs in accordance with generally accepted accounting principles and the recovery of these costs through rates.*
[(i)] *This balance represents allowed environmental remediation expenditures at Washington Gas sites to be recovered through rates for Maryland and the District of Columbia. The recovery period is over several years.*
[(j)] *Balance represents amounts deferred over collections or under collections of surcharges associated with Washington Gas' accelerated pipeline recovery programs in the District of Columbia, Maryland and Virginia compared to the amounts reflected in revenues.*
[(k)] *Refer to Note 1 — Accounting Policies for a further discussion of these amounts.*
[(l)] *Balance represents amounts for costs incurred associated with Washington Gas' participation in the energy conservation and efficiency program EmPOWER in Maryland that are recovered from customers over time.*

[m] *Virginia Coronavirus Relief Funds received to provide direct assistance to Virginia customers with balance over 60 days in arrears.*
[n] *Regulatory assets established to capture and track the incremental COVID-19 related costs.*

As required by ASC Topic 980, Washington Gas monitors its regulatory and competitive environment to determine whether the recovery of its regulatory assets remains probable. If Washington Gas were to determine that recovery of these assets is no longer probable, it would write off the assets against earnings. We have determined that ASC Topic 980 continues to apply to our regulated operations.

NOTE 6. 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)	**December 31, 2021**	December 31, 2020
Accounts payable — trade	**$ 270.9**	$ 201.2
Employee related accruals	**39.1**	41.8
Accrued interest	**18.7**	18.4
Other accrued liabilities [(a)]	**20.1**	31.1
Total	**$ 348.8**	$ 292.5

[a)] *Amount at December 31, 2020 included $12.5 million liability associated with a judgment against the company which was paid in February 2021.*

NOTE 7. SHORT-TERM DEBT

Washington Gas satisfies the short-term financing requirements through the sale of commercial paper, or through bank borrowings. 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 commercial paper position.

Credit Facility

The following is a summary of committed credit available at December 31, 2021 and 2020.

Committed Credit Available

(In millions)	**December 31, 2021**	December 31, 2020
Committed credit agreements		
Unsecured revolving credit facility, expires July 19, 2024[(a)]	**$ 450.0**	$ 450.0
Less: Commercial Paper outstanding[(b)]	**(227.0)**	(285.0)
Net committed credit available	**$ 223.0**	$ 165.0
Weighted average interest rate	**0.28 %**	0.31 %

(a) Washington Gas has the right to request extensions with the bank group's approval. Washington Gas' revolving credit facility permits it to borrow an additional $100.0 million, with the bank groups' approval, for a total potential maximum borrowing of $550.0 million.
(b) The amount represents carrying amount of commercial paper.

At December 31, 2021 and 2020, there were no outstanding bank loans from Washington Gas' revolving credit facilities.

Commercial Paper

The carrying value of commercial paper recorded was $227.0 million and $285.0 million at December 31, 2021 and 2020, respectively. At both December 2021 and 2020, 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. Accordingly, $127.0 million and $185.0 million of commercial paper remained in “Notes payable” at December 31, 2021 and 2020, respectively.

NOTE 8. LONG-TERM DEBT

First Mortgage Bonds

The Mortgage of Washington Gas dated January 1, 1933 (Mortgage), as supplemented and amended, securing any First Mortgage Bonds (FMBs) it issues, constitutes a direct lien on substantially all property and franchises owned by Washington Gas, other than a small amount of property that is expressly excluded. At December 31, 2021 and 2020, Washington Gas had no debt outstanding under the Mortgage. Any FMBs that may be issued in the future will represent indebtedness of Washington Gas.

Unsecured Notes

Washington Gas has outstanding long-term debt in the form of MTNs and private placement notes with individual terms regarding interest rates, maturities and call or put options. These notes can have maturity dates of one or more years from the date of issuance.

The indenture for the unsecured MTNs and the note purchase agreement for the private placement notes provide that Washington Gas will not issue any FMBs under its Mortgage without securing all MTNs and the private placement notes with the Mortgage.

Certain of Washington Gas' outstanding MTNs and private placement notes have a make-whole call feature that pays the holder a premium based on a spread over the yield to maturity of a U.S. Treasury security having a comparable maturity if that particular note were to be called by Washington Gas before its stated maturity date. With the exception of this make-whole call feature, Washington Gas is not required to pay call premiums for calling debt prior to the stated maturity date.

The following table shows the outstanding notes with maturities in years at December 31, 2021 and 2020.

Long Term Debt Outstanding

(In millions)	**December 31, 2021**	December 31, 2020
Washington Gas Unsecured Notes [a]		
Due 2023, 6.65%	**$ 20.0**	$ 20.0
Due 2025, 5.44%	**40.5**	40.5
Due 2026, 6.62% to 6.82%	**53.0**	53.0
Due 2027, 6.40% to 6.57%	**72.0**	72.0
Due 2028, 6.57% to 6.85%	**52.0**	52.0
Due 2030, 7.50%	**8.5**	8.5
Due 2036, 5.70% to 5.78%	**50.0**	50.0
Due 2040, 5.21%	**75.0**	75.0
Due 2043, 5.00%	**75.0**	75.0
Due 2044, 4.22% to 4.24%	**150.0**	150.0
Due 2046, 3.80%	**450.0**	450.0
Due 2049, 3.65%	**400.0**	400.0
Due 2051, 2.98%	**200.0**	—
Commercial Paper due in 2024 [c]	**100.0**	100.0
Total Principal Amount of Long-Term Debt	**$ 1,746.0**	$ 1,546.0
Unamortized debt premium (discount)	**12.0**	12.5
Unamortized debt expense	**(12.0)**	(11.6)
Non-current finance lease liability [d]	**1.6**	0.3
Total Carrying Amount of Long-Term Debt	**$ 1,747.6**	$ 1,547.2
Weighted average interest rate [b]	**4.28 %**	4.46 %

[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 including current maturities.*
[c] *At both December 2021 and 2020, we classified $100.0 million commercial paper balance as "Long-term debt" on Washington Gas' balance sheets due to its ability and intent to refinance these balances on a long-term basis. Refer to Note 7 — Short-term debt for discussion on the credit facility.*
[d] *Refer to Note 4 — Leases for additional information related to finance leases.*

The following table shows the issuances and retirements of Washington Gas' unsecured notes for the years ended December 31, 2021, 2020 and 2019. There were no issuances and retirements during the year ended December 31, 2021.

Washington Gas' Unsecured Notes Issuances and Retirements

(In millions)	**Principal[a][c]**	**Interest Rate[b]**	**Effective Cost[b]**	**Maturity Date**
Year Ended December 31, 2021				
Issuances:				
12/15/2021	**$ 200.0**	**2.98 %**	**3.00 %**	**12/15/2051**
Year Ended December 31, 2020				
Issuances:				
12/10/2020	$ 100.0	3.65 %	2.84 %	9/15/2049
Year Ended December 31, 2019				
Issuances:				
09/13/2019	$ 300.0	3.65 %	3.72 %	9/15/2049
Retirements:				
11/1/2019	$ 50.0	4.76 %	4.76 %	11/1/2019

[a] *Represents face amount of notes.*
[b] *Represents the interest rate and effective cost at the trade date of the debt.*

On December 15, 2021, Washington Gas issued unsecured private placement notes with an aggregate principal amount of $200 million and 2.98% fixed interest rate that are due in December 2051. The interest will be paid semi-annually in June and December of each year. The notes have a make-whole call provision at a U.S. Treasury rate plus 50 basis points that starts at issuance date.

On December 10, 2020, Washington Gas issued MTN's with an aggregate principal amount of $100 million and 3.65% fixed interest rate that are due in September 2049. The interest will be paid semi-annually in March and September of each year. The notes have a make-whole call provision at a U.S. Treasury rate plus 25 basis points prior to March 15, 2049, and then are callable at par after March 15, 2049.

NOTE 9. INCOME TAXES

Washington Gas is included in the ASUS consolidated income tax returns. We have a tax sharing policy with ASUS, an indirect, wholly owned subsidiary of AltaGas, 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 December 31, 2021, there were no intercompany balances under the ASUS tax sharing policy on Washington Gas' balance sheets. At December 31, 2020, Washington Gas recorded $112.2 million receivable in "Receivables from associated companies" and a $0.6 million payable in "Payables to associated companies" under the ASUS tax sharing policy on Washington Gas' balance sheets, respectively.

The Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act includes various income and payroll tax provisions. Washington Gas will benefit from certain provisions such as the deferral of payment of applicable payroll taxes. As of December 31, 2021 and 2020, we have deferred payroll tax payment of approximately $3.3 million and $7.9 million, respectively, through December 31, 2021 and 2020. There was no other material impact to our financial statements.

Components of Income Tax Expense or Benefit

The following tables provide the components of income tax expenses for the years ended December 31, 2021, 2020 and 2019.

Components of Income Tax Expense (Benefit)

	Years Ended December 31,		
(In thousands)	**2021**	2020	2019
Current:			
Federal	**$ —**	$ (6,660)	$ —
State	**—**	(1,470)	—
Total current	**—**	(8,130)	—
Deferred:			
Federal	**23,421**	27,704	11,496
State	**14,366**	13,821	7,245
Total deferred	**37,787**	41,525	18,741
Amortization of investment tax credits	**(413)**	(551)	(658)
Total income tax expense	**$ 37,374**	$ 32,844	$ 18,083

Rate Reconciliation

The effective income tax rate from continuing operations varies from the U.S. Federal statutory rate principally due to the following.

Reconciliation Between the Statutory Federal Income Tax Rate and Effective Tax Rate

	Years Ended December 31,					
(In thousands)	**2021**		2020		2019	
Income taxes at statutory federal income tax rate	**$ 40,599**	**21.00 %**	$ 34,591	21.00 %	$ 24,189	21.00 %
Increase (decrease) in income taxes resulting from:						
Plant basis differences	**—**	**—**	—	—	699	0.61
Amortization of investment tax credits	**(413)**	**(0.21)**	(551)	(0.33)	(658)	(0.57)
Amortization of excess deferred taxes	**(11,972)**	**(6.19)**	(12,189)	(7.40)	(18,020)	(15.64)
Cost of removal	**—**	**—**	—	—	5,837	5.07
State income taxes-net of federal benefit [(a)]	**11,386**	**5.89**	10,631	6.45	6,259	5.43
Return to provision adjustment	**1,315**	**0.68**	(5)	—	(1,666)	(1.45)
Other items-net	**(3,541)**	**(1.83)**	367	0.22	1,443	1.25
Total income tax expense and effective tax rate	**$ 37,374**	**19.34 %**	$ 32,844	19.94 %	$ 18,083	15.70 %

[(a)] *The amounts in 2019 were adjusted due to the change in accounting principle we made in 2020.*

Components of accumulated deferred income tax assets and liabilities

The following table provides the components of accumulated deferred income tax assets (liabilities) for Washington Gas at December 31, 2021 and 2020.

Components of Accumulated Deferred Income Tax Assets (Liabilities)

(In thousands)	**December 31, 2021**	December 31, 2020
Deferred income tax assets:		
Pensions	**$ 2,041**	$ 3,048
Uncollectible accounts	**5,473**	4,739
Inventory overheads	**4,119**	3,911
Employee compensation and benefits	**25,676**	30,604
Derivatives	**6,992**	5,695
Income taxes recoverable through future rates	**135,852**	145,567
Net operating loss	**125,552**	63,444
Other	**5,706**	4,810
Total assets	**311,411**	261,818
Deferred income tax liabilities:		
Other post-retirement benefits	**120,404**	115,836
Accelerated depreciation and other plant related items	**899,200**	787,035
Income taxes recoverable through future rates	**—**	—
Deferred gas costs	**18,937**	15,823
Other	**—**	—
Total liabilities	**1,038,541**	918,694
Net accumulated deferred income tax assets (liabilities)	**$ (727,130)**	$ (656,876)

The Company has a federal deferred tax asset of $66 million created from the net operating loss of $314 million that was generated through December 31, 2021. The Tax Act of 2017 extended the carryforward period to an indefinite period. The

Company's state net operating losses of $60 million have the expiration dates beginning in 2033. The Company's net operating losses will be utilized under the settlement of the tax sharing policy with affiliated companies.

Tabular Reconciliation of Unrecognized Tax Benefits

The following table summarizes the change in unrecognized tax benefits during the years ended December 31, 2021, 2020 and 2019, and our total unrecognized tax benefits at the periods under the provisions of ASC Topic 740.

Unrecognized Tax Benefits

	Years Ended December 31,		
(In thousands)	**2021**	2020	2019
Total unrecognized tax benefits at beginning of the periods	**$ 11,065**	$ 26,459	$ 35,906
Increases resulting from current period tax positions	**—**	—	—
Decreases resulting from prior period tax positions	**(753)**	(15,394)	(9,447)
Total unrecognized tax benefits at end of the periods	**$ 10,312**	$ 11,065	$ 26,459

During the years ended December 31, 2021, 2020 and 2019, the unrecognized tax benefits for Washington Gas decreased by approximately $0.8 million, $15.4 million, and $9.4 million, respectively, relating to uncertain tax positions, primarily due to the change in tax accounting for repairs and closed periods. If the amounts of unrecognized tax benefits are eventually realized, it would not materially impact the effective tax rate. It is reasonably possible that the amount of the unrecognized tax benefit with respect to some of Washington Gas' uncertain tax positions will significantly increase or decrease in the next 12 months, if the IRS were to finalize and issue its proposed revenue procedure for gas distribution repair deductions.

Amounts of Interest and Penalties Recognized

Washington Gas recognizes any accrued interest associated with uncertain tax positions in interest expense and recognizes any accrued penalties associated with uncertain tax positions in other expenses in the statements of income. During the years ended December 31, 2021, 2020 and 2019, there were no accrued interest expense or penalties associated with uncertain tax positions.

NOTE 10. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

Washington Gas maintains a qualified, trusteed, non-contributory defined benefit pension plan (qualified pension plan) covering most active and vested former employees of Washington Gas and certain employees of WGL subsidiaries. The non-contributory defined benefit pension plan is closed to all employees hired on or after January 1, 2010 and instead employees are eligible to receive supplemental contributions to their defined-contribution savings plan.

Several executive officers of Washington Gas also participate in a defined benefit supplemental executive retirement plan (DB SERP), a non-qualified pension plan. The DB SERP was closed to new entrants beginning January 1, 2010, and eligible executive officers participate in a defined contribution SERP (DC SERP). In addition, effective January 1, 2010, Washington Gas established a non-funded defined benefit restoration plan (DB restoration) for the purpose of providing supplemental pension and pension-related benefits to a select group of management employees. There are rabbi trusts associated with the DB SERP and DB restoration plans that were funded pursuant to the Merger Agreement. The rabbi trusts can be used to make payments to the participants or the payments can be made from operating funds. At December 31, 2021, the rabbi trust balance associated with these two plans were $11.4 million, of which $6.1 million was recorded in “Current Assets-Other” and $5.3 million was recorded in “Deferred Charges and Other Assets - Other”, along with other rabbi trust balances. Washington Gas accounts for the qualified pension plan, DB SERP and DB restoration plans under the provisions of ASC Topic 715, *Compensation-Retirement Benefits.*

Washington Gas offers defined-contribution savings plans to all eligible employees. These plans allow participants to defer on a pre-tax or after-tax basis, a portion of their salaries for investment in various alternatives. We made matching contributions of $5.3 million, $5.6 million and $5.2 million during the years ended December 31, 2021, 2020 and 2019, respectively. All employees not earning benefits in the qualified pension plan receive an employer provided supplemental contribution ranging from 4% to 6% depending on years of service. Total supplemental contributions to the plans were $3.9 million, $3.8 million, and $3.2 million during the years ended December 31, 2021, 2020 and 2019, respectively.

Washington Gas provides certain healthcare and life insurance benefits for retired employees of Washington Gas and certain employees of WGL subsidiaries. Eligible employees of Washington Gas may qualify for such benefits if they attain retirement status and have the required number of years of service. For eligible retirees and dependents not yet receiving Medicare benefits, Washington Gas provides medical, prescription drug and dental benefits through the Washington Gas Light Company Retiree Medical Plan (Retiree Medical Plan). For Medicare-eligible retirees age 65 and older, eligible retirees and dependents participate in a special tax-free Health Reimbursement Account plan (HRA plan) effective January 1, 2015. Participating retirees and dependents receive an annual subsidy to help purchase supplemental medical, prescription drug and dental coverage in the marketplace as well as additional reimbursement for catastrophic prescription drug costs. Washington Gas accounts for healthcare and life insurance benefits under the provisions of ASC Topic 715.

On September 25, 2015, the Retiree Medical Plan was amended to limit the aggregate cost of applicable employer-sponsored coverage. The resolution, which was effective September 30, 2015 applies to plan years beginning on or after January 1, 2018.

Almost all costs associated with Washington Gas’ defined benefit post-retirement plans have historically been, and are expected to be, recovered through Washington Gas’ rates. Therefore, in accordance with ASC Topic 980 and ASC Topic 715, Washington Gas established a regulatory asset/liability for the substantial majority of the unrecognized costs/income associated with its defined benefit post-retirement plans. To the extent these amounts will not be recovered through Washington Gas’ rates, they are recorded directly to “Accumulated other comprehensive loss, net of taxes.”

Obligations and Assets

The following table provides the benefit obligation, fair value of plan assets, the funded status of the plans, and amounts recognized on the Company's balance sheets.

Post-Retirement Benefits

	Pension Benefits[(a)]			Health and Life Benefits		
	Years Ended December 31,			Years Ended December 31,		
(In millions)	**2021**	2020	2019	**2021**	2020	2019
Change in projected benefit obligation[(b)]						
Benefit obligation at beginning of period	**$ 1,113.7**	$ 1,059.9	$ 971.8	**$ 295.8**	$ 269.2	$ 277.9
Service cost	**12.1**	12.5	12.3	**6.2**	5.3	5.0
Interest cost	**30.4**	35.5	41.2	**8.0**	9.3	11.9
Change in plan benefits	**—**	—	0.2	**—**	—	—
Actuarial loss (gain)	**(22.2)**	77.9	103.6	**(13.6)**	25.2	(12.3)
Plan participants' contribution	**—**	—	—	**1.6**	1.6	1.6
Settlements	**(5.4)**	(18.9)	(19.4)	**—**	—	—
Benefits paid	**(50.2)**	(53.2)	(50.6)	**(16.7)**	(15.4)	(15.8)
Other	**—**	—	0.8	**0.4**	0.5	0.9
Projected benefit obligation at end of period[(b)]	**$ 1,078.4**	$ 1,113.7	$ 1,059.9	**$ 281.7**	$ 295.7	$ 269.2
Change in plan assets						
Fair value of plan assets at beginning of period	**1,053.1**	935.2	807.0	**731.6**	638.0	528.8
Actual return on plan assets	**71.4**	168.9	176.7	**46.6**	107.4	123.4
Company contributions	**7.5**	21.0	21.5	**—**	—	—
Plan participants' contribution	**—**	—	—	**1.6**	1.6	1.6
Settlements	**(5.4)**	(18.9)	(19.4)	**—**	—	—
Expenses	**—**	—	—	**—**	—	—
Benefits paid	**(50.2)**	(53.2)	(50.6)	**(16.7)**	(15.3)	(15.8)
Fair value of plan assets at end of period	**$ 1,076.4**	$ 1,053.0	$ 935.2	**$ 763.1**	$ 731.7	$ 638.0
Funded status at end of period	**(2.0)**	(60.7)	(124.7)	**481.4**	436.0	368.8
Allocation to affiliates	**—**	(0.4)	(0.8)	**2.9**	2.7	2.3
Adjusted funded status at end of period	**$ (2.0)**	$ (60.3)	$ (123.9)	**$ 478.5**	$ 433.3	$ 366.5
Total amounts recognized on balance sheet						
Non-current asset	**29.0**	—	—	**478.5**	433.0	366.5
Current liability	**(6.1)**	(6.7)	(19.6)	**—**	—	—
Non-current liability	**(24.9)**	(53.6)	(104.3)	**—**	—	—
Total recognized	**$ (2.0)**	$ (60.3)	$ (123.9)	**$ 478.5**	$ 433.0	$ 366.5

[(a)] *The DB SERP and DB Restoration, included in pension benefits in the table above, does not include the amounts funded in rabbi trust.*
[(b)] *For the Health and Life Benefits, the change in projected benefit obligation represents the accumulated benefit obligation.*

The following table provides the projected benefit obligation (PBO), accumulated benefit obligation (ABO), and fair value of plan assets the qualified pension plan, DB SERP and DB Restoration at December 31, 2021 and 2020.

Projected and accumulated benefit obligation

	Qualified Pension Plan		DB SERP		DB Restoration	
	December 31,		December 31,		December 31,	
(In millions)	**2021**	2020	**2021**	2020	**2021**	2020
Projected benefit obligation	**$ 1,047.4**	$ 1,075.5	**$ 26.0**	$ 32.4	**$ 5.0**	$ 5.8
Accumulated benefit obligation	**$ 999.8**	$ 1,022.0	**$ 26.0**	$ 32.4	**$ 4.9**	$ 5.6
Fair value of plan assets	**$ 1,076.4**	$ 1,053.0	**$ —**	$ —	**$ —**	$ —

Amounts Recognized in Regulatory Assets/Liabilities and Accumulated Other Comprehensive Income (Loss)

The following table provides amounts recorded to regulatory assets, regulatory liabilities and accumulated other comprehensive loss (income) at December 31, 2021 and 2020.

Unrecognized Costs/Income Recorded on the Balance Sheet

	Pension Benefits		Health and Life Benefits	
	December 31,		December 31,	
(In millions)	**2021**	2020	**2021**	2020
Actuarial net loss (gain)	**$ (54.0)**	$ (0.4)	**$ (221.9)**	$ (189.4)
Prior service cost (credit)	**0.5**	0.7	**(59.4)**	(73.2)
Total [(a)]	**$ (53.5)**	$ 0.3	**$ (281.3)**	$ (262.6)
Regulatory asset (liability)	**(56.9)**	(6.0)	**(273.2)**	(252.5)
Pre-tax accumulated other comprehensive loss (income) [(b)]	**3.7**	6.3	**(6.4)**	(8.4)
Total	**$ (53.2)**	$ 0.3	**$ (279.6)**	$ (260.9)

[(a)] *Pension benefits include amount allocated to affiliates of $0.3 million at December 31, 2021. There was no amount allocated to the affiliates at December 31, 2020. Health and Life Benefits includes amounts allocated to affiliates of $1.7 million and $1.7 million at December 31, 2021 and 2020, respectively.*
[(b)] *The total amount of accumulated other comprehensive loss recorded on our balance sheets at December 31, 2021 and 2020 was net of an income tax expense of $0.7 million and $0.5 million, respectively.*

The following tables provide amounts that are included in regulatory assets/liabilities and accumulated other comprehensive loss associated with our unrecognized pension and other post-retirement benefit costs that were recognized as components of net periodic benefit cost before allocations to affiliates and capital during the years ended December 31, 2021 and 2020.

Amounts Recognized During the Year Ended December 31, 2021

	Regulatory assets/liabilities		Accumulated other comprehensive income (loss)	
(In millions)	**Pension Benefits**	**Health and Life Benefits**	**Pension Benefits**	**Health and Life Benefits**
Amortization of actuarial net loss (gain)	**$ 1.3**	**$ (4.8)**	**$ 0.3**	**$ (0.2)**
Amortization of prior service cost (credit)	**0.1**	**(13.2)**	**0.1**	**(0.4)**
Total	**$ 1.4**	**$ (18.0)**	**$ 0.4**	**$ (0.6)**

Amounts Recognized During the Year Ended December 31, 2020

	Regulatory assets/liabilities		Accumulated other comprehensive income (loss)	
(In millions)	**Pension Benefits**	**Health and Life Benefits**	**Pension Benefits**	**Health and Life Benefits**
Amortization of actuarial net loss (gain)	$ 5.4	$ (1.8)	$ 2.3	$ (0.2)
Amortization of prior service cost (credit)	0.2	(12.0)	0.1	(1.6)
Total	$ 5.6	$ (13.8)	$ 2.4	$ (1.8)

Washington Gas uses the MRVA in the determination of net periodic benefit cost. Realized and unrealized gains and losses for assets under Washington Gas' post-retirement benefit plans are recognized immediately for fixed income securities and are spread over a period of five years for all other asset classes. The fair value approach is used for the fixed income investments and related derivatives. For all other asset classes gains and losses arising from changes in fair value are deferred and amortized into the calculation of the MRVA over a period of five years. Each year 20% of the prior five years' asset gains and losses are recognized.

We use the corridor approach to amortize actuarial gains and losses. Under this approach, net gains or losses in excess of ten percent of the larger of the benefit obligation or the MRVA are amortized on a straight-line basis.

Net Periodic Benefit Cost

The components of the net periodic benefit costs (income) related to pension and other post-retirement benefits were as follows.

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

	Pension Benefits			Health and Life Benefits		
	Years Ended December 31,			Years Ended December 31,		
(In millions)	**2021**	2020	2019	**2021**	2020	2019
Service cost	**$ 12.1**	$ 12.5	$ 12.3	**$ 6.2**	$ 5.3	$ 5.0
Interest cost	**30.4**	35.5	41.2	**8.0**	9.3	11.9
Expected return on plan assets	**(42.8)**	(43.2)	(42.1)	**(22.6)**	(23.6)	(24.2)
Recognized prior service cost (credit)	**0.2**	0.3	0.3	**(13.6)**	(13.6)	(15.8)
Recognized actuarial loss (gain)	**1.6**	7.7	7.9	**(5.0)**	(2.0)	—
Settlement charge[(b)]	**1.2**	4.9	5.5	**—**	—	—
Other adjustments [(c)]	**—**	—	—	**—**	—	0.7
Net periodic benefit cost (income)	**$ 2.7**	$ 17.7	$ 25.1	**$ (27.0)**	$ (24.6)	$ (22.4)
Allocation to affiliates	**—**	(1.3)	(1.8)	**0.6**	1.3	2.6
Adjusted net periodic benefit cost (income)	**$ 2.7**	$ 16.4	$ 23.3	**$ (26.4)**	$ (23.3)	$ (19.8)
Service cost capitalized to construction projects	**(2.3)**	(1.6)	(1.9)	**(1.2)**	(0.7)	(0.8)
Amount deferred as regulatory asset (liability)-net allocations[(d)]	**—**	—	0.6	**—**	—	—
Amount charged (credited) to expense	**$ 0.4**	$ 14.8	$ 22.0	**$ (27.6)**	$ (24.0)	$ (20.6)

[(a)] *The components of net benefit cost (income), other than service cost, are recorded in "Other income -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) to executives who have retired.*
[(c)] *"Other Adjustments" in 2019 represents the one-time charge associated with the temporary deviation in the substantive plan of delaying the cap on pre-65 retiree medical benefits to 2021.*
[(d)] *Amounts represents the amortization of previously unrecovered costs of the applicable pension benefits or the health and life benefits as approved in the District of Columbia through 2019. The amounts were fully amortized as of December 31, 2019.*

Assumptions

The weighted average assumptions used to determine net periodic benefit obligations and net periodic benefit costs were as follows.

Benefit Obligations Assumptions

	Pension Benefits			**Health and Life Benefits**		
	Years Ended December 31,			**Years Ended December 31,**		
	2021	2020	2019	**2021**	2020	2019
Discount rate[(a)]	**2.9%-3.0%**	2.6%-2.8%	3.4%-3.5%	**3.1%**	2.8%	3.5%
Rate of compensation increase	**3.0%**	2.5%-3.0%	3.0%-3.5%	**3.0%**	2.5%-3.0%	3.5%

[(a)] *The increase in the discount rate in the year ended December 31, 2021 compared to prior years primarily reflects the increase in long-term interest rates.*

Net Periodic Benefit Cost Assumptions

	Pension Benefits			**Health and Life Benefits**		
	Years Ended December 31,			**Years Ended December 31,**		
	2021	2020	2019	**2021**	2020	2019
Discount rate[(a)]	**2.6%-2.8%**	3.4%-3.5%	4.3%-4.4%	**2.80%**	3.5 %	4.4 %
Expected long-term return on plan assets[(b)]	**4.75 %**	5.25%	5.75 %	**3.37 %**	4.50%	5.25 %
Rate of compensation increase[(c)]	**2.5%-3.0%**	3.0%-3.5%	3.5% - 4.1%	**2.5%-3.0%**	3.5 %	4.1 %

[(a)] *The changes in the discount rates over the prior periods primarily reflect the changes in long-term interest rates.*
[(b)] *For health and life benefits, the expected returns for certain funds may be lower due to certain portions of income that are subject to an assumed blended income tax rate of 34.40%.*
[(c)] *The changes in the rate of compensation reflects the best estimates of actual future compensation levels including consideration of general price levels, productivity, seniority, promotion, and other factors such as inflation rates.*

Discount Rate

Washington Gas determines the discount rate based on a portfolio of high quality fixed-income investments (AA- as assigned by Standard & Poor’s or Aa3 as assigned by Moody’s or better) whose cash flows would cover our expected benefit payments.

Expected long-term return on plan assets

Washington Gas determines the expected long-term rate of return on plan assets by averaging the expected earnings for the target asset portfolio. In developing the expected rate of return assumption, Washington Gas evaluates an analysis of historical actual performance and long-term return projections, which gives consideration to our asset mix and anticipated length of obligation of our plan.

Mortality Assumptions

Beginning in October 2014, the SOA began publishing annual updates to its mortality tables for U.S. plans, starting with the RP-2014 base mortality table and the MP-2014 improvement scale. The improvement scale has been updated each year.

The most recently updated improvement scales (MP-2021 and MP-2020) and the Pri-2012 (the Private Retirement Plans Mortality table for 2012) mortality table were used to determine the benefit obligations for both December 31, 2021 and 2020.

Healthcare cost trend

Washington Gas assumed the healthcare cost trend rates related to the accumulated post-retirement benefit obligation at December 31, 2021, for non-Medicare eligible retirees, to be 2.5% starting in 2022 and expects the trend to remain at that level thereafter.

For Medicare eligible retirees age 65 and older that will receive a subsidy each year as a benefit from the HRA plan, Washington Gas assumed no increase to the annual subsidy through 2024 then 4% increase in 2025 and 2% increase for all subsequent years in order to approximate possible future increases in the stipend. While the plan terms do not guarantee increases to the stipend, Washington Gas intends to review the stipend annually.

Investment Policies and Strategies

The investment objective of the qualified pension, healthcare, and life insurance benefit plans (“Plan” or “Plans”) is to allocate each Plan’s assets to appropriate investment asset classes (asset categories) so that the benefit obligations of each Plan are adequately funded, consistent with each Plan’s and Washington Gas’ tolerance for risk.

Washington Gas' portion of retired employee healthcare and life insurance benefits obligation is funded through two trusts: (i) the Washington Gas Light Company Post Retirement Benefit Master Trust for Retired Previously Union-Eligible Employees ("union-eligible trust") and (ii) the Washington Gas Light Company Post Retirement Benefit Master Trust for Retired Management Employees ("management trust").

In order to best achieve the investment objectives for each Plan, strategic allocation targets and ranges are established that control exposure to selected investment asset classes. Asset/Liability Modeling (ALM) is used to test the benefits and risks of several potential strategic asset allocation mixes. Simulated investment performance results based on assumptions about expected return, volatility, and correlation characteristics of the selected asset classes are tested for their effects on contributions, pension expense, PBO funded status, and downside Value at Risk metrics over a ten-year planning time horizon. An ALM study completed in January 2020 indicated that adopted target asset class allocations remained an appropriate trade-off between risk and reward. The following table includes the target asset allocation by asset class at December 31, 2021. Actual asset balances are reviewed monthly and allowed to range within plus or minus 5% of the target allocations. Assets are generally rebalanced to target allocations before actual amounts fall below or rise above the allowable ranges.

Target Asset Allocation by Asset Class

	Qualified Pension Trust Asset [b]	Union-eligible Trust Asset	Management Trust Asset
U.S. Equities	32 %	30 %	50 %
International Equities	8 %	—	—
Real Estate	5 %	—	—
Fixed Income[a]	55 %	70 %	50 %
Total	100 %	100 %	100 %

[a] *The Fixed Income asset class includes the related derivatives.*
[b] *Investment strategy for the qualified pension plan includes increasing the target fixed income allocation percentage by 10% for each 5% improvement in the Plan’s funded ratio above the 100% funded level. The Plan's funded ratio was estimated to be above 105% on December 31, 2021. While specific investment decisions have not been determined yet as of December 31, 2021, the Pension Trust Investment Policy's guidelines at the 105% funded status level list a 30% target allocation for global equities, a 5% target allocation for real estate, and a 65% allocation for fixed income..*

Significant amounts of each various Plan's assets are managed by the same financial institution. Each Plan has a high exposure to U.S. based investments. There are no other significant risk concentrations related to investments in any entity, industry, country, commodity, or investment fund.

Commingled funds are employed in the management of qualified pension plan, management trust, and union-eligible trust assets. In addition, a publicly offered mutual fund and separately managed portfolios are employed in the management of a qualified pension plan trust. The management trust also uses a separately managed portfolio.

U.S. and international equity assets are diversified across sectors, industries, and investment styles. Fixed income assets are primarily diversified across U.S. government and investment grade corporate debt instruments, with some exposure to foreign and non-investment-grade securities. Real estate is diversified geographically across the U.S. by property type.

The qualified pension plan’s investment policy allows the use of futures, options, and other derivatives for purposes of reducing portfolio risk and as a low- cost option for gaining market exposure, but derivatives may not be used for leverage. Derivatives are currently used in the Fixed Income portion of the portfolio. The qualified pension plan’s investment policy prohibits investments in Washington Gas securities. The prohibition applies to separately managed portfolios but does not apply to any commingled fund investments.

The following tables present the fair value of the pension plan assets and health and life insurance plan assets by asset category at December 31, 2021 and 2020.

Pension Plan Assets

(In millions)	Level 1	Level 2	Total	% of Total
At December 31, 2021				
Cash and cash equivalents	$ 0.6	$ —	$ 0.6	0.1 %
Equity securities				
Preferred Securities	—	—	—	—
Fixed income securities				
U.S. Treasuries	—	217.0	217.0	20.2
U.S. Corporate Debt	—	288.1	288.1	26.8
U.S. Agency Obligations and Government Sponsored Entities	—	16.9	16.9	1.6
Asset-Backed Securities	—	0.6	0.6	0.1
Municipalities	—	8.5	8.5	0.8
Non-U.S. Corporate Debt	—	45.1	45.1	4.2
Derivatives[(c)]	—	4.5	4.5	0.4
Other[(a)]	—	9.0	9.0	0.8
Mutual Funds[(b)]	47.1	—	47.1	4.4
Total investments in the fair value hierarchy	$ 47.7	$ 589.7	$ 637.4	59.2 %
Investments measured at net asset value using the NAV practical expedient[(d)]				
Collective Trust Fund[(e)]			368.7	34.2
Commingled Funds and Pooled Separate Accounts[(f)]			30.2	2.8
Private Equity/Limited Partnership[(g)]			36.1	3.4
Total fair value of plan investments			$ 1,072.4	99.6 %
Net payable [(h)]			4.1	0.4
Total plan assets at fair value [(i)]			$ 1,076.5	100.0 %

Pension Plan Assets

(In millions)	Level 1	Level 2	Total	% of Total
At December 31, 2020				
Cash and cash equivalents	$ 4.9	$ —	$ 4.9	0.5 %
Equity securities				
Preferred Securities	—	0.2	0.2	—
Fixed income securities				
U.S. Treasuries	—	149.2	149.2	14.2
U.S. Corporate Debt	—	300.1	300.1	28.5
U.S. Agency Obligations and Government Sponsored Entities	—	29.3	29.3	2.8
Asset-Backed Securities	—	0.7	0.7	0.1
Municipalities	—	10.0	10.0	0.9
Non-U.S. Corporate Debt	—	46.5	46.5	4.4
Derivatives[(c)]	—	0.3	0.3	—
Other[(a)]	—	13.1	13.1	1.2
Mutual Funds[(b)]	60.9	—	60.9	5.8
Total investments in the fair value hierarchy	$ 65.8	$ 549.4	$ 615.2	58.4 %
Investments measured at net asset value using the NAV practical expedient[(d)]				
Collective Trust Fund[(e)]			373.8	35.5
Commingled Funds and Pooled Separate Accounts[(f)]			25.0	2.4
Private Equity/Limited Partnership[(g)]			44.0	4.2
Total fair value of plan investments			$ 1,058.0	100.5 %
Net payable[(h)]			(5.0)	(0.5)
Total plan assets at fair value [(i)]			$ 1,053.0	100.0 %

(a) *This category primarily includes non-U.S. government bonds as of December 31, 2021 and 2020.*

(b) *At December 31, 2021 and 2020, the investment in a mutual fund consisted primarily of common stock of non-U.S. based companies.*

(c) *At December 31, 2021 and 2020, this category included a combination of long-term U.S. Treasury interest rate future contracts, currency forwards, currency option interest rate swaps, and put and call options on both interest rate swaps and credit default swap index products.*

(d) *In accordance with ASC Topic 820, these investments are measured at fair value using NAV per share as a practical expedient and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliations of the fair value hierarchy to the statements of net assets available for plan benefits.*

(e) *At December 31, 2021, investments in collective trust funds consisted primarily of 90.53% common stock of U.S companies; 9.01% income producing properties located in the United States; and 0.46% short-term money market investments. At December 31, 2020 investments in collective trust funds consisted primarily of 90.30% common stock of U.S companies; 7.35% income producing properties located in the United States; and 2.35% short-term money market investments.*

(f) *At December 31, 2021 and 2020, investments in commingled funds and a pooled separate accounts consisted of 100% income producing properties located in the United States.*

(g) *At December 31, 2021 and 2020, investments in a private equity/limited partnership consisted of common stock of international companies.*

(h) *Net payable primarily represents pending trades for investments purchased net of pending trades for investments sold and interest receivable.*

(i) *This table does not include rabbi trust investments located in "Current Assets-Other" and "Deferred Charges and Other Assets-Other" on our balance sheets. Refer to Note 15 — Fair Value Measurements for fair value of rabbi trust investments.*

Healthcare and Life Insurance Plan Assets

(In millions)	Level 1	Level 2	Total	% of Total
At December 31, 2021				
Cash and Cash Equivalents	**$ 4.5**	**$ —**	**$ 4.5**	**0.6 %**
Fixed Income Securities				
U.S Agency Obligations	**—**	**0.5**	**0.5**	**0.1**
U.S. Treasuries	**—**	**66.7**	**66.7**	**8.7**
U.S. Corporate Debt	**—**	**71.3**	**71.3**	**9.3**
Municipalities	**—**	**6.9**	**6.9**	**0.9**
Non-U.S. Corporate Debt	**—**	**8.8**	**8.8**	**1.1**
Other[(a)]	**—**	**5.0**	**5.0**	**0.7**
Total investments in the fair value hierarchy	**$ 4.5**	**$ 159.2**	**$ 163.7**	**21.4 %**
Investments measured at net asset value using the NAV practical expedient[(b)]				
Commingled Funds[(c)]			**599.7**	**78.6 %**
Total fair value of plan investments			**$ 763.4**	**100.0 %**
Net receivable[(d)]			**(0.3)**	**—**
Total plan assets at fair value			**$ 763.1**	**100.0 %**

Healthcare and Life Insurance Plan Assets

(In millions)	Level 1	Level 2	Total	% of Total
At December 31, 2020				
Cash and Cash Equivalents	$ 4.9	$ —	$ 4.9	0.7 %
Fixed Income Securities				
U.S Agency Obligations	—	0.7	0.7	0.1
U.S. Treasuries	—	60.8	60.8	8.3
U.S. Corporate Debt	—	73.1	73.1	10.0
Municipalities	—	6.9	6.9	0.9
Non-U.S. Corporate Debt	—	8.5	8.5	1.2
Other[(a)]	—	5.3	5.3	0.7
Total investments in the fair value hierarchy	$ 4.9	$ 155.3	$ 160.2	21.9 %
Investments measured at net asset value using the NAV practical expedient[(b)]				
Commingled Funds[(c)]			571.7	78.1 %
Total fair value of plan investments			$ 731.9	100.0 %
Net receivable[(d)]			(0.2)	—
Total plan assets at fair value			$ 731.7	100.0 %

[(a)] *At December 31, 2021 and 2020, this category consisted primarily of non-U.S. government bonds.*

[(b)] *In accordance with ASC Topic 820, these investments are measured at fair value using Net Asset Value (NAV) per share as a practical expedient and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliations of the fair value hierarchy to the statements of net assets available for plan benefits.*

[(c)] *At December 31, 2021, investments held by commingled funds in which the plan invests consisted of 51% of common stock of large-cap U.S. companies, 21% of US Govt fixed income securities and 28% corporate bonds. At December 31, 2020, investments held by commingled funds in which the plan invests consisted 50% of common stock of large-cap U.S. companies, 20% of US Govt fixed income securities and 30% corporate bonds.*

[(d)] *At December 31, 2021 and 2020, Net receivable primarily represents pending trades for investments sold and interest receivable net of pending trades for investments purchased.*

Valuation Methods

Equity securities are traded on a securities exchange and are valued at the closing quoted market price as of the balance sheet date.

Mutual funds, commingled funds, pooled separate accounts and private equity/limited partnerships are valued at the quoted net asset value (NAV) per share, which is computed as of the close of business on the balance sheet date. Mutual funds with a publicly quoted NAV per share are classified as Level 1. The remaining asset types are not classified in the fair value hierarchy.

Fixed income securities are valued using pricing models that consider various observable inputs such as benchmark yields, reported trades, broker quotes and issuer spreads to determine fair value.

Benefit Contribution

For the qualified pension plan, Washington Gas' funding policy is to contribute an amount sufficient to satisfy the minimum annual funding requirements under the Pension Protection Act. Any contributions above the minimum annual funding requirements would be limited to amounts that are deductible under appropriate tax law. For the healthcare and life insurance benefit plans, Washington Gas' funding policy is to contribute amounts that are collected from ratepayers.

During the year ended December 31, 2021, Washington Gas did not contribute to its qualified pension but did contribute $6.5 million and $1.0 million to its DB SERP and DB Restoration plans, respectively, which was funded by the rabbi trust. For 2022, Washington Gas does not expect to make a contribution to its qualified pension plan and expects to contribute in aggregate $6.1 million to its DB SERP and DB restoration plans, which is expected to be funded by the related rabbi trusts. During 2021, Washington Gas did not make contributions for its health and life insurance benefit plans. Washington Gas does not expect to make a contribution to its health and life insurance benefit plans year in 2022.

Expected Benefit Payments

Expected benefit payments, including benefits attributable to estimated future employee service, which are expected to be paid over the next ten years are as follows.

Expected Benefit Payments

(In millions)	Pension Benefits	Health and Life Benefits
2022	$ 58.7	$ 15.1
2023	55.5	14.7
2024	56.2	14.4
2025	56.9	14.3
2026	57.2	14.5
2027—2031	289.2	74.2

Regulatory Matters

A significant portion of the estimated pension and post-retirement medical and life insurance benefits apply to our regulated activities. Each regulatory commission having jurisdiction over Washington Gas requires it to fund amounts reflected in rates for post-retirement medical and life insurance benefits into irrevocable trusts.

District of Columbia Jurisdiction

The PSC of DC has approved a level of rates sufficient to recover annual costs associated with the qualified pension and other post-retirement benefits. Expenses of the SERP allocable to the District of Columbia are not recovered through rates.

Maryland Jurisdiction

The PSC of MD has approved a level of rates sufficient to recover pension and other post-retirement benefit costs as determined under GAAP. Expenses of the SERP allocable to Maryland are not recovered through rates.

Virginia Jurisdiction

On September 28, 1995, the SCC of VA issued a generic order that allowed Washington Gas to recover most costs determined under GAAP for post-retirement medical and life insurance benefits in rates over twenty years. The SCC of VA, however, set a forty-year recovery period of the transition obligation. As prescribed by GAAP, Washington Gas amortizes these costs over a twenty-year period. With the exception of the transition obligation, the SCC of VA has approved a level of rates sufficient to recover annual costs for all pension and other post-retirement medical and life insurance benefit costs determined under GAAP. Although the transition obligation has been fully amortized for accounting purposes, we continue to collect Virginia's 40% portion of the transition expense in rates until 2033.

NOTE 11. STOCK-BASED COMPENSATION

Washington Gas had a WGL shareholder-approved Omnibus Plan, which included grants made in shares of WGL stock. Effective upon the Merger with AltaGas in July 2018, WGL no longer has common stock outstanding and no new awards will be issued in WGL stock.

In December 2019, Washington Gas adopted a new Long-Term Incentive Plan which will be used for future grants. In addition, certain executives of Washington Gas may be awarded stock options under the AltaGas Share Option Plan. Dollar amounts presented in this footnote are in U.S. Dollars unless otherwise stated.

ALA Phantom Units Issued under Long-Term Incentive Plan

ALA phantom units include performance units and restricted units. All ALA phantom units have a three-year vesting period, are settled in cash, and are valued at an average ALA stock price per performance unit at vesting. The performance units vest from zero to 200 percent of the target award based on AltaGas' total shareholder return relative to a selected peer group of companies, which is a market condition under ASC Topic 718 and AltaGas' three-year adjusted funds from operation compounded growth per share during the performance period, which is a performance condition under ASC Topic 718. The restricted units vest from zero to 100 percent of the target award based on payment of a cash dividend by AltaGas.

ALA phantom units are accounted for as liability awards under ASC 718 as they only settle in cash; therefore, we measure and record compensation expense for these awards based on their fair value at the end of each period until their vesting date. The percentage of the fair value that is accrued as compensation expense at the end of each period equals the percentage of the requisite service that has been rendered at that date. Consequently, fluctuations in earnings may result.

Performance and Restricted Units issued under WGL Omnibus Plan, Post Merger

As of December 31, 2021, all Performance Units and Restricted Units have fully vested.

Performance units had a three-year vesting period, were settled in cash and valued at $1.00 per performance unit. A portion of the performance units vested from zero to 200 percent of the target award based on our return on equity ratio achieved during the performance period, which is a performance condition under ASC Topic 718 (ROE Award). The resulting payout was also adjusted from 80 to 120 percent by a modifier based on AltaGas' total shareholder return relative to a selected peer group of companies (TSR Modifier), which is a market condition under ASC Topic 718. Our performance units were accounted for as liability awards under ASC 718 as they only settle in cash.

Restricted units had a three-year vesting period, were paid in cash at the end of each year, and valued at $1.00 per restricted unit. One third of the restricted units vested at the end of each year in the three-year period if AltaGas paid a dividend during that period. Our restricted units were accounted for deferred compensation under ASC 710 as they only settled in cash and did not have a market condition.

The following table summarize information regarding all units during the year ended December 31, 2021.

Performance Units and Restricted Units Award Activity

	Year Ended December 31, 2021		
Number of units	**ALA Phantom Units**	**Performance Units**	**Restricted Units**
Non-vested and outstanding, beginning of the year	**343,957**	**2,776,809**	**299,364**
Granted	**457,978**	**—**	**—**
Vested	**—**	**(2,725,064)**	**(282,342)**
Canceled/forfeited	**(99,754)**	**(51,745)**	**(17,022)**
Non-vested and outstanding, end of year	**702,181**	**—**	**—**

For the years ended December 31, 2021, 2020, and 2019, we recognized $9.9 million, $1.9 million, and $1.6 million of compensation expense, respectively, related to these units.

At December 31, 2021, total unrecognized compensation expense related to the ALA phantom units was $8.4 million, which will be recognized over a period of two years.

As of December 31, 2021 and 2020, we had a deferred liability of $10.1 million and $2.7 million, respectively, related to these units in “Deferred Credits-other”. Additionally, at December 31, 2020 we recorded a current liability of $0.9 million in

"Accounts payable and other accrued liabilities-other" related to these units. There was no such current liability at December 31, 2021.

For the years ended December 31, 2021, 2020,and 2019, we paid $3.6 million, $0.4 million and $0.6 million, respectively, in cash to settle these units.

Stock Options

Certain executives of Washington Gas were awarded AltaGas stock options. Options have a three-year vesting period with one-third vesting each year and expire after six years. For the year ended December 31, 2021 and 2020, we recognized $0.6 million and $0.6 million in compensation expense, respectively, related to stock options. There was no such expense for the year ended December 31, 2019.

At December 31, 2021, the unrecognized expense for the fair value of share option compensation cost associated with future periods was $0.4 million Canadian dollars.

The following table summarizes information about the stock options.

	Year ended December 31, 2021		
	Number of Options		Exercise Price (Canadian Dollars)
Stock Options outstanding, beginning of year	**547,523**	**$**	**21.21**
Granted	**182,788**		**18.72**
Exercised	**(208,693)**		**19.21**
Expired	**(40,000)**		**37.73**
Stock options outstanding, end of year	**481,618**	**$**	**19.76**
Stock options exercisable, end of year	**25,002**	**$**	**31.05**

At December 31, 2021, the total intrinsic value of share options outstanding was $3.7 million Canadian dollars and the total intrinsic value of share options exercised was $1.2 million Canadian dollars. At December 31, 2020 and 2019, the aggregate intrinsic value of share options outstanding and share options exercised was insignificant.

The following table summarizes the employee share option plan at December 31, 2021.

	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Exercise Price (Canadian Dollars)	Weighted Average Remaining Contractual Life (Years)	Number Exercisable	Weighted Average Exercise Price (Canadian Dollars)	Weighted Average Remaining Contractual Life (Years)
$18.00 to $25.08	456,618	19.15	4.41	2	19.41	4.01
$25.09 to $46.70	25,000	31.05	1.18	25,000	31.05	1.18
Total	481,618	19.76	4.24	25,002	31.05	1.18

The fair value of each option granted is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average grant date fair value and assumptions are as follows.

	Years Ended December 31,					
		2021		2020		2019
Fair value per options (Canadian dollars)	**$**	**3.35**	$	2.59	$	2.46
Risk-free interest rate (%)		**0.42**		1.57		1.63
Expected life (years)		**6**		6		6
Expected volatility (%)		**35.71**		25.05		24.99
Annual dividend per share (%) [(a)]		**5.33**		4.85		5.03

[(a)] *Annual dividend per share is calculated based on a weighted average share price and forward dividend yields as the grant dates.*

Prior Merger Awards

Prior to the Merger with AltaGas, Washington Gas had stock-based awards outstanding in the form of performance shares and performance units. Upon the Merger with AltaGas, the awards were converted to a fixed cash amount and one grant required vesting over a three-year period through September 2020. For the years ended December 31, 2020 and 2019, we recognized compensation expense of $0.4 million and $2.0 million related to this remaining grant.

NOTE 12. 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 December 31, 2021 and 2020, Washington Gas reported a liability of $13.7 million and $10.3 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 December 31, 2021 and 2020, Washington Gas estimated the maximum liability associated with all of its sites to be approximately $39.2 million and $30.6 million, respectively. The maximum liability at December 31, 2021 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 estimate 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 December 31, 2021 and 2020, Washington Gas reported a regulatory asset of $10.0 million and $7.4 million, respectively, for the portion of environmental response costs that are expected to be recoverable in future rates.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Commitments

Natural Gas Contracts — Minimum Commitments

At December 31, 2021, Washington Gas had service agreements with four pipeline companies that provide direct service for firm transportation and/or storage services. These agreements, which have expiration dates ranging from 2022 to 2044, require Washington Gas to pay fixed charges each month. Additionally, Washington Gas had agreements for other pipeline and peaking services with expiration dates ranging from 2022 to 2028. These agreements were entered into based on current estimates of growth of the Washington Gas system. In addition, Washington Gas has agreements to purchase natural gas at variable market prices with expiration dates ranging from 2022 to 2033.

The following table summarizes the minimum contractual payments that Washington Gas will make under its pipeline transportation, storage and peaking contracts, as well as minimum contractual payments to purchase natural gas during the next five years and thereafter.

Washington Gas Contract Minimums

(In millions)	Pipeline Contracts[(a)]	Gas Purchase Commitments[(b)]
2022	$ 269.1	$ 496.8
2023	235.4	394.4
2024	200.4	361.1
2025	186.7	348.7
2026	171.6	341.1
Thereafter	608.9	1,192.3
Total	$ 1,672.1	$ 3,134.4

[(a)] *Represents minimum payments for natural gas transportation, storage and peaking contracts that have expiration dates through 2044.*
[(b)] *Includes known and reasonably likely commitments to purchase natural gas. Cost estimates are based on forward market prices at December 31, 2021.*

When a customer selects a third-party marketer to provide supply, Washington Gas generally assigns pipeline and storage capacity to unregulated third-party marketers to deliver gas to Washington Gas' city gate. In order to provide the gas commodity to customers who do not select an unregulated third-party marketer, Washington Gas has a commodity acquisition plan to acquire the natural gas supply to serve the customers.

To the extent these commitments are to serve its customers, Washington Gas has rate provisions in each of its jurisdictions that would allow it to continue to recover these commitments in rates. Washington Gas also actively manages its supply portfolio to ensure its sales and supply obligations remain balanced. This reduces the likelihood that the contracted supply commitments would exceed supply obligations. However, to the extent Washington Gas were to determine that changes in regulation would cause it to discontinue recovery of these costs in rates, Washington Gas would be required to charge these costs to expense without any corresponding revenue recovery. If this occurred, depending upon the timing of the occurrence, the related impact on our financial position, results of operations and cash flows would likely be significant.

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 December 31, 2021, the remaining unpaid amount for the previously accrued 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.

The following table presents the future payments of merger commitments by year. These commitments have been accrued on Washington Gas' balance sheets at December 31, 2021.

Merger Commitments Payments

(In millions)	2022	2023	2024	2025	2026	Thereafter	**Total**
Merger commitments	$ 1.4	1.2	1.2	1.2	1.2	0.8	$ 7.0

Financial Guarantees

At December 31, 2021, there was no guarantee to external parties.

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. In our opinion, we have recorded an adequate provision for probable losses or refunds to customers for regulatory contingencies related to these proceedings.

Maryland Customer Service Matter. 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. On December 23, 2021 the PSC of MD issued an Order on MD OPC's motion. On January 24, 2022, Washington Gas filed for rehearing of two issues from the Order, including the imposition of certain call center performance metrics and the creation of a regulatory liability to account for past costs. Washington Gas has accrued $350,000 in anticipation of civil penalties related to reporting violations. Intervenors have recommended that the Commission assess a civil penalty against Washington Gas in the range of $750,000 to $1.5 million. The Commission held a hearing for February 9, 2022 to address civil penalties and to consider Washington Gas' rehearing request. A decision is pending.

NOTE 14. DERIVATIVES

Washington Gas enters into contracts that qualify as derivative instruments and are accounted for under 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: (i) Washington Gas' asset optimization program; (ii) managing price risk associated with the purchase of gas to serve utility customers and (iii) managing 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 under ASC Topic 820.

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 $9.6 million, $8.6 million, and $6.0 million for the years ended December 31, 2021, 2020,and 2019, 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

	Years Ended December 31,		
(In millions)	**2021**	2020	2019
Realized gain	**$ 21.6**	$ 20.8	$ 13.1
Unrealized gain (loss)	**(4.7)**	3.6	5.4
Net margin gain	**$ 16.9**	$ 24.4	$ 18.5

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 the balance sheet classification for all derivative instruments at December 31, 2021 and 2020.

Absolute Notional Amounts of Open Positions on Derivative Instruments

	December 31, 2021	December 31, 2020
Natural Gas (In millions of therms)		
Asset optimization & trading	**7,774.0**	10,471.0
Other risk-management activities	**764.0**	881.0

Location, Fair Value and Offsetting of Derivative Assets and Liabilities Recognized on 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 or similar 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
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)**
December 31, 2020				
Derivative assets [(a)]	$ 17.8	$ (1.5)	$ —	$ 16.3
Derivative liabilities [(b)]	(98.8)	1.5	1.6	(95.7)
Net derivative assets (liabilities)	$ (81.0)	$ —	$ 1.6	$ (79.4)

[(a)] *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; Derivative assets at December 31, 2020 include $5.0 million recorded in "Current assets — Derivatives" and $11.3 million in" Deferred charges and other assets — Derivatives" on Washington Gas' balance sheets.*

[(b)] *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; Derivative liabilities at December 31, 2020 include $7.1 million recorded in "Current liabilities — Derivatives " and $88.6 million recorded in " Deferred credits — Derivatives" on Washington Gas' balance sheets.*

Gains and (Losses) on Derivatives

The following table presents all gains and losses associated with derivative instruments.

Gains and (Losses) on Derivative Instruments

	Years Ended December 31,		
(In millions)	**2021**	2020	2019
Recorded to income — Utility cost of gas	**$ (12.2)**	$ 5.5	$ 5.5
Recorded to regulatory assets — Gas costs	**(31.9)**	0.3	14.0
Total	**$ (44.1)**	$ 5.8	$ 19.5

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 December 31, 2021 and 2020, Washington Gas had $7.2 million and $2.8 million, respectively, in collateral deposits posted with counterparties that are not offset against derivative asset and liabilities. At December 31, 2021 and 2020, Washington Gas had $1.7 million and $0.2 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 December 31, 2021 and 2020, 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 intrusive credit-risk-related contingent features underlying these agreements were triggered on December 31, 2021 and 2020, respectively.

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

(In millions)	**December 31, 2021**	December 31, 2020
Derivative liabilities with credit-risk-contingent features	**$ 2.0**	$ 0.7
Maximum potential collateral requirements	**1.9**	0.6

We do not enter into derivative contracts for speculative purposes.

Concentration of Credit Risk

We are exposed to credit risk from derivative instruments with wholesale counterparties, which is represented by the fair value of these instruments at the reporting date. We actively monitor and work to minimize counterparty concentration risk through various practices. At December 31, 2021, three counterparties represented over 10% of Washington Gas' credit exposure to wholesale derivative counterparties for a total credit risk of $32.6 million.

NOTE 15. 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. These financial assets and liabilities primarily consist of derivatives recorded on our balance sheets under ASC Topic 815 and short-term investments, other long-term receivable, 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 (OTC) 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.

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.

Other financial instruments including commercial paper, unsecured notes, and other long-term receivables are recorded on the balance sheets at amortized cost. The carrying cost of our commercial paper approximates fair value using Level 2 inputs. The fair value of Washington Gas unsecured notes was estimated based on valuation techniques using indirectly observable inputs corroborated with market data and therefore is classified as Level 2.

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 December 31, 2021					
Financial assets					
Fair value through net income					
Cash equivalents [(a)]	**$ 0.2**	**$ 0.2**	**$ —**	**$ —**	**$ 0.2**
Rabbi trust investments [(b)]	**14.4**	**14.4**	**—**	**—**	**14.4**
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 [(d)]	**(227.0)**	**—**	**(227.0)**	**—**	**(227.0)**
Unsecured notes [(e)]	**(1,646.0)**	**—**	**(1,691.9)**	**—**	**(1,691.9)**
Total Liabilities	**$ (1,972.1)**	**$ —**	**$ (1,919.8)**	**$ (98.2)**	**$ (2,018.0)**

(In millions)	Carrying Amount	Level 1	Level 2	Level 3	Total
At December 31, 2020					
Financial assets					
Fair value through net income					
Cash equivalents [(a)]	$ 3.2	$ 3.2	$ —	$ —	$ 3.2
Rabbi trust investments [(b)]	22.0	22.0	—	—	22.0
Derivative asset - current	2.1	—	0.7	1.4	2.1
Derivative asset - deferred	4.5	—	—	4.5	4.5
Fair value through regulatory assets/liabilities					
Derivative asset - current	2.9	—	0.9	2.0	2.9
Derivative asset - deferred	6.8	—	—	6.8	6.8
Amortized cost					
Other long-term receivables [(c)]	1.4	—	1.4	—	1.4
Total Assets	$ 42.9	$ 25.2	$ 3.0	$ 14.7	$ 42.9
Financial Liabilities					
Fair value through net income					
Derivative liabilities - current	$ (0.4)	$ —	$ —	$ (0.4)	(0.4)
Derivative liabilities - deferred	(26.8)	—	—	(26.8)	(26.8)
Fair value through regulatory assets/liabilities					
Derivative liabilities - current	(6.7)	—	(0.3)	(6.4)	(6.7)
Derivative liabilities - deferred	(61.8)	—	(0.7)	(61.1)	(61.8)
Amortized cost					
Commercial paper [(d)]	(285.0)	—	(285.0)	—	(285.0)
Unsecured notes [(e)]	(1,446.9)	—	(1,779.8)	—	(1,779.8)
Total Liabilities	$ (1,827.6)	$ —	$ (2,065.8)	$ (94.7)	$ (2,160.5)

[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 invested in money market funds. At December 31, 2021, carrying amount of $6.1 million and $8.3 million was included in "Current assets — Other" and "Deferred charges and other assets — Other" of the accompanying balance sheets, respectively; At December 31, 2020, carrying amount of $6.7 million and $15.3 million was included in "Current assets — Other" and "Deferred charges and other assets — Other", respectively.
[c] Amount represents a long-term receivable from one of our trading partners at December 31, 2020. The carrying amount approximated fair value, using a Level 2 input to estimate the credit loss associated with the receivable. This receivable was settled in the quarter ending June 30, 2021.
[d] The balance at December 31, 2021 includes $127.0 million located in "Notes payable", and $100.0 million located in "Long-term debt" on the accompanying balance sheets. The balance at December 31, 2020 includes $185.0 million located in "Notes payable", and $100.0 million located in "Long-term debt" on the accompanying balance sheets.
[e] Includes adjustments for current maturities and unamortized discounts, as applicable. The amount was 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 [a]	Range
December 31, 2021	**($94.8)**	Discounted Cash Flow	Natural Gas Basis Price (per dekatherm)	**($0.44)**	**($1.335)-$4.498**
December 31, 2020	($80.0)	Discounted Cash Flow	Natural Gas Basis Price (per dekatherm)	($0.36)	($0.910)-$2.073

[a] ASU 2018-13 has been applied prospectively, beginning with the interim period ending March 31, 2020. The average level 3 price was weighted by transaction volume.

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

	Years Ended December 31,		
(In millions)	**2021**	2020	2019
Balance at beginning of period	**$ (80.0)**	$ (84.8)	$ (106.6)
Realized and unrealized gains (losses)			
Recorded to income-Utility cost of gas	**(6.5)**	4.1	7.2
Recorded to regulatory assets—gas costs	**(21.9)**	(1.2)	17.8
Transfers into Level 3	**—**	—	(6.7)
Transfers out of Level 3	**—**	1.3	7.9
Settlements	**13.6**	0.6	(4.4)
Balance at end of period	**$ (94.8)**	$ (80.0)	$ (84.8)

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. Transfers out of Level 3 were due to valuations that experienced an increase in observable market inputs. Transfers into Level 3 were due to an increase in unobservable market inputs, primarily pricing points. All amounts recorded to income are from 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

	Years Ended December 31,		
(In millions)	**2021**	2020	2019
Recorded to income — Utility cost of gas	**$ (0.9)**	$ 6.7	$ 9.9
Recorded to regulatory assets — Gas costs	**(9.6)**	7.2	21.6
Total	**$ (10.5)**	$ 13.9	$ 31.5

NOTE 16. 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 human resources, employee benefits, finance, legal, accounting, tax, information technology services, and office 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 Energy, Inc., (SEMCO), a subsidiary of AltaGas. 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.

The net expenses of $20.0 million, $19.7 million and $18.2 million were included in “Operation and maintenance” on the statements of operations for the years ended December 31, 2021, 2020 and 2019, respectively, reflecting the corporate service cost allocated to Washington Gas.

In addition, Washington Gas provides accounting, treasury, legal and other administrative and general support to WGL’s subsidiaries and various AltaGas U.S. entities, and files consolidated tax returns that include affiliated taxable transactions. 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 obtains third-party project financing for energy management services projects with the federal government under Washington Gas’ area-wide contract. As work is performed, Washington Gas establishes a contract asset in “Receivables” representing the government’s obligation to remit principal and interest and records a “Payable to associated company” to WGL Energy Systems for the construction work performed for the same amount.

At December 31, 2021 and 2020, Washington Gas recorded $6.7 million and $16.1 million of contract assets in "Receivables” and a $6.7 million and $16.1 million of payable to WGL Energy Systems in “Payables to associated companies,” respectively, for energy management services projects financed by WGL Energy Systems that were not complete.

Related Party Transactions with Hampshire

Hampshire Gas Company (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 was not recognized upon the adoption of ASC 842 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 $10.2 million, $8.2 million and $7.4 million for the years ended December 31, 2021, 2020 and 2019, 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.

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 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 energy marketers participating in the sale of natural gas on an unregulated basis through the customer choice programs that operate in its service territory. These balancing services include the sale of natural gas supply commodities related to various peaking arrangements contractually supplied to Washington Gas and then partially allocated and assigned by Washington Gas to the energy marketers, including WGL Energy Services. 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. The following table shows the amounts Washington Gas charged WGL Energy Services for balancing services.

Washington Gas - Gas Balancing Service Charges

	Years Ended December 31,		
(In millions)	**2021**	2020	2019
Gas balancing service charge	**$ 24.8**	$ 16.6	$ 20.0

Washington Gas participates in a purchase of receivables (POR) program as approved by the PSC of MD and separate program approved by the PSC of DC, whereby it purchases receivables from participating energy 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 December 31, 2021 and 2020, Washington Gas had balances of $10.0 million and $6.9 million, respectively, of purchased receivables from WGL Energy Services.

Refer to Note 9 — *Income Taxes* of the Notes to financial statements for discussions of related party income taxes.

NOTE 17. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)(AOCI)

The following table shows the changes in accumulated other comprehensive income (loss) for Washington Gas by component.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Years Ended December 31,		
(In thousands)	**2021**	2020	2019
Beginning Balance	**$ 1,577**	$ 4,576	$ (7,106)
Amortization of prior service credit [(a)(b)]	**(326)**	(1,493)	(649)
Amortization of actuarial loss [(a)(b)(c)]	**127**	2,129	1,787
Actuarial gain (loss) arising during the period [(a)]	**802**	(4,736)	14,672
Current-period other comprehensive income (loss)	**$ 603**	$ (4,100)	$ 15,810
Income tax expense (benefit) related to pension and other post-retirement benefit plans [(c)]	**211**	(1,101)	4,128
Ending Balance	**$ 1,969**	$ 1,577	$ 4,576

[(a)] *These accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit cost. Refer to Note 10 — Pension and other post-retirement benefit plans for additional details.*

[(b)] *Amortization of prior service cost and amortization of actuarial gain (loss) represent the amounts reclassified out of AOCI to "Other income (expense)" of statements of operations for the reported periods.*

[(c)] *In the third quarter of 2020, Washington Gas made a voluntary change in accounting principle for calculating the MRVA used in the determination of net periodic pension and other post-retirement benefit plan costs. We retrospectively applied this change in accounting principle to all applicable prior period financial information presented herein as required.. Refer to Note 1 — Accounting Policies for further discussion.*

NOTE 18. 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.

	Years Ended December 31,		
(In thousands)	**2021**	2020	2019
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Receivables	**$ (67,426)**	$ 9,288	$ (16,494)
Receivables from (Payable to) associated companies — net	**114,762**	(116,703)	(7,362)
Gas costs and other regulatory assets/liabilities — net	**(4,811)**	(54,684)	26,374
Storage gas	**(66,886)**	17,395	15,952
Prepaid taxes	**(10,814)**	11,029	(7,383)
Accounts payable and other accrued liabilities	**58,855**	(11,014)	(56,925)
Customer deposits and advance payments	**1,538**	(1,309)	(14,318)
Accrued taxes	**1,807**	2,856	(4,670)
Other current assets	**(9,008)**	5,575	(13,591)
Other current liabilities	**101**	1,424	(2,474)
Deferred gas costs — net	**(22,209)**	(16,764)	33,044
Deferred assets — other	**(1,789)**	(16,911)	4,981
Deferred liabilities — other	**(30,796)**	76,918	(28,004)
Pension and other post-retirement benefits	**(4,618)**	(19,030)	(15,677)
Changes in operating assets and liabilities	**$ (41,294)**	$ (111,930)	$ (86,547)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION [(a)]			
Income taxes paid (refunded) — net	**$ 10,625**	$ (2,880)	$ 15,623
Interest paid including interest for finance leases	**$ 65,542**	$ 62,883	$ 57,922
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES [(a)]			
Extinguishment of project debt financing	**$ —**	$ —	$ (15,460)
Capital expenditure accruals included in accounts payable and other accrued liabilities	**$ 69,660**	$ 74,121	$ 26,590

[(a)] *Refer to Note 4 — Leases for additional supplemental cash flow disclosure related to leases.*

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.

	December 31,		
(In thousands)	**2021**	2020	2019
Cash and cash equivalents	**$ 1**	$ 1	$ 17,069
Restricted cash included in Current assets — Other	**6,102**	6,673	19,464
Restricted cash included in Deferred charges and other assets — Other	**8,266**	15,288	24,615
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	**$ 14,369**	$ 21,962	$ 61,148

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 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 December 31, 2021 and 2020. Refer to Note 10 — *Pension and Other Post-Retirement Benefit Plans* for further discussion of rabbi trusts.

NOTE 19. SUBSEQUENT EVENTS

Subsequent events have been reviewed through March 7, 2022, the date these consolidated financial statements were issued.