Washington Gas

101 Constitution Avenue, NW
Washington, DC 20080
www.washingtongas.com

Direct: (202) 624-6507
Fax: (202) 624-6789
dhayes@washgas.com

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Via Electronic Filing and Federal Express

David J. Collins
Executive Secretary
Maryland Public Service Commission
6 St. Paul Street, 16th Floor
Baltimore, Maryland 21202

Re: COMAR 20.59 – Competitive Gas Supply – Washington Gas Light Company's Updated POR Discount Rates

Dear Mr. Collins:

Enclosed for filing with the Commission are proposed updated discount rates applicable to the purchase of receivables ("POR") by Washington Gas Light Company ("Washington Gas" or "Company") from gas suppliers serving Washington Gas customers in Maryland. The proposed updated POR discount rates applicable to residential and non-residential receivables are 6.97% and 0.17%, respectively, as shown on Attachment A and are calculated in accordance with the Company's tariff.[1] The Company's current discount rates applicable to the purchase of residential and non-residential receivables are 4.39% and 0.83%, respectively. As explained below, the increase in the proposed updated POR discount rates is due to an increase in the Information Technology (IT) Implementation Cost component. A proposed revised tariff page to reflect the Commission's decision regarding the revised POR discount rates in also enclosed in legislative format.[2]

In updating the POR discount rates for the second year, the Company has updated each of the components of the calculation, i.e., Bad Debt Expense, Information Technology (IT) Implementation Costs, Incremental Collection Costs and the Reconciliation Factor, in

[1] While the Commission determined in its June 9, 2011 Letter Order (#25, 1/19/11 AM; ML# 127518) that the Information Technology ("IT") implementation cost component of the POR discount rates should be based on a two-year amortization period, if the Commission decides to consider a mid-course adjustment to that schedule, Washington Gas has included updated POR discount rates based on a three-year amortization period of the IT Implementation Cost component (one year longer than directed by the Commission). The POR discount rates applicable to residential and non-residential receivables using a three-year amortization of the IT implementation cost component are 3.26% and 0.07%, respectively, as shown on Attachment A.

[2] Washington Gas Light Company Maryland Gas Tariff, P.S.C. Md. No. 6, First Revised Page No. 45c. The date of issuance of the Commission Letter Order ruling on this request will be inserted into the final version of the tariff page filed with the Commission.

accordance with its tariff.[3] Washington Gas has also tracked late fees applicable to the purchased receivables that have been assessed and collected and has included that information in this filing, as directed by the Commission in its June 9, 2011 Letter Order.

Bad Debt Expense Component:

Washington Gas has proposed Bad Debt Expense component rates of 0.02% for residential customers and 0.01% for non-residential customers. Washington Gas generally does not terminate service to a customer for non-payment until an account is more than 90 days delinquent. In addition, Washington Gas generally did not terminate service during the past winter heating season (November 1, 2011 through March 31, 2012). The Company does not refer accounts for collection until service has been terminated, and does not write-off any amounts (or incur uncollectible expense) until seven months after the account has been terminated. Therefore, because the purchase of receivables did not commence until the July 2011 billing cycle, the Company experienced only minimal bad debt expense related to the receivables purchased during the initial year of purchasing receivables, as shown on Attachment B.

IT Implementation Costs:

The Company's final IT implementation costs related to RM35 are $3,313,580, as noted in Attachment C. This represents an increase of approximately $685,351 from the estimated IT implementation costs included in the Company's December 21, 2010 filing.[4] The IT implementation costs continue to be allocated between the residential and non-residential rate classes based on the Company's average customer bills allocator (94% to residential and 6% to non-residential). Due to lower CSP commodity sales during the initial year of purchasing receivables as a result of both lower throughput due to the warmer-than-normal winter and lower gas costs, the IT implementation costs collected through the POR discount rate over the first year of the program were substantially lower than initially estimated. As shown on Attachment C, the balance of the total IT implementation costs remaining to be collected is $2,563,995.

In its Letter Order dated June 9, 2011, the Commission authorized the amortization of the IT implementation costs over two years. The total IT implementation costs, the amount collected through June 2012, the remaining balance and the resulting discount rate are shown on Attachment C. Because the Company is entering into the final year of the two-year amortization, and due to the higher costs and the less-than-estimated collection of costs by the Company in the first year, the IT implementation cost component of the proposed POR discount rates is substantially higher than Year 1.[5]

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[3] The Risk Factor was set at 0% by the Commission and continues at 0% in the instant filing.
[4] ML# 127518.
[5] The Company has provided alternate POR discount rates based on amortization of the IT implementation costs over three years, rather than two years, if the Commission would like to consider extending the amortization of IT implementation costs by one year to avoid an increase in the POR discount rate applicable to residential receivables.

Incremental Collection Costs:

Incremental collection costs include incremental field collections work and incremental collections costs through the Company's contractor after accounts have been turned over for collection. The Company estimates that it will incur $31,529 in total incremental collection costs during the second year (including $22,499 for residential customers and $9,030 for non-residential customers). As shown in Attachment D, data from June 2012 was used to estimate the annual total for field collections and outside collection agencies for Year 2.

Reconciliation Factor:

Washington Gas collected total incremental collection costs of $234,205 (including $188,000 for residential customers and $46,205 for non-residential) through the first year of the POR discount program, as shown on Attachment D.[6] However, because Washington Gas did not begin purchasing receivables until authorized by the Commission effective with the July 2011 bill cycle, combined with the winter moratorium on service terminations, Washington Gas did not begin collection efforts on purchased receivables until March 2012. Therefore, the actual incremental collection costs for the period July 2011 – June 2012 were $10,025. This resulted in a total over-collection of $224,180 (including $178,300 for residential customers and $45,880 for non-residential customers). As shown on Attachment A, the Company proposes to return this over-collection to suppliers through the Reconciliation Factor.

Late payment charges

As directed by the Commission in its June 9, 2011 Letter Order,[7] Washington Gas has tracked late fees that have been assessed and collected applicable to the purchased receivables. As shown on Attachment E, the total late fees assessed and collected during the first year of the POR discount program is $528,959.54. The late fees are assessed in accordance with the terms of COMAR 20.30.03.03 and Rate Schedule Nos. 1A, 2A and 3A of the Company's tariff.[8] Washington Gas proposes to retain the late payment charges, as the rationale for late payment fees is to compensate the Company for the costs associated with late payments.

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[6] In its December 21, 2010 filing, the Company estimated incremental collection costs to be $400,000. This included $100,000 for incremental field collections work and $300,000 for incremental collections costs through the Company's contractor after accounts have been turned over for collection. The estimated costs also included additional outbound collection calls, inbound call center calls and back-office collection staff. These costs were extrapolated from historical levels of bad debt experience, final accounts turned over for collection, and collection calls handled and applied to the estimated additional levels of receivables that were to be purchased from CSPs. The costs were allocated between residential and non-residential rate classes based on the actual gross bad debt write-offs by rate class (83% to residential and 17% to non-residential).

[7] #25, 1/19/11 AM; ML# 127518

[8] Each of the referenced rate schedules provides for the assessment of late fees equal to 1½ % of the amount that remains unpaid 20 days after the date of rendition of the bill, an additional 1½% of the original amount which remains unpaid 30 days thereafter, and an additional 2% of any portion of the original amount which remains unpaid 30 days thereafter, up to a maximum of 5% of the total amount of the charges.

Conclusion

Washington Gas respectfully requests that the Commission approve the proposed updated POR discount rates as soon as possible. Following approval by the Commission, the Company must implement the new POR discount rates on the first day of a bill cycle. The Company will endeavor to implement the new POR discount rates for the next bill cycle following approval, but notes that it will need a minimum of 15 business days to update and test the revised POR discount rates before they go "live."

If you have any questions, please do not hesitate to contact me.

Sincerely yours,

Donald R. Hayes

Donald R. Hayes
Senior Legal Counsel

cc: Annette B. Garofalo, Assistant Staff Counsel
Peter Saar, Assistant People's Counsel
Gunter J. Elert, Assistant Director – Gas & Water
RM35 Implementation Working Group

POR Proposed Discount Rate Calculation - Year 2

Commission-Approved Two-Year Amortization of IT Implementation Costs*

	RESIDENTIAL		NON-RESIDENTIAL		FOR INFORMATION ONLY COMBINED	
Bad Debt Expense a/	$ 6,056	0.02%	$ 10,133	0.01%	$ 16,190	0.01%
IT Implementation Costs - 2 yr amortization	2,410,155	7.44%	153,840	0.20%	2,563,995	2.34%
Incremental Collection Costs c/	22,499	0.07%	9,030	0.01%	31,529	0.03%
Reconciliation Factor	(178,300)	-0.55%	(45,880)	-0.06%	(224,180)	-0.20%
Total Annual Cost and Discount Rate	$ 2,260,410	**6.97%**	$ 127,123	**0.17%**	$ 2,387,533	**2.18%**
CSP Commodity Sales	$ 32,413,821		$ 77,008,874		$ 109,422,695	
IT Implementation Costs Collected July 2011 - June 2012	$ 703,380		$ 46,205		$ 749,585	

* This is the last year of the 2-year approved amortization.

Washington Gas Proposed Three-Year Amortization of IT Implementation Costs b/

	RESIDENTIAL		NON-RESIDENTIAL		FOR INFORMATION ONLY COMBINED	
Bad Debt Expense a/	$ 6,056	0.02%	$ 10,133	0.01%	$ 16,190	0.01%
IT Implementation Costs - 3 yr amortization	1,205,078	3.72%	76,920	0.10%	1,281,997	1.17%
Incremental Collection Costs c/	22,499	0.07%	9,030	0.01%	31,529	0.03%
Reconciliation Factor	(178,300)	-0.55%	(45,880)	-0.06%	(224,180)	-0.20%
Total Annual Cost and Discount Rate	$ 1,055,333	**3.26%**	$ 50,203	**0.07%**	$ 1,105,536	**1.01%**
CSP Commodity Sales	$ 32,413,821		$ 77,008,874		$ 109,422,695	
IT Implementation Costs Collected July 2011 - June 2012	$ 703,380		$ 46,205			

a/ As a result of the implementation of the purchase of receivables from suppliers with the July 2011 billing cycle, there has not yet been sufficient aging of the receivables for Washington Gas to have incurred significant write-offs of purchased receivables.

b/ To minimize the impact on the POR discount rate, Washington Gas is proposing to add an additional one-year to the Commission-approved two-year amortization of IT Implementation Costs.

c/ Incremental Collection Costs are the sum of Lines I (Projected Annual Termination Costs) and M (Annual Estimated Collection Fees) on Attachment D.

ATTACHMENT B

Year 1 Charge-Offs

		Residential		Non-Residential		Combined
Jul-11		$0.00		$0.00		$0.00
Aug-11		$0.00		$0.00		$0.00
Sep-11		$0.00		$290.49		$290.49
Oct-11		$32.97		$0.00		$32.97
Nov-11		$107.42		$0.00		$107.42
Dec-11		$35.16		$0.00		$35.16
Jan-12		$108.36		$34.95		$143.31
Feb-12		$664.15		$734.43		$1,398.58
Mar-12		$833.45		$12.97		$846.42
Apr-12		$1,384.59		$833.31		$2,217.90
May-12		$1,047.85		$6,821.24		$7,869.09
Jun-12		$1,842.73		$1,405.90		$3,248.63
TOTAL		$6,056.68		$10,133.29		$16,189.97

IT Implementation Costs

2-Year Amortization

	RESIDENTIAL	NON-RESIDENTIAL	COMBINED	
Total IT Implementation Costs residential - $3,313,580 x 94% non-residential - $3,313,580 x 6%	$3,114,766	$198,814.82	$3,313,580	Amount of IT implementation costs allocated to residential and non-residential customers per Commission Order.
Amount Collected July 2011 - June 2012 residential - $32,413,820 x 2.17% non-residential - $77,008,874 x 0.06%	$ 703,380	$ 46,205	$749,585	Total billed usage multiplied by portion of Commission-approved discount rate allocated to IT implementation costs
Remaining Uncollected IT Costs	$2,411,386	$152,610	$2,563,995	Uncollected balance of IT Implementation Costs; to be collected over next year (per Commission-approved 2-year amortization)
Discount Rate for IT Implementation Costs	7.08%	0.1880%	2.23%	IT Implementation Costs portion of POR discount rate

3-Year Amortization (One additional year to the 2-year amortization approved by the Commission.)

	RESIDENTIAL	NON-RESIDENTIAL	COMBINED	
Total IT Implementation Costs residential - $3,313,580 x 94% non-residential - $3,313,580 x 6%	$3,114,766	$198,814.82	$3,313,580	Amount of IT implementation costs allocated to residential and non-residential customers per Commission Order.
Amount Collected July 2011 - March 2012 residential - $32,413,820 x 2.17% non-residential - $77,008,874 x 0.06%	$ 703,380	$ 46,205	$749,585	Total billed usage multiplied by portion of Commission-approved discount rate allocated to IT implementation costs
Remaining Uncollected IT Costs	$2,411,386	$152,610	$2,563,995	Uncollected balance of IT Implementation Costs
Amount to be Collected Each of Next 2 Years	$1,205,693	$76,305	$1,281,998	Amount to be collected each of the next 2 years - if Commission approves WG proposal to add a third year to the amoritization of these costs
Discount Rate for IT Implementation Costs	3.54%	0.0940%	1.11%	IT Implementation Costs portion of POR discount rate for each of the next 2 years

July 2011 - June 2012 Incremental Collection Costs

		Residential	Non-Residential	Combined
A	Amount Estimated in 2011 Calculation	$332,000	$68,000	$400,000
B	Amount Collected through POR July 2011 - June 2012 a/	$188,000	$46,205	$234,205
C	Actual Incremental Collection Costs b/	$9,700	$325	$10,025
D	Over-/Under-Collection c/	($178,300)	($45,880)	($224,180)

a/ Due to the winter moratorium, Washington Gas did not begin collection efforts until April 2012.
*b/ C=E*H (See table below.)*
c/ D=C-B

2012 - 2013 POR Collection Cost Estimates

Field Collections Costs

		Residential	Non-Residential	Combined
E	Actual April-June 2012 Service Terminations d/	388	13	401
F	% of Annual Terminations in April-June e/	47.52%		
G	Projected Annual POR Terminations f/	816	27	844
H	Average cost per termination	$25	$25	$25
I	Projected Annual Termination Costs g/	$20,412.46	$683.92	$21,096.38

d/ Due to timing, April 2012 was the first month for POR terminations.
e/ Due to the winter moratorium on terminations, nearly 50% of the annual terminations occurred in April, May and June 2012.
f/ G=E/F
*g/ I=G*H*

Outside Collection Agency Costs

		Residential	Non-Residential	Combined
J	$ Referred (March - June) h/	$57,850.68	$28,732.07	$ 153,137.31
K	$ Collected (March - June)	$3,072.61	$12,382.75	$ 15,455.36
L	$ Collection Fees Paid (March - June)	$691.35	$2,786.19	$ 3,477.54
M	Annual Estimated Collection Fees i/	$2,086.52	$8,346.10	$ 10,432.62

h/ Due to timing, March 2012 was the first month for POR referrals
*i/ L=K*22.5%*

j/ The annual estimated collection fees are based on an allocation of the combined collection fees paid (March - June) between residential (20%) and non-residential (80%) customers.

Year 1 Collection of POR Costs by Month

	Residential		POR Discount Rate				
Month	Delivery Customers	Commodity Billed	Bad Debt	IT Implementation	Incremental Collection	Total POR Discount	LateFees Collected
	A	B	C=B*1.64%	D=B*2.17%	E=B*0.58%	F=C+D+E	G
Jul-11	59,691	$ 703,626.61	$ 11,539.48	$ 15,268.70	$ 4,081.03	$ 30,889.21	$ 658.64
Aug-11	59,349	$ 678,875.00	$ 11,133.55	$ 14,731.59	$ 3,937.48	$ 29,802.61	$ 2,630.16
Sep-11	59,403	$ 676,997.39	$ 11,102.76	$ 14,690.84	$ 3,926.58	$ 29,720.19	$ 3,893.29
Oct-11	59,816	$ 1,019,539.38	$ 16,720.45	$ 22,124.00	$ 5,913.33	$ 44,757.78	$ 3,802.99
Nov-11	60,965	$ 2,367,047.38	$ 38,819.58	$ 51,364.93	$ 13,728.87	$ 103,913.38	$ 4,503.19
Dec-11	61,600	$ 4,490,771.32	$ 73,648.65	$ 97,449.74	$ 26,046.47	$ 197,144.86	$ 13,158.19
Jan-12	61,895	$ 6,127,951.98	$ 100,498.41	$ 132,976.56	$ 35,542.12	$ 269,017.09	$ 18,311.90
Feb-12	63,452	$ 6,220,355.04	$ 102,013.82	$ 134,981.70	$ 36,078.06	$ 273,073.59	$ 26,648.47
Mar-12	64,628	$ 5,032,093.03	$ 82,526.33	$ 109,196.42	$ 29,186.14	$ 220,908.88	$ 39,360.00
Apr-12	79,359	$ 2,346,477.46	$ 38,482.23	$ 50,918.56	$ 13,609.57	$ 103,010.36	$ 33,711.47
May-12	79,706	$ 1,865,846.26	$ 30,599.88	$ 40,488.86	$ 10,821.91	$ 81,910.65	$ 19,814.88
Jun-12	80,562	$ 884,240.09	$ 14,501.54	$ 19,188.01	$ 5,128.59	$ 38,818.14	$ 18,192.70
TOTALS	**790,426**	**$ 32,413,820.94**	**$ 531,586.66**	**$ 703,379.91**	**$ 188,000.16**	**$ 1,422,966.74**	**$ 184,685.88**

	Non-Residential		POR Discount Rate				
Month	Delivery Customers	Commodity Billed	Bad Debt	IT Implementation	Incremental Collection	Total POR Discount	Late Fees Collected
	A	B	C=B*0.71%	D=B*0.06%	E=B*0.06%	F=C+D+E	G
Jul-11	10,722	$ 3,324,083.07	$ 23,600.99	$ 1,994.45	$ 1,994.45	$ 27,589.89	$ 3,083.20
Aug-11	10,730	$ 3,749,161.06	$ 26,619.04	$ 2,249.50	$ 2,249.50	$ 31,118.04	$ 11,198.85
Sep-11	10,762	$ 2,991,757.16	$ 21,241.48	$ 1,795.05	$ 1,795.05	$ 24,831.58	$ 16,597.73
Oct-11	10,740	$ 3,686,813.14	$ 26,176.37	$ 2,212.09	$ 2,212.09	$ 30,600.55	$ 15,823.75
Nov-11	10,733	$ 5,232,894.85	$ 37,153.55	$ 3,139.74	$ 3,139.74	$ 43,433.03	$ 13,860.06
Dec-11	10,727	$ 9,031,387.47	$ 64,122.85	$ 5,418.83	$ 5,418.83	$ 74,960.52	$ 26,529.26
Jan-12	10,674	$ 11,064,429.72	$ 78,557.45	$ 6,638.66	$ 6,638.66	$ 91,834.77	$ 40,493.32
Feb-12	10,706	$ 12,338,091.08	$ 87,600.45	$ 7,402.85	$ 7,402.85	$ 102,406.16	$ 42,411.10
Mar-12	10,766	$ 11,187,308.99	$ 79,429.89	$ 6,712.39	$ 6,712.39	$ 92,854.66	$ 62,404.77
Apr-12	12,666	$ 5,800,376.72	$ 41,182.67	$ 3,480.23	$ 3,480.23	$ 48,143.13	$ 47,226.36
May-12	13,052	$ 5,230,919.85	$ 37,139.53	$ 3,138.55	$ 3,138.55	$ 43,416.63	$ 32,173.59
Jun-12	12,764	$ 3,371,651.21	$ 23,938.72	$ 2,022.99	$ 2,022.99	$ 27,984.71	$ 32,471.67
TOTALS	**135,042**	**$ 77,008,874.32**	**$ 546,763.01**	**$ 46,205.32**	**$ 46,205.32**	**$ 639,173.66**	**$ 344,273.66**

TOTAL COLLECTED VIA POR DISCOUNT RATE	**$ 1,078,349.67**	**$ 749,585.24**	**$ 234,205.49**	**$ 2,062,140.40**	**$ 528,959.54**

Delivery Service Gas Supplier Agreement - Rate Schedule No. 8 (Continued)

3. Component No. 3 - Incremental Collection Costs – Annual incremental collection costs will be calculated as the estimated increase in annual collection costs to be incurred as a result of the implementation of the POR Program. This level of collection costs related to the POR Program will be updated annually in calculating the POR discount rate.

4. Component No. 4 - Risk Factor – Pursuant to the Commission's ~~June 30, 2010~~ XXXXXXXX Letter Order, this factor is set at 0.00% of annual CSP commodity sales for Year 2.~~the period June 29, 2011 through the conclusion of the June 2012 bill cycle (Year 2).~~ An assessment will be done annually to evaluate any adjustments, if applicable, to the risk factor used in the calculation of the POR discount rate, subject to Commission approval.

5. Component No. 5 - Reconciliation Factor – This factor will adjust for any over- or under-collection of costs (other than Component 1 – Bad Debt Expense) associated with the POR Program.

6. POR Discount Rate – The addition of the annual costs of Components Nos. 1 through 5 will result in the total annual costs to be collected through the POR discount rate. The total annual costs will be divided by the estimated annual CSP commodity sales, calculated as the rolling five year historical average of annual CSP commodity sales, resulting in the POR discount rate to be used for the POR Program for the current year.

7. Pursuant to the Commission's ~~June 9, 2011~~XXXXXXXXX Letter Order, the discount rate for Year ~~1~~2 will be ~~4.39~~6.97% for residential accounts and ~~0.83~~0.17% for non-residential accounts.

PAYMENT TO SUPPLIERS

The Company will process and submit payments twice a month (five (5) business days after (a) the 15th of each month, and (b) the end of the month) to each Supplier using consolidated billing. The payments will include the Supplier's portion of its customers' bills that were due between the 1st and 15th of each month and between the 16th and the last day of each month, respectively, less any prior-period adjustments or cancellations, and the POR discount rate approved by the Commission.

BUDGET BILLING

Customers of a Supplier who receive a Utility Consolidated Bill may utilize a Budget Plan for Supplier charges in accordance with General Service Provision No. 4A. Budget Plan.

UTILITY RESPONSIBILITIES IN THE EVENT OF A SUPPLIER DEFAULT

A Supplier whose gas license is suspended or revoked by the Commission is a considered a defaulted Supplier.

If a defaulted Supplier uses consolidated billing by Washington Gas for some or all of its customers, Washington Gas will include Supplier charges on the consolidated bill following suspension or revocation by the Commission of the Supplier's license unless prohibited by the Commission.

A defaulted Supplier using utility consolidated billing services must provide Washington Gas with information necessary to allow consolidated billing to be completed through the conclusion of the billing cycle.