UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

☑ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2010

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number	*Exact name of registrant as specified in its charter and principal office address and telephone number*	*State of Incorporation*	*I.R.S. Employer Identification No.*
1-16163	**WGL Holdings, Inc.** 101 Constitution Ave., N.W. Washington, D.C. 20080 (703) 750-2000	Virginia	52-2210912
0-49807	**Washington Gas Light Company** 101 Constitution Ave., N.W. Washington, D.C. 20080 (703) 750-4440	District of Columbia and Virginia	53-0162882

Indicate by check mark whether each registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether each registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

WGL Holdings, Inc.:

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Washington Gas Light Company:

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether each registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date.

WGL Holdings, Inc. common stock, no par value, outstanding as of July 31, 2010: 50,848,848 shares.

All of the outstanding shares of common stock ($1 par value) of Washington Gas Light Company were held by WGL Holdings, Inc. as of July 31, 2010.

WGL Holdings, Inc.
Washington Gas Light Company

For the Quarter Ended June 30, 2010

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INTRODUCTION

FILING FORMAT

This Quarterly Report on Form 10-Q is a combined report being filed by two separate registrants: WGL Holdings, Inc. (WGL Holdings) and Washington Gas Light Company (Washington Gas). Except where the content clearly indicates otherwise, any reference in the report to “WGL Holdings,” “we,” “us” or “our” is to the holding company or the consolidated entity of WGL Holdings and all of its subsidiaries, including Washington Gas which is a distinct registrant that is a wholly owned subsidiary of WGL Holdings.

Part I — Financial information in this Quarterly Report on Form 10-Q includes separate financial statements (i.e. balance sheets, statements of income and statements of cash flows) for WGL Holdings and Washington Gas. The Notes to Consolidated Financial Statements are also included and are presented on a combined basis for both WGL Holdings and Washington Gas. The *Management’s Discussion and Analysis of Financial Condition and Results of Operations* (Management’s Discussion) included under Item 2 is divided into two major sections for WGL Holdings and Washington Gas.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

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 or strategies and 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 verbs such as “will,” “should,” “would” and “could.” Although the registrants, WGL Holdings and Washington Gas, believe such forward-looking statements are based on reasonable assumptions, they cannot give assurance that every objective will be achieved. Forward-looking statements speak only as of today, and the registrants assume no duty to update them. The following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

- the level and rate at which costs and expenses are incurred and the extent to which they are allowed to be recovered from customers through the regulatory process in connection with constructing, operating and maintaining Washington Gas’s natural gas distribution system;
- the ability to implement successful approaches to modify the current or future composition of gas delivered to customers or to remediate the effects of the current or future composition of gas delivered to customers, as a result of the introduction of gas from the Dominion Cove Point or Elba Island facility to Washington Gas’s natural gas distribution system;
- the availability of natural gas supply and interstate pipeline transportation and storage capacity;
- the ability of natural gas producers, pipeline gatherers and natural gas processors to deliver natural gas into interstate pipelines for delivery by those interstate pipelines to the entrance points of Washington Gas’s natural gas distribution system as a result of factors beyond our control;
- changes and developments in economic, competitive, political and regulatory conditions and developments;
- changes in capital and energy commodity market conditions;
- changes in credit ratings of debt securities of WGL Holdings or Washington Gas that may affect access to capital or the cost of debt;
- changes in credit market conditions and creditworthiness of customers and suppliers;
- changes in relevant laws and regulations, including tax, environmental and employment laws and regulations;
- legislative, regulatory and judicial mandates or decisions affecting business operations or the timing of recovery of costs and expenses;
- the timing and success of business and product development efforts and technological improvements;
- the pace of deregulation efforts and the availability of other competitive alternatives to our products and services;
- changes in accounting principles;

- new commodity purchase and sales contracts or financial contracts and modifications in the terms of existing contracts that may materially affect fair value calculations under derivative accounting requirements;
- the ability to manage the outsourcing of several business processes;
- acts of nature;
- terrorist activities and
- other uncertainties.

The outcome of negotiations and discussions that the registrants may hold with other parties from time to time regarding utility and energy-related investments and strategic transactions that are both recurring and non-recurring may also affect future performance. All such factors are difficult to predict accurately and are generally beyond the direct control of the registrants. Accordingly, while they believe that the assumptions are reasonable, the registrants cannot ensure that all expectations and objectives will be realized. Readers are urged to use care and consider the risks, uncertainties and other factors that could affect the registrants' business as described in this Quarterly Report on Form 10-Q. All forward-looking statements made in this report rely upon the safe harbor protections provided under the *Private Securities Litigation Reform Act of 1995*.

WGL Holdings, Inc.
Consolidated Balance Sheets (Unaudited)
Part I—Financial Information

Item 1—Financial Statements

(In thousands)		**June 30, 2010**		September 30, 2009
ASSETS				
Property, Plant and Equipment				
At original cost	**$**	**3,320,969**	$	3,242,413
Accumulated depreciation and amortization		**(1,018,422)**		(973,272)
Net property, plant and equipment		**2,302,547**		2,269,141
Current Assets				
Cash and cash equivalents		**48,283**		7,845
Receivables				
Accounts receivable		**198,209**		172,117
Gas costs and other regulatory assets		**25,273**		77,173
Unbilled revenues		**117,626**		80,594
Allowance for doubtful accounts		**(19,194)**		(20,969)
Net receivables		**321,914**		308,915
Materials and supplies—principally at average cost		**23,546**		23,626
Storage gas—at cost (first-in, first-out)		**156,885**		237,681
Deferred income taxes		**16,910**		-
Other prepayments		**71,867**		82,415
Other		**26,113**		23,032
Total current assets		**665,518**		683,514
Deferred Charges and Other Assets				
Regulatory assets				
Gas costs		**-**		13,996
Pension and other post-retirement benefits		**345,926**		308,544
Other		**60,696**		53,904
Other		**53,622**		20,791
Total deferred charges and other assets		**460,244**		397,235
Total Assets	**$**	**3,428,309**	$	3,349,890
CAPITALIZATION AND LIABILITIES				
Capitalization				
Common shareholders' equity	**$**	**1,192,667**	$	1,097,698
Washington Gas Light Company preferred stock		**28,173**		28,173
Long-term debt		**591,382**		561,830
Total capitalization		**1,812,222**		1,687,701
Current Liabilities				
Current maturities of long-term debt		**30,097**		82,592
Notes payable		**7,062**		183,851
Accounts payable and other accrued liabilities		**202,197**		213,529
Wages payable		**18,747**		15,294
Accrued interest		**12,003**		3,598
Dividends declared		**19,477**		18,758
Customer deposits and advance payments		**43,156**		52,908
Gas costs and other regulatory liabilities		**17,426**		14,842
Deferred income taxes		**-**		5,155
Accrued taxes		**19,902**		17,119
Other		**37,915**		26,970
Total current liabilities		**407,982**		634,616
Deferred Credits				
Unamortized investment tax credits		**10,798**		10,761
Deferred income taxes		**438,689**		323,505
Accrued pensions and benefits		**275,378**		273,289
Asset retirement obligations		**42,796**		32,641
Regulatory liabilities				
Accrued asset removal costs		**331,060**		319,173
Gas costs		**15,950**		-
Other		**14,223**		14,310
Other		**79,211**		53,894
Total deferred credits		**1,208,105**		1,027,573
Commitments and Contingencies (Note 14)				
Total Capitalization and Liabilities	**$**	**3,428,309**	$	3,349,890

The accompanying notes are an integral part of these statements.

WGL Holdings, Inc.
Consolidated Statements of Income (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands, except per share data)	**2010**	2009	**2010**	2009
OPERATING REVENUES				
Utility	**$ 168,379**	$ 185,958	**$ 1,170,536**	$ 1,350,836
Non-utility	**291,294**	241,078	**1,073,198**	943,176
Total Operating Revenues	**459,673**	427,036	**2,243,734**	2,294,012
OPERATING EXPENSES				
Utility cost of gas	**60,001**	75,185	**576,200**	757,112
Non-utility cost of energy-related sales	**243,983**	222,160	**1,008,971**	901,472
Operation and maintenance	**79,062**	71,448	**230,850**	220,221
Depreciation and amortization	**23,634**	23,168	**72,032**	71,494
General taxes and other assessments	**25,752**	22,852	**100,179**	94,534
Total Operating Expenses	**432,432**	414,813	**1,988,232**	2,044,833
OPERATING INCOME	**27,241**	12,223	**255,502**	249,179
Other Income—Net	**280**	818	**1,144**	1,595
Interest Expense				
Interest on long-term debt	**9,913**	10,422	**29,816**	30,894
AFUDC and other, net	**87**	390	**143**	3,572
Total Interest Expense	**10,000**	10,812	**29,959**	34,466
INCOME BEFORE INCOME TAXES	**17,521**	2,229	**226,687**	216,308
INCOME TAX EXPENSE	**7,510**	92	**89,669**	83,816
NET INCOME BEFORE PREFERRED STOCK DIVIDENDS	**10,011**	2,137	**137,018**	132,492
Dividends on Washington Gas preferred stock	**330**	330	**990**	990
NET INCOME APPLICABLE TO COMMON STOCK	**$ 9,681**	$ 1,807	**$ 136,028**	$ 131,502
AVERAGE COMMON SHARES OUTSTANDING				
Basic	**50,664**	50,141	**50,422**	50,092
Diluted	**50,918**	50,435	**50,638**	50,349
EARNINGS PER AVERAGE COMMON SHARE				
Basic	**$ 0.19**	$ 0.04	**$ 2.70**	$ 2.63
Diluted	**$ 0.19**	$ 0.04	**$ 2.69**	$ 2.61
DIVIDENDS DECLARED PER COMMON SHARE	**$ 0.3775**	$ 0.3675	**$ 1.1225**	$ 1.0900

The accompanying notes are an integral part of these statements.

WGL Holdings, Inc.
Consolidated Statements of Cash Flows (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

	Nine Months Ended June 30,	
(In thousands)	**2010**	2009
OPERATING ACTIVITIES		
Net income before preferred stock dividends	$ **137,018**	$ 132,492
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	**72,032**	71,494
Amortization of:		
Other regulatory assets and liabilities—net	**2,957**	2,463
Debt related costs	**570**	561
Deferred income taxes—net	**75,043**	21,975
Accrued/deferred pension cost (income)	**8,798**	(3,149)
Compensation expense related to equity awards	**1,812**	1,543
Provision for doubtful accounts	**13,739**	16,713
Other non-cash charges (credits)—net	**(144)**	(541)
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable and unbilled revenues—net	**(78,638)**	(54,767)
Gas costs and other regulatory assets/liabilities—net	**54,484**	35,337
Storage gas	**80,796**	249,841
Other prepayments	**11,084**	(27,175)
Accounts payable and other accrued liabilities	**(9,603)**	(35,129)
Wages payable	**3,453**	3,263
Customer deposits and advance payments	**(9,752)**	(3,112)
Accrued taxes	**2,783**	28,270
Accrued interest	**8,405**	9,692
Other current assets	**(3,001)**	(6,748)
Other current liabilities	**10,945**	(16,390)
Deferred gas costs—net	**29,946**	(15,542)
Deferred assets—other	**(41,692)**	(17,480)
Deferred liabilities—other	**(2,418)**	(1,822)
Other—net	**91**	2,549
Net Cash Provided by Operating Activities	**368,708**	394,338
FINANCING ACTIVITIES		
Common stock issued	**14,141**	5,070
Long-term debt issued	**51,502**	61,458
Long-term debt retired	**(74,379)**	(26,012)
Debt issuance costs	**(330)**	-
Notes payable issued (retired)—net	**(176,789)**	(248,896)
Dividends on common stock and preferred stock	**(57,048)**	(54,949)
Other financing activities—net	**(894)**	(839)
Net Cash Used in Financing Activities	**(243,797)**	(264,168)
INVESTING ACTIVITIES		
Capital expenditures (excluding Allowance for Funds Used During Construction)	**(84,473)**	(94,705)
Net Cash Used in Investing Activities	**(84,473)**	(94,705)
INCREASE IN CASH AND CASH EQUIVALENTS	**40,438**	35,465
Cash and Cash Equivalents at Beginning of Year	**7,845**	6,164
Cash and Cash Equivalents at End of Year	**$ 48,283**	**$** 41,629
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid	$ **49,662**	**$** 40,763
Interest paid	$ **21,182**	**$** 24,173
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Extinguishment of project debt financing	$ **-**	7,375
Capital expenditures included in accounts payable and other accrued liabilities	$ **3,218**	**$** 5,199

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Balance Sheets (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

(In thousands)		**June 30, 2010**		September 30, 2009
ASSETS				
Property, Plant and Equipment				
At original cost	**$**	**3,283,119**	$	3,206,576
Accumulated depreciation and amortization		**(996,058)**		(950,706)
Net property, plant and equipment		**2,287,061**		2,255,870
Current Assets				
Cash and cash equivalents		**46,642**		5,160
Receivables				
Accounts receivable		**95,313**		70,382
Gas costs and other regulatory assets		**25,273**		77,173
Unbilled revenues		**30,275**		20,905
Allowance for doubtful accounts		**(15,916)**		(18,617)
Net receivables		**134,945**		149,843
Materials and supplies—principally at average cost		**23,494**		23,573
Storage gas—at cost (first-in, first-out)		**117,722**		168,800
Deferred income taxes		**9,363**		-
Other prepayments		**54,589**		39,690
Receivables from associated companies		**1,277**		10,441
Other		**9,577**		11,531
Total current assets		**397,609**		409,038
Deferred Charges and Other Assets				
Regulatory assets				
Gas costs		**-**		13,996
Pension and other post-retirement benefits		**344,115**		306,918
Other		**60,696**		53,904
Other		**35,655**		11,846
Total deferred charges and other assets		**440,466**		386,664
Total Assets	**$**	**3,125,136**	$	3,051,572
CAPITALIZATION AND LIABILITIES				
Capitalization				
Common shareholder's equity	**$**	**1,034,524**	$	966,439
Preferred stock		**28,173**		28,173
Long-term debt		**591,382**		561,830
Total capitalization		**1,654,079**		1,556,442
Current Liabilities				
Current maturities of long-term debt		**30,097**		82,592
Notes payable		**20**		124,811
Accounts payable and other accrued liabilities		**100,459**		125,295
Wages payable		**17,845**		14,622
Accrued interest		**12,003**		3,598
Dividends declared		**18,336**		18,008
Customer deposits and advance payments		**43,156**		52,908
Gas costs and other regulatory liabilities		**17,426**		14,842
Deferred income taxes		**-**		9,285
Accrued taxes		**17,401**		15,434
Payables to associated companies		**18,961**		11,390
Other		**11,698**		12,929
Total current liabilities		**287,402**		485,714
Deferred Credits				
Unamortized investment tax credits		**9,793**		10,462
Deferred income taxes		**441,112**		326,921
Accrued pensions and benefits		**273,952**		271,859
Asset retirement obligations		**41,597**		31,627
Regulatory liabilities				
Accrued asset removal costs		**331,060**		319,173
Gas costs		**15,950**		-
Other		**14,226**		14,307
Other		**55,965**		35,067
Total deferred credits		**1,183,655**		1,009,416
Commitments and Contingencies (Note 14)				
Total Capitalization and Liabilities	**$**	**3,125,136**	**$**	3,051,572

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Statements of Income (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

		Three Months Ended June 30,				Nine Months Ended June 30,		
(In thousands)		**2010**		2009		**2010**		2009
OPERATING REVENUES								
Utility	**$**	**172,544**	$	190,101	**$**	**1,190,703**	$	1,371,868
Non-utility		**-**		11		**2**		33
Total Operating Revenues		**172,544**		190,112		**1,190,705**		1,371,901
OPERATING EXPENSES								
Utility cost of gas		**64,166**		79,327		**596,367**		778,144
Operation and maintenance		**67,874**		61,471		**198,869**		192,342
Depreciation and amortization		**23,130**		22,738		**70,610**		70,130
General taxes and other assessments		**24,126**		21,737		**95,190**		91,362
Total Operating Expenses		**179,296**		185,273		**961,036**		1,131,978
OPERATING INCOME (LOSS)		**(6,752)**		4,839		**229,669**		239,923
Other Income—Net		**188**		774		**948**		1,157
Interest Expense								
Interest on long-term debt		**9,913**		10,422		**29,816**		30,887
AFUDC and other, net		**71**		311		**5**		2,864
Total Interest Expense		**9,984**		10,733		**29,821**		33,751
INCOME (LOSS) BEFORE INCOME TAXES		**(16,548)**		(5,120)		**200,796**		207,329
INCOME TAX EXPENSE (BENEFIT)		**(6,191)**		(2,895)		**79,197**		80,115
NET INCOME (LOSS) BEFORE PREFERRED STOCK DIVIDENDS	**$**	**(10,357)**	$	(2,225)	**$**	**121,599**	$	127,214
Dividends on preferred stock		**330**		330		**990**		990
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	**$**	**(10,687)**	$	(2,555)	**$**	**120,609**	$	126,224

The accompanying notes are an integral part of these statements.

Washington Gas Light Company
Statements of Cash Flows (Unaudited)
Part I—Financial Information
Item 1—Financial Statements (continued)

(In thousands)	Nine Months Ended June 30, 2010	2009
OPERATING ACTIVITIES		
Net income before preferred stock dividends	$ **121,599**	$ 127,214
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	**70,610**	70,130
Amortization of:		
Other regulatory assets and liabilities—net	**2,957**	2,463
Debt related costs	**570**	597
Deferred income taxes—net	**77,983**	29,543
Accrued/deferred pension cost (income)	**8,133**	(3,294)
Compensation expense related to equity awards	**1,737**	1,468
Provision for doubtful accounts	**10,701**	13,772
Other non-cash charges (credits)—net	**(850)**	(840)
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable, unbilled revenues and receivables from associated companies—net	**(38,539)**	(22,973)
Gas costs and other regulatory assets/liabilities—net	**54,484**	35,337
Storage gas	**51,078**	199,695
Other prepayments	**(14,438)**	22,366
Accounts payable and other accrued liabilities, including payables to associated companies	**(15,583)**	(53,391)
Wages payable	**3,223**	3,050
Customer deposits and advance payments	**(9,752)**	(3,361)
Accrued taxes	**1,967**	19,874
Accrued interest	**8,405**	9,692
Other current assets	**2,033**	(8,463)
Other current liabilities	**(1,231)**	(24,459)
Deferred gas costs—net	**29,946**	(15,542)
Deferred assets—other	**(32,053)**	(12,132)
Deferred liabilities—other	**(7,295)**	(18,540)
Other—net	**292**	2,499
Net Cash Provided by Operating Activities	**325,977**	374,705
FINANCING ACTIVITIES		
Long-term debt issued	**51,502**	61,458
Long-term debt retired	**(74,379)**	(25,018)
Debt issuance costs	**(330)**	-
Notes payable issued (retired)—net	**(124,791)**	(230,995)
Dividends on common stock and preferred stock	**(54,794)**	(53,450)
Other financing activities—net	**(788)**	(831)
Net Cash Used in Financing Activities	**(203,580)**	(248,836)
INVESTING ACTIVITIES		
Capital expenditures (excluding Allowance for Funds Used During Construction)	**(80,915)**	(91,334)
Net Cash Used in Investing Activities	**(80,915)**	(91,334)
INCREASE IN CASH AND CASH EQUIVALENTS	**41,482**	34,535
Cash and Cash Equivalents at Beginning of Year	**5,160**	3,680
Cash and Cash Equivalents at End of Year	**46,642**	38,215
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid	$ **38,713**	$ 33,861
Interest paid	$ **21,044**	$ 23,465
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Extinguishment of project debt financing	$ -	7,375
Capital expenditures included in accounts payable and other accrued liabilities	$ **3,206**	$ 4,822

The accompanying notes are an integral part of these statements.

NOTE 1. ACCOUNTING POLICIES

Basis of Presentation

WGL Holdings, Inc. (WGL Holdings) is a holding company that owns all of the shares of common stock of Washington Gas Light Company (Washington Gas), a regulated natural gas utility, and all of the shares of common stock of Washington Gas Resources Corporation (Washington Gas Resources), Hampshire Gas Company (Hampshire) and Crab Run Gas Company. Washington Gas Resources owns all of the shares of common stock of three unregulated subsidiaries that include Washington Gas Energy Services, Inc. (WGEServices), Washington Gas Energy Systems, Inc. (WGESystems) and Capitol Energy Ventures Corp. (CEV), formerly known as Washington Gas Credit Corporation. Except where the content clearly indicates otherwise, "WGL Holdings," "we," "us" or "our" refers to the holding company or the consolidated entity of WGL Holdings and all of its subsidiaries. Unless otherwise noted, these notes apply equally to WGL Holdings and Washington Gas.

The interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Therefore, certain financial information and note disclosures accompanying annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) are omitted in this interim report pursuant to the SEC rules and regulations. The interim consolidated financial statements and accompanying notes should be read in conjunction with the combined Annual Report on Form 10-K for WGL Holdings and Washington Gas for the fiscal year ended September 30, 2009. Due to the seasonal nature of Washington Gas's and WGEServices' businesses, the results of operations for the periods presented in this report are not necessarily indicative of actual results for the full fiscal years ending September 30, 2010 and 2009 of either WGL Holdings or Washington Gas.

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

For a description of our accounting policies, refer to Note 1 of the Notes to Consolidated Financial Statements of the combined Annual Report on Form 10-K for WGL Holdings and Washington Gas for the fiscal year ended September 30, 2009. See *"Accounting Standards Adopted in the Current Period"* below for changes to these policies subsequent to September 30, 2009.

Accounting Standards Adopted in the Current Year

Fair Value. In August 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-05, *Fair Value Measurements and Disclosures—Measuring Liabilities at Fair Value* (ASU 2009-05). This ASU provides amendments to Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurements and Disclosures—Overall*, for the fair value measurement of liabilities. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using; *(i)* a valuation technique that uses the quoted price of the identical liability when traded as an asset, or quoted prices for similar liabilities or similar liabilities when traded as assets or *(ii)* another valuation technique that is consistent with the principles of Topic 820. ASU 2009-05 was effective for us on October 1, 2009. The adoption of this guidance did not have a material effect on our consolidated financial statements.

Noncontrolling Interests. Effective October 1, 2009, we adopted revised guidance under ASC Topic 810 relating to, noncontrolling interests in consolidated financial statements. This guidance establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The adoption of this standard resulted in reclassifying Washington Gas's preferred stock dividends on the Statement of Income to present consolidated net income attributable to both the shareholders of WGL Holdings Inc. and to the noncontrolling interest of Washington Gas's preferred shareholders as net income. In addition, the Statements of Cash Flows were changed to include income from all equity holders as a source of cash in Operating Activities and to reflect the distribution of preferred stock dividends as a use of cash in Financing Activities. The adoption of this standard had no other effect on our consolidated financial statements.

Subsequent Events. In February 2010, the FASB issued ASU 2010-09, *Subsequent Events—Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09). This ASU provides amendments to Subtopic 855-10, *Subsequent Events—Overall*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Subtopic 855-10 does not apply to the accounting for and disclosure of subsequent events addressed in other generally accepted accounting principles. ASU 2010-09 eliminates the requirement to disclose the date through which a registered company has evaluated subsequent events. Effective March 31, 2010, we adopted ASU 2010-09 for disclosures of events or transactions not within the scope of other applicable GAAP.

Other Newly Issued Accounting Standards

Postretirement Benefits. In December 2008, the FASB issued FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1), now part of ASC Topic 715-20-65. FSP FAS 132(R)-1 contains amendments to ASC Topic 715 that are intended to improve disclosures of postretirement benefit plan assets. This ASU requires; *(i)* increased disclosure on how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies; *(ii)* the major categories of plan assets; *(iii)* the inputs and valuation techniques used to measure the fair value of plan assets; *(iv)* the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and *(v)* significant concentrations of risk within plan assets. FSP FAS 132(R)-1 is effective for us on September 30, 2010. We are currently evaluating the possible effect of this standard on our consolidated financial statements.

Fair Value. In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements.* ASU 2010-06 amends ASC Topic 820 to require the following additional disclosures regarding fair value measurements: *(i)* the amounts of transfers between Level 1 and Level 2 of the fair value hierarchy; *(ii)* reasons for any transfers in or out of Level 3 of the fair value hierarchy and *(iii)* the inclusion of information about purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements. ASU 2010-06 also amends ASC Topic 820 to clarify existing disclosure requirements, requiring fair value disclosures by class of assets and liabilities rather than by major category and the disclosure of valuation techniques and inputs used to determine the fair value of Level 2 and Level 3 assets and liabilities. With the exception of disclosures relating to purchases, sales issuances and settlements of recurring Level 3 measurements, ASU 2010-06 was effective for us on January 1, 2010. Refer to Note 11 – *Fair Value Measurements* for the required disclosure under this standard. The disclosure requirements related to purchases, sales, issuances and settlements of recurring Level 3 measurements will be effective for us on October 1, 2011. We are currently evaluating the possible effect of this standard on our consolidated financial statements.

Receivables. In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20). ASU 2010-20 requires companies to provide more information in their disclosures about the credit quality of their financing receivables such as aging information and credit quality indicators, and the credit reserves held against them. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. ASU 2010-20 is effective for us on January 1, 2011. We are currently evaluating the possible effect of this standard on our consolidated financial statements.

NOTE 2. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

The tables below provide details for the amounts included in “Accounts payable and other accrued liabilities” on the balance sheets for both WGL Holdings and Washington Gas.

WGL Holdings, Inc.

(In thousands)	**Jun 30, 2010**	Sep 30, 2009
Accounts payable - trade	**$ 176,708**	$ 174,098
Employee benefits and payroll accruals	**16,657**	28,813
Other accrued liabilities	**8,832**	10,618
Total	**$ 202,197**	$ 213,529

Washington Gas Light Company

(In thousands)	**Jun 30, 2010**	Sep 30, 2009
Accounts payable - trade	**$ 78,269**	$ 90,630
Employee benefits and payroll accruals	**15,370**	26,530
Other accrued liabilities	**6,820**	8,135
Total	**$ 100,459**	$ 125,295

NOTE 3. SHORT-TERM DEBT

WGL Holdings and Washington Gas satisfy their short-term financing requirements through the sale of commercial paper or through bank borrowings. Due to the seasonal nature of the regulated utility and retail energy-marketing segments, short-term financing requirements can vary significantly during the year. We maintain revolving credit agreements to support our outstanding commercial paper and to permit short-term borrowing flexibility. Our policy is to maintain bank credit facilities in an amount equal to or greater than our expected maximum commercial paper position. The following is a summary of our committed credit available at June 30, 2010 and September 30, 2009.

Committed Credit Available

As of June 30, 2010			
Committed credit agreements (In millions)	WGL Holdings	Washington Gas	Total Consolidated
Unsecured revolving credit facility, expires August 3, 2012 [a]	$ 400.0	$ 300.0	$ 700.0
Less: Commercial Paper	(7.0)	-	(7.0)
Net committed credit available	$ 393.0	$ 300.0	$ 693.0

As of September 30, 2009			
Committed credit agreements (In millions)	WGL Holdings	Washington Gas	Total Consolidated
Unsecured revolving credit facility, expires August 3, 2012 [a]	$ 400.0	$ 300.0	$ 700.0
Less: Commercial Paper	(59.0)	(124.8)	(183.8)
Net committed credit available	$ 341.0	$ 175.2	$ 516.2

(a) *Both WGL Holdings and Washington Gas have the right to request extensions with the banks’ approval. WGL Holdings’ revolving credit facility permits it to borrow an additional $50 million, with the banks’ approval, for a total of $450 million. Washington Gas’s revolving credit facility permits it to borrow an additional $100 million, with the banks’ approval, for a total of $400 million.*

At June 30, 2010 and September 30, 2009, WGL Holdings and its subsidiaries had outstanding notes payable in the form of commercial paper of $7.0 million and $183.8 million, respectively, at a weighted average interest rate of 0.35% and 0.27%, respectively. Substantially all of the outstanding notes payable balance at June 30, 2010 was commercial paper issued by WGL

Holdings. Of the outstanding notes payable balance at September 30, 2009, $59.0 million was issued by WGL Holdings and $124.8 million was issued by Washington Gas.

As of June 30, 2010 and September 30, 2009, respectively, there were no outstanding bank loans from WGL Holdings' or Washington Gas's revolving credit facilities.

NOTE 4. LONG-TERM DEBT

UNSECURED NOTES

Washington Gas issues unsecured Medium-Term Notes (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.

On November 2, 2009, Washington Gas Light Company entered into a note purchase agreement by and among certain purchasers for the issuance and sale of $50.0 million of unsecured 4.76% fixed rate notes with a ten year maturity due November 1, 2019 through a private placement arrangement. The estimated effective cost of the notes, including consideration of issuance fees and hedge proceeds, is 4.79%.

In the quarter ended June 30, 2010, Washington Gas retired $74.0 million of MTNs of which $50 million of these retirements relate to the redemption of 1.05% floating rate MTNs due August 26, 2010. These MTNs were repaid by the sale of commercial paper, cash provided by operating activities, or a combination of those sources of funds.

At June 30, 2010, Washington Gas had the capacity, under a shelf registration to issue up to $450.0 million of additional MTNs. At June 30, 2010 and September 30, 2009, outstanding notes were $615.0 million and $639.0 million, respectively. At June 30, 2010 and September 30, 2009, the weighted average interest rate on all outstanding notes was 6.04% and 5.82%, respectively.

NOTE 5. COMMON SHAREHOLDERS' EQUITY

The tables below reflect the changes in "Common shareholders' equity" for WGL Holdings and Washington Gas for the nine months ended June 30, 2010.

WGL Holdings, Inc.
Components of Common Shareholders' Equity

(In thousands)	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance at September 30, 2009	$ 514,501	$ 13,516	$ 576,122	$ (6,441)	$ 1,097,698
Net income applicable to common stock	-	-	136,028	-	136,028
Post-retirement benefits adjustment, net of taxes	-	-	-	608	608
Comprehensive income	-	-	-	-	136,636
Stock-based compensation	19,743	(4,633)	-	-	15,110
Dividends declared:					
Common Stock	-	-	(56,777)	-	(56,777)
Balance at June 30, 2010	**$ 534,244**	**$ 8,883**	**$ 655,373**	**$ (5,833)**	**$ 1,192,667**

Washington Gas Light Company
Components of Common Shareholder's Equity

(In thousands)	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance at September 30, 2009	$ 46,479	$ 469,026	$ 457,375	$ (6,441)	$ 966,439
Net income before preferred stock dividends	—	—	121,599	—	121,599
Post-retirement benefits adjustment, net of taxes	—	—	—	608	608
Comprehensive income	—	—	—	—	122,207
Stock-based compensation	—	1,000	—	—	1,000
Dividends declared:					
Common Stock	—	—	(54,132)	—	(54,132)
Preferred Stock	—	—	(990)	—	(990)
Balance at June 30, 2010	**$ 46,479**	**$ 470,026**	**$ 523,852**	**$ (5,833)**	**$ 1,034,524**

WGL Holdings had 50,720,232 and 50,143,484 shares issued of common stock at June 30, 2010 and September 30, 2009, respectively. Washington Gas had 46,479,536 shares issued of common stock at both June 30, 2010 and September 30, 2009.

NOTE 6. COMPREHENSIVE INCOME

The tables below reflect the components of "Comprehensive income" for the three and nine months ended June 30, 2010 and 2009 for WGL Holdings and Washington Gas. Items that are excluded from "Net income" and charged directly to "Common shareholders' equity" are recorded in "Other comprehensive income (loss), net of taxes." The amount of "Accumulated other comprehensive loss, net of taxes" is included in "Common shareholders' equity" (refer to Note 5—*Common Shareholders' Equity*).

WGL Holdings, Inc.
Components of Comprehensive Income

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
(In thousands)	**2010**	2009	**2010**	2009
Net income applicable to common stock	**$ 9,681**	$ 1,807	**$ 136,028**	$ 131,502
Other comprehensive income, net of taxes (a)	**777**	37	**608**	134
Comprehensive income	**$ 10,458**	$ 1,844	**$ 136,636**	$ 131,636

(a) Amounts relate to postretirement benefits.

Washington Gas Light Company
Components of Comprehensive Income

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	**2010**	2009	**2010**	2009
Net income (loss) before preferred stock dividends	**$ (10,357)**	$ (2,225)	**$ 121,599**	$ 127,214
Other comprehensive income, net of taxes (a)	**777**	37	**608**	134
Comprehensive income (loss)	**$ (9,580)**	$ (2,188)	**$ 122,207**	$ 127,348

(a) Amounts relate to postretirement benefits.

NOTE 7. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding during the reported period. Diluted EPS assumes the issuance of common shares pursuant to stock-based compensation plans at the beginning of the applicable period unless the effect of such issuance would be anti-dilutive. The following table reflects the computation of our basic and diluted EPS for WGL Holdings for the three and nine months ended June 30, 2010 and 2009.

Basic and Diluted EPS

(In thousands, except per share data)	Net Income Applicable to Common Stock	Shares	Per Share Amount
Three Months Ended June 30, 2010			
Basic EPS	**$ 9,681**	**50,664**	**$ 0.19**
Stock-based compensation plans	**-**	**254**	
Diluted EPS	**$ 9,681**	**50,918**	**$ 0.19**
Three Months Ended June 30, 2009			
Basic EPS	$ 1,807	50,141	$ 0.04
Stock-based compensation plans	-	294	
Diluted EPS	$ 1,807	50,435	$ 0.04
Nine Months Ended June 30, 2010			
Basic EPS	**$ 136,028**	**50,422**	**$ 2.70**
Stock-based compensation plans	**-**	**216**	
Diluted EPS	**$ 136,028**	**50,638**	**$ 2.69**
Nine Months Ended June 30, 2009			
Basic EPS	$ 131,502	50,092	$ 2.63
Stock-based compensation plans	-	257	
Diluted EPS	$ 131,502	50,349	$ 2.61

For the three and nine months ended June 30, 2010, we did not exclude any outstanding shares pursuant to stock-based compensation plans in the calculation of diluted EPS. For the three and nine months ended June 30, 2009, we had weighted average outstanding stock options totaling approximately 658,000 and 532,000 shares, respectively, which were not included in the calculation of diluted EPS as their effect would be anti-dilutive.

NOTE 8. INCOME TAXES

During the quarter ended June 30, 2010, we filed our tax return for the year ended September 30, 2009 which included a change in Washington Gas Light's tax accounting method for repair deductions. This change in the tax accounting method reduces our current Federal and State taxes payable by approximately $85 million. We filed federal carry back claims and amended returns for prior years primarily related to this issue, applied a portion of the proceeds to the current year tax liability, and requested refunds of approximately $59 million which were received in July of 2010.

Although we believe our tax treatment is appropriate, our uncertain tax positions increased by approximately $23 million related to current year tax positions as of June 30, 2010 primarily related to the change in tax accounting for repairs. If the amounts of unrecognized tax benefits are eventually realized, it would not materially impact the effective tax rate.

We file consolidated federal and District of Columbia returns and various state income tax returns. We are no longer subject to income tax examinations by the Internal Revenue Service for years before September 30, 2007. Substantially all state income tax years in major jurisdictions are closed for years before September 30, 2006.

NOTE 9. EFFECTS OF NEW HEALTHCARE LEGISLATION

On March 23 and March 30, 2010 the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, respectively (collectively the "PPACA") became law resulting in comprehensive healthcare reform legislation that affect the accounting for employer provided benefits.

Washington Gas provides certain healthcare benefits for active and retired employees (the Plan). Washington Gas is self-insured for the majority of healthcare costs. Because the Plan provides prescription drug benefits equal to or greater than Medicare Part D coverage, Washington qualified for a non-taxable subsidy from the Federal government, which has had the effect of lowering other post retirement employee benefit expense (OPEB) and Washington Gas's effective tax rate.

Since the year ended September 30, 2004, Washington Gas has reflected the favorable tax benefit ("the Med D tax benefit") of the non-taxable subsidy in its effective tax rate. Healthcare reform legislation eliminated future Med D tax benefits. During the current fiscal year, the Med D tax benefit has been recognized through the date of the enactment of the PPACA. The subsequent elimination of the Med D tax benefit is expected to increase the effective tax rate for the year ending September 30, 2010 by approximately 0.7%. Washington Gas expects the annual effective tax rate will increase by approximately 1% in subsequent years. In March 2010, regulatory assets increased by $41.2 million to reflect the probable recovery of the higher future tax expense from utility customers. An immaterial amount of tax expense was recorded in March 2010 related to the effect of the PPACA on our non-utility business.

Washington Gas is continuing to evaluate the remaining provisions of the PPACA and their potential effect on the plan, its benefits, and the assumptions around measuring the related OPEB liability.

NOTE 10. DERIVATIVE AND WEATHER-RELATED INSTRUMENTS

DERIVATIVE INSTRUMENTS

To the extent that the information below is being disclosed under certain requirements of ASC Topic 815, no prior information is presented for the nine month period ended June 30, 2009. Under this guidance, only information after January 1, 2009 is required to be disclosed. Therefore, only comparative activity for the three months ended June 30, 2010 is being disclosed for the income statement.

Regulated Utility Operations

Washington Gas enters into contracts related to the sale and purchase of natural gas that qualify as derivative instruments and are accounted for under ASC Topic 815. These derivative instruments are recorded at fair value on our balance sheet and Washington Gas does not designate any derivatives as hedges under ASC Topic 815. Washington Gas's derivative contracts relate to: *(i)* Washington Gas's 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: *(i)* its transportation capacity assets to benefit from favorable natural gas prices between different geographic locations and *(ii)* 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 forwards, swaps and option contracts to lock-in operating margins that Washington Gas will ultimately realize. The derivatives used under this program are subject to mark-to-market accounting treatment.

Regulatory sharing mechanisms in all three jurisdictions allow the profit from these transactions to be shared between Washington Gas's shareholders and customers; therefore, any changes in fair value are recorded through earnings, or as regulatory assets or liabilities to the extent that gains and losses associated with these derivative instruments will be included in the rates charged to customers when they are realized. Valuation changes for the portion of net profits to be retained for shareholders may cause significant period-to-period volatility in earnings from unrealized gains and losses. This volatility does not change the locked-in operating margins that Washington Gas will ultimately realize from these transactions.

All physically and financially settled contracts under our asset optimization program are reported on a net basis in the statements of income in "Utility cost of gas". Total net margins recorded to "Utility cost of gas" after sharing and management fees associated with all asset optimization transactions for the three months ended June 30, 2010 and 2009 were gains of $1.1 million and $2.2 million, respectively, including unrealized gains of $1.3 million and $2.0 million, respectively. Total net margins for the nine months ended June 30, 2010 and 2009 were gains of $22.9 million and $19.6 million, respectively, including unrealized gains of $13.5 million and $10.4 million, respectively.

Managing Price Risk. To serve utility customers, as authorized by its regulators, Washington Gas enters into forward, option, and financial swap contracts and other contracts. These instruments are accounted for as derivative instruments as a part of managing price risk associated with acquiring natural gas supply for utility customers. 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.

Managing Interest-Rate Risk*.* Washington Gas utilizes derivative instruments that are designed to minimize the risk of interest-rate volatility associated with planned issuances of debt securities. Any gains and losses associated with these types of derivatives are recorded as regulatory liabilities or assets, respectively, and amortized in accordance with regulatory requirements, which is typically over the life of the newly issued debt.

Non-Utility Operations

Our non-regulated retail energy-marketing subsidiary, WGEServices, also enters into certain derivative contracts as part of managing the price risk associated with the sale and purchase of natural gas and electricity to its retail customers. Derivative instruments are recorded at fair value on our consolidated balance sheets. WGEServices does not designate these derivatives as hedges under ASC Topic 815; therefore, changes in the fair value of these derivative instruments are reflected in the earnings of our retail energy-marketing segment. These derivatives may cause significant period-to-period volatility in earnings; however, this volatility will not change the operating margins that WGEServices will ultimately realize from the sales to its customers.

Consolidated Operations

Reflected in the tables below is information for WGL Holdings as well as Washington Gas. The information for WGL Holdings includes derivative instruments for both Washington Gas and WGEServices.

At June 30, 2010, the absolute notional amounts of our derivatives are as follows:

Absolute Notional Amounts
of Open Positions on Derivative instruments

(In millions)	**Notional Amounts**	
June 30, 2010		
Derivative transactions	WGL Holdings	Washington Gas
Natural Gas *(in therms)*		
Asset Optimization	1,294.0	1,294.0
Retail sales	6.0	-
Other risk-management activities	404.0	200.0
Electricity *(in kWhs)*		
Retail sales	1,685.0	-
Other risk-management activities	16,141.0	-
Interest Rate Swap *(notional amount in dollars)*	$75.0	$75.0

September 30, 2009		
Derivative transactions	WGL Holdings	Washington Gas
Natural Gas *(in therms)*		
Asset Optimization	1,445.9	1,445.9
Retail sales	4.0	-
Other risk-management activities	477.7	301.7
Electricity *(in kWhs)*		
Retail sales	2,057.0	-
Other risk-management activities	6,006.0	-
Interest Rate Swap *(notional amount in dollars)*	$24.0	$24.0

The following tables present the balance sheet classification for all derivative instruments as of June 30, 2010.

WGL Holdings, Inc.
Balance Sheet Classification of Derivative Instruments

As of June 30, 2010 *(In millions)*	**Derivative Assets**	**Derivative Liabilities**	**Netting of Collateral**	**Total**
Other current assets	**$ 36.6**	**$ (18.2)**	**$ -**	**$ 18.4**
Deferred charges and other assets - other	**81.7**	**(45.7)**	**-**	**36.0**
Other current liabilities(a)	**5.0**	**(39.1)**	**0.2**	**(33.9)**
Deferred credits - other	**2.3**	**(27.4)**	**2.9**	**(22.2)**
Total	**$ 125.6**	**$ (130.4)**	**$ 3.1**	**$ (1.7)**
As of September 30, 2009				
Other current assets	$ 23.6	$ (7.8)	$ -	$ 15.8
Deferred charges and other assets - other	13.2	(5.4)	-	7.8
Other current liabilities(b)	5.4	(26.0)	1.4	(19.2)
Deferred credits - other	24.4	(48.0)	3.7	(19.9)
Total	$ 66.6	$ (87.2)	$ 5.1	$ (15.5)

(a) includes interest rate swaps of ($5.1) million

(b) includes interest rate swaps of ($0.7) million

Washington Gas Light Company
Balance Sheet Classification of Derivative Instruments

As of June 30, 2010 *(In millions)*	**Derivative Assets**	**Derivative Liabilities**	**Netting of Collateral**	**Total**
Other current assets	**$ 19.2**	**$ (9.6)**	**$ -**	**$ 9.6**
Deferred charges and other assets - other	**69.5**	**(45.7)**	**-**	**23.8**
Other current liabilities(a)	**3.3**	**(12.7)**	**-**	**(9.4)**
Deferred credits - other	**-**	**(0.3)**	**-**	**(0.3)**
Total	**$ 92.0**	**$ (68.3)**	**$** -	**$ 23.7**
As of September 30, 2009				
Other current assets	$ 19.1	$ (7.6)	$ -	$ 11.5
Deferred charges and other assets - other	8.0	(5.4)	-	2.6
Other current liabilities(b)	2.9	(8.5)	-	(5.6)
Deferred credits - other	23.9	(27.5)	-	(3.6)
Total	$ 53.9	$ (49.0)	$ -	$ 4.9

(a) includes interest rate swaps of ($5.1) million

(b) includes interest rate swaps of ($0.7) million

The following tables present all gains and losses associated with derivative instruments for the three months ended June 30, 2010 and 2009.

Gains and (Losses) on Derivative Instruments

	WGL Holdings, Inc. June 30,		Washington Gas Light Company June 30,	
(In millions)	**2010**	2009	**2010**	2009
Recorded to income				
Operating revenues - non-utility	**$ (14.1)**	$ (5.2)	**$ -**	$ -
Utility cost of gas	**0.5**	1.4	**0.5**	1.4
Non-utility cost of energy-related sales	**29.6**	(9.7)	**-**	-
Recorded to regulatory assets/liabilities				
Gas costs	**0.8**	(5.0)	**0.8**	(5.0)
Other	**(6.2)**	-	**(6.2)**	-
Total	**$ 10.6**	$ (18.5)	**$ (4.9)**	$ (3.6)

The following table presents all gains and losses associated with derivative instruments for the nine months ended June 30, 2010.

Gains and (Losses) on Derivative Instruments

(In millions)	WGL Holdings, Inc.	Washington Gas Light Company
Recorded to income		
Operating revenues - non-utility	$ 4.1	$ -
Utility cost of gas	19.6	19.6
Non-utility cost of energy-related sales	(19.8)	-
Recorded to regulatory assets/liabilities		
Gas costs	8.7	8.7
Other	(6.0)	(6.0)
Total	**$ 6.6**	**$ 22.3**

Certain of Washington Gas’s derivative instruments contain contract provisions that would require collateral to be posted if the credit rating of Washington Gas’s debt falls below certain levels. Similarly, certain of WGEServices derivative instruments contain contract provisions that require collateral to be posted if the credit rating of WGL Holdings falls below certain levels or if counterparties exposure to WGEServices exceeds a certain level. Due to counterparty exposure levels, at June 30, 2010 and September 30, 2009, WGEServices’ had posted $3.1 million and $5.1 million of collateral related to its derivative liabilities that contained credit-related contingent features. Washington Gas was not required to post any collateral at June 30, 2010. The following tables show 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 to be posted related to the net fair value of our derivative instruments if the most intrusive credit-risk-related contingent features underlying these agreements were triggered on June 30, 2010 and September 30, 2009, respectively.

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

(In millions)	WGL Holdings	Washington Gas
June 30, 2010		
Derivative liabilities with credit-risk-contingent features	$ 91.2	$ 47.8
Maximum potential collateral requirements	46.1	5.4
September 30, 2009		
Derivative liabilities with credit-risk-contingent features	$ 67.5	$ 38.9
Maximum potential collateral requirements	29.0	3.1

Neither Washington Gas nor WGEServices enters into derivative contracts for speculative purposes.

Concentration of Credit Risk

Both Washington Gas and WGEServices are exposed to credit risk associated with agreements with wholesale counterparties that are accounted for as derivative instruments. We have credit policies in place that are designed to mitigate credit risk associated with wholesale counterparties through a requirement for credit enhancements including, but not limited to, letters of credit, parent guarantees and cash collateral when deemed necessary. For certain counterparties or their guarantors that meet this policy's credit worthiness criteria, both Washington Gas and WGEServices grant unsecured credit which is continuously monitored. Additionally, our agreements with wholesale counterparties contain netting provisions which allow the receivable and payable exposure to/from each counterparty to be offset. At June 30, 2010, three counterparties represented over 10% of Washington Gas's credit exposure to wholesale derivative counterparties, for a total credit risk of $28.8 million. WGEServices had two counterparties representing over 10% of its credit exposure to wholesale counterparties for a credit risk of $0.1 million at June 30, 2010.

WEATHER-RELATED INSTRUMENTS

Regulated Utility Operations

On September 21, 2009, Washington Gas executed a heating degree day (HDD) derivative contract to manage its financial exposure to variations from normal weather in the District of Columbia during fiscal year 2010. Under this contract, Washington Gas purchased protection against net revenue shortfalls due to warmer-than-normal weather and sold to the counterparty the right to receive the benefit when weather is colder than normal. This derivative contract resulted in a payment to Washington Gas of $2.1 million on the date of execution.

Our weather protection instruments are accounted for under ASC Topic 815. For weather derivative contracts executed by a premium payment, benefits or losses are recognized to the extent actual HDDs are less than or greater than the contracted HDDs. The cost of our weather-related instruments is amortized based on the pattern of normal HDDs over the coverage period. For weather derivative contracts for which we receive a net option premium, we record the receipt as a liability and mark the contract to fair value each period. The expenses or benefits that are derived from our weather-related instruments are not considered in establishing the retail rates of Washington Gas.

During the three months ended June 30, 2010 and 2009, Washington Gas recorded a total pre-tax gain of $0.2 million and a pre-tax loss of $0.2 million, respectively, including premium costs and any fair value adjustments related to its weather derivatives. During the nine months ended June 30, 2010 and 2009, Washington Gas recorded a total pre-tax gain of $1.3 million and a pre-tax loss of $3.3 million, respectively, including premium costs and any fair value adjustments related to its weather derivatives. Benefits and expenses associated with Washington Gas's weather-related instruments are recorded to "Operation and maintenance" expense.

Non-Utility Operations

WGEServices utilizes weather-related derivatives for managing the financial effects of weather risks. These derivatives cover a portion of WGEServices' estimated revenue or energy-related cost exposure to variations in heating or cooling degree days.

These contracts may provide for payment to or from WGEServices of a fixed-dollar amount for every degree day over or under specific levels during the calculation period, depending upon the type of contract executed. For the three months ended June 30, 2010, WGEServices recorded pretax expenses of $1.2 million. For the nine months ended June 30, 2010, WGEServices recorded pre-tax expenses of $2.3 million. For the three months ended June 30, 2009, WGEServices recorded a pretax gain of $0.2 million. For the nine months ended June 30, 2009, WGEServices recorded pre-tax expenses of $1.0 million, related to these derivatives.

NOTE 11. FAIR VALUE MEASUREMENTS

We measure the fair value of our financial assets and liabilities in accordance with ASC Topic 820. These financial assets and liabilities primarily consist of *(i)* derivatives recorded on our balance sheet under ASC Topic 815, *(ii)* weather derivatives for which we receive a net option premium payment and *(iii)* long-term debt outstanding that is 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 in pricing the asset or liability, including assumptions about credit risk (both our own credit risk and the counterparty’s credit risk) and the risks inherent in the inputs to our valuation technique, the income approach.

We enter into derivative contracts in the over-the-counter (OTC) wholesale and retail markets. These markets are the principal markets for the respective wholesale and retail contracts. We have determined that all of our existing counterparties and others who have participated in energy transactions at our delivery points are the relevant market participants. These participants have access to the same market data as WGL Holdings. We value our derivative contracts based on an “in-exchange” premise and valuations are generally based on pricing service data or indicative broker quotes depending on the market location. We measure the net credit exposure at a 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 the determination of 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. Level 1 assets and liabilities primarily include exchange traded derivatives and securities. At June 30, 2010, we do not have any financial assets or liabilities in this category.

Level 2. Level 2 of the fair value hierarchy consists of assets or liabilities that are valued using directly or indirectly observable inputs that are 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 including: *(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. At June 30, 2010, Level 2 financial assets and liabilities included non-exchange traded energy-related derivatives such as financial swaps and options and physical forward contracts for deliveries at active market locations. Additionally, at June 30, 2010, Level 2 financial instruments included interest rate swaps and a weather derivative valued using observable data.

Level 3. Level 3 of the fair value hierarchy consists of assets or liabilities that are valued using significant unobservable inputs at the reporting date. These unobservable assumptions reflect our assumptions about estimates that market participants would use in pricing the asset or liability, including historical volatility and pricing data when delivery is to inactive market locations. 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. At June 30, 2010, OTC derivative assets and liabilities in this category included: *(i)* physical contracts valued with significant basis adjustments to observable market data when delivery is to inactive market locations; *(ii)* long-dated positions where observable pricing is not available over the life of the contract; *(iii)* contracts valued using historical volatility assumptions and *(iv)* valuations using indicative broker quotes for inactive market locations.

The following table sets forth financial instruments recorded at fair value as of June 30, 2010. 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.

WGL Holdings, Inc.
Fair Value Measurements Under the Fair Value Hierarchy

At June 30, 2010				
(In millions)	Level 1	Level 2	Level 3	Total
Assets				
Natural gas related derivatives	$ -	$ 35.8	$ 58.0	$ 93.8
Electricity related derivatives	-	0.9	30.9	31.8
Total Assets	**$ -**	**$ 36.7**	**$ 88.9**	**$ 125.6**
Liabilities				
Natural gas related derivatives	$ -	$ (31.5)	$ (43.7)	$ (75.2)
Electricity related derivatives	-	(6.3)	(43.8)	(50.1)
Interest rate swaps	-	(5.1)	-	(5.1)
Weather derivative	-	(0.8)	-	(0.8)
Total Liabilities	**$ -**	**$ (43.7)**	**$ (87.5)**	**$ (131.2)**
At September 30, 2009				
Assets				
Natural gas related derivatives	$ -	$ 31.0	$ 25.9	$ 56.9
Electricity related derivatives	-	0.4	9.3	9.7
Total Assets	$ -	$ 31.4	$ 35.2	$ 66.6
Liabilities				
Natural gas related derivatives	$ -	$ (19.8)	$ (57.5)	$ (77.3)
Electricity related derivatives	-	(3.9)	(5.3)	(9.2)
Interest rate swaps	-	(0.7)	-	(0.7)
Weather derivative	-	(2.1)	-	(2.1)
Total Liabilities	$ -	$ (26.5)	$ (62.8)	$ (89.3)

Washington Gas Light Company
Fair Value Measurements Under the Fair Value Hierarchy

At June 30, 2010								
(In millions)		Level 1		Level 2		Level 3		Total
Assets								
Natural gas related derivatives	$	-	$	35.3	$	56.7	$	92.0
Total Assets	**$**	**-**	**$**	**35.3**	**$**	**56.7**	**$**	**92.0**
Liabilities								
Natural gas related derivatives	$	-	$	(23.1)	$	(40.1)	$	(63.2)
Interest rate swaps		-		(5.1)		-		(5.1)
Weather derivative		-		(0.8)				(0.8)
Total Liabilities	**$**	**-**	**$**	**(29.0)**	**$**	**(40.1)**	**$**	**(69.1)**
At September 30, 2009								
Assets								
Natural gas related derivatives	$	-	$	28.9	$	25.0	$	53.9
Total Assets	$	-	$	28.9	$	25.0	$	53.9
Liabilities								
Natural gas related derivatives	$	-	$	(17.0)	$	(31.3)	$	(48.3)
Interest rate swaps		-		(0.7)		-		(0.7)
Weather derivative		-		(2.1)		-		(2.1)
Total Liabilities	$	-	$	(19.8)	$	(31.3)	$	(51.1)

Transfers between different levels of the fair value hierarchy may occur based on the level of observable inputs used to value the instruments from period to period. It is our policy to show both transfers into and out of the different levels of the fair value hierarchy at the fair value as of the beginning of the reporting period. During the nine months ended June 30, 2010, a $2.1 million fair value liability related to Washington Gas's weather derivative was transferred from level 2 to level 3 in the fair value hierarchy and a $1.0 million liability was transferred from level 3 to level 2 related to this derivative. These transfers reflected changes in the level of unobservable market inputs used to value the instrument. There were no other transfers during the reported periods.

The following tables are a summary of the changes in the fair value of our derivative instruments that are measured at net fair value on a recurring basis in accordance with ASC Topic 820 using significant Level 3 inputs during the three month period ended June 30, 2010 and 2009, respectively.

Reconciliation of Fair Value Measurements Using Significant Level 3 Inputs

(In millions)	WGL Holdings	Washington Gas
Three Months Ended June 30, 2010		
Balance at April 1, 2010	$ **(17.6)**	**$ 11.6**
Realized and unrealized gains (losses)		
Recorded to income	**11.5**	**1.9**
Recorded to regulatory assets - gas costs	**1.1**	**1.1**
Transfers in and/or out of Level 3(a)	**1.0**	**1.0**
Purchases and settlements, net	**5.4**	**1.0**
Balance at June 30, 2010	**$ 1.4**	**$ 16.6**
Three Months Ended June 30, 2009		
Balance at April 1, 2009	$ (10.5)	$ (7.1)
Realized and unrealized gains (losses)		
Recorded to income	(28.6)	-
Recorded to regulatory assets - gas costs	(0.9)	(0.9)
Purchases and settlements, net	10.9	0.8
Balance at June 30, 2009	$ (29.1)	$ (7.2)

(a) Represents weather derivative.

The following tables are a summary of the changes in the fair value of our derivative instruments that are measured at net fair value on a recurring basis in accordance with ASC Topic 820 using significant Level 3 inputs during the nine months ended June 30, 2010 and 2009, respectively.

Reconciliation of Fair Value Measurements Using Significant Level 3 Inputs

(In millions)	WGL Holdings	Washington Gas
Nine Months Ended June 30, 2010		
Balance at October 1, 2009	$ **(27.6)**	$ **(6.3)**
Realized and unrealized gains (losses)		
Recorded to income	**1.4**	**13.1**
Recorded to regulatory assets - gas costs	**8.0**	**8.0**
Transfers in and/or out of Level 3(a)	**(1.1)**	**(1.1)**
Purchases and settlements, net	**20.7**	**2.9**
Balance at June 30, 2010	**$ 1.4**	**$ 16.6**
Nine Months Ended June 30, 2009		
Balance at October 1, 2008	$ (9.1)	$ (17.0)
Realized and unrealized gains (losses)		
Recorded to income	(40.4)	6.3
Recorded to regulatory assets - gas costs	1.1	1.1
Purchases and settlements, net	19.3	2.4
Balance at June 30, 2009	$ (29.1)	$ (7.2)

(a) Represents weather derivative.

The tables below sets forth the line items on the Statements of Income of the amounts recorded to income for the three and nine months ended June 30, 2010, related to fair value measurements using significant level 3 inputs.

WGL Holdings, Inc.
Realized and Unrealized Gains (Losses) Recorded to Income for Level 3 Measurements

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Operating revenues — non-utility	$ **(14.1)**	$ (5.2)	$ **4.1**	$ (6.8)
Utility cost of gas	**1.9**	-	**12.1**	6.3
Non-utility cost of energy-related sales	**23.7**	-	**(15.8)**	
Operation and maintenance expense	**-**	(23.4)	**1.0**	(39.9)
Total	**$ 11.5**	$ (28.6)	**$ 1.4**	$ (40.4)

Washington Gas Light Company
Realized and Unrealized Gains (Losses) Recorded to Income for Level 3 Measurements

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Utility cost of gas	$ **1.9**	$ -	$ **12.1**	$ 6.3
Operation and maintenance expense	**-**	-	**1.0**	-
Total	**$ 1.9**	$ -	**$ 13.1**	$ 6.3

Unrealized gains (losses) for the three and nine months ended June 30, 2010 attributable to financial instruments measured using significant Level 3 inputs at June 30, 2010 were recorded as follows:

WGL Holdings, Inc.
Unrealized Gains (Losses) Recorded for Level 3 Measurements

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Recorded to income				
Operating revenues - non-utility	$ **(5.1)**	$ 1.8	$ **16.1**	$ 3.7
Utility cost of gas	**1.8**	-	**12.3**	7.3
Non-utility cost of energy-related sales	**11.9**	(14.2)	**(13.6)**	(22.6)
Operation and maintenance expense	**-**	-	**1.0**	-
Recorded to regulatory assets - gas costs	**2.3**	(1.0)	**9.2**	2.5
Total	**$ 10.9**	**$** (13.4)	**$ 25.0**	**$** (9.1)

Washington Gas Light Company
Unrealized Gains (Losses) Recorded for Level 3 Measurements

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In millions)	**2010**	2009	**2010**	2009
Recorded to income				
Utility cost of gas	$ **1.8**	$ -	$ **12.3**	$ 7.3
Recorded to regulatory assets - gas costs	**2.3**	(1.0)	**9.2**	2.5
Total	**$ 4.1**	**$** (1.0)	**$ 21.5**	**$** 9.8

The following table presents the carrying amount and estimated fair value of our long-term debt at June 30, 2010 and September 30, 2009, respectively. The carrying amount of any other financial instruments in current assets and current liabilities approximates fair value because of the short-term maturity of these instruments, and therefore are not shown in the table below.

Fair Value of Financial Instruments

At June 30,	2010	
(In millions)	Carrying Amount	Fair Value
Long-term debt (a)	$ 591.4	$ 694.3

At September 30,	2009	
	Carrying Amount	Fair Value
Long-term debt (a)	$ 561.8	$ 627.8

(a) Excludes current maturities and unamortized discounts.

NOTE 12. OPERATING SEGMENT REPORTING

We identify and report on operating segments under the “management approach.” Our chief operating decision maker is our President and Chief Operating Officer. Operating segments comprise revenue-generating components of an enterprise for which we produce separate financial information internally that we regularly use to make operating decisions and assess performance. We report three operating segments: *(i)* regulated utility, *(ii)* retail energy-marketing and *(iii)* design-build energy systems.

With approximately 91% of WGL Holdings’ consolidated total assets, the regulated utility segment is our core business and comprises Washington Gas and Hampshire. The regulated utility segment, through Washington Gas, provides regulated gas distribution services (including the sale and delivery of natural gas, meter reading, responding to customer inquiries, bill preparation and the construction and maintenance of its natural gas distribution system) to customers primarily in the District of Columbia and the surrounding metropolitan areas in Maryland and Virginia. Hampshire, an underground natural gas storage company that is regulated under a cost of service tariff by the Federal Energy Regulatory Commission (FERC), provides services exclusively to Washington Gas.

Through WGEServices, the retail energy-marketing segment sells natural gas and electricity directly to retail customers, both inside and outside of Washington Gas’s traditional service territory, in competition with regulated utilities and unregulated gas and electricity marketers.

Through WGESystems, the design-build energy systems segment provides design-build energy efficient and sustainable solutions to government and commercial clients under construction contracts.

Transactions that are not significant enough on a stand-alone basis to warrant treatment as an operating segment, and that do not fit into one of our three operating segments, are aggregated as “Other Activities” and included as part of non-utility operations as presented below in the Operating Segment Financial Information. During the first quarter of 2010, Washington Gas Resources changed the name of Washington Gas Credit Corporation to Capitol Energy Ventures, (CEV) Corp. to align better its name with its mission. CEV is an unregulated wholesale energy company that engages in the business of acquiring and optimizing natural gas storage and transportation assets. CEV is in the initial stages of operations and has been aggregated in “Other Activities”.

The same accounting policies applied in preparing our consolidated financial statements, as discussed in Note 1—*Accounting Policies,* also apply to the reported segments. While net income or loss applicable to common stock is the primary criterion for measuring a segment’s performance, we also evaluate our operating segments based on other relevant factors, such as penetration into their respective markets and return on equity. The following tables present operating segment information for the three and nine months ended June 30, 2010 and 2009.

Operating Segment Financial Information

(In thousands)	Regulated Utility	Non-Utility Operations: Retail Energy-Marketing	Non-Utility Operations: Design-Build Energy Systems	Non-Utility Operations: Other Activities	Eliminations	Consolidated
Three Months Ended June 30, 2010						
Operating Revenues (a)	**$ 172,544**	**$ 286,199**	**$ 5,028**	**$ 67**	**$ (4,165)**	**$ 459,673**
Operating Expenses:						
Cost of energy-related sales	**64,166**	**239,667**	**4,201**	**115**	**(4,165)**	**303,984**
Operation	**55,890**	**10,196**	**902**	**844**	**-**	**67,832**
Maintenance	**11,230**	**-**	**-**	**-**	**-**	**11,230**
Depreciation and amortization	**23,405**	**209**	**20**	**-**	**-**	**23,634**
General taxes and other assessments:						
Revenue taxes	**12,510**	**761**	**-**	**-**	**-**	**13,271**
Other	**11,701**	**734**	**39**	**7**	**-**	**12,481**
Total Operating Expenses	**178,902**	**251,567**	**5,162**	**966**	**(4,165)**	**432,432**
Operating Income (Loss)	**(6,358)**	**34,632**	**(134)**	**(899)**	**-**	**27,241**
Other Income (Expenses)-Net	**149**	**21**	**7**	**131**	**(28)**	**280**
Interest Expense	**9,984**	**22**	**-**	**22**	**(28)**	**10,000**
Income Tax Expense (Benefit)	**(6,047)**	**13,888**	**(50)**	**(281)**	**-**	**7,510**
Dividends on Washington Gas preferred stock	**330**	**-**	**-**	**-**	**-**	**330**
Net Income (Loss) Applicable to Common Stock	**$ (10,476)**	**$ 20,743**	**$ (77)**	**$ (509)**	**$ -**	**$ 9,681**
Total Assets	**$ 3,133,173**	**$ 296,150**	**$ 17,304**	**$ 46,975**	**$ (65,293)**	**$ 3,428,309**
Capital Expenditures/Investments	**$ 26,586**	**$ 185**	**$ 20**	**$ 14**	**$ -**	**$ 26,805**
Three Months Ended June 30, 2009						
Operating Revenues (a)	$ 190,101	$ 233,122	$ 7,950	$ 6	$ (4,143)	$ 427,036
Operating Expenses:						
Cost of energy-related sales	79,327	215,901	6,259	1	(4,143)	297,345
Operation	49,934	9,575	259	756	-	60,524
Maintenance	10,924	-	-	-	-	10,924
Depreciation and amortization	22,979	174	15	-	-	23,168
General taxes and other assessments:						
Revenue taxes	10,715	239	-	-	-	10,954
Other	11,103	752	40	3	-	11,898
Total Operating Expenses	184,982	226,641	6,573	760	(4,143)	414,813
Operating Income (Loss)	5,119	6,481	1,377	(754)	-	12,223
Other Income (Expenses)-Net	766	31	23	74	(76)	818
Interest Expense	10,733	83	-	72	(76)	10,812
Income Tax Expense (Benefit)	(2,787)	2,579	566	(266)	-	92
Dividends on Washington Gas preferred stock	330	-	-	-	-	330
Net Income (Loss) Applicable to Common Stock	$ (2,391)	$ 3,850	$ 834	$ (486)	$ -	$ 1,807
Total Assets	$ 2,886,405	$ 268,131	$ 23,657	$ 47,299	$ (68,792)	$ 3,156,700
Capital Expenditures/Investments	$ 28,162	$ 582	$ 5	$ -	$ -	$ 28,749

(a) *Operating revenues are reported gross of revenue taxes. Revenue taxes of both the regulated utility and the retail energy-marketing segments include gross receipt taxes. Revenue taxes of the regulated utility segment also include PSC fees, franchise fees and energy taxes. Operating revenue amounts in the "Eliminations" column represent total intersegment revenues associated with sales from the regulated utility segment to the retail energy-marketing segment.*

Operating Segment Financial Information

(In thousands)	Regulated Utility	Non-Utility Operations: Retail Energy-Marketing	Non-Utility Operations: Design-Build Energy Systems	Non-Utility Operations: Other Activities	Eliminations	Consolidated
Nine Months Ended June 30, 2010						
Operating Revenues (a)	**$ 1,190,703**	**$ 1,060,327**	**$ 12,806**	**$ 65**	**$ (20,167)**	**$ 2,243,734**
Operating Expenses:						
Cost of energy-related sales	**596,367**	**998,110**	**10,746**	**115**	**(20,167)**	**1,585,171**
Operation	**163,018**	**28,884**	**2,550**	**2,698**	**-**	**197,150**
Maintenance	**33,700**	**-**	**-**	**-**	**-**	**33,700**
Depreciation and amortization	**71,399**	**588**	**45**	**-**	**-**	**72,032**
General taxes and other assessments:						
Revenue taxes	**54,247**	**2,077**	**-**	**-**	**-**	**56,324**
Other	**41,163**	**2,548**	**123**	**21**	**-**	**43,855**
Total Operating Expenses	**959,894**	**1,032,207**	**13,464**	**2,834**	**(20,167)**	**1,988,232**
Operating Income (Loss)	**230,809**	**28,120**	**(658)**	**(2,769)**	**-**	**255,502**
Other Income (Expenses)-Net	**832**	**58**	**33**	**380**	**(159)**	**1,144**
Interest Expense	**29,821**	**151**	**-**	**146**	**(159)**	**29,959**
Income Tax Expense (Benefit)	**79,604**	**11,214**	**(245)**	**(904)**	**-**	**89,669**
Dividends on Washington Gas preferred stock	**990**	**-**	**-**	**-**	**-**	**990**
Net Income (Loss) Applicable to Common Stock	**$ 121,226**	**$ 16,813**	**$ (380)**	**$ (1,631)**	**$ -**	**$ 136,028**
Total Assets	**$ 3,133,173**	**$ 296,150**	**$ 17,304**	**$ 46,975**	**$ (65,293)**	**$ 3,428,309**
Capital Expenditures/Investments	**$ 81,533**	**$ 2,802**	**$ 124**	**$ 14**	**$ -**	**$ 84,473**
Nine Months Ended June 30, 2009						
Operating Revenues (a)	$ 1,371,868	$ 916,105	$ 27,066	$ 5	$ (21,032)	$ 2,294,012
Operating Expenses:						
Cost of energy-related sales	778,144	881,194	20,277	1	(21,032)	1,658,584
Operation	158,501	24,860	2,053	2,754	-	188,168
Maintenance	32,053	-	-	-	-	32,053
Depreciation and amortization	70,850	601	43	-	-	71,494
General taxes and other assessments:						
Revenue taxes	52,870	537	-	-	-	53,407
Other	38,716	2,289	103	19	-	41,127
Total Operating Expenses	1,131,134	909,481	22,476	2,774	(21,032)	2,044,833
Operating Income (Loss)	240,734	6,624	4,590	(2,769)	-	249,179
Other Income (Expenses)-Net	1,146	69	126	838	(584)	1,595
Interest Expense	33,758	594	(1)	699	(584)	34,466
Income Tax Expense (Benefit)	80,431	2,466	1,850	(931)	-	83,816
Dividends on Washington Gas preferred stock	990	-	-	-	-	990
Net Income (Loss) Applicable to Common Stock	$ 126,701	$ 3,633	$ 2,867	$ (1,699)	$ -	$ 131,502
Total Assets	$ 2,886,405	$ 268,131	$ 23,657	$ 47,299	$ (68,792)	$ 3,156,700
Capital Expenditures/Investments	$ 92,741	$ 1,937	$ 27	$ -	$ -	$ 94,705

(a) *Operating revenues are reported gross of revenue taxes. Revenue taxes of both the regulated utility and the retail energy-marketing segments include gross receipt taxes. Revenue taxes of the regulated utility segment also include PSC fees, franchise fees and energy taxes. Operating revenue amounts in the "Eliminations" column represent total intersegment revenues associated with sales from the regulated utility segment to the retail energy-marketing segment.*

NOTE 13. RELATED PARTY TRANSACTIONS

WGL Holdings and its subsidiaries engage in transactions among each other during the ordinary course of business. Intercompany transactions and balances have been eliminated from the consolidated financial statements of WGL Holdings. Washington Gas provides accounting, treasury, legal and other administrative and general support to affiliates, and files consolidated tax returns that include affiliated taxable transactions. The actual costs of these services are billed to the appropriate affiliates and, to the extent such billings are not yet paid, they are reflected in "Receivables from associated companies" on Washington Gas's 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.

In connection with billing for unregulated third party marketers and with other miscellaneous billing processes, Washington Gas collects cash on behalf of affiliates and transfers the cash as quickly as reasonably possible. Cash collected by Washington Gas on behalf of its affiliates but not yet transferred is recorded in "Payables to associated companies" on Washington Gas's balance sheets. These transactions recorded by Washington Gas impact the balance sheet only.

At June 30, 2010 and September 30, 2009, the Washington Gas Balance Sheets reflected receivables from associated companies of $1.3 million and $10.4 million, respectively. At June 30, 2010 and September 30, 2009, the Washington Gas Balance Sheets reflected payables to associated companies of $19.0 million and $11.4 million, respectively, related to the activities described above.

Additionally, 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 WGEServices. Washington Gas records revenues for these balancing services pursuant to tariffs approved by the appropriate regulatory bodies. In conjunction with such services and the related sales and purchases of natural gas, Washington Gas charged WGEServices, an affiliated energy marketer, $4.2 million and $4.1 million for the three months ended June 30, 2010 and 2009, respectively. In the nine months ended June 30, 2010 and 2009, the charges were $20.2 million and $21.0 million, respectively. These related party amounts have been eliminated in the consolidated financial statements of WGL Holdings.

As a result of these balancing services, an imbalance is created for volumes of natural gas received by Washington Gas that are not equal to the volumes of natural gas delivered to customers of the energy marketers. WGEServices has recognized an accounts receivable from Washington Gas in the amount of $4.3 million and $4.6 million at June 30, 2010 and September 30, 2009, respectively, related to an imbalance in gas volumes. Due to regulatory requirements, these receivables are not eliminated in the consolidated financial statements of WGL Holdings.

NOTE 14. COMMITMENTS AND CONTINGENCIES

REGULATED UTILITY OPERATIONS

Regulatory Contingencies

Certain legal and administrative proceedings incidental to our business, including regulatory contingencies, involve WGL Holdings and/or its subsidiaries. In our opinion, we have recorded an adequate provision for probable losses or refunds to customers for regulatory contingencies related to these proceedings.

District of Columbia Jurisdiction

Recovery of Heavy Hydrocarbon (HHC) Costs. On May 1, 2006, Washington Gas filed two tariff applications with the Public Service Commission of the District of Columbia (PSC of DC) requesting approval of proposed revisions to the balancing charge provisions of its firm and interruptible delivery service tariffs that would permit the utility to recover from its delivery service customers the costs of HHCs that are being injected into Washington Gas's natural gas distribution system to treat vaporized liquefied natural gas from the Dominion Cove Point Facility. Washington Gas had been recovering the costs of HHCs from sales customers in the District of Columbia through its Purchased Gas Charge (PGC) provision in this jurisdiction. On October 2, 2006, the PSC of DC issued an order rejecting Washington Gas's proposed tariff revisions until the Public Service Commission of

Maryland (PSC of MD) issued a final order related to this matter. On October 12, 2006, Washington Gas filed a motion for clarification requesting that the PSC of DC affirm that Washington Gas can continue collecting HHC costs from sales customers through its PGC provision or to record such HHC costs incurred as a regulatory asset pending a ruling by the PSC of DC on future cost recovery. On May 11, 2007, the PSC of DC directed Washington Gas to cease prospective recovery of the cost of HHCs through the PGC provision, with future HHC costs to be recorded as a "pending" regulatory asset. On November 16, 2007 the PSC of MD issued a final order in the relevant case supporting full recovery of the HHC costs in Maryland. On March 25, 2008, the PSC of DC issued an order stating that the consideration of Washington Gas's HHC strategy will move forward and directed interested parties to submit filings reflecting a proposed procedural schedule. On June 6, 2008, Washington Gas and the District of Columbia Office of the People's Counsel (DC OPC) filed a joint response to the order proposing a procedural schedule and a list of issues for consideration in the case. The PSC of DC adopted the proposed issues list and approved a procedural schedule. Washington Gas and other parties subsequently filed comments, conducted discovery and the parties filed reply comments. On April 30, 2009, the PSC of DC ruled that there were unresolved issues and directed that they should be addressed in evidentiary hearings. The PSC of DC issued an order establishing a procedural schedule to address these unresolved issues in the case. Initial testimony was filed May 29, 2009, and rebuttal testimony was filed on July 24, 2009.

On October 2, 2009, Washington Gas and the DC OPC filed a Joint Motion for Approval of Unanimous Agreement of Stipulation and Full Settlement with the PSC of DC (Stipulation). The parties to the Stipulation agreed that hexane (an HHC) commodity costs incurred by Washington Gas to condition liquefied natural gas received in Washington Gas's natural gas system are recoverable expenses and that Washington Gas is authorized to achieve full cost recovery from sales and delivery service customers of hexane commodity costs incurred prior to September 30, 2009. Additionally, the Stipulation:

(i) approves the recovery of hexane commodity costs incurred after September 30, 2009 from sales and delivery service customers, subject to review as a component of Washington Gas's cost of gas;

(ii) establishes a coupling replacement and encapsulation program (program), wherein Washington Gas will replace or encapsulate a portion of its mechanically coupled pipe in the District of Columbia. The program is expected to conclude in approximately seven years with total spending not to exceed $28.0 million;

(iii) provides for the cost of the program to be recovered through an annual surcharge based on actual expenditures for coupling replacement and encapsulation that will become effective at the end of the existing base rate freeze (October 1, 2011). The cost will include both a return of and return on the cost of coupling replacement and encapsulation, computed in accordance with the terms of the rates currently in effect and

(iv) establishes periodic reporting on the level of hexane injected at each of Washington Gas's hexane facilities with the associated commodity costs, and continued filing of leak-related information with the PSC of DC.

On October 16, 2009, the PSC of DC published a Notice of Public Interest Hearing, held on October 28, 2009. On December 16, 2009, the PSC of DC issued a final order approving the settlement agreement, including recovery of hexane commodity costs, provided the parties agree to change the September 30, 2009 date to the effective date of the newly approved tariffs. The parties filed the modified language consistent with the final order. Pursuant to the final order, Washington Gas established a regulatory asset by reversing hexane costs previously expensed of $0.7 million into income.

As of June 30, 2010 Washington Gas has incurred cumulative total hexane costs of $2.5 million related to the District of Columbia of which approximately $1.0 million has been recovered and $1.5 million has been deferred as a regulatory asset.

Revenue Normalization Adjustment. On December 21, 2009, Washington Gas filed a revised tariff application seeking approval of an RNA, a sales adjustment mechanism that decouples Washington Gas's non-gas revenues from actual delivered volumes of gas. On December 22, 2009, the DC OPC filed a motion requesting that the PSC of DC establish public hearing procedures to examine the merits of Washington Gas's RNA application. Washington Gas filed an opposition to the DC OPC's motion on January 4, 2010. The PSC of DC issued an order on January 19, 2010 granting the DC OPC's motion for evidentiary hearing and initiated a rate proceeding to consider issues surrounding Washington Gas's tariff application. On April 2, 2010, the

PSC of DC issued an order designating issues to be addressed and establishing a procedural schedule for the case. Washington Gas filed supplemental testimony on April 13, 2010. The DC OPC, the District of Columbia Office of the Environment (DC Government) and the Apartment and Office Building Association of Metropolitan Washington (AOBA) filed direct testimony on May 17, 2010. Washington Gas filed rebuttal testimony on June 29, 2010. Evidentiary hearings were held on July 27-28, 2010.

Maryland Jurisdiction

Order on and Reviews of Purchased Gas Charges. Each year, the PSC of MD reviews the annual gas costs collected from customers in Maryland to determine if Washington Gas's purchased gas costs are reasonable. On March 14, 2006, in connection with the PSC of MD's annual review of Washington Gas's gas costs that were billed to customers in Maryland from September 2003 through August 2004, a Hearing Examiner of the PSC of MD issued a proposed order approving purchased gas charges of Washington Gas for the twelve-month period ended August 2004, except for $4.6 million of such charges that the Hearing Examiner recommended be disallowed because, in the opinion of the Hearing Examiner, they were not reasonably incurred. As a result, during the fiscal year ended September 30, 2006, Washington Gas accrued a liability of $4.6 million related to the proposed disallowance of these purchased gas charges.

Washington Gas filed appeals with the PSC of MD asserting that the Hearing Examiner's recommendation was without merit. On February 5, 2009, the PSC of MD issued an order that granted the appeal and reversed the findings of the Hearing Examiner. Accordingly, the gas costs at issue were deemed recoverable from rate payers. The PSC of MD's order concluded that the responsibility for recovery of these costs should be assigned to the specific group of customers associated with unbundled firm delivery service, directing Washington Gas to bill such costs to those customers over a 24-month period and to provide a credit to firm bundled sales customers over the same period. As a result of this order, the liability recorded in fiscal year 2006 for this issue was reversed in the quarter ended December 31, 2008, and Washington Gas recorded income of $4.6 million to "Operating revenues-utility." On February 25, 2009, Washington Gas filed its compliance plan with the PSC of MD which outlined the plan for returning these funds to its firm sales customers, as well as collecting funds from firm delivery service customers beginning with Washington Gas's May 2009 billing cycle and ending with its April 2011 billing cycle. On April 29, 2009, the PSC of MD approved Washington Gas's plan.

A hearing was held March 27, 2009 on Washington Gas's purchased gas charges for the twelve month period ended August 31, 2008. No party challenged Washington Gas's gas costs incurred during the period, but the Staff of the PSC of MD (MD Staff) and the PSC of MD Office of the People's Counsel (MD OPC) requested that the case remain open subject to any changes that may result from the final PSC of MD order regarding Washington Gas's asset management and gas purchase practices (refer to the section entitled *"Investigation of Asset Management and Gas Purchase Practices"* for a further discussion of this case). On April 23, 2010, the Hearing Examiner issued a Proposed Order which approved Washington Gas's gas costs for the period, subject to any changes which may arise from the Commission's final order in the asset management investigation in Case No. 9158. The Proposed Order was not appealed by any party and became a final order of the Commission on May 25, 2010.

A hearing was held on March 25, 2010 on Washington Gas's purchased gas charges for the twelve month period ended August 31, 2009. The parties filed initial briefs on April 30, 2010 and reply briefs on May 21, 2010. The Staff of the PSC of MD and the MD OPC are challenging a portion of the Company's gas costs averring that the Company did not have authority under its tariff to cash-out over-deliveries by suppliers over the 12-months ended March 2009 and also asserting that the Company used an" excessive price" as the cash-out price. Staff recommends that a second phase to the proceeding be initiated to investigate these assertions. The Company has denied both these assertions. The parties are awaiting a decision from the Hearing Examiner.

Virginia Jurisdiction

Conservation and Ratemaking Efficiency Plan. On September 29, 2009, Washington Gas filed with the Virginia State Corporation Commission (SCC of VA) an application which included a portfolio of conservation and energy efficiency programs, an associated cost recovery provision and a decoupling mechanism which will adjust weather normalized non-gas distribution revenues for the impact of conservation or energy efficiency efforts. An evidentiary hearing in the proceeding was held on February 9, 2010. On March 26, 2010 the SCC of VA issued an Order approving a decoupling rate mechanism for residential customers and six residential energy efficiency programs and the cost recovery mechanism for those programs. Washington Gas filed compliance tariffs with the Staff of the SCC of VA on April 19, 2010 to implement the Conservation and Ratemaking Efficiency Plan on May 1, 2010. The Company began applying the decoupling mechanism in Virginia in its July billings consistent with the Commission's approval. On July 22, 2010, Washington Gas filed an amendment to the conservation and ratemaking efficiency (CARE) Plan to include small commercial and industrial customers in Virginia. The application included a portfolio of conservation and energy efficiency programs, an associated cost recovery provision and a decoupling mechanism and will adjust weather normalized non-gas distribution revenues for the impact of conservation or energy efficiency efforts. The Company is currently awaiting the establishment of a docket number and procedural schedule.

Performance-Based Rate Plans

In rate case proceedings in all jurisdictions, Washington Gas requested permission to implement Performance-Based Rate (PBR) plans that include performance measures for customer service and an Earnings Sharing Mechanism (ESM) that enables Washington Gas to share with shareholders and customers the earnings that exceed a target rate of return on equity.

Effective October 1, 2007, the SCC of VA approved the implementation of a PBR plan through the acceptance of a settlement stipulation, which includes: *(i)* a four-year base rate freeze; *(ii)* service quality measures to be determined in conjunction with the Staff of the SCC of VA and reported quarterly for maintaining a safe and reliable natural gas distribution system while striving to control operating costs; *(iii)* recovery of initial implementation costs associated with achieving Washington Gas's business process outsourcing (BPO) initiatives over the four-year period of the PBR plan and *(iv)* an ESM that enables Washington Gas to share with shareholders and Virginia customers the earnings that exceed a target of 10.5% return on equity. The calculation of the ESM excludes $2.4 million of asset management revenues that are being refunded to customers as part of a new margin sharing agreement in Virginia.

On May 4, 2009, the Staff of the SCC of VA issued a report, commenting on the amount of the ESM liability that had been reported for the fiscal year ending September 30, 2008. Washington Gas filed its response to the Staff report on June 18, 2009. On July 17, 2009, Washington Gas and the Staff of the SCC of VA filed a joint motion to approve stipulation and close proceeding with the SCC of VA whereby the Staff of the SCC of VA and Washington Gas agreed upon the appropriate refund to ratepayers under the ESM. The overall difference between the Staff position and Washington Gas's position was not material to the financial statements of Washington Gas. On July 24, 2009, the SCC of VA granted the joint motion and accepted the stipulation submitted by Washington Gas and the Staff of the SCC of VA in its final order approving the ESM liability for fiscal year 2008. In accordance with the provisions of its VA tariff, Washington Gas began crediting customers' bills in April 2009 for the fiscal year 2008 ESM liability. The credits continued through March, 2010. At June 30, 2010, Washington Gas had fully refunded the ESM liability to its customers.

On January 28, 2010, Washington Gas filed its annual information filing indicating that there was no ESM liability for fiscal year 2009. On May 24, 2010 the Staff issued its report to the SCC of VA on the annual informational filing and the ESM. The Staff of the SCC of VA concurred with Washington Gas that Virginia jurisdictional results did not generate an ESM liability for fiscal year 2009. On June 9, 2010 Washington Gas filed notice that it had no comments on the Staff's report. On June 30, 2010, the SCC of VA accepted the Staff's report and agreed that there was no ESM liability for fiscal year 2009.

Based on the results reflected in the annual information filing, Washington Gas has recorded revenue of approximately $0.5 million of previously expensed hexane costs and on June 23, 2010 filed an application with the SCC of VA requesting the authority to bill the cost of this hexane to customers in accordance with the provision of the Settlement Stipulation in the last rate proceeding. The SCC of VA has not issued a procedural schedule in this proceeding. On July 22, 2010, the Commission issued an Order for Notice and Comment in this proceeding. The Company is required to file direct testimony by August 18, 2010 with the Staff's Report due October 21, 2010. The Company's response to the Staff's Report is due November 4, 2010.

On an interim basis, Washington Gas records the effects of the ESM based on year-to-date earnings in relation to estimated annual earnings as calculated for regulatory purposes. Based on expected results for 2010, no liability has been recognized for

2010 and Washington Gas has accrued revenue of approximately $1.0 million related to the recovery of hexane costs incurred in Virginia in 2010.

On November 16, 2007, the PSC of MD issued a final order in a rate case which established a phase-two proceeding to review Washington Gas's request to implement a PBR plan and issues raised by the parties associated with Washington Gas's BPO agreement. On September 4, 2008, a proposed order of the Hearing Examiner was issued in this phase-two proceeding. Consistent with Washington Gas's current accounting methodology, the proposed order approved 10-year amortization accounting for initial implementation costs related to Washington Gas's BPO plan. At June 30, 2010 and September 30, 2009, we had recorded a regulatory asset of $6.7 million and $7.4 million, respectively, net of amortization, related to initial implementation costs allocable to Maryland associated with our BPO plan. Washington Gas's application seeking approval of a PBR plan was denied. Additionally, the proposed order *(i)* directs Washington Gas to obtain an independent management audit related to issues raised in the phase-two proceeding and *(ii)* directs the initiation of a collaboration process in which Washington Gas is directed to engage in discussions with the Staff of the PSC of MD (MD Staff), the MD OPC and interested parties to develop appropriate customer service metrics and a periodic form for reporting results similar to the metrics filed by Washington Gas as part of the approved settlement in Virginia. This proposed order has been appealed by the MD Staff, the MD OPC and other parties. Washington Gas's reply memorandum on appeal was filed on November 5, 2008. A final decision by the PSC of MD is pending.

The final order issued by the PSC of DC on December 28, 2007 approved amortization accounting for initial implementation costs related to the BPO plan in approving the stipulated agreement filed in the proceeding. As part of that approved agreement, Washington Gas withdrew its application seeking approval of a PBR plan. Washington Gas is prohibited from seeking approval of a PBR plan in the District of Columbia until the filing of its next base rate case; however, the settling parties may not seek a change in rates during the rate case filing moratorium period under the terms of the approved rate settlement, with the exception of the implementation of a revenue normalization adjustment.

Depreciation Study

In October 2006, Washington Gas completed a depreciation rate study based on its property, plant and equipment balances as of December 31, 2005. The results of the depreciation study concluded that Washington Gas's depreciation rates should be reduced due to asset lives being extended beyond previously estimated lives. Under regulatory requirements, these depreciation rates must be approved before they are placed into effect.

On April 13, 2007, Washington Gas filed the portion of the depreciation study related to the Maryland jurisdiction. A separate proceeding was established on May 2, 2007, by the PSC of MD to review Washington Gas's request to implement new depreciation rates. On October 25, 2007, Washington Gas filed a 2007 technical update of the Maryland depreciation study based on property, plant and equipment balances as of December 31, 2006. Hearings were held May 12 and 13, 2008. Initial briefs were filed on July 16, 2008 and reply briefs were filed on August 6, 2008. On October 15, 2008, a proposed order of Hearing Examiner was issued in Maryland, which would reduce Washington Gas's annual depreciation expense related to the Maryland jurisdiction by approximately $11.2 million when new depreciation rates are implemented, with a corresponding decrease in annual revenues on a prospective basis to be reflected in future billing rates. Reflected in this reduction in depreciation expense, among other things, are: *(i)* a change in methodology for calculating accrued asset removal costs and *(ii)* the designation of certain insurance and relocation reimbursements as salvage value. This reduction in depreciation expense will not impact annual operating income and will not prevent the recovery of our capital investment; however, it will have the effect of deferring full recovery of our capital investment into future years. On November 14, 2008, Washington Gas and the MD OPC noted appeals of the October 15, 2008 proposed order, thus suspending its effective date.

On February 5, 2010, the PSC of MD issued an order on appeal. The order affirmed the proposed order with two exceptions: *(i)* it directed the parties to confer and report on a prospective allocation method for reimbursements and *(ii)* it directed Washington Gas to amortize its $13.3 million reserve deficiency imbalance over a 33.5 year time frame. On March 26, 2010, Washington Gas made a compliance filing with the PSC of MD to revise its depreciation rates in accordance with the Commission's February 5, 2010 Order. Under Washington Gas's proposed revised depreciation rates, annual depreciation expense applicable to Maryland would be reduced by $11,366,000. As required by the Commission's Order in Washington Gas's most recent base rate case in Maryland, as part of its compliance filing, Washington Gas also filed revised base rates to reflect the decrease in annual depreciation expense in Maryland. The MD Staff challenged Washington Gas's proposed depreciation rates and supported alternative depreciation rates which would reduce depreciation expense by $11,426,000. On May 12, 2010 the Commission approved the revised depreciation rates and base rates proposed by Staff effective June 1, 2010. On May 25, 2010, Washington Gas filed a revised compliance filing reflecting the $11,426,000 reduction in base rates.

NON-UTILITY OPERATIONS

Construction Project Financing

To fund certain of its construction projects, Washington Gas enters into financing arrangements with third party lenders. As part of these financing arrangements, Washington Gas's customers agree to make principal and interest payments over a period of time, typically beginning after the projects are completed. Washington Gas assigns these customer payment streams to the lender in exchange for the contract payments paid to Washington Gas during the construction period. As the lender funds the construction project, Washington Gas establishes a receivable representing its customers' obligations to remit principal and interest and a long-term payable to the lender. When these projects are formally "accepted" by the customer as completed, Washington Gas transfers the ownership of the receivable to the lender and removes both the receivable and the long-term financing from its financial statements. As of June 30, 2010, work on these construction projects that was not completed or accepted by customers was valued at $6.3 million, which is recorded on the balance sheet as a receivable in "Deferred Charges and Other Assets—Other" with the corresponding long-term obligation to the lender in "Long-term debt." At any time before these contracts are accepted by the customer, should there be a contract default, such as, among other things, a delay in completing the project, the lender may call on Washington Gas to fund the unpaid principal in exchange for which Washington Gas would receive the right to the stream of payments from the customer. Once the project is accepted by the customer, the lender will have no recourse against Washington Gas related to this long-term debt.

Financial Guarantees

WGL Holdings has guaranteed payments for certain purchases of natural gas and electricity on behalf of the retail energy-marketing segment. At June 30, 2010, these guarantees totaled $543.6 million. The amount of such guarantees is periodically adjusted to reflect changes in the level of financial exposure related to these purchase commitments. We also receive financial guarantees or other collateral from suppliers when required by our credit policy. WGL Holdings has issued guarantees related to purchase commitments of its Capitol Energy Ventures subsidiary. At June 30, 2010, these guarantees totaled $18.0 million. WGL Holdings also issued guarantees totaling $3.0 million at June 30, 2010 that were made on behalf of certain of our non-utility subsidiaries associated with their banking transactions. Of the total guarantees of $564.6 million, $42.0 million are due to expire on December 31, 2010. The remaining guarantees do not have specific maturity dates. For all of its financial guarantees, WGL Holdings may cancel any or all future obligations imposed by the guarantees upon written notice to the counterparty; however, WGL Holdings would continue to be responsible for the obligations that had been created under the guarantees prior to the effective date of the cancellation.

NOTE 15. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The following tables show the components of net periodic benefit costs (income) recognized in our financial statements during the three and nine months ended June 30, 2010 and 2009:

Components of Net Periodic Benefit Costs (Income)

	Three Months Ended June 30,			
	2010		2009	
(In thousands)	**Pension Benefits**	**Health and Life Benefits**	Pension Benefits	Health and Life Benefits
Components of net periodic benefit costs (income)				
Service cost	**$ 2,438**	**$ 1,648**	$ 2,117	$ 1,283
Interest cost	**10,478**	**6,331**	10,678	6,257
Expected return on plan assets	**(11,419)**	**(4,605)**	(12,888)	(4,492)
Amortization of prior service cost	**262**	**(1,005)**	429	(1,005)
Amortization of actuarial loss	**1,050**	**2,196**	104	1,231
Amortization of transition obligation	**-**	**272**	-	272
Partial settlement of the Supplemental Executive Retirement Program	**3,529**	**-**	-	-
Net periodic benefit cost	**6,338**	**4,837**	440	3,546
Amount allocated to construction projects	**(265)**	**(787)**	34	(559)
Amount deferred as regulatory asset/liability - net	**(1,308)**	**504**	(991)	833
Other	**6**	**-**	72	-
Amount charged (credited) to expense	**$ 4,771**	**$ 4,554**	$ (445)	$ 3,820

Components of Net Periodic Benefit Costs (Income)

	Nine Months Ended June 30,			
	2010		2009	
(In thousands)	**Pension Benefits**	**Health and Life Benefits**	Pension Benefits	Health and Life Benefits
Components of net periodic benefit costs (income)				
Service cost	**$ 7,338**	**$ 4,944**	$ 6,351	$ 3,849
Interest cost	**31,814**	**18,993**	32,034	18,771
Expected return on plan assets	**(34,593)**	**(13,815)**	(38,665)	(13,476)
Amortization of prior service cost	**793**	**(3,016)**	1,288	(3,016)
Amortization of actuarial loss	**3,207**	**6,586**	312	3,693
Amortization of transition obligation	**-**	**815**	-	815
Partial settlement of the Supplemental Executive Retirement Program	**3,529**	**-**	-	-
Net periodic benefit cost	**12,088**	**14,507**	1,320	10,636
Amount allocated to construction projects	**(789)**	**(2,314)**	100	(1,659)
Amount deferred as regulatory asset/liability - net	**(3,921)**	**1,513**	(2,972)	2,499
Other	**21**	**-**	22	-
Amount charged (credited) to expense	**$ 7,399**	**$ 13,706**	$ (1,530)	$ 11,476

Amounts included in the line item “Amount deferred as regulatory asset/liability-net,” as shown in the table above, represent the difference between the cost of the applicable Pension Benefits or the Health and Life Benefits and the amount that Washington Gas is permitted to recover in rates that it charges to customers in the District of Columbia.

Under the new changes to the defined contribution savings plan announced on July 20, 2009, 65 employees elected to cease participating in the non-contributory defined benefit plan in return for receiving an enhanced contribution under the defined contribution savings plan.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

This *Management's Discussion and Analysis of Financial Condition and Results of Operations* (Management's Discussion) analyzes the financial condition, results of operations and cash flows of WGL Holdings, Inc. (WGL Holdings) and its subsidiaries and should be read in conjunction with our unaudited financial statements and the accompanying notes in this quarterly report, as well as our combined Annual Report on Form 10-K for WGL Holdings and Washington Gas Light Company (Washington Gas) for the fiscal year ended September 30, 2009 (2009 Annual Report). Except where the content clearly indicates otherwise, "WGL Holdings," "we," "us" or "our" refers to the holding company or the consolidated entity of WGL Holdings and all of its subsidiaries.

Management's Discussion is divided into the following two major sections:

- ***WGL Holdings***—This section describes the financial condition and results of operations of WGL Holdings and its subsidiaries on a consolidated basis. It includes discussions of our regulated and unregulated operations. WGL Holdings' operations are derived from the results of Washington Gas and the results of our non-utility operations.
- ***Washington Gas***—This section describes the financial condition and results of operations of Washington Gas, a wholly owned subsidiary that comprises the majority of our regulated utility segment.

Unless otherwise noted, earnings per share amounts are presented on a diluted basis and are based on weighted average common and common equivalent shares outstanding. Our operations are seasonal and, accordingly, our operating results for the interim periods presented are not indicative of the results to be expected for the full fiscal year.

EXECUTIVE OVERVIEW

Introduction

WGL Holdings, through its wholly owned subsidiaries, sells and delivers natural gas and provides a variety of energy-related products and services to customers primarily in the District of Columbia and the surrounding metropolitan areas in Maryland and Virginia. WGL Holdings has three operating segments that are described below.

Regulated Utility. With approximately 91% of our consolidated total assets, the regulated utility segment consists of Washington Gas and Hampshire Gas Company (Hampshire). Washington Gas, a wholly owned subsidiary of WGL Holdings, delivers natural gas to retail customers in accordance with tariffs approved by the regulatory commissions that have jurisdiction over Washington Gas's rates. Washington Gas also sells natural gas to customers who have not elected to purchase natural gas from unregulated third party marketers.

The rates charged to utility customers, are designed to recover Washington Gas's operating expenses and natural gas commodity costs and to provide a return on its investment in the net assets used in its firm gas sales and delivery service. Washington Gas recovers the cost of the natural gas to serve firm customers through the gas cost recovery mechanisms as approved in jurisdictional tariffs. Any difference between the firm customer gas costs incurred and the gas costs recovered from those firm customers is deferred on the balance sheet as an amount to be collected from or refunded to customers in future periods. Therefore, increases or decreases in the cost of gas associated with sales made to firm customers have no direct effect on Washington Gas's net revenues and net income.

Washington Gas's asset optimization program utilizes Washington Gas's storage and transportation capacity resources when those assets are not fully utilized to physically serve utility customers. The objective of this program is to derive a profit to be shared with its utility customers (refer to the section entitled "Market Risk" for further discussion of our asset optimization program) by entering into commodity-related physical and financial contracts with third parties. Unless otherwise noted, therm deliveries shown related to Washington Gas or the regulated utility segment do not include therm deliveries related to our asset optimization program.

Hampshire, a wholly owned subsidiary of WGL Holdings, is regulated by the Federal Energy Regulatory Commission (FERC). Hampshire operates and owns full and partial interests in underground natural gas storage facilities including pipeline delivery facilities located in and around Hampshire County, West Virginia. Washington Gas purchases all of the storage services of Hampshire and includes the cost of these services in the bills sent to its customers. 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.

Retail Energy-Marketing. The retail energy-marketing segment consists of the operations of Washington Gas Energy Services, Inc. (WGEServices), a wholly owned subsidiary of Washington Gas Resources. WGEServices competes with regulated utilities and other unregulated third party marketers to sell natural gas and/or electricity directly to residential, commercial and industrial customers in Maryland, Virginia, Delaware, Pennsylvania and the District of Columbia. WGEServices contracts for its supply needs and buys and resells natural gas and electricity with the objective of earning a profit through competitively priced contracts with end-users. These commodities are delivered to retail customers through the distribution systems owned by regulated utilities such as Washington Gas or other unaffiliated natural gas or electric utilities. WGEServices is also expanding its renewable energy and energy conservation product and service offerings. Other than its Solar Photovoltaic (Solar PV) facilities, WGEServices does not own or operate any natural gas or electric generation, production, transmission or distribution assets. Continued expansion may include the ownership of other renewable energy producing assets.

Design-Build Energy Systems. Our design-build energy systems segment, which consists of the operations of Washington Gas Energy Systems, Inc. (WGESystems), provides design-build energy efficient and sustainable solutions to government and commercial clients. WGESystems focuses on upgrading the mechanical, electrical, water and energy-related systems of large government and commercial facilities by implementing both traditional as well as alternative energy technologies, primarily in the District of Columbia, Maryland and Virginia.

PRIMARY FACTORS AFFECTING WGL HOLDINGS AND WASHINGTON GAS

The principal business, economic and other factors that affect our operations and/or financial performance include:

- weather conditions and weather patterns;
- regulatory environment and regulatory decisions;
- availability of natural gas supply and pipeline transportation and storage capacity;
- diversity of natural gas supply;
- volatility of natural gas prices;
- non-weather related changes in natural gas consumption patterns;
- maintaining the safety and reliability of the natural gas distribution system;
- competitive environment;

- environmental matters;
- industry consolidation;
- economic conditions and interest rates;
- inflation/deflation;
- use of business process outsourcing;
- labor contracts, including labor and benefit costs; and
- changes in accounting principles.

For further discussion of the factors listed above, refer to Management's Discussion within the 2009 Annual Report. Also, refer to the section entitled *"Safe Harbor for Forward-Looking Statements"* included in this quarterly report for a listing of forward-looking statements related to factors affecting WGL Holdings and Washington Gas.

CRITICAL ACCOUNTING POLICIES

The 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 consolidated 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 in both the regulated utility and non-regulated business segments.

We have identified the following critical accounting policies that require our judgment and estimation, where the resulting estimates may have a material effect on the consolidated financial statements:

- accounting for unbilled revenue;
- accounting for regulatory operations — regulatory assets and liabilities;
- accounting for income taxes;
- accounting for contingencies;
- accounting for derivative instruments;
- accounting for pension and other post-retirement benefit plans and
- accounting for stock based compensation.

For a description of these critical accounting policies, refer to Management's Discussion within the 2009 Annual Report. Refer to Note 1 of the Notes to Consolidated Financial Statements in this quarterly report for a discussion of newly implemented accounting policies.

WGL HOLDINGS, INC.

RESULTS OF OPERATIONS — Three Months Ended June 30, 2010 vs. June 30, 2009

We analyze the operating results of the regulated utility segment using utility net revenues and the retail energy-marketing segment using gross margins. Both utility net revenues and gross margins are calculated as revenues less the associated cost of energy and applicable revenue taxes. We believe utility net revenues is a better measure to analyze profitability than gross operating revenues for our regulated utility segment because the cost of the natural gas commodity and revenue taxes are generally 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. We consider gross margins to be a better reflection of profitability than gross revenues or gross energy costs for our retail energy-marketing segment because gross margins are a direct measure of the success of our core strategy for the sale of natural gas and electricity.

Neither utility net revenues nor gross margins should be considered as an alternative to, or a more meaningful indicator of, our operating performance than net income. Our measures of utility net revenues and gross margins may not be comparable to similarly titled measures of other companies. Refer to the sections entitled *"Results of Operations — Regulated Utility Operating Results"* and *"Results of Operations — Non-Utility Operating Results"* for the calculation of utility net revenues and gross margins, respectively, as well as a reconciliation to operating income and net income for both segments.

Summary Results

WGL Holdings reported net income applicable to common stock of $9.7 million, or $0.19 per share, for the three months ended June 30, 2010 over net income applicable to common stock of $1.8 million, or $0.04 per share, reported for the three months ended June 30, 2009.

The comparison of results for the three month period ended June 30, 2010 compared to the same period of the prior fiscal year primarily reflect an increase in earnings from our retail energy-marketing segment partially offset by a decrease in earnings from the regulated utility and design-build energy system segments.

The following table summarizes our net income (loss) applicable to common stock by operating segment for the three months ended June 30, 2010 and 2009.

Net Income (Loss) by Operating Segment

(In millions)	Three Months Ended June 30, **2010**	2009	Increase/ (Decrease)
Regulated Utility	**$ (10.5)**	$ (2.4)	$ (8.1)
Non-utility operations:			
Retail Energy-Marketing	**20.7**	3.9	16.8
Design-Build Energy Systems	-	0.8	(0.8)
Other, principally non-utility activities	**(0.5)**	(0.5)	-
Total non-utility	**20.2**	4.2	16.0
Net Income applicable to common stock	**$ 9.7**	$ 1.8	$ 7.9
EARNINGS PER AVERAGE COMMON SHARE			
Basic	**$ 0.19**	$ 0.04	$ 0.15
Diluted	**$ 0.19**	$ 0.04	$ 0.15

Regulated Utility Operating Results

The following table summarizes the regulated utility segment's operating results for the three months ended June 30, 2010 and 2009.

Regulated Utility Operating Results

	Three Months Ended June 30,		
(In millions)	**2010**	2009	Increase/ (Decrease)
Utility net revenues:			
Operating revenues	$ **172.5**	$ 190.1	$ (17.6)
Less: Cost of gas	**64.2**	79.3	(15.1)
Revenue taxes	**12.5**	10.7	1.8
Total utility net revenues	**95.8**	100.1	(4.3)
Operation and maintenance	**67.1**	60.9	6.2
Depreciation and amortization	**23.4**	23.0	0.4
General taxes and other assessments	**11.7**	11.1	0.6
Operating income (loss)	**(6.4)**	5.1	(11.5)
Interest expense	**10.0**	10.7	(0.7)
Other (income) expenses-net, including preferred stock dividends	**0.1**	(0.4)	0.5
Income tax benefit	**(6.0)**	(2.8)	(3.2)
Net loss applicable to common stock	$ **(10.5)**	$ (2.4)	$ (8.1)

The regulated utility segment's net loss applicable to common stock was $10.5 million for the three months ended June 30, 2010, compared to a net loss of $2.4 million for the same three month period of the prior fiscal year. The increase in net loss primarily reflects: *(i)* $8.4 million of higher employee benefit expense due to changes in plan asset values and plan valuation assumptions and a loss recognized for a partial settlement of the Supplemental Executive Retirement Program (SERP); (ii) increased tax expense of $1.1 million reflecting a higher effective tax rate; *(iii)* $1.6 million of unfavorable effects of changes in natural gas consumption patterns*; (iv)* a $0.6 million decrease in unrealized margins associated with our asset optimization program and *(v)* $0.5 million decrease in realized margins associated with our asset optimization program. Partially offsetting this decrease were: *(i)* an increase in revenue of $0.7 million related to growth of over 8,300 average active customer meters; *(ii)* $0.7 million related to uncollectible accounts; *(iii)* $1.2 million due to lower regulatory obligations under the Virginia Earnings Sharing Mechanism (ESM) and *(iv)* a decrease in interest expense of $0.7 million primarily due to lower weighted average interest rates and balances associated with our borrowings.

Utility Net Revenues. The following table provides the key factors contributing to the changes in the utility net revenues of the regulated utility segment between the three months ended June 30, 2010 and 2009.

Composition of Changes in Utility Net Revenues

(In millions)	Increase / (Decrease)
Customer growth	$ 0.7
Estimated Weather effects — Offset by weather insurance and derivative products	(1.3)
Estimated change in natural gas consumption patterns	(1.6)
Asset optimization:	
Unrealized mark-to-market valuations	(0.6)
Realized mark-to-market valuations	(0.5)
Earnings Sharing Mechanism	1.2
Gas Administration Charge (GAC) and late fee	(1.2)
Other	(1.0)
Total	$ (4.3)

Customer growth — Average active customer meters increased 8,300 for the three months ended June 30, 2010 compared to the same quarter of the prior fiscal year.

Estimated weather effects — Weather, when measured by HDDs, was 2.0% and 11.8% colder than normal during the three months ended June 30, 2010 and 2009, respectively. Washington Gas currently has a weather protection strategy that is designed to neutralize the estimated financial effects of variations from normal weather on net income (refer to the section entitled *"Weather Risk"* for a further discussion of our weather protection strategy). On September 21, 2009, Washington Gas executed a heating degree day (HDD) derivative contract to manage its exposure to variations from normal weather in the District of Columbia during fiscal year 2010. Changes in the fair value of this derivative are reflected in operation and maintenance expense. Including the effects of our weather protection strategy, there were no material effects on net income attributed to colder or warmer weather on the three month periods ended June 30, 2010 and 2009.

Estimated change in natural gas consumption patterns — The variance in net revenues reflects the changes in natural gas consumption patterns in the Virginia and District of Columbia jurisdictions. These changes may be affected by shifts in weather patterns in which customer heating usage may not correlate highly with average historical levels of usage per HDD that occur. Natural gas consumption patterns may also be affected by non-weather related factors.

Asset optimization — We recorded net unrealized gains associated with our energy-related derivatives of $1.4 million for the three months ended June 30, 2010 compared to net unrealized gains of $2.0 million for the same period of 2009. When these derivatives settle, any unrealized amounts will ultimately be reversed, and Washington Gas will realize margins when combined with the related transactions these derivatives economically hedge. Pre-tax realized margins related to our asset optimization program were $0.5 million lower for the quarter ended June 30, 2010 compared to the quarter ended June 30, 2009 (Refer to the section entitled *"Market Risk—Price Risk Related to the Regulated Utility Segment"* for a further discussion of our asset optimization program).

Earnings Sharing Mechanism — The Virginia ESM shares with shareholders and customers in Virginia, earnings that exceed a target rate of return on equity with shareholders and customers. A regulatory obligation was recorded related to Virginia earnings during the quarter ended June 30, 2009. An obligation was not incurred under this mechanism during the quarter ended June 30, 2010. Refer to the section entitled "*Rates and Regulatory Matters — Performance-Based Rate Plans*" included in Management's Discussion for Washington Gas for a further discussion of the ESM.

GAC — Represents a regulatory mechanism in all jurisdictions that provides for recovery of uncollectible accounts expense related to changes in gas costs. Lower recoveries reflect the lower cost of natural gas for the three months ended June 30, 2010 compared to the same period in fiscal year 2009. The related uncollectible accounts expense is included in operation and maintenance expenses.

Operation and Maintenance Expenses. The following table provides the key factors contributing to the changes in operation and maintenance expenses of the regulated utility for the three months ended June 30, 2010 compared to the same period in 2009.

Composition of Changes in Operation and Maintenance Expenses

(in millions)	Increase/ (Decrease)
Employee benefits	$ 8.4
Uncollectible accounts	(1.9)
Weather derivatives:	
Benefit	(1.3)
Premium costs and fair value effects	0.9
Other operating expenses	0.1
Total	$ 6.2

Employee benefits — The increase in benefit expenses primarily reflects higher pension and other post retirement benefits due to changes in plan asset values and discount rate assumptions used to measure the benefit obligation and a $3.5 million loss recognized for a partial settlement of the SERP.

Uncollectible accounts — This reduction in uncollectible accounts expense tracks the lower revenues due to reduced gas costs reflected in the quarter ended June 30, 2010 compared to the same quarter in fiscal year 2009. This decrease is partially offset by the change in GAC included in utility net revenues.

Non-Utility Operating Results

Our non-utility operations comprise two business segments: *(i)* retail energy-marketing and *(ii)* design-build energy systems. Transactions that are not significant enough on a stand-alone basis to warrant treatment as an operating segment, and that do not fit into one of our three operating segments, are aggregated as "Other Activities" and included as part of non-utility operations. "Other Activities" includes the results of Capitol Energy Ventures. Total net income from our non-utility operations was $20.2 million for the three months ended June 30, 2010, compared to net income of $4.2 million for the same three-month period of the prior fiscal year. This comparison primarily reflects increased earnings from our retail energy-marketing segment.

Retail Energy-Marketing. The following table depicts the retail energy-marketing segment's operating results along with selected statistical data.

Retail-Energy Marketing Financial and Statistical Data

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Increase / (Decrease)
Operating Results (In millions)			
Gross margins:			
Operating revenues	$ **286.2**	$ 233.1	$ 53.1
Less: Cost of energy	**239.7**	215.9	23.8
Revenue taxes	**0.8**	0.2	0.6
Total gross margins	**45.7**	17.0	28.7
Operation expenses	**10.2**	9.6	0.6
Depreciation and amortization	**0.2**	0.2	-
General taxes and other assessments	**0.7**	0.7	-
Operating income	**34.6**	6.5	28.1
Interest expense	**-**	0.1	(0.1)
Income tax expense	**13.9**	2.5	11.4
Net Income	$ **20.7**	$ 3.9	$ 16.8
Analysis of gross margins (In millions)			
Natural gas			
Realized margins	$ **7.8**	$ 18.5	$ (10.7)
Unrealized mark-to-market gains	**7.1**	2.0	5.1
Total gross margins — natural gas	**14.9**	20.5	(5.6)
Electricity Realized margins			
Realized margins	**13.5**	8.1	5.4
Unrealized mark-to-market gains (losses)	**17.3**	(11.6)	28.9
Total gross margins — electricity	**30.8**	(3.5)	34.3
Total gross margins	$ **45.7**	$ 17.0	$ 28.7
Other Retail-Energy Marketing Statistics			
Natural gas			
Therm sales (millions of therms)	**87.2**	102.8	(15.6)
Number of customers (end of period)	**160,900**	148,800	12,100
Electricity			
Electricity sales (millions of kWhs)	**2,358.0**	1,293.3	1,064.7
Number of accounts (end of period)	**141,700**	98,900	42,800

WGEServices reported net income of $20.7 million for the three months ended June 30, 2010, compared to net income of $3.9 million reported for the same three-month period of the prior fiscal year.

The quarter-to-quarter comparison primarily reflects large unrealized net gains on an increased number of electric sales and purchase contracts which are marked-to-market in the quarter ended June 30, 2010, whereas these types of contracts showed unrealized net losses in the same period of the prior year. In addition, there was significant growth in the number of electric customers served by WGEServices. This increase is a result of favorable pricing opportunities in several markets and the extension of our service offering into new market territory. Opportunities for expansion and growth are continually evaluated to determine if the opportunity is appropriate for WGEServices' business. Period-to-period comparisons of quarterly gross margins for this segment can vary significantly and are not representative of expected annualized results.

Gross margins from natural gas sales decreased $5.6 million due to a decrease in realized margins of $10.7 million as a result of gas price movements which resulted in positive margins in the third quarter of fiscal year 2009 and warmer weather in the third quarter of fiscal year 2010 compared to the same period in the prior year, offset by a $5.1 million increase in unrealized mark-to-market gains associated with energy-related derivatives.

Gross margins from electric sales in the current quarter increased $34.3 million from the same quarter of the prior period. This increase primarily reflects a $28.9 million increase in unrealized mark-to-market gains associated with energy-related derivatives. Realized margins increased by $5.4 million as a result of higher electric sales volumes associated with customer growth.

Design-Build Energy Systems. The design-build energy systems segment reported a net loss of $77,000 for the third quarter of fiscal year 2010, compared to net income of $834,000 reported for the same period of fiscal year 2009. This decrease is primarily due to delays in the initiation of certain planned project work for government agency customers. Operating expenses were also higher due to increased labor expense associated with expansion plans.

Interest Expense

The following table depicts the components of the change in interest expense for WGL Holdings for the three months ended June 30, 2010 compared to the same period in 2009.

Composition of Interest Expense Changes

(In millions)		Increase / (Decrease)
Long-term debt	$	(0.5)
Short-term debt		(0.4)
Other (includes AFUDC) (a)		0.1
Total	$	(0.8)

(a) *Represents Allowance for Funds Used During Construction.*

WGL Holdings' interest expense of $10.0 million for the third quarter of fiscal year 2010 decreased $0.8 million from $10.8 million of the same quarter of fiscal year 2009. Lower interest expense for the period primarily reflects lower weighted average interest rates and lower borrowing levels.

RESULTS OF OPERATIONS — Nine Months Ended June 30, 2010 vs. June 30, 2009

Summary Results

WGL Holdings reported net income applicable to common stock of $136.0 million, or $2.69 per share, for the nine months ended June 30, 2010 compared to $131.5 million, or $2.61 per share, reported for the nine months ended June 30, 2009.

The comparison of results for the nine month period ended June 30, 2010 compared to the same period of the prior fiscal year primarily reflect an increase in earnings from the retail energy-marketing partially offset by decreased earnings from our regulated utility and design-build energy systems segments.

The following table summarizes our net income (loss) applicable to common stock by operating segment for the nine months ended June 30, 2010 and 2009.

Net Income (Loss) by Operating Segment

(In millions)	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009	Increase/ (Decrease)
Regulated Utility	**$ 121.2**	$ 126.7	$ (5.5)
Non-utility operations:			
Retail Energy-Marketing	**16.8**	3.6	13.2
Design-Build Energy Systems	**(0.4)**	2.9	(3.3)
Other, principally non-utility activities	**(1.6)**	(1.7)	0.1
Total non-utility	**14.8**	4.8	10.0
Net Income applicable to common stock	**$ 136.0**	$ 131.5	$ 4.5
EARNINGS PER AVERAGE COMMON SHARE			
Basic	**$ 2.70**	$ 2.63	$ 0.07
Diluted	**$ 2.69**	$ 2.61	$ 0.08

Regulated Utility Operating Results

The following table summarizes the regulated utility segment's operating results for the nine months ended June 30, 2010 and 2009.

Regulated Utility Operating Results

(In millions)	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009	Increase/ (Decrease)
Utility net revenues:			
Operating revenues	**$ 1,190.7**	$ 1,371.9	$ (181.2)
Less: Cost of gas	**596.4**	778.1	(181.7)
Revenue taxes	**54.2**	52.9	1.3
Total utility net revenues	**540.1**	540.9	(0.8)
Operation and maintenance	**196.7**	190.6	6.1
Depreciation and amortization	**71.4**	70.9	0.5
General taxes and other assessments	**41.2**	38.7	2.5
Operating income	**230.8**	240.7	(9.9)
Interest expense	**29.8**	33.8	(4.0)
Other (income) expenses-net, including preferred stock dividends	**0.2**	(0.2)	0.4
Income tax expense	**79.6**	80.4	(0.8)
Net income	**$ 121.2**	$ 126.7	$ (5.5)

The regulated utility segment's net income applicable to common stock was $121.2 million for the nine months ended June 30, 2010 compared to $126.7 million for the same nine month period of the prior fiscal year. The decrease in net income primarily reflects: *(i)* $12.4 million in higher employee benefit expense due to changes in plan asset values and plan valuation assumptions and a loss recognized for a partial settlement of the SERP; *(ii)* a $6.6 million decrease in the recovery of storage carrying costs on lower average storage gas inventory balances; and *(iii)* a $4.6 million reversal of a reserve in fiscal year 2009 for disallowed natural gas costs in Maryland due to a favorable February 5, 2009 order from the Public Service Commission of Maryland (PSC of MD); *(iv)* $2.0 million in higher property taxes; and *(v)* $1.6 million in higher taxes reflecting a higher effective income tax rate. Partially offsetting this decrease was: *(i)* $5.0 million of favorable effects of changes in natural gas consumption patterns; *(ii)* $5.1 million related to the Virginia Earnings Sharing Mechanism (ESM); *(iii)* a decrease in interest expense of $4.0 million primarily due to lower weighted average interest rates associated with our borrowings; *(iv)* an increase in revenues of $3.4 million reflecting the growth of over 8,600 average active customer meters; *(v)* a $3.0 million increase in unrealized margins associated with our asset optimization program and *(vi)* $2.2 million lower costs for weather protection products related to the District of Columbia.

Utility Net Revenues. The following table provides the key factors contributing to the changes in the utility net revenues of the regulated utility segment between the nine months ended June 30, 2010 and 2009.

Composition of Changes in Utility Net Revenues

(In millions)	Increase / (Decrease)
Customer growth	$ 3.4
Estimated Weather effects — Offset by weather insurance and derivative products	(2.2)
Estimated change in natural gas consumption patterns	5.0
Gas administrative charge (GAC)	(2.9)
Asset optimization:	
Realized margins	0.3
Unrealized mark-to-market valuations	3.0
Storage carrying costs	(6.6)
Earnings Sharing Mechanism (ESM)	5.1
Reversal of reserve for natural gas costs	(4.6)
DC ROW and DC Trust Fund	(0.7)
Other	(0.6)
Total	$ (0.8)

Customer growth — Average active customer meters increased 8,694 for the nine months ended June 30, 2010 compared to the same period of the prior fiscal year.

Estimated weather effects — Weather, when measured by HDDs, was 2.0% and 11.8% colder than normal during the nine months ended June 30, 2010 and 2009, respectively. Washington Gas currently has a weather protection strategy that is designed to neutralize the estimated financial effects of variations from normal weather on net income (refer to the section entitled *"Weather Risk"* for a further discussion of our weather protection strategy). On September 21, 2009, Washington Gas executed a heating degree day (HDD) derivative contract to manage its exposure to variations from normal weather in the District of Columbia during fiscal year 2010. Changes in the fair value of this derivative are reflected in operation and maintenance expense. Including the effects of our weather protection strategy, there were no material effects on net income attributed to colder or warmer weather on the nine month periods ended June 30, 2010 and 2009.

Estimated change in natural gas consumption patterns — The variance in net revenues reflects the changes in natural gas consumption patterns in the Virginia and District of Columbia jurisdictions. These changes may be affected by shifts in weather patterns in which customer heating usage may not correlate highly with average historical levels of usage per HDD that occur. Natural gas consumption patterns may also be affected by non-weather related factors.

GAC — Represents a regulatory mechanism in all jurisdictions that provides for recovery of uncollectible accounts expense related to changes in gas costs. Lower recoveries reflect the lower cost of natural gas for the nine months of fiscal year 2010 compared to the same period in fiscal year 2009. The related uncollectible accounts expense is included in operation and maintenance expenses.

Asset optimization — We recorded net unrealized gains associated with our energy-related derivatives of $13.4 million for the nine months ended June 30, 2010 compared to net unrealized gains of $10.4 million for the same period of 2009. When these derivatives settle, any unrealized amounts will ultimately be reversed, and Washington Gas will realize margins when combined with the related transactions these derivatives economically hedge. Pre-tax realized margins related to our asset optimization program were $0.3 million higher for the nine months ended June 30, 2010 compared to the nine months ended June 30, 2009.

(Refer to the section entitled *"Market Risk—Price Risk Related to the Regulated Utility Segment"* for a further discussion of our asset optimization program).

Storage carrying costs — Each jurisdiction provides for the recovery of carrying costs based on the cost of capital in each jurisdiction, multiplied by the monthly average balance of storage gas inventory. The decrease in the nine months ended June 30, 2010 is due to lower average storage gas inventory investment balances primarily reflecting a lower weighted average cost of gas in inventory during the current period compared to the same period of the prior year.

Earnings Sharing Mechanism — The Virginia ESM shares with shareholders and customers in Virginia, earnings that exceed a target rate of return on equity. A regulatory obligation was recorded related to Virginia earnings during the nine months of fiscal year 2009 of $5.1 million. An obligation was not incurred under this mechanism during the nine months ended June 30, 2010. Refer to the section entitled "*Rates and Regulatory Matters — Performance-Based Rate Plans*" included in Management's Discussion for Washington Gas for a further discussion of the ESM.

Reserve for disallowance of natural gas costs — In the second quarter of fiscal year 2009, Washington Gas reversed a $4.6 million reserve for disallowed natural gas costs in Maryland to income due to a favorable February 5, 2009 order from the PSC of MD. This order resolved a contingency related to a proposed order issued by a Hearing Examiner of the PSC of MD in fiscal year 2006. Refer to the section entitled "Rates and Regulatory Matters" in Management's Discussion for Washington Gas for further discussion of this matter.

Operation and Maintenance Expenses. The following table provides the key factors contributing to the changes in operation and maintenance expenses of the regulated utility for the nine months ended June 30, 2010 compared to the same period in 2009.

Composition of Changes in Operation and Maintenance Expenses

(in millions)	Increase/ (Decrease)
Employee benefits	$ 12.4
Uncollectible accounts	(3.1)
Weather derivatives	
Premium costs and fair value effects	(2.4)
Benefit	(2.2)
Other	1.4
Total	$ 6.1

Employee benefits — The increase in benefit expenses primarily reflects higher pension and other post retirement benefits due to changes in plan asset values and discount rate assumptions used to measure the benefit obligation and a $3.5 million loss recognized for a partial settlement of the SERP.

Uncollectible accounts — This reduction in uncollectible accounts expense tracks the lower revenues due to reduced gas costs reflected in the nine months of fiscal year 2010 compared to the same nine month period of the prior fiscal year. This decrease is partially offset by the GAC included in revenues.

Weather derivatives — Washington Gas recorded losses of $0.8 million and $3.0 million related to its weather derivatives as a direct result of the colder-than-normal weather for the nine months ended June 30, 2010 and 2009, respectively. These losses are offset by the effect of weather on utility net revenues. The decrease in expenses associated with weather derivatives reflects a combination of lower transaction costs and the effects of weather. Warmer weather in the nine months of fiscal year 2010 resulted in lower derivative losses.

Non-Utility Operating Results

Our non-utility operations are comprised of two business segments: *(i)* retail energy-marketing and *(ii)* design-build energy systems. Transactions that are not significant enough on a stand-alone basis to warrant treatment as an operating segment, and that do not fit into one of our three operating segments, are aggregated as "Other Activities" and included as part of non-utility operations. Total net income from our non-utility operations was $14.8 million for the nine months ended June 30, 2010 compared to $4.8 million for the same nine-month period of the prior fiscal year. This comparison primarily reflects increased earnings from our retail energy-marketing segment.

Retail Energy-Marketing. The following table depicts the retail energy-marketing segment's operating results along with selected statistical data.

Retail-Energy Marketing Financial and Statistical Data

	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009	Increase / (Decrease)
Operating Results (In millions)			
Gross margins:			
Operating revenues	**$ 1,060.3**	$ 916.1	$ 144.2
Less: Cost of energy	**998.1**	881.2	116.9
Revenue taxes	**2.1**	0.5	1.6
Total gross margins	**60.1**	34.4	25.7
Operation expenses	**28.9**	24.9	4.0
Depreciation and amortization	**0.6**	0.6	-
General taxes and other assessments—other	**2.5**	2.3	0.2
Operating income	**28.1**	6.6	21.5
Other income (expenses) — net	**—**	0.1	(0.1)
Interest expense	**0.1**	0.6	(0.5)
Income tax expense	**11.2**	2.5	8.7
Net Income	**$ 16.8**	$ 3.6	$ 13.2
Analysis of gross margins (In millions)			
Natural gas			
Realized margins	**$ 26.5**	$ 31.6	$ (5.1)
Unrealized mark-to-market losses	**(9.6)**	(3.4)	(6.2)
Total gross margins — natural gas	**16.9**	28.2	(11.3)
Electricity			
Realized margins	**33.7**	29.9	3.8
Unrealized mark-to-market gains (losses)	**9.5**	(23.7)	33.2
Total gross margins — electricity	**43.2**	6.2	37.0
Total gross margins	**$ 60.1**	$ 34.4	$ 25.7
Other Retail-Energy Marketing Statistics			
Natural gas			
Therm sales (millions of therms)	**530.1**	565.0	(34.9)
Number of customers (end of period)	**160,900**	148,800	12,100
Electricity			
Electricity sales (millions of kWhs)	**6,366.2**	3,176.3	3,189.9
Number of accounts (end of period)	**141,700**	98,900	42,800

WGEServices reported net income of $16.8 million for the nine months ended June 30, 2010, compared to net income of $3.6 million reported for the same nine month period of the prior fiscal year.

The year-to-date comparison primarily reflects lower gross margins from natural gas activity offset by higher gross margins related to electric sales. Operation expenses increased, reflecting the growth in customer base. There was significant growth in the number of electric customers served by WGEServices. This increase is a result of favorable pricing opportunities in several markets and the extension of our service offering into new market territory. Opportunities for expansion and growth are continually evaluated to determine if the opportunity is appropriate for WGEServices' business. Period-to-period comparisons of year-to-date gross margins for this segment can vary significantly and are not representative of expected annualized results.

Gross margins from natural gas sales decreased $11.3 million in the nine months ended June 30, 2010 compared to the same period in the prior fiscal year. This decrease reflects a $6.2 million decrease as a result of unrealized mark-to-market losses associated with energy-related derivatives and a decrease of $5.1 million in realized margins. Realized margins decreased primarily due to lower sales volumes resulting from warmer weather in the nine months of fiscal year 2010 compared to the same period in the prior year and by gas price movements that resulted in positive margins in fiscal year 2009.

Gross margins from electric sales increased $37.0 million in the nine months ended June 30, 2010 compared to the same period of the prior fiscal year. This increase reflects a $33.2 million increase as a result of unrealized mark-to-market gains associated with energy-related derivatives as well as an increase in realized margins of $3.8 million. Realized margins were higher due to an increase in electric sales volumes associated with customer growth.

Design-Build Energy Systems. The design-build energy systems segment reported a net loss of $0.4 million for the nine months of fiscal year 2010, compared to net income of $2.9 million reported for the nine month period of fiscal year 2009. This decrease is primarily due to delays in the initiation of certain planned project work for government agency customers. Operating expenses were also higher due to increased labor expense associated with expansion plans.

Interest Expense

The following table depicts the components of the change in interest expense for WGL Holdings from the nine months ended June 30, 2010 compared to the same period in 2009.

Composition of Interest Expense Changes

(In millions)		Increase / (Decrease)
Long-term debt	$	(1.1)
Short-term debt		(3.2)
Other (includes AFUDC) (a)		(0.2)
Total	$	(4.5)

(a) *Represents Allowance for Funds Used During Construction.*

WGL Holdings' interest expense of $30.0 million for the nine months ended June 30, 2010 decreased $4.5 million from $34.5 million for the same nine month period of the prior fiscal year. Lower interest expense for the period primarily reflects lower weighted average interest rates and lower borrowing levels.

LIQUIDITY AND CAPITAL RESOURCES

General Factors Affecting Liquidity

It is important for us to have access to short-term debt markets to maintain satisfactory liquidity to operate our businesses on a near-term basis. Acquisition of natural gas, electricity, pipeline capacity and the need to finance accounts receivable and storage gas inventory are our most significant short-term financing requirements. The need for long-term capital is driven primarily by capital expenditures and maturities of long-term debt.

Our ability to obtain adequate and cost effective financing depends on our credit ratings as well as the liquidity of financial markets. Our credit ratings depend largely on the financial performance of our subsidiaries, and a downgrade in our current credit ratings could require us to post additional collateral with our wholesale counterparties and adversely affect our borrowing costs, as well as our access to sources of liquidity and capital. Also potentially affecting access to short-term debt capital is the nature of any restrictions that might be placed upon us, such as ratings triggers or a requirement to provide creditors with additional credit support in the event of a determination of insufficient creditworthiness. During the nine months ended June 30, 2010, we met our liquidity needs at reasonable cost through the issuance of commercial paper by WGL Holdings and Washington Gas and the issuance of debt securities by Washington Gas to support its operations.

The level of our capital expenditure requirements, our financial performance, our credit ratings, and investor demand for our securities, affect the availability of long-term capital at reasonable costs.

We have a goal to maintain our common equity ratio in the mid-50% range of total consolidated capital. The level of this ratio varies during the fiscal year due to the seasonal nature of our business. This seasonality is also evident in the variability of our short-term debt balances, which are typically higher in the fall and winter months and substantially lower in the spring when a significant portion of our current assets are converted into cash at the end of the winter heating season. Accomplishing this capital structure objective and maintaining sufficient cash flow are necessary to maintain attractive credit ratings for WGL Holdings and Washington Gas, and to allow access to capital at reasonable costs. As of June 30, 2010, total consolidated capitalization, including current maturities of long-term debt and excluding notes payable, comprised 64.8% common equity, 1.5% preferred stock and 33.7% long-term debt. Our cash flow requirements and our ability to provide satisfactory resources to meet those requirements are primarily influenced by the activities of Washington Gas and WGEServices and, to a lesser extent, other non-utility operations.

Our plans provide for sufficient liquidity to satisfy our financial obligations. At June 30, 2010, we did not have any restrictions on our cash balances or retained earnings that would affect the payment of common or preferred stock dividends by WGL Holdings or Washington Gas.

Short-Term Cash Requirements and Related Financing

Washington Gas's business is weather sensitive and seasonal, causing short-term cash requirements to vary significantly during the year. Approximately 77.0% of the total therms delivered in Washington Gas's service area (excluding deliveries to two electric generation facilities) occur during the first and second fiscal quarters. Accordingly, Washington Gas typically generates more net income in the first nine months of the fiscal year than it does for the entire fiscal year.

During the first six months of our fiscal year, Washington Gas generates large sales volumes and its cash requirements peak when accounts receivable and unbilled revenues are at their highest levels. During the last six months of our fiscal year, after the winter heating season, Washington Gas will typically experience a seasonal net loss due to reduced demand for natural gas. During this period, many of Washington Gas's assets are converted into cash which Washington Gas generally uses to reduce and sometimes eliminate short-term debt and to acquire storage gas for the next heating season.

Washington Gas and WGEServices have seasonal short-term cash requirements resulting from their need to purchase storage gas inventory in advance of the winter heating periods in which the storage gas is sold. At June 30, 2010 and September 30, 2009, Washington Gas had investment balances in gas storage of $156.9 million and $237.7 million, respectively. Washington Gas collects the cost of gas under cost recovery mechanisms approved by its regulators. WGEServices collects revenues that are designed to reimburse its commodity costs used to supply its retail customer contracts. Variations in the timing of cash receipts from customers under these collection methods can significantly affect short-term cash requirements. In addition, both Washington Gas and WGEServices pay their respective commodity suppliers before collecting the accounts receivable balances resulting from these sales. WGEServices derives its funding to finance these activities from short-term debt issued by WGL Holdings. Additionally, WGEServices may be required to post collateral, either parent guarantees from WGL Holdings or cash, for certain purchases.

Variations in the timing of collections of gas costs under Washington Gas's gas cost recovery mechanisms can significantly affect short-term cash requirements. At June 30, 2010, Washington Gas had a $5.5 million balance of unrecovered gas costs due from customers related to the most recent twelve month gas cost recovery cycle ended August 31, 2009. Most of this balance will be collected from customers in fiscal year 2010. Amounts under-collected or over-collected that are generated during the current gas cost recovery cycle are deferred as a regulatory asset or liability on the balance sheet until September 1st of each year, at which time the accumulated amount is transferred to gas costs due from/to customers as appropriate. At June 30, 2010, Washington Gas had a net regulatory asset balance related to the current gas recovery cycle of $7.8 million.

WGL Holdings and Washington Gas utilize 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. The following is a summary of our committed credit agreements at June 30, 2010.

Committed Credit Available

As of June 30, 2010			
Committed credit agreements (In millions)	WGL Holdings	Washington Gas	Total Consolidated
Unsecured revolving credit facility, expires August 3, 2012 (a)	**$400.0**	**$300.0**	**$700.0**
Less: Commercial Paper	**(7.0)**	**-**	**(7.0)**
Net committed credit available	**$393.0**	**$300.0**	**$693.0**

As of September 30, 2009			
Committed credit agreements (In millions)	WGL Holdings	Washington Gas	Total Consolidated
Unsecured revolving credit facility, expires August 3, 2012 (a)	$400.0	$300.0	$700.0
Less: Commercial Paper	(59.0)	(124.8)	(183.8)
Net committed credit available	$341.0	$175.2	$516.2

(a)Both WGL Holdings and Washington Gas have the right to request extensions with the banks' approval. WGL Holdings' revolving credit facility permits it to borrow an additional $50 million, with the banks' approval, for a total of $450 million. Washington Gas's revolving credit facility permits it to borrow an additional $100 million, with the banks' approval, for a total of $400 million.

WGL Holdings typically issues commercial paper to meet its financing requirements including cash collateral requirements posted to counterparties associated with WGEServices' contracts.

At June 30, 2010 and September 30, 2009, WGL Holdings and its subsidiaries had outstanding notes payable in the form of commercial paper of $7.0 million and $183.8 million, respectively, at a weighted average interest rate of 0.30% and 0.27%, respectively. Substantially all of the outstanding notes payable balance at June 30, 2010 was commercial paper issued by WGL Holdings. Of the outstanding notes payable balance at September 30, 2009, $59.0 million was issued by WGL Holdings and $124.8 million was issued by Washington Gas. As of June 30, 2010 and September 30, 2009, there were no outstanding bank loans under WGL Holdings or Washington Gas's revolving credit facilities.

To manage credit risk, both Washington Gas and WGEServices may require deposits from certain customers and suppliers, which are reported as current liabilities in "Customer deposits and advance payments." At June 30, 2010 and September 30, 2009, "Customer deposits and advance payments" totaled $43.2 million and $52.9 million, respectively. For both periods, most of these deposits related to customer deposits for Washington Gas.

For Washington Gas, deposits from customers may be refunded to the depositor-customer at various times throughout the year based on the customer's payment habits. At the same time, other customers make new deposits that cause the balance of customer deposits to remain relatively steady. There are no restrictions on Washington Gas's use of these customer deposits. Washington Gas pays interest to its customers on these deposits in accordance with the requirements of its regulatory commissions.

For WGEServices, deposits typically represent collateral for transactions with wholesale counterparties for the purchase and sale of natural gas and electricity. These deposits may be required to be repaid or increased at any time based on the current value of WGEServices' net position with the counterparty. Currently there are no restrictions on WGEServices' use of deposit funds and WGEServices pays interest to the counterparty on these deposits in accordance with its contractual obligations. Refer to the section entitled "*Credit Risk"* for further discussion of our management of credit risk.

Long-Term Cash Requirements and Related Financing

Our long-term cash requirements primarily depend upon the level of capital expenditures, long-term debt maturities and decisions to refinance long-term debt. Our capital expenditures primarily relate to adding new utility customers and system supply as well as maintaining the safety and reliability of Washington Gas's distribution system. Refer to the section entitled "Capital Expenditures" for discussion of our capital expenditures forecast and our 2009 Annual Report for further discussion of our long-term debt maturities.

At June 30, 2010, Washington Gas had the capacity under a shelf registration to issue up to $450.0 million of additional MTNs. Washington Gas has authority from its regulators to issue other forms of debt, including private placements.

We are exposed to interest-rate risk associated with our debt financing. Washington Gas utilizes derivative instruments from time to time in order to minimize its exposure to the risk of interest-rate volatility. On July 6, 2009, Washington Gas entered into three interest-rate derivative transactions to mitigate a substantial portion of the risk of rising interest rates associated with future debt issuances: *(i)* a Treasury lock that expired August 11, 2009 at a gain of $311,000, locking in a 3.59% Treasury yield on $50.0 million of ten-year debt that was issued on November 2, 2009; *(ii)* a forward starting swap that was terminated on April 5, 2010 at a loss of $30,000 and *(iii)* a forward starting swap that expired June 21, 2010 at a loss of $1.6 million. On April 13, 2010, Washington Gas entered into a forward starting swap that expired May 12, 2010 at a gain of $13,000, in conjunction with a call of $50.0 million of floating rate debt due August 26, 2010. On May 7, 2010, Washington Gas entered into a forward starting swap that expires November 30, 2010, and locks in a 4.16% cost for the treasury exposure on $75 million of 30-year debt. For further discussion of our management of interest-rate risk, refer to Management's Discussion within our 2009 Annual Report.

Security Ratings

The table below reflects the current credit ratings for the outstanding debt instruments of WGL Holdings and Washington Gas. Changes in credit ratings may affect WGL Holdings' and Washington Gas's cost of short-term and long-term debt and their access to the capital markets. A security rating is not a recommendation to buy, sell or hold securities. The rating may be subject to revision or withdrawal at any time by the assigning rating organization and each rating should be evaluated independently of any other rating. On March 5, 2010, Moody's Investors Service upgraded the commercial paper rating for WGL Holdings to Prime-2 from Not Prime. On June 16, 2010, Standard & Poor's Ratings Services upgraded the commercial paper rating for WGL Holdings and Washington Gas to A-1+ from A-1.

Credit Ratings for Outstanding Debt Instruments

	WGL Holdings		**Washington Gas**	
Rating Service	Unsecured Medium-Term Notes (Indicative)*(a)*	Commercial Paper	Unsecured Medium-Term Notes	Commercial Paper
Fitch Ratings	A+	F1	AA-	F1+
Moody's Investors Service	Not Rated	P-2	A2	P-1
Standard & Poor's Ratings Services *(b)*	AA-	A-1+	AA-	A-1+

(a) *Indicates the ratings that may be applicable if WGL Holdings were to issue unsecured MTNs.*

(b) *On June 9, 2010, Standard & Poor's Ratings Services revised its outlook on the long-term debt rating of WGL Holdings and Washington Gas from stable to negative.*

Ratings Triggers and Certain Debt Covenants

WGL Holdings and Washington Gas pay fees on their credit facilities, which in some cases are based on the long-term debt ratings of Washington Gas. In the event the long-term debt of Washington Gas is downgraded below certain levels, WGL Holdings and Washington Gas would be required to pay higher fees. There are five different levels of fees. The credit facility for WGL Holdings defines its applicable fee level as one level below the level applicable to Washington Gas. Under the terms of the credit facilities, the lowest level facility fee is four basis points and the highest is eight basis points.

Under the terms of WGL Holdings' and Washington Gas's credit agreements, the ratio of consolidated financial indebtedness to consolidated total capitalization cannot exceed 0.65 to 1.0 (65.0%). In addition, WGL Holdings and Washington Gas are required to inform lenders of changes in corporate existence, financial conditions, litigation and environmental warranties that might have a material adverse effect. The failure to inform the lenders' agent of changes in these areas deemed material in nature might constitute default under the agreements. Additionally, WGL Holdings' or Washington Gas's failure to pay principal or interest when due on any of its other indebtedness may be deemed to be a default under our credit agreements. A default, if not remedied, may lead to a suspension of further loans and/or acceleration in which obligations become immediately due and payable. At June 30, 2010, we were in compliance with all of the covenants under our revolving credit facilities.

For certain of Washington Gas's natural gas purchase and pipeline capacity agreements, if the long-term debt of Washington Gas is downgraded to or below the lower of a BBB- rating by Standard & Poor's Ratings Services or a Baa3 rating by Moody's Investors Service, or if Washington Gas is deemed by a counterparty not to be creditworthy, then the counterparty may withhold service or deliveries, or may require additional credit support. For certain other agreements, if the counterparty's credit exposure to Washington Gas exceeds a contractually defined threshold amount, or if Washington Gas's credit rating declines, then the counterparty may require additional credit support. At June 30, 2010, Washington Gas would not be required to supply additional credit support by these arrangements if its long-term debt rating were to be downgraded one rating level.

WGL Holdings has guaranteed payments for certain purchases of natural gas and electricity on behalf of its wholly-owned subsidiary, WGEServices (refer to our 2009 Annual Report for a further discussion of these guarantees). If the credit rating of WGL Holdings declines, WGEServices may be required to provide additional credit support for these purchase contracts. At June 30, 2010, WGEServices would be required to provide $12.0 million in additional credit support for these arrangements if the long-term debt rating of WGL Holdings were to be downgraded one rating level.

Cash Flows Provided by Operating Activities

The primary drivers for our operating cash flows are cash payments received from natural gas and electricity customers, offset by our payments for natural gas and electricity costs, operation and maintenance expenses, taxes and interest costs.

Net cash provided by operating activities totaled $368.7 million for the nine months ended June 30, 2010. Net cash provided by operating activities reflects net income before preferred stock dividends, as adjusted for non-cash earnings and charges and changes in working capital including:

- Accounts receivable and unbilled revenues—net increased $78.6 million from September 30, 2009, primarily due to increased sales volumes to customers during our winter heating season and increased sales volumes associated with Washington Gas's asset optimization program and WGEServices electric sales.
- Storage gas inventory cost levels decreased $80.8 million from September 30, 2009 due to seasonal physical withdrawals.
- Gas costs and other regulatory assets / liabilities decreased $54.5 million from September 30, 2009 primarily due to the recovery of gas cost under collections related to the prior gas cost recovery cycle and increases in the liability for weather related billing adjustment mechanisms.
- Accumulated deferred income taxes increased by $75 million from September 30, 2009 due to a change in Washington Gas's tax accounting method for repair deductions resulting in a deferral of income taxes.
- Deferred purchased gas costs—net decreased $29.9 million primarily due to recoveries in excess of gas costs incurred.

Cash Flows Used in Financing Activities

Cash flows used in financing activities totaled $243.8 million for the nine months ended June 30, 2010, reflecting the retirement of $176.8 million of notes payable, the retirement of $74.4 million of medium term notes and our common and preferred stock dividend payments totaling $57.0 million. Partially offsetting these cash uses was our long-term debt issuance of $51.5 million.

Cash Flows Used in Investing Activities

During the nine months ended June 30, 2010, cash flows used in investing activities totaled $84.5 million, which primarily consists of capital expenditures made on behalf of Washington Gas.

Capital Expenditures

We have revised our five-year capital expenditures budget as reported in our 2009 Annual Report to reflect an increase in projected expenditure related to the replacement and betterment of existing capacity. The revised five-year projection primarily reflects a $115.2 million increase in total capital expenditures from $896.3 million as reported in our 2009 Annual Report, to a revised total of $1,011.5 million. The following table depicts our revised capital expenditures budget for fiscal years 2010 through 2014.

Projected Capital Expenditures

	Fiscal Year Ending September 30,					
(in millions)	2010	2011	2012	2013	2014	Total
New business	$ 48.2	$ 61.1	$ 62.8	$ 65.3	$ 64.2	$ 301.6
Replacements - Other	48.0	68.7	70.6	70.9	68.9	327.1
LNG storage facility	0.1	0.7	18.0	64.8	38.1	121.7
SOC redevelopment project	6.4	52.7	18.4	-	-	77.5
Other	47.2	47.3	33.5	31.0	24.6	183.6
Total-accrual basis*(a)*	$ 149.9	$ 230.5	$ 203.3	$ 232.0	$ 195.8	$ 1,011.5

(a)*Excludes Allowance for Funds Used During Construction. Includes capital expenditures accrued and capital expenditure adjustments recorded in the fiscal year.*

The 2010 to 2014 projected periods include $301.6 million for continued growth to serve new customers, and $327.1 million primarily related to the replacement and betterment of existing distribution facilities, including $109.1 million of expenditures for replacement projects intended to meet the requirements of the Virginia Steps to Advance Virginia's Energy (SAVE) legislation as described in an application made by Washington Gas with the Virginia Public Service Commission on August 4, 2010. Additionally, the projected period contains capital expenditures to construct a LNG storage facility on land owned by Washington Gas in Chillum, Maryland (refer to the section entitled "Chillum LNG Facility"). Projected expenditures also reflect $77.5 million for the development of new office and operations facilities at the Springfield Operations Center (SOC) and $183.6 million of other expenditures, which include general plant.

CONTRACTUAL OBLIGATIONS, OFF-BALANCE SHEET ARRANGEMENTS AND OTHER COMMERCIAL COMMITMENTS

Contractual Obligations

We have certain contractual obligations incurred in the normal course of business that require us to make fixed and determinable payments in the future. These commitments include long-term debt, lease obligations, unconditional purchase obligations for pipeline capacity, transportation and storage services, certain natural gas and electricity commodity commitments and our commitments related to the business process outsourcing (BPO) program.

Reference is made to the *"Contractual Obligations, Off-Balance Sheet Arrangements and Other Commercial Commitments"* section of Management's Discussion in our 2009 Annual Report for a detailed discussion of our contractual obligations. Note 4 of the Notes to Consolidated Financial Statements in our 2009 Annual Report includes a discussion of long-term debt, including debt maturities. Note 13 of the Notes to Consolidated Financial Statements in our 2009 Annual Report reflects information about the various contracts of Washington Gas and WGEServices. Additionally, refer to Note 8 regarding the increase in uncertain tax positions of $23 million and Note 14 of the Notes to Consolidated Financial Statements regarding Commitment and Contingencies in this quarterly report.

Construction Project Financing

To fund certain of its construction projects, Washington Gas enters into financing arrangements with third party lenders. As part of these financing arrangements, Washington Gas's customers agree to make principal and interest payments over a period of time, typically beginning after the projects are completed. Washington Gas assigns these customer payment streams to the lender in exchange for the contract payments paid to Washington Gas during the construction period. As the lender funds the construction project, Washington Gas establishes a receivable representing its customers' obligations to remit principal and interest and a long-term payable to the lender. When these projects are formally "accepted" by the customer as completed, Washington Gas transfers the ownership of the receivable to the lender and removes both the receivable and the long-term financing from its financial statements. As of June 30, 2010, work on these construction projects that was not completed or accepted by customers was valued at $6.3 million, which is recorded on the balance sheet as a receivable in "Deferred Charges and Other Assets—Other" with the corresponding long-term obligation to the lender in "Long-term debt." At any time before these contracts are accepted by the customer, should there be a contract default, such as, among other things, a delay in completing the project, the lender may call on Washington Gas to fund the unpaid principal in exchange for which Washington Gas would receive the right to the stream of payments from the customer. Once the project is accepted by the customer, the lender has no recourse against Washington Gas related to this long-term debt.

Financial Guarantees

WGL Holdings has guaranteed payments for certain purchases of natural gas and electricity on behalf of the retail energy-marketing segment. At June 30, 2010, these guarantees totaled $564.6 million. The amount of such guarantees is periodically adjusted to reflect changes in the level of financial exposure related to these purchase commitments. We also receive financial guarantees or other collateral from suppliers when required by our credit policy (refer to the section entitled "Credit Risk" for a further discussion of our credit policy). WGL Holdings has issued guarantees related to purchase commitments of its Capitol Energy Ventures subsidiary. At June 30, 2010, these guarantees totaled $18.0 million. WGL Holdings also issued guarantees totaling $3.0 million at June 30, 2010 that were made on behalf of certain of our non-utility subsidiaries associated with their banking transactions. For all of its financial guarantees, WGL Holdings may cancel any or all future obligations imposed by the guarantees upon written notice to the counterparty, but WGL Holdings would continue to be responsible for the obligations that had been created under the guarantees prior to the effective date of the cancellation.

Chillum LNG Facility

Washington Gas continues to incorporate in its plans construction of a proposed one billion cubic foot LNG storage facility on the land owned by Washington Gas in Chillum, Maryland, where natural gas storage facilities previously existed for meeting customers' forecasted peak demand for natural gas. Subject to the resolution of certain legal and regulatory issues, the new storage facility is currently expected to be completed and in service by the 2015-2016 winter heating season at a total estimated cost of $159.0 million.

On October 30, 2006, the District Council of Prince George's County, Maryland denied Washington Gas's application for a special exception related to its proposed construction of the LNG peaking plant because of the District Council's position that newly enacted zoning restrictions prohibit such construction. Washington Gas appealed this decision to the Prince George's County Circuit Court (the Circuit Court) on November 22, 2006; however, the case was subsequently sent back to the administrative process by the Circuit Court. On April 16, 2008, Washington Gas filed a Complaint for Declaratory and Injunctive Relief with the United States District Court for the District of Maryland (the U.S. District Court) seeking a declaratory judgment that all local laws relating to safety and location of the facility are preempted by Federal and State law. On March 26, 2010, the U.S. District Court denied Washington Gas's motion for summary judgment, however, there are further proceedings for consideration of the preemption issues raised by Washington Gas.

In 2005, Washington Gas requested approval from the Maryland Public Service Commission (PSC of MD) regarding the safety of the proposed facility and compliance with applicable federal regulations. In 2007, the Engineering Division of the PSC of MD confirmed the analyses that had been presented by Washington Gas and found the proposed facility to be safely sited. On March 19, 2009, the PSC of MD docketed a proceeding for the purpose of reviewing Washington Gas's most recent gas procurement plan including the role the Chillum facility plays in meeting current and future customers' annual and seasonal natural gas requirements. Refer to the section entitled "*Rates and Regulatory Matters—Maryland Jurisdiction—Review of the Company's 2009-2013 Gas Portfolio Plan*" for further discussion of this issue. Washington Gas must begin construction of the storage facility in the spring of 2012 in order for the Chillum Facility to be completed and in service by the 2015-2016 winter heating season. Until the LNG plant is constructed, Washington Gas has planned for alternative sources of supply to meet its customers' peak day requirements. These plans include capital expenditures related to infrastructure improvements which contribute to providing for adequate system performance based on projected needs.

Operating Issues Related To Cove Point Natural Gas Supply

In late fiscal year 2003, Dominion reactivated its Cove Point LNG terminal. A large portion of the gas delivered from the Cove Point LNG terminal comes to the Washington Gas service territory as a result of the Company's multiple delivery points on the Cove Point pipeline and from three interstate natural gas transmission pipelines also interconnected with the Cove Point pipeline, each of which serve Washington Gas from delivery points downstream of its Cove Point pipeline interconnect. The composition of the vaporized LNG received from the Cove Point LNG terminal resulted in increased leaks in mechanical couplings on the portion of our distribution system in Prince George's County, Maryland that directly receives the Cove Point gas. The vaporized Cove Point gas contains a lower concentration of heavy hydrocarbons (HHCs) than non-liquefied natural gas, and caused the seals on those mechanical couplings to shrink and to leak. Independent laboratory tests performed on behalf of Washington Gas have shown that, in a laboratory environment, the injection of HHCs into the type of gas coming from the Cove Point LNG terminal can be effective in re-swelling the seals in couplings which increases their sealing force and in turn, reduces the propensity for the affected couplings to leak.

Through a pipeline replacement project and the construction of a HHC injection facility at the largest gate station that exclusively receives gas from the Cove Point terminal, Washington Gas has reduced the occurrence of new coupling leaks in this area of the distribution system. A recent expansion of the physical capacity of the Cove Point terminal could result in a substantial increase in the receipt of Cove Point gas into additional portions of Washington Gas's distribution system as greater volumes of Cove Point gas are introduced into other downstream pipelines that provide service to Washington Gas. Based upon engineering and flow studies and our experience, this increase in the receipt of Cove Point gas is likely to result in a significantly greater number of leaks in other parts of Washington Gas's distribution system, unless our efforts to mitigate these additional leaks are successful. Washington Gas is attempting to mitigate this anticipated increase in leaks through: *(i)* mechanically coupled pipeline replacement programs; *(ii)* the operation of two additional HHC injection facilities; *(iii)* isolating its interstate pipeline receipt points and limiting the amount of gas received, where possible, from pipelines that transport Cove Point gas; and *(iv)* blending, where possible, the Cove Point gas with other supplies of natural gas from within the continental United States. Washington Gas's position before the FERC has been that the FERC should condition incremental increases in deliveries from the Cove Point terminal on the appropriate resolution of safety concerns consistent with the public interest. Washington Gas has exhausted its administrative remedies before the FERC but will consider any legal remedies available on an as needed basis.

Washington Gas installed and operates HHC injection facilities at three gate stations. Assuming current gas flow patterns with the current pipeline supply configurations and ongoing restrictions imposed on the company to limit low-HHC gas recipients, the strategic placement of the three operational HHC injection facilities will inject HHCs into the natural gas supplied to over 95% of the pipelines that contain mechanical couplings within our distribution system. Washington Gas has been granted recovery for a portion of these costs allocable to Virginia and Maryland. Additionally, Washington Gas will seek recovery of the costs of these facilities allocable to the District of Columbia in a future base rate proceeding. Washington Gas expects the cost of these facilities to be recovered in all jurisdictions.

The cost of these facilities does not include the cost of the HHCs injected into the gas stream at the gate stations. We have been granted cost recovery for the majority of these costs in all three of our jurisdictions (refer to the section entitled *"Rates and Regulatory Matters"*).

Washington Gas has replaced or remediated selected mechanically coupled pipelines within the areas of the distribution system that may receive higher concentrations of Cove Point gas, but that will not receive HHC injections. Washington Gas has also planned for additional replacement of mechanically coupled pipeline in other areas of its distribution system. In total, the current estimated cost of planned mechanical coupling remediation and replacement work over the next three years is $82.8 million, which includes $4.0 million as part of a planned mechanically coupled pipe replacement program approved by the Virginia State Corporation Commission (SCC of VA) as part of a settlement of a Virginia rate case and the December 16, 2009 settlement in the District of Columbia that includes a targeted mechanically coupled pipe replacement and encapsulation program which will cost no more than $28.0 million and is expected to take approximately seven years to complete. Rate recovery of the expenditures is provided for in the settlement agreements approved respectively by the SCC of VA and the PSC of DC.

Washington Gas continues to gather and evaluate field and laboratory evidence to determine the efficacy of HHC injections of the Cove Point gas in preventing additional leaks or impeding the rate at which additional leaks may occur in the gas distribution system if expanded volumes from the Cove Point terminal are introduced. In a report filed with the PSC of MD on June 30, 2008, Washington Gas reported a notable increase in leaks in mechanical couplings in a portion of its distribution system in Virginia where Cove Point gas injected with HHCs was introduced for a short period of time. Although this increase in leaks was significantly less than the increase experienced in the affected area of Prince George's County, Maryland, the injection of HHCs into the Cove Point gas did not reduce the occurrence of coupling leaks to an acceptable level that would allow Washington Gas to safely accommodate the increased deliveries of revaporized LNG anticipated with the expansion of the Cove Point terminal. If we are unable to implement a satisfactory solution on a timely basis, additional operating expenses and capital expenditures may be necessary to contend with leaks that may accompany the receipt of increased volumes of vaporized LNG from the Cove Point terminal into Washington Gas's distribution system. Such additional operating expenses and capital expenditures may not be timely enough to mitigate the challenges posed by increased volumes of Cove Point gas potentially resulting in leakage from mechanical couplings at a rate that could compromise the safety of our distribution system. Additional legal or regulatory remedies may be necessary to protect the Washington Gas distribution system and its customers from the adverse effects of unblended vaporized LNG (refer to the section entitled *"Request for FERC Action"* below for a further discussion).

Notwithstanding Washington Gas's recovery of costs related to the construction of the injection facilities and HHC commodity costs through local regulatory commission action, Washington Gas has pursued all available remedies to keep its customers from having to pay more than their appropriate share of the costs of the remediation to maintain the safety of the Washington Gas distribution system.

Request for FERC Action Regarding Cove Point

In November 2005, Washington Gas requested the FERC to require Dominion to demonstrate that the increased volumes of the Cove Point gas resulting from the expansion would flow safely through the Washington Gas distribution system and would be consistent with the public interest. Washington Gas specifically requested that the proposed expansion of the Cove Point LNG terminal be denied until Dominion has shown that the Cove Point gas: *(i)* is of such quality that it is fully interchangeable with the domestically produced natural gas historically received by Washington Gas and *(ii)* will not cause harm to its customers or to the infrastructure of Washington Gas's distribution system.

On June 16, 2006, the FERC issued an order authorizing Dominion's request to expand the capacity and output of its Cove Point LNG terminal and, thereby, denying Washington Gas's request to require Dominion to demonstrate the safety of the Cove Point gas flowing through the Washington Gas distribution system. Washington Gas, the PSC of MD, Keyspan Corporation, the Maryland Office of People's Counsel (MD OPC) and other organizations all filed Requests for Rehearing with the FERC to seek modification of the FERC's June 16, 2006 order. These requests were all rejected by the FERC. On January 26, 2007, Washington Gas filed a notice of appeal with the United States Court of Appeals for the District of Columbia Circuit (the Court of Appeals). Washington Gas requested the Court of Appeals to reverse the June 16, 2006 FERC order that authorized the Cove Point expansion, as well as a January 4, 2007 FERC order that denied Washington Gas's rehearing request.

On July 18, 2008, the Court of Appeals issued an opinion vacating the FERC orders to the extent they approve the expansion. The opinion remanded the case to the FERC to address whether the expansion can go forward without causing unsafe leakage on Washington Gas Light Company's distribution system.

Although Washington Gas agrees with the portion of the Court of Appeals decision that states the FERC failed to address adequately the future safety concerns associated with increased deliveries of LNG into its system, Washington Gas does not agree with all of the findings of the Court of Appeals, including conclusions related to the cause of the leaks, and on September 2, 2008 filed a request for rehearing with the Court of Appeals. This request has been denied.

The FERC held a technical conference on August 14, 2008 "to discuss the nature and progress of remedial measures taken to date, as well as the need and benefit of any other remedial measures that might be taken by Washington Gas and Dominion Cove Point LNG, LP so that Washington Gas's system can safely accommodate the increased amounts of regasified LNG from Cove Point's LNG terminal." Washington Gas filed initial Post Technical Conference Comments on August 19, 2008 and reply Post Technical Conference Comments on August 22, 2008. On October 7, 2008, the FERC issued its reauthorization of the expansion of the Cove Point terminal, allowing construction to continue; however, the FERC limited the amount of vaporized LNG that may flow from the Cove Point terminal into the Columbia Gas Transmission pipeline and ultimately into the distribution system of Washington Gas. On November 6, 2008, Washington Gas filed a Request for Rehearing with the FERC, citing numerous factual and legal errors in the October 7, 2008 reauthorization. The reauthorization fails to adequately address future safety concerns as directed by the Court of Appeals. Although this reauthorization limited the amount of vaporized LNG that may flow from the Cove Point terminal into Washington Gas's distribution system through the Columbia Gas Transmission pipeline, this limited amount far exceeds any amount of Cove Point gas that has been received by Columbia Gas Transmission to date. On January 15, 2009, the FERC issued an order denying Washington Gas's request for rehearing and affirmed its reauthorization of the expansion of the Cove Point terminal. On February 13, 2009, Washington Gas filed a request with the FERC for an emergency stay of the effectiveness of the orders the FERC issued on October 7, 2008 and January 15, 2009. On March 19, 2009, the FERC denied Washington Gas's request for a stay. On March 13, 2009, Washington Gas filed a Petition for Review in the Court of Appeals of the FERC's order on remand issued on October 7, 2008, and its order on rehearing of the October 7, 2008 order, issued January 15, 2009, that established a cap on the volume of LNG that could be delivered to the Columbia Gas interconnection with the Cove Point pipeline. The October 2008 decision did not fully address the concerns raised earlier by the Court of Appeals — that the Cove Point expansion should not proceed until FERC addressed the safety concerns raised by Washington Gas. On July 20, 2009 the Court of Appeals issued an order setting a briefing schedule with final briefs due on January 27, 2010. Oral argument was held on March 11, 2010. The Court of Appeals issued a decision on April 27, 2010 finding that the FERC had "satisfactorily ensured that the Expansion will not result in an increased risk of unsafe natural gas leakage" and therefore upheld the FERC decision and denied the Company's petition for review. Washington Gas did not appeal this decision.

Washington Gas is committed to maintaining the safety of its distribution system for its customers and will use all feasible options to create long-term solutions that can address the safety issues associated with the expanded flows of vaporized LNG from the Cove Point terminal that flow into the interstate pipeline system that also serves Washington Gas.

Washington Gas welcomes the opportunity to work with Dominion as well as the shippers who bring LNG into the Cove Point terminal and the interstate pipelines that deliver gas to Washington Gas in order to achieve and implement an appropriate solution to the issue of gas quality affecting its distribution system.

Additional LNG Supply from the Elba Island Expansion

On September 20, 2007, the FERC approved the expansion of the existing Elba Island LNG receiving terminal near Savannah, Georgia owned by Southern LNG, Inc. (Southern LNG). Concurrent with this approval, the FERC granted Southern LNG certificate authority to construct and operate a new interstate natural gas pipeline to transport regasified LNG from the Elba Island facility to Georgia and South Carolina. On March 31, 2009, Transcontinental Gas Pipe Line Corporation (Transco) filed with FERC for authority to construct and operate interconnections in Georgia and South Carolina between the Elba Island pipeline and the Transco pipeline. This expansion and the requested interconnections were completed in March 2010. Liquefied natural gas deliveries from Elba Express to Transco will be blended with flowing gas. This low HHC liquefied natural gas will blend with the domestic natural gas typically flowing on Transco, thus reducing the overall HHC level in the gas being delivered to the Washington Gas service territory by Transco through one of four interconnects. This may result in increased leaks in Washington Gas's distribution system. Washington Gas has the ability to condition the gas, if necessary, at one of the four interconnects. Washington Gas has filed with FERC to challenge Transco's interconnection request and has conditioned our support of such interconnection on Transco maintaining minimum HHC levels in the blended gas that would be delivered into the Washington Gas system. On September 17, 2009, the FERC issued an order granting Transco's request for authorization to construct the interconnections between the Elba Island facility and the Transco pipeline. The FERC stated that Washington Gas had not raised any new evidence to support claims of damage to the distribution system and that the Cove Point orders had addressed the same issues. The FERC also found it was unreasonable to impose restrictions on a long distance pipeline to accommodate the Washington Gas system. On October 19, 2009, Washington Gas filed a rehearing request of the FERC order with the FERC. On February 18, 2010, the FERC issued an order denying the rehearing request of Washington Gas. Washington Gas did not appeal the decision.

CREDIT RISK

Wholesale Credit Risk

Certain wholesale suppliers that sell natural gas to Washington Gas and/or WGEServices either have relatively low credit ratings or are not rated by major credit rating agencies.

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. In the event of a counterparty's failure to deliver contracted volumes of gas or fulfill its payment obligations, Washington Gas may incur losses that would typically be passed through to its sales customers under the purchased gas cost adjustment mechanisms. Washington Gas may be at risk for financial loss to the extent these losses are not passed through to its customers. To manage these various credit risks, Washington Gas has a credit policy in place that is designed to mitigate these credit risks through a requirement 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. Additionally, for certain counterparties or their guarantors that meet this policy's credit worthiness criteria, Washington Gas grants unsecured credit which is continuously monitored.

For WGEServices, depending on the ability of wholesale counterparties to deliver natural gas or electricity under existing contracts, WGEServices could be financially exposed for the difference between the price at which WGEServices has contracted to buy these commodities and their replacement cost from another supplier. To the extent that WGEServices sells natural gas to these wholesale counterparties, WGEServices may be exposed to payment risk if WGEServices is in a net receivable position. Additionally, WGEServices enters into contracts with third parties to hedge the costs of natural gas and electricity. Depending on the ability of the third parties to fulfill their commitments, WGEServices could be at risk for financial loss. WGEServices has an existing credit policy that is designed to mitigate credit risks through a requirement for credit enhancements including, but not limited to, letters of credit, parent guarantees and cash collateral when deemed necessary. In accordance with this policy, WGEServices has obtained credit enhancements from certain of its counterparties. If certain counterparties or their guarantors meet the policy's credit worthiness criteria, WGEServices grants unsecured credit to those counterparties or their guarantors. The credit worthiness of all counterparties is continuously monitored.

WGEServices is also subject to the credit policy requirements of their counterparties which under certain circumstances require similar credit enhancements from WGEServices under these contracts. WGEServices' credit risks may extend beyond the price or payment risk outlined above to the extent that cash collateral has been provided to the counterparty. At June 30, 2010, WGEServices had provided $16.9 million in cash collateral to supplier counterparties.

The following table provides information on our credit exposure, net of collateral, to wholesale counterparties as of June 30, 2010 for both Washington Gas and WGEServices, separately.

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%
Washington Gas					
Investment Grade	$ 30.6	$ -	$ 30.6	3	$ 28.8
Non-Investment Grade	1.2	-	1.2	-	-
No External Ratings	0.3	-	0.3	-	-
WGEServices					
Investment Grade	$ 0.1	$ -	$ 0.1	2	$ 0.1
Non-Investment Grade	-	-	-	-	-
No External Ratings	-	-	-	-	-

(a) *Included in "Investment Grade" are counterparties with a minimum Standard & Poor's or Moody's Investor Service rating of BBB- or Baa3, respectively. If a counterparty has provided a guarantee by a higher-rated entity (e.g., its parent), the guarantor's rating is used in this table.*

(b) *Includes the net of all open positions on energy-related derivatives subject to mark-to-market accounting requirements, the net receivable/payable for realized transactions and net open positions sheet. Amounts due from counterparties are offset by liabilities payable to those counterparties to the extent that legally enforceable 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 exposed to the risk of non-payment of utility bills by certain of its customers. To manage this customer credit risk, Washington Gas may require cash deposits from its high risk customers to cover payment of their bills until the requirements for the deposit refunds are met.

WGEServices is also exposed to the risk of non-payment of invoiced sales by its retail customers. WGEServices manages this risk by evaluating the credit quality of new customers as well as by monitoring collections from existing customers. To the extent necessary, WGEServices can obtain collateral from, or terminate service to its existing customers based on credit quality criteria. The PSC of MD has recently approved proposals by certain electric utilities to purchase the receivables of competitive suppliers who render their charges through the utilities billing process. The MD PSC approval included implementation of the purchase of receivables by certain electric utilities beginning July 2010. The PSC of MD is also reviewing and evaluating similar proposals by other utilities including gas utilities. WGEServices bills the majority of its customers through utilities, and the shift to this new purchase of receivables will affect WGEServices billing practices, cash collections and bad debt expense.

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 Related to the Regulated Utility Segment

Washington Gas faces price risk associated with the purchase of natural gas. Washington Gas generally recovers the cost of the natural gas to serve customers through gas cost recovery mechanisms as approved in jurisdictional tariffs; therefore a change in the price of natural gas generally has no direct effect on Washington Gas's 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 historically lower, and withdraws that gas during the winter heating season when prices are historically higher and *(iii)* enters into hedging contracts and other contracts that qualify as derivative instruments related to the sale and purchase of natural gas.

Washington Gas has specific regulatory approval in the District of Columbia and Virginia to use forward contracts and option contracts to hedge against potential price volatility for a limited portion of its natural gas purchases for firm customers. Specifically, Washington Gas has approval to: *(i)* buy gas in advance using forward contracts; *(ii)* purchase call options that lock in a maximum price when Washington Gas is ready to buy gas and *(iii)* use a combination of put and call options to limit price exposure within an acceptable range. Regulatory approval for Virginia is permanent. The regulatory approval in the District of Columbia is pursuant to a pilot program, and Washington Gas will be seeking to continue this program. Washington Gas currently has no regulatory approval for hedging in Maryland but has requested this approval. The request is currently being reviewed by the Maryland Commission. The PSC of MD issued an order on April 28, 2010 requesting further information before approving Washington Gas's proposed plans for summer hedging. The Order required Washington Gas to file its proposed interim hedging program for the Summer Storage Injection Season 2010 and winter 2010-2011 heating season by May 7, 2010. On July 21, 2010, the Commission issued an Order approving the proposed hedging program for the remainder of the 2010 summer storage injection season. On July 22, 2010, the Commission issued a Notice for Comment and of Hearing on the Company's winter hedging proposal. Comments were submitted by the Commission Staff (recommends approval with conditions) and the Maryland Office of People's Counsel (has no objection to the program with conditions) on August 4, 2010. A hearing on the merits of the winter hedging proposal is scheduled before the Maryland Commission on August 12, 2010.

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

The following two tables summarize the changes in the fair value of our net assets (liabilities) associated with the regulated utility segment's energy-related derivatives during the nine months ended June 30, 2010:

Regulated Utility Segment
Changes in Fair Value of Energy-Related Derivatives

(In millions)	
Net assets (liabilities) at September 30, 2009	$ 5.6
Net fair value of contracts entered into during the period	4.5
Other changes in net fair value	25.0
Realized net settlement of derivatives	(6.3)
Net assets (liabilities) at June 30, 2010	$ 28.8

Regulated Utility Segment
Roll Forward of Energy-Related Derivatives

(In millions)	
Net assets (liabilities) at September 30, 2009	$ 5.6
Recorded to income	19.6
Recorded to regulatory assets/liabilities	8.7
Net option premium payments	1.2
Realized net settlement of derivatives	(6.3)
Net assets (liabilities) at June 30, 2010	$ 28.8

The maturity dates of our net assets (liabilities) associated with the regulated utility segment's energy-related derivatives recorded at fair value at June 30, 2010, is summarized in the following table based on the level of the fair value calculation under ASC Topic 820:

Regulated Utility Segment
Maturity of Net Assets (Liabilities) Associated with our Energy-Related Derivatives

		Years Ended September 30,					
(In millions)	**Total**	Remainder 2010	2011	2012	2013	2014	Thereafter
Level 1 — Quoted prices in active markets	$ **-**	$ -	$ -	$ -	$ -	$ -	$ -
Level 2 — Significant other observable inputs	**12.2**	1.9	6.6	0.1	1.5	0.3	1.8
Level 3 — Significant unobservable inputs	**16.6**	(3.7)	0.1	4.2	3.9	3.6	8.5
Total net assets (liabilities) associated with our energy-related derivatives	$ **28.8**	$ (1.8)	$ 6.7	$ 4.3	$ 5.4	$ 3.9	$ 10.3

Refer to Notes 10 and 11 of the Notes to Consolidated Financial Statements in this quarterly report for a further discussion of our derivative activities and fair value measurements.

Price Risk Related to the Retail Energy-Marketing Segment

Our retail energy-marketing subsidiary, WGEServices, sells natural gas and electricity to retail customers at both fixed and indexed prices. WGEServices must manage daily and seasonal demand fluctuations for these products with its suppliers. Price risk exists to the extent WGEServices does not closely match the timing and volume of natural gas and electricity it purchases with the related fixed price or indexed sales commitments. WGEServices' risk management policies and procedures are designed to minimize this risk.

Natural Gas. A portion of WGEServices' annual natural gas sales volumes is subject to variations in customer demand associated with fluctuations in weather and other factors. Purchases of natural gas to fulfill retail sales commitments are generally made under fixed-volume contracts based on certain weather assumptions. If there is significant deviation from normal weather or other factors which affect customer usage, this may cause our purchase commitments to differ significantly from actual customer usage. To the extent that WGEServices cannot match its customer requirements and supply commitments, it may be exposed to commodity price and volume variances, which could negatively impact expected gross margins. WGEServices may manage these risks through the use of derivative instruments including financial products and wholesale supply contracts that provide for volumetric variability.

Electricity. WGEServices procures electricity supply under contract structures in which WGEServices assumes the responsibility of matching its customer requirements with its supply purchases. WGEServices assembles the various components of supply, including electric energy from various suppliers, and capacity, ancillary services and transmission service from the PJM Interconnection, a regional transmission organization, to match its customer requirements in accordance with its risk management policy.

To the extent WGEServices has not sufficiently matched its customer requirements with its supply commitments, it could be exposed to electricity commodity price risk. WGEServices may manage this risk through the use of derivative instruments, including financial products.

WGEServices' electric business is also exposed to fluctuations in weather and varying customer usage. Purchases generally are made under fixed-price, fixed-volume contracts that are based on certain weather assumptions. If there are significant deviations in weather or usage from these assumptions, WGEServices may incur price and volume variances that could negatively impact expected gross margins (refer to the section entitled *"Weather Risk"* for a further discussion of our management of weather risk).

The following two tables summarize the changes in the fair value of our net assets (liabilities) associated with the retail energy-marketing segment's energy-related derivatives for both natural gas and electricity during the nine months ended June 30, 2010:

Retail Energy-Marketing Segment
Changes in Fair Value of Energy-Related Derivatives

(In millions)	
Net assets (liabilities) at September 30, 2009	$ (25.5)
Net fair value of contracts entered into during the period	(11.7)
Other changes in net fair value	(6.8)
Realized net settlement of derivatives	15.5
Net assets (liabilities) at June 30, 2010	$ (28.5)

Retail Energy-Marketing Segment
Roll Forward of Energy-Related Derivatives

(In millions)	
Net assets (liabilities) at September 30, 2009	$ (25.5)
Recorded to income	(15.8)
Recorded to accounts payable	(3.2)
Net option premium payments	0.5
Realized net settlement of derivatives	15.5
Net assets (liabilities) at June 30, 2010	$ (28.5)

The maturity dates of our net assets (liabilities) associated with the retail energy-marketing segment's energy-related derivatives recorded at fair value at June 30, is summarized in the following table based on the level of the fair value calculation under ASC Topic 820:

Retail Energy Marketing Segment
Maturity of Net Assets (Liabilities) Associated with our Energy-Related Derivatives

		Years Ended September 30,					
(In millions)	**Total**	Remainder 2010	2011	2012	2013	2014	Thereafter
Level 1 — Quoted prices in active markets	$ **-**	$ -	$ -	$ -	$ -	$ -	$ -
Level 2 — Significant other observable inputs	**(13.2)**	(2.2)	(8.0)	(1.7)	(1.2)	(0.1)	-
Level 3 — Significant unobservable inputs	**(15.3)**	0.4	(7.5)	(6.8)	(1.4)	-	-
Total net assets (liabilities) associated with our energy-related derivatives	$ **(28.5)**	$ (1.8)	$ (15.5)	$ (8.5)	$ (2.6)	$ (0.1)	$ -

Refer to Note 8 and 9 of the Notes to Consolidated Financial Statements in this quarterly report for a further discussion of our derivative activities and fair value measurements.

Value-at-Risk. WGEServices measures the market risk of its energy commodity portfolio by determining its value-at-risk. Value-at-risk is an estimate of the maximum loss that can be expected at some level of probability if a portfolio is held for a given time period. The value-at-risk calculation for natural gas and electric portfolios include assumptions for normal weather, new customers and renewing customers for which supply commitments have been secured. Based on a 95% confidence interval for a one-day holding period, WGEServices' value-at-risk at June 30, 2010 was approximately $40,000 and $162,000, related to its natural gas and electric portfolios, respectively.

Weather Risk

We are exposed to various forms of weather risk in both our regulated utility and unregulated business segments. For Washington Gas, a large portion of its revenues is volume driven and its current rates are based upon an assumption of normal weather, however, billing adjustment mechanisms described below address variations from this assumption. Without weather protection strategies, variations from normal weather will cause our earnings to increase or decrease depending on the weather pattern. Washington Gas currently has a weather protection strategy that is designed to neutralize the estimated financial effects of weather on its net income, as discussed below.

The financial results of our non-regulated energy-marketing business, WGEServices, are also affected by variations from normal weather primarily in the winter relating to its natural gas sales, and throughout the fiscal year relating to its electricity sales. WGEServices manages these weather risks with, among other things, weather derivatives.

Billing Adjustment Mechanisms. In Maryland, Washington Gas has a revenue normalization agreement (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 Weather Normalization Adjustment (WNA) mechanism which is a billing adjustment mechanism that is designed to eliminate the effect of variations in weather from normal levels on utility net revenues. The SCC of VA, in its order on March 26, 2010 accepted a decoupling mechanism which adjusts weather normalized non-gas distribution revenues for the impact of conservation or energy efficiency efforts effective May 1, 2010 for residential customers. The order rejected the adoption of a commercial energy efficiency program and an associated decoupling rate mechanism for commercial customers. Washington Gas prepared a filing to address concerns raised by the SCC of VA associated with the commercial energy efficiency program. Should the SCC of VA approve a revision to the commercial energy efficiency program, a decoupling rate mechanism for commercial customers would be approved for implementation. The SCC of VA approval of this filing is expected prior to the winter of 2010-2011.

For both the RNA and the WNA mechanisms, periods of colder-than-normal weather generally would cause Washington Gas to record a reduction to its revenues and establish a refund liability to customers, while the opposite would generally result during periods of warmer-than-normal weather. However, factors such as volatile weather patterns and customer conservation may cause the RNA to function conversely because it adjusts billed revenues to provide a designed level of net revenue per meter.

Weather Derivatives. On September 21, 2009, Washington Gas executed an HDD derivative contract to manage its exposure to variations from normal weather in the District of Columbia during fiscal year 2010. Under this contract, Washington Gas purchased protection against net revenue shortfalls due to warmer-than-normal weather and sold cold weather benefits. This derivative contract resulted in a payment to Washington Gas of $2.1 million.

WGEServices utilizes HDD derivatives from time to time to manage weather risks related to its natural gas and electricity sales. WGEServices also utilizes cooling degree day (CDD) derivatives to manage weather risks related to its electricity sales during the summer cooling season. These derivatives cover a portion of WGEServices' estimated revenue or energy-related cost exposure to variations in HDDs or CDDs. Refer to Note 8 of the Notes to Consolidated Financial Statements for a further discussion of the accounting for these weather-related instruments.

Interest-Rate Risk

We are exposed to interest-rate risk associated with our short-term and long-term financing. Washington Gas utilizes derivative instruments from time to time in order to minimize its exposure to the risk of interest-rate volatility. On July 6, 2009, Washington Gas entered into three interest-rate derivative transactions to mitigate a substantial portion of the risk of rising interest rates associated with future debt issuances, all of which were settled as of June 30, 2010. In addition, on April 13, 2010, Washington Gas executed a forward starting swap expiring in May related to the call of $50 million of floating rate debt. On May 7, 2010, Washington Gas executed a forward starting swap expiring in November 2010 related to $75 million of floating rate debt. Refer to the section entitled " *Long-Term Cash Requirements and Related Financing* " for further discussion of our interest-rate risk management activity.

WASHINGTON GAS LIGHT COMPANY

This section of Management's Discussion focuses on the financial position and results of operations of Washington Gas for the reported periods. In many cases, explanations for the changes in financial position and results of operations for both WGL Holdings and Washington Gas are substantially the same.

RESULTS OF OPERATIONS — Three Months Ended June 30, 2010 vs. June 30, 2009

The results of operations for the regulated utility segment and Washington Gas are substantially the same; therefore, this section primarily focuses on statistical information and other information that is not discussed in the results of operations for the regulated utility segment. Refer to the section entitled *"Results of Operations-Regulated Utility"* in Management's Discussion for WGL Holdings for a detailed discussion of the results of operations for the regulated utility segment.

Washington Gas reported a net loss applicable to common stock of $10.7 million for the three months ended June 30, 2010, compared to a net loss applicable to common stock of $2.6 million reported for the same three months of the prior fiscal year. The increase in net loss primarily reflects: *(i)* $8.4 million of higher employee benefit expense due to changes in plan asset values and plan valuation assumptions and a loss recognized for a partial settlement of the SERP; (ii) increased tax expense of $1.1 million reflecting a higher effective tax rate; *(iii)* $1.6 million of unfavorable effects of changes in natural gas consumption patterns*; (iv)* a $0.6 million decrease in unrealized margins associated with our asset optimization program and *(v)* $0.5 million decrease in realized margins associated with our asset optimization program. Partially offsetting this decrease were: *(i)* an increase in revenue of $0.7 million related to growth of over 8,300 average active customer meters; *(ii)* $0.7 million related to uncollectible accounts; *(iii) $*1.2 million due to lower regulatory obligations under the Virginia Earnings Sharing Mechanism (ESM) and *(iv)* a decrease in interest expense of $0.7 million primarily due to lower weighted average interest rates and balances associated with our borrowings.

Key gas delivery, weather and meter statistics are shown in the table below for the three months ended June 30, 2010 and 2009.

Gas Deliveries, Weather and Meter Statistics

	Three Months Ended June 30,		Increase/
	2010	2009	(Decrease)
Gas Sales and Deliveries (millions of therms)			
Firm			
Gas sold and delivered	**75.6**	99.2	(23.6)
Gas delivered for others	**66.5**	69.0	(2.5)
Total firm	**142.1**	168.2	(26.1)
Interruptible			
Gas sold and delivered	**0.3**	0.7	(0.4)
Gas delivered for others	**47.0**	55.1	(8.1)
Total interruptible	**47.3**	55.8	(8.5)
Electric generation—delivered for others	**44.6**	12.4	32.2
Total deliveries	**234.0**	236.4	(2.4)
Degree Days			
Actual	**217**	343	(126)
Normal	**300**	302	(2)
Percent colder (warmer) than normal	**(27.7)%**	13.6%	n/a
Average active customer meters	**1,077,562**	1,069,189	8,373
New customer meters added	**2,710**	2,064	646

Gas Service to Firm Customers. The volume of gas delivered to firm customers is highly sensitive to weather variability as a large portion of the natural gas delivered by Washington Gas is used for space heating. Washington Gas's rates are based on an assumption of normal weather. The tariffs in the Maryland and Virginia jurisdictions include provisions that consider the effects of the RNA and WNA mechanisms, respectively, which are designed to, among other things, eliminate the effect on net revenues of variations in weather from normal levels (refer to the section entitled *"Weather Risk"* for further discussion of these mechanisms and other weather-related instruments included in our weather protection strategy). In addition to these mechanisms, the combination of declining block rates in the Maryland and Virginia jurisdictions and the existence of fixed demand charges in all jurisdictions to collect a portion of revenues reduce the effect that variations from normal weather have on net revenues.

During the quarter ended June 30, 2010, total gas deliveries to firm customers were 142.1 million therms compared to 168.2 million therms delivered in the same quarter of the prior fiscal year. This comparison in natural gas deliveries to firm customers reflects warmer weather in the current three-month period than in the same period of the prior fiscal year.

Weather, when measured by HDDs, was 27.7% warmer than normal in the third quarter of fiscal year 2010, compared to 13.6% colder than normal for the same quarter of fiscal year 2009. Including the effects of our weather protection strategy, there were no material effects on net income attributed to colder or warmer weather on either the quarter ended June 30, 2010 or June 30, 2009.

Gas Service to Interruptible Customers. Washington Gas must curtail or interrupt service to this class of customer when the demand by firm customers exceeds specified levels. Therm deliveries to interruptible customers were 47.3 million therms during the third quarter of fiscal year 2010, compared to 55.8 million therms for the same quarter last year, reflecting decreased demand due to weather.

In the District of Columbia, the effect on net income of any changes in delivered volumes and prices to interruptible customers is limited by margin-sharing arrangements that are included in Washington Gas's rate designs in the District of Columbia. In the District of Columbia, Washington Gas shares a majority of the margins earned on interruptible gas sales and deliveries with firm customers. A portion of the fixed costs for servicing interruptible customers is collected through the firm customers' rate design. Rates for interruptible customers in Maryland and Virginia are based on a traditional cost of service approach. In Virginia, Washington Gas retains all revenues above a pre-approved margin threshold level. In Maryland, Washington Gas retains a defined amount of revenues based on a set threshold.

Gas Service for Electric Generation. Washington Gas delivers natural gas for use at two electric generation facilities in Maryland that are each owned by companies independent of WGL Holdings. During the three months ended June 30, 2010, deliveries to these customers increased by 32.2 million therms, when compared to the same quarter of the prior fiscal year. Washington Gas shares with firm customers a significant majority of the margins earned from natural gas deliveries to these customers. Therefore, changes in the volume of interruptible gas deliveries to these customers do not materially affect either net revenues or net income.

RESULTS OF OPERATIONS — Nine Months Ended June 30, 2010 vs. June 30, 2009

Washington Gas reported net income applicable to common stock of $120.6 million for the nine months ended June 30, 2010, compared to a net income applicable to common stock of $126.2 million reported for the same nine months of the prior fiscal year. The decrease in net income primarily reflects: *(i)* $12.4 million in higher employee benefit expense due to changes in plan asset values and plan valuation assumptions and a loss recognized for a partial settlement of the SERP; *(ii)* a $6.6 million decrease in the recovery of storage carrying costs on lower average storage gas inventory balances; and *(iii)* a $4.6 million reversal of a reserve in fiscal year 2009 for disallowed natural gas costs in Maryland due to a favorable February 5, 2009 order from the Public Service Commission of Maryland (PSC of MD); *(iv)* $2.0 million in higher property taxes; and *(v)* $1.6 million in higher taxes reflecting a higher effective income tax rate. Partially offsetting this decrease was: *(i)* $5.0 million of favorable effects of changes in natural gas consumption patterns; *(ii)* $5.1 million related to the Virginia Earnings Sharing Mechanism (ESM); *(iii)* a decrease in interest expense of $4.0 million primarily due to lower weighted average interest rates associated with our borrowings; *(iv)* an increase in revenues of $3.4 million reflecting the growth of over 8,900 average active customer meters; *(v)* a $3.0 million increase in unrealized margins associated with our asset optimization program and *(vi)* $2.2 million lower costs for weather protection products related to the District of Columbia.

Key gas delivery, weather and meter statistics are shown in the table below for the nine months ended June 30, 2010 and 2009.

Gas Deliveries, Weather and Meter Statistics

	Nine Months Ended June 30,		Increase/
	2010	2009	(Decrease)
Gas Sales and Deliveries (millions of therms)			
Firm			
Gas sold and delivered	**782.2**	839.0	(56.8)
Gas delivered for others	**437.0**	416.6	20.4
Total firm	**1,219.2**	1,255.6	(36.4)
Interruptible			
Gas sold and delivered	**3.2**	2.9	0.3
Gas delivered for others	**222.5**	228.5	(6.0)
Total interruptible	**225.7**	231.4	(5.7)
Electric generation—delivered for others	**68.1**	58.8	9.3
Total deliveries	**1,513.0**	1,545.8	(32.8)
Degree Days			
Actual	**3,825**	4,203	(378)
Normal	**3,751**	3,759	(8)
Percent colder (warmer) than normal	**2.0%**	11.8%	n/a
Average active customer meters	**1,074,619**	1,065,925	8,694
New customer meters added	**7,783**	8,093	(310)

Gas Service to Firm Customers. The volume of gas delivered to firm customers is highly sensitive to weather variability as a large portion of the natural gas delivered by Washington Gas is used for space heating. Washington Gas's rates are based on an assumption of normal weather. The tariffs in the Maryland and Virginia jurisdictions include provisions that consider the effects of the RNA and WNA mechanisms, respectively, which are designed to, among other things, eliminate the effect on net revenues of variations in weather from normal levels (refer to the section entitled *"Weather Risk"* for further discussion of these mechanisms and other weather-related instruments included in our weather protection strategy). In addition to these mechanisms, the combination of declining block rates in the Maryland and Virginia jurisdictions and the existence of fixed demand charges in all jurisdictions to collect a portion of revenues reduce the effect that variations from normal weather have on net revenues.

During the nine months ended June 30, 2010, total gas deliveries to firm customers were 1,219.2 million therms compared to 1,255.6 million therms delivered in the same period of the prior year. This comparison in natural gas deliveries to firm customers reflects warmer weather in the current nine month period than in the same period of the prior fiscal year.

Weather, when measured by HDDs, was 2.0% colder than normal in the nine months ended June 30, 2010, compared to 11.8% colder than normal for the same period of the prior year. Including the effects of our weather protection strategy, there were no material effects on net income attributed to colder or warmer weather on either the nine months ended June 30, 2010 or June 30, 2009.

Gas Service to Interruptible Customers. Washington Gas must curtail or interrupt service to this class of customer when the demand by firm customers exceeds specified levels. Therm deliveries to interruptible customers were 225.7 million therms during the nine months ended June 30, 2010, compared to 231.4 million therms for the same nine month period of the prior year, reflecting decreased demand due to weather.

In the District of Columbia, the effect on net income of any changes in delivered volumes and prices to interruptible customers is limited by margin-sharing arrangements that are included in Washington Gas's rate designs in the District of Columbia. In the District of Columbia, Washington Gas shares a majority of the margins earned on interruptible gas sales and deliveries with firm customers. A portion of the fixed costs for servicing interruptible customers is collected through the firm customers' rate design. Rates for interruptible customers in Maryland and Virginia are based on a traditional cost of service approach. In Virginia, Washington Gas retains all revenues above a pre-approved margin threshold level. In Maryland, Washington Gas retains a defined amount of revenues based on a set threshold.

Gas Service for Electric Generation. Washington Gas delivers natural gas for use at two electric generation facilities in Maryland that are each owned by companies independent of WGL Holdings. During the nine months ended June 30, 2010, deliveries to these customers increased by 9.3 million therms, when compared to the same period of the prior fiscal year. Washington Gas shares with firm customers a significant majority of the margins earned from natural gas deliveries to these customers. Therefore, changes in the volume of interruptible gas deliveries to these customers do not materially affect either net revenues or net income.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and capital resources for Washington Gas are substantially the same as the liquidity and capital resources discussion included in the Management's Discussion of WGL Holdings (except for certain items and transactions that pertain to WGL Holdings and its unregulated subsidiaries). Those explanations are incorporated by reference into this discussion.

RATES AND REGULATORY MATTERS

Washington Gas determines its request to modify existing rates based on the level of net investment in plant and equipment, operating expenses and the need to earn a just and reasonable return on invested capital. The following is a discussion of significant current regulatory matters in each of Washington Gas's jurisdictions.

District of Columbia Jurisdiction

Recovery of HHC Costs. On May 1, 2006, Washington Gas filed two tariff applications with the PSC of DC requesting approval of proposed revisions to the balancing charge provisions of its firm and interruptible delivery service tariffs that would permit the utility to recover from its delivery service customers the costs of HHCs that are being injected into Washington Gas's natural gas distribution system to treat vaporized liquefied natural gas from the Dominion Cove Point Facility (refer to the section entitled *"Operating Issues Related to Cove Point Natural Gas Supply"* in Management's Discussion). Washington Gas had been recovering the costs of HHCs from sales customers in the District of Columbia through its Purchased Gas Charge (PGC) provision in this jurisdiction. On October 2, 2006, the PSC of DC issued an order rejecting Washington Gas's proposed tariff revisions until the PSC of MD issued a final order related to this matter. On October 12, 2006, Washington Gas filed a motion for clarification requesting that the PSC of DC affirm that Washington Gas can continue collecting HHC costs from sales customers through its PGC provision or to record such HHC costs incurred as a regulatory asset pending a ruling by the PSC of DC on future cost recovery. On May 11, 2007, the PSC of DC directed Washington Gas to cease prospective recovery of the cost of HHCs through the PGC provision, with future HHC costs to be recorded as a "pending" regulatory asset. On November 16, 2007 the PSC of MD issued a final order in the relevant case supporting full recovery of the HHC costs in Maryland. On March 25, 2008, the PSC of DC issued an order stating that the consideration of Washington Gas's HHC strategy will move forward and directed interested parties to submit filings reflecting a proposed procedural schedule. On June 6, 2008, Washington Gas and the District of Columbia Office of the People's Counsel filed a joint response to the order proposing a procedural schedule and a list of issues for consideration in the case. The PSC of DC adopted the proposed issues list and approved a procedural schedule. Washington Gas and other parties subsequently filed comments, conducted discovery and the parties filed reply comments. On April 30, 2009, the PSC of DC ruled that there were unresolved issues and directed that they should be addressed in evidentiary hearings. The PSC of DC issued an order establishing a procedural schedule to address these unresolved issues in the case. Initial testimony was filed May 29, 2009, and rebuttal testimony was filed on July 24, 2009.

On October 2, 2009, Washington Gas and the DC OPC filed a Joint Motion for Approval of Unanimous Agreement of Stipulation and Full Settlement with the PSC of DC (Stipulation). The parties to the Stipulation agreed that hexane (an HHC) commodity costs incurred by Washington Gas to condition liquefied natural gas received in Washington Gas's natural gas system are recoverable expenses and that Washington Gas is authorized to achieve full cost recovery from sales and delivery service customers of hexane commodity costs incurred prior to September 30, 2009. Additionally, the Stipulation:

(i) approves the recovery of hexane commodity costs incurred after September 30, 2009 from sales and delivery service customers, subject to review as a component of Washington Gas's cost of gas;

(ii) establishes a coupling replacement and encapsulation program (Program), wherein Washington Gas will replace or encapsulate a portion of its mechanically coupled pipe in the District of Columbia. The Program is expected to conclude in approximately seven years with total spending not to exceed $28.0 million;

(iii) provides for the cost of the Program to be recovered through an annual surcharge based on actual expenditures for coupling replacement and encapsulation that will become effective at the end of the existing base rate freeze (October 1, 2011). The cost will include both a return of and return on the cost of coupling replacement and encapsulation, computed in accordance with the terms of the rates currently in effect and

(iv) establishes periodic reporting on the level of hexane injected at each of Washington Gas's hexane facilities with the associated commodity costs, and continued filing of leak-related information with the PSC of DC.

On October 16, 2009, the PSC of DC published a Notice of Public Interest Hearing, held on October 28, 2009. On December 16, 2009, the PSC of DC issued a final order approving the settlement agreement, including recovery of hexane commodity costs, provided the parties agree to change the September 30, 2009 date to the effective date of the newly approved tariffs. The parties filed the modified language consistent with the final order. Pursuant to the final order, Washington Gas established a regulatory asset by reversing hexane costs previously expensed of $0.7 million into income.

As of June 30, 2010 Washington Gas has incurred cumulative total hexane costs of $2.5 million related to the District of Columbia of which approximately $1.0 million has been recovered and $1.5 million has been deferred as a regulatory asset.

Revenue Normalization Adjustment. On December 21, 2009, Washington Gas filed a revised tariff application seeking approval of an RNA, a sales adjustment mechanism that decouples Washington Gas's non-gas revenues from actual delivered volumes of gas. On December 22, 2009, the DC OPC filed a motion requesting that the PSC of DC establish public hearing procedures to examine the merits of Washington Gas's RNA application. Washington Gas filed an opposition to the DC OPC's motion on January 4, 2010. The PSC of DC issued an order on January 19, 2010 granting the DC OPC's motion for evidentiary hearing and initiated a rate proceeding to consider issues surrounding Washington Gas's tariff application. On April 2, 2010, the PSC of DC issued an order designating issues to be addressed and establishing a procedural schedule for the case. Washington Gas filed supplemental testimony on April 13, 2010. The DC OPC, the District of Columbia Office of the Environment (DC Government) and the Apartment and Office Building Association of Metropolitan Washington (AOBA) filed direct testimony on May 17, 2010. Washington Gas filed rebuttal testimony on June 29, 2010. Evidentiary hearings were held on July 27-29, 2010.

Maryland Jurisdiction

Order on and Reviews of Purchased Gas Charges. Each year, the PSC of MD reviews the annual gas costs collected from customers in Maryland to determine if Washington Gas's purchased gas costs are reasonable. On March 14, 2006, in connection with the PSC of MD's annual review of Washington Gas's gas costs that were billed to customers in Maryland from September 2003 through August 2004, a Hearing Examiner of the PSC of MD issued a proposed order approving purchased gas charges of Washington Gas for the twelve-month period ended August 2004, except for $4.6 million of such charges that the Hearing Examiner recommended be disallowed because, in the opinion of the Hearing Examiner, they were not reasonably incurred. As a result, during the fiscal year ended September 30, 2006, Washington Gas accrued a liability of $4.6 million related to the proposed disallowance of these purchased gas charges.

Washington Gas filed appeals with the PSC of MD asserting that the Hearing Examiner's recommendation was without merit. On February 5, 2009, the PSC of MD issued an order that granted the appeal and reversed the findings of the Hearing Examiner. Accordingly, the gas costs at issue were deemed recoverable from rate payers. The PSC of MD's order concluded that the responsibility for recovery of these costs should be assigned to the specific group of customers associated with unbundled firm delivery service, directing Washington Gas to bill such costs to those customers over a 24-month period and to provide a credit to firm bundled sales customers over the same period. As a result of this order, the liability recorded in fiscal year 2006 for this issue was reversed in the quarter ended December 31, 2008, and Washington Gas recorded income of $4.6 million to "Operating revenues-utility." On February 25, 2009, Washington Gas filed its compliance plan with the PSC of MD which outlined the plan for returning these funds to its firm sales customers, as well as collecting funds from firm delivery service customers beginning with Washington Gas's May 2009 billing cycle and ending with its April 2011 billing cycle. On April 29, 2009, the PSC of MD approved Washington Gas's plan.

A hearing was held March 27, 2009 on Washington Gas's purchased gas charges for the twelve month period ended August 31, 2008. No party challenged Washington Gas's gas costs incurred during the period, but the Staff of the PSC of MD (MD Staff) and the PSC of MD Office of the People's Counsel (MD OPC) requested that the case remain open subject to any changes that may result from the final PSC of MD order regarding Washington Gas's asset management and gas purchase practices (refer to the section entitled *"Investigation of Asset Management and Gas Purchase Practices"* for a further discussion of this case). On April 23, 2010, the Hearing Examiner issued a Proposed Order which approved Washington Gas's gas costs for the period, subject to any changes which may arise from the Commission's final order in the asset management investigation in Case No. 9158. The Proposed Order was not appealed by any party and became a final order of the Commission on May 25, 2010.

A hearing was held on March 25, 2010 on Washington Gas's purchased gas charges for the twelve month period ended August 31, 2009. The parties filed initial briefs on April 30, 2010 and reply briefs on May 21, 2010. The Staff of the PSC of MD and the MD OPC are challenging a portion of the Company's gas costs averring that the Company did not have authority under its tariff to cash-out over-deliveries by suppliers over the 12-months ended March 2009 and also asserting that the Company used an" excessive price" as the cash-out price. Staff recommends that a second phase to the proceeding be initiated to investigate these assertions. The Company has denied both these assertions. The parties are awaiting a decision from the Hearing Examiner.

Investigation of Asset Management and Gas Purchase Practices. On July 24, 2008, the Office of Staff Counsel of the PSC of MD submitted a petition to the PSC of MD to establish an investigation into Washington Gas's asset management program and cost recovery of its gas purchases. On September 4, 2008, the PSC of MD docketed a new proceeding to consider the issues raised in the petition filed by the Staff. In accordance with the procedural schedule, Washington Gas filed direct testimony on November 21, 2008; direct testimony by intervening parties was filed on February 4, 2009, and Washington Gas's rebuttal testimony was filed March 11, 2009. A public hearing was held on March 19, 2009. Initial briefs were filed by Washington Gas and other parties on June 25, 2009. Reply briefs were filed on August 3, 2009.

On November 2, 2009, the Chief Hearing Examiner of the PSC of MD issued a Proposed Order of Hearing Examiner (POHE) which supports Washington Gas's move to self-optimization of its gas assets, concluding that "the evidence on the record in this case is overwhelming that Washington Gas's decision to transition to self-management has in fact been prudent and resulted in substantial rate benefits…" The POHE also approved Washington Gas's proposal for the sharing of margins from asset optimization between Washington Gas and customers based on a graduated, tiered approach. The POHE directed Washington Gas to pass credits to customers through the PGC provision.

The POHE approved Washington Gas's current methodology for pricing storage injections. However, the POHE stated that the parties will have 60 days from the date of a final order in the case to suggest any alternative pricing methods. The POHE also directed Washington Gas to consult with the other parties to develop greater transparency and separate accounting or tracking of asset optimization activities and to provide a proposal or report within 60 days after a final order is issued.

The POHE directed Washington Gas to include language in its tariff that would prevent losses from asset optimization activity over a full year from being passed on to ratepayers, but recognizes that timing differences or accounting adjustments, which may appear as a loss in a particular month, may occur.

On December 2, 2009, both the MD Staff and the Office of People's Counsel filed Notices of Appeal of the POHE and on December 14, 2009, both filed a Memorandum on Appeal in support of their positions. On January 4, 2010, Washington Gas filed a Reply Memorandum in response to the Staff of the PSC of MD and the MD OPC's Memoranda on Appeal. A Commission decision is pending.

Investigation Into Operating Issues Related to Cove Point Natural Gas Supply. On February 2, 2009, the PSC of MD issued an order reopening the evidentiary proceedings in a previously established case for the purpose of investigating and considering revised solutions to the gas distribution system leak problems (refer to the section entitled *"Operating Issues Related to Cove Point Natural Gas Supply"*). A technical conference was held on May 22, 2009, interested parties are currently engaged in discovery and status reports by the parties were filed with the Hearing Examiner on July 23, 2009, September 18, 2009 and November 5, 2009. On December 4, 2009, the parties filed a letter with the Hearing Examiner stating that all parties are in agreement that no further evidentiary hearings are necessary at the present time. Washington Gas agreed to provide additional information to the Staff of the PSC of MD and the MD OPC in on-going quarterly reports filed with the Commission and to discuss the quarterly reports after they are filed.

Review of the Company's 2009 — 2013 Gas Portfolio Plan. On March 19, 2009, the PSC of MD docketed a proceeding to review the Washington Gas's 2009 — 2013 Gas Portfolio Plan, specifically noting Washington Gas's plans to build an on-system peaking facility on the grounds of the decommissioned Chillum gas storage holders in Chillum, Maryland. Refer to the section entitled "*Chillum LNG Facility*" for further discussion of this matter. A pre-hearing conference was held on April 15, 2009, at which time interventions were granted and a procedural schedule was established. Upon consideration of a motion to combine review of Washington Gas's Gas Portfolio Plans, on January 6, 2010, the PSC of MD consolidated this proceeding with Washington Gas's 2010 — 2014 Gas Portfolio Plan, which was filed on November 17, 2009. Washington Gas filed supplemental testimony on February 18, 2010. Testimony by the Staff of the PSC of MD, the MD OPC and other interveners was filed on April 14, 2010 and Rebuttal Testimony was filed on May 28, 2010. Washington Gas announced on May 6, 2010, that it projected a new in-service date for the on-system peaking facility until the 2015-2016 winter heating season. As a result, at a motions hearing on June 10, 2010, the Hearing Examiner ruled that the facility is not subject to review as part of the Gas Portfolio Plans being considered in the current proceeding, which had a term from 2010 — 2014. Hearings were held on June 15 and 16, 2010 on the remaining issues in the case. Initial briefs are due August 13, 2010 and reply briefs are due September 17, 2010.

Virginia Jurisdiction

Conservation and Ratemaking Efficiency Plan. On September 29, 2009, Washington Gas filed with the SCC of VA an application which included a portfolio of conservation and energy efficiency programs, an associated cost recovery provision and a decoupling mechanism which will adjust weather normalized non-gas distribution revenues for the impact of conservation or energy efficiency efforts. An evidentiary hearing in the proceeding was held on February 9, 2010. On March 26, 2010 the SCC of VA issued an Order approving a decoupling rate mechanism for residential customers and six residential energy efficiency programs and the cost recovery mechanism for those programs. Washington Gas filed compliance tariffs with the Staff of the SCC of VA on April 19, 2010 to implement the Conservation and Ratemaking Efficiency Plan on May 1, 2010. The Company began applying the decoupling mechanism in Virginia in its July billings consistent with the Commission's approval. On July 22, 2010, Washington Gas filed an amendment to the CARE Plan to include small commercial and industrial customers in Virginia. The application included a portfolio of conservation and energy efficiency programs, an associated cost recovery provision and a decoupling mechanism and will adjust weather normalized non-gas distribution revenues for the impact of conservation or energy efficiency efforts. The Company is currently awaiting the establishment of a docket number and procedural schedule.

Performance-Based Rate Plans

In rate case proceedings in all jurisdictions, Washington Gas requested permission to implement Performance-Based Rate (PBR) plans that include performance measures for customer service and an ESM that enables Washington Gas to share with shareholders and customers the earnings that exceed a target rate of return on equity.

Effective October 1, 2007, the SCC of VA approved the implementation of a PBR plan through the acceptance of a settlement stipulation, which includes: *(i)* a four-year base rate freeze; *(ii)* service quality measures to be determined in conjunction with the Staff of the SCC of VA and reported quarterly for maintaining a safe and reliable natural gas distribution system while striving to control operating costs; *(iii)* recovery of initial implementation costs associated with achieving Washington Gas's BPO initiatives over the four-year period of the PBR plan and *(iv)* an ESM that enables Washington Gas to share with shareholders and Virginia customers the earnings that exceed a target of 10.5% return on equity. The calculation of the ESM excludes $2.4 million of asset management revenues that are being refunded to customers as part of a new margin sharing agreement in Virginia.

On May 4, 2009, the Staff of the SCC of VA issued a report, commenting on the amount of the ESM liability that had been reported for the fiscal year ending September 30, 2008. Washington Gas filed its response to the Staff report on June 18, 2009. On July 17, 2009, Washington Gas and the Staff of the SCC of VA filed a joint motion to approve stipulation and close proceeding with the SCC of VA whereby the Staff of the SCC of VA and Washington Gas agreed upon the appropriate refund to ratepayers under the ESM. The overall difference between the Staff position and Washington Gas's position was not material to the financial statements of Washington Gas. On July 24, 2009, the SCC of VA granted the joint motion and accepted the stipulation submitted by Washington Gas and the Staff of the SCC of VA in its final order approving the ESM liability for fiscal year 2008. In accordance with the provisions of its VA tariff, Washington Gas began crediting customers' bills in April 2009 for the fiscal year 2008 ESM liability. The credits continued through March, 2010. At June 30, 2010, Washington Gas had fully refunded the ESM liability to its customers.

On January 28, 2010, Washington Gas filed its annual information filing indicating that there was no ESM liability for fiscal year 2009. On May 24, 2010 the Staff issued its report to the SCC of VA on the annual informational filing and the ESM. The Staff of the SCC of VA concurred with Washington Gas that Virginia jurisdictional results did not generate an ESM liability for fiscal year 2009. On June 9, 2010 Washington Gas filed notice that it had no comments on the Staff's report. On June 30, 2010, the SCC of VA accepted the Staff's report and agreed that there was no ESM liability for fiscal year 2009.

Based on the results reflected in the annual information filing, Washington Gas has recorded revenue of approximately $0.5 million of previously expensed hexane costs and on June 23, 2010 filed an application with the SCC of VA requesting the authority to bill the cost of this hexane to customers in accordance with the provision of the Settlement Stipulation in the last rate proceeding. The SCC of VA has not issued a procedural schedule in this proceeding. On July 22, 2010, the Commission issued an Order for Notice and Comment in this proceeding. The Company is required to file direct testimony by August 18, 2010 with the Staff's Report due October 21, 2010. The Company's response to the Staff's Report is due November 4, 2010.

On an interim basis, Washington Gas records the effects of the ESM based on year-to-date earnings in relation to estimated annual earnings as calculated for regulatory purposes. Based on expected results for 2010, no liability has been recognized for 2010 and Washington Gas has accrued revenue of approximately $1.0 million related to the recovery of hexane costs incurred in Virginia in 2010.

On November 16, 2007, the PSC of MD issued a final order in a rate case, which established a phase-two proceeding to review Washington Gas's request to implement a PBR plan and issues raised by the parties associated with Washington Gas's BPO agreement. On September 4, 2008, a proposed order of the Hearing Examiner was issued in this phase-two proceeding. Consistent with Washington Gas's current accounting methodology, the proposed order approved 10-year amortization accounting for initial implementation costs related to Washington Gas's BPO plan. At June 30, 2010 and September 30, 2009, we had recorded a regulatory asset of $6.7 million and $7.4 million, respectively, net of amortization, related to initial implementation costs allocable to Maryland associated with our BPO plan. Washington Gas's application seeking approval of a PBR plan was denied. Additionally, the proposed order *(i)* directs Washington Gas to obtain an independent management audit related to issues raised in the phase-two proceeding and *(ii)* directs the initiation of a collaboration process in which Washington Gas is directed to engage in discussions with the Staff of the PSC of MD (MD Staff), the MD OPC and interested parties to develop appropriate customer service metrics and a periodic form for reporting results similar to the metrics filed by Washington Gas as part of the approved settlement in Virginia. This proposed order has been appealed by the MD Staff, the MD OPC and other parties. Washington Gas's reply memorandum on appeal was filed on November 5, 2008. A final decision by the PSC of MD is pending.

The final order issued by the PSC of DC on December 28, 2007 approved amortization accounting for initial implementation costs related to the BPO plan in approving the stipulated agreement filed in the proceeding. As part of that approved agreement, Washington Gas withdrew its application seeking approval of a PBR plan. Washington Gas is prohibited from seeking approval of a PBR plan in the District of Columbia until the filing of its next base rate case; however, the settling parties may not seek a change in rates during the rate case filing moratorium period under the terms of the approved rate settlement, with the exception of the implementation of a revenue normalization adjustment.

Depreciation Study

In October 2006, Washington Gas completed a depreciation rate study based on its property, plant and equipment balances as of December 31, 2005. The results of the depreciation study concluded that Washington Gas's depreciation rates should be reduced due to asset lives being extended beyond previously estimated lives. Under regulatory requirements, these depreciation rates must be approved before they are placed into effect.

On April 13, 2007, Washington Gas filed the portion of the depreciation study related to the Maryland jurisdiction. A separate proceeding was established on May 2, 2007, by the PSC of MD to review Washington Gas's request to implement new depreciation rates. On October 25, 2007, Washington Gas filed a 2007 technical update of the Maryland depreciation study based on property, plant and equipment balances as of December 31, 2006. Hearings were held May 12 and 13, 2008. Initial briefs were filed on July 16, 2008 and reply briefs were filed on August 6, 2008. On October 15, 2008, a proposed order of Hearing Examiner was issued in Maryland, which would reduce Washington Gas's annual depreciation expense related to the Maryland jurisdiction by approximately $11.2 million when new depreciation rates are implemented, with a corresponding decrease in annual revenues on a prospective basis to be reflected in future billing rates. Reflected in this reduction in depreciation expense, among other things, are: *(i)* a change in methodology for calculating accrued asset removal costs and *(ii)* the designation of certain insurance and relocation reimbursements as salvage value. This reduction in depreciation expense will not impact annual operating income and will not prevent the recovery of our capital investment; however, it will have the effect of deferring full recovery of our capital investment into future years. On November 14, 2008, Washington Gas and the MD OPC noted appeals of the October 15, 2008 proposed order, thus suspending its effective date.

On February 5, 2010, the PSC of MD issued an order on appeal. The order affirmed the proposed order with two exceptions: (i) it directed the parties to confer and report on a prospective allocation method for reimbursements and (ii) it directed Washington Gas to amortize its $13.3 million reserve deficiency imbalance over a 33.5 year time frame. On March 26, 2010, Washington Gas made a compliance filing with the PSC of MD to revise its depreciation rates in accordance with the Commission's February 5, 2010 Order. Under Washington Gas's proposed revised depreciation rates, annual depreciation expense applicable to Maryland would be reduced by $11,366,000. As required by the Commission's Order in Washington Gas's most recent base rate case in Maryland, as part of its compliance filing, Washington Gas also filed revised base rates to reflect the decrease in annual depreciation expense in Maryland. The MD Staff challenged Washington Gas's proposed depreciation rates and supported alternative depreciation rates which would reduce depreciation expense by $11,426,000. On May 12, 2010 the Commission approved the revised depreciation rates and base rates proposed by Staff effective June 1, 2010. On May 25, 2010, Washington Gas filed a revised compliance filing reflecting the $11,426,000 reduction in base rates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following issues related to our market risks are included under Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations,* and are incorporated by reference into this discussion.

- Price Risk Related to the Regulated Utility Segment
- Price Risk Related to the Retail Energy-Marketing Segment
- Weather Risk
- Interest-Rate Risk

ITEM 4. CONTROLS AND PROCEDURES

Senior management, including the Chairman and Chief Executive Officer, and the Vice President and Chief Financial Officer, evaluated the effectiveness of WGL Holdings' disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of June 30, 2010. Based on this evaluation process, the Chairman and Chief Executive Officer, and the Vice President and Chief Financial Officer have concluded that WGL Holdings' disclosure controls and procedures are effective. There have been no changes in the internal control over financial reporting of WGL Holdings during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting of WGL Holdings.

ITEM 1. LEGAL PROCEEDINGS

The nature of our business ordinarily results in periodic regulatory proceedings before various state and federal authorities and litigation incidental to the business. For information regarding pending federal and state regulatory matters, see Note 14 — *Commitments and Contingencies*, contained in Part 1 under the Notes to Consolidated Financial Statements.

ITEM 6. EXHIBITS

Exhibits Filed Herewith:

10.1	Master Construction Contract, effective June 8, 2010, with Hitt Contracting Inc., related to general contracting services for the Washington Gas Springfield Operations Center redevelopment project.
31.1	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer of WGL Holdings, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Vincent L. Ammann, Jr., the Vice President and Chief Financial Officer of WGL Holdings, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer of Washington Gas Light Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.4	Certification of Vincent L. Ammann, Jr., the Vice President and Chief Financial Officer of Washington Gas Light Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Terry D. McCallister, the Chairman and Chief Executive Officer, and Vincent L. Ammann, Jr., the Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibits Submitted Herewith:

101 The following materials from the WGL Holdings, Inc. and Washington Gas Light Company Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed on August 6, 2010 formatted in Extensible Business Reporting Language (XBRL):*

(i) Consolidated Balance Sheets (Unaudited);

(ii) Consolidated Statements of Income (Unaudited);

(iii) Consolidated Statements of Cash Flows (Unaudited);

(iv) Balance Sheets (Unaudited);

(v) Statements of Income (Unaudited);

(vi) Statements of Cash Flows (Unaudited) and

(vii) Related Footnotes (Unaudited).

Exhibits Incorporated by Reference:

3 *Articles of Incorporation & Bylaws:*

Washington Gas Light Company Charter, filed on Form S-3 dated July 21, 1995.

WGL Holdings, Inc. Charter, filed on Form S-4 dated February 2, 2000.

Bylaws of WGL Holdings, Inc. as amended on March 5, 2009, filed as Exhibit 3(ii) to Form 8-K on March 6, 2009.

Bylaws of Washington Gas Light Company as amended on September 23, 2009, filed as Exhibit 3(ii) to Form 8-K on September 25, 2009.

22 *Published Report Regarding Matters Submitted to Vote of Security Holders:*

Submission of Matters to a Vote of Security Holders, filed as Exhibit 5.07 to Form 8-K dated March 9, 2010.

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* *Attached as Exhibit 101 to this Quarterly Report are the financial statements and related footnotes of WGL Holdings, Inc. and Washington Gas Light Company formatted in extensible business reporting language (XBRL). Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability. We also make available on our web site the Interactive Data Files submitted as Exhibit 101 to this Quarterly Report.*

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

WGL HOLDINGS, INC.

and

WASHINGTON GAS LIGHT COMPANY
(Co-Registrants)

Date: August 6, 2010

/s/ Mark P. O'Flynn

Mark P. O'Flynn
Controller
(Principal Accounting Officer)

AIA Document A102™ – 2007

***Standard Form of Agreement Between Owner and Contractor** where the basis of payment is the Cost of the Work Plus a Fee with a Guaranteed Maximum Price*

AGREEMENT made as of the 8th day of June in the year 2010
(In words, indicate day, month and year.)

BETWEEN the Owner:
(Name, address and other information)

Washington Gas Light Company
6801 Industrial Blvd.
Springfield, Virginia 22151

and the Contractor:
(Name, address and other information)

Hitt Contracting Inc.
2900 Fairview Park Drive
Falls Church, Virginia 22042

for the following Project:
(Name, location and detailed description)

The Springfield Operations Center as represented in the drawings and specifications

The Architect:
(Name, address and other information)

Fox Architects
1121 14th Street, NW
3rd Floor
Washington, D.C. 20005

The Owner and Contractor agree as follows.

ADDITIONS AND DELETIONS:

The author of this document has added information needed for its completion. The author may also have revised the text of the original AIA standard form. An *Additions and Deletions Report* that notes added information as well as revisions to the standard form text is available from the author and should be reviewed. A vertical line in the left margin of this document indicates where the author has added necessary information and where the author has added to or deleted from the original AIA text.

This document has important legal consequences. Consultation with an attorney is encouraged with respect to its completion or modification.

This document is not intended for use in competitive bidding.

AIA Document A201™–2007, General Conditions of the Contract for Construction, is adopted in this document by reference. Do not use with other general conditions unless this document is modified.

TABLE OF ARTICLES

ARTICLE 1 THE CONTRACT DOCUMENTS

The Contract Documents consist of this Agreement, Conditions of the Contract (General, Supplementary and other Conditions), Drawings, Specifications, Addenda issued prior to execution of this Agreement, other documents listed in this Agreement and Modifications issued after execution of this Agreement, all of which form the Contract, and are as fully a part of the Contract as if attached to this Agreement or repeated herein. The Contract represents the entire and integrated agreement between the parties hereto and supersedes prior negotiations, representations or agreements, either written or oral. If anything in the other Contract Documents, other than a Modification, is inconsistent with this Agreement, this Agreement shall govern.

ARTICLE 2 THE WORK OF THIS CONTRACT

The Contractor shall fully execute the Work described in the Contract Documents, except as specifically indicated in the Contract Documents to be the responsibility of others.

ARTICLE 3 RELATIONSHIP OF THE PARTIES

The Contractor accepts the relationship of trust and confidence established by this Agreement and covenants with the Owner to cooperate with the Architect and Owner and exercise the Contractor's skill and judgment in furthering the interests of the Owner; to furnish efficient business administration and supervision; to furnish at all times an adequate supply of workers and materials; and to perform the Work in an expeditious and economical manner consistent with the Owner's interests. The Owner agrees to furnish and approve, in a timely manner, information required by the Contractor and to make payments to the Contractor in accordance with the requirements of the Contract Documents.

ARTICLE 4 DATE OF COMMENCEMENT AND SUBSTANTIAL COMPLETION

§ 4.1 The date of commencement of the Work shall be the date of this Agreement unless a different date is stated below or provision is made for the date to be fixed in a notice to proceed issued by the Owner.

Excepting the Pre-Construction Services which commenced on or about February 3, 2010, the date of commencement of the Work shall be established based upon a written authorization to proceed ("Authorization to Proceed") from Owner to Contractor. Pre-Construction Services shall include bidding the Construction Documents to subcontractors and suppliers; including such services as delineated in paragraphs 3.1 through 3.5 of the Scope of Services in the RFP issued by Washington Gas and Articles 10 herein. Contractor is not authorized to obligate Owner to any cost of the Work without Owner's express written approval.

Should the Owner elect not to issue the Authorization to Proceed for any reason during or subsequent to the completion of Preconstruction Services (effectively canceling the project), the Owner agrees to pay the Contractor Ninety-Thousand Dollars ($90,000) for the Preconstruction Services performed by Contractor. In the event the Owner issues the Authorization to Proceed (effectively proceeding with the project), then Owner shall only pay Forty-Thousand Dollars ($40,000) to the Contractor for the Contractor's performance of Pre-Construction Services.

If, prior to commencement of the Work, the Owner requires time to file mortgages and other security interests, the Owner's time requirement shall be as follows:

not applicable

§ 4.2 The Contract Time shall be measured from the date of commencement.

§ 4.3 The Contractor shall achieve Substantial Completion of the Work as follows:

The date of Substantial Completion for each Portion of the Work shall be mutually agreed upon between Owner and Contractor and shall be established in the Authorization to proceed issued by Owner.

Portion of Work	Substantial Completion date
Sitework	As Established in the Authorization to Proceed
Industrial Building	As Established in the Authorization to Proceed
Parking Garage	As Established in the Authorization to Proceed
Office Building	As Established in the Authorization to Proceed

, subject to adjustments of this Contract Time as provided in the Contract Documents.

(Insert provisions, if any, for liquidated damages relating to failure to achieve Substantial Completion on time, or for bonus payments for early completion of the Work.)

not applicable

ARTICLE 5 CONTRACT SUM

§ 5.1 The Owner shall pay the Contractor the Contract Sum in current funds for the Contractor's performance of the Contract. The Contract Sum is the Cost of the Work as defined in Article 7 plus the Contractor's Overhead & Fee.

§ 5.1.1 The Contractor's Overhead & Fee:

(State a lump sum, percentage of Cost of the Work or other provision for determining the Contractor's Fee.)

[REDACTED]

§ 5.1.2 The method of adjustment of the Contractor's Overhead & Fee for changes in the Work:

One and one quarter percent (1.25%) Contractor's Overhead & Fee for all change orders which shall be applied to the net of both adds and deducts or increases or decreases in the Cost of the Work. Notwithstanding anything to the contrary contained herein, Contractor shall not charge any Contractor Overhead & Fee whatsoever for the first $500,000 in change order costs from subcontractors, self-performed work or suppliers, but shall charge only for the actual reasonable costs from subcontractors, self-performed work or suppliers; any and all of which shall be subject to Owner's approval.

§ 5.1.3 Limitations, if any, on a Subcontractor's overhead and profit for increases in the cost of its portion of the Work:

Ten percent (10%)

§5.1.4 Rental rates for Contractor-owned equipment shall not exceed Zero (0%) of the standard rate paid at the place of the Project.

§ 5.1.5 Unit prices, if any:

(Identify and state the unit price; state the quantity limitations, if any, to which the unit price will be applicable.)

Item	Units and Limitations	Price Per Unit
To Be Determined, if applicable	To Be Determined, if applicable	To Be Determined, if applicable

§ 5.2 GUARANTEED MAXIMUM PRICE

§ 5.2.1 The Contract Sum is guaranteed by the Contractor not to exceed see below provisions , subject to additions and deductions by Change Order as provided in the Contract Documents. The Contract Sum is referred to synonymously in the Contract Documents as the Contract Sum or the Guaranteed Maximum Price ("GMP"). Costs which would cause the Guaranteed Maximum Price to be exceeded shall be paid by the Contractor without reimbursement by the Owner.

(Paragraph deleted)

The GMP shall be expressly delineated in the Authorization to Proceed by Owner and shall be based upon the aggregate sum of the Best Qualified Bids (defined herein) from subcontractor and suppliers as each are approved by Owner plus Contractor's General Conditions (which such General Conditions are delineated in Exhibit E-1 and E-2 attached hereto and made a part hereof), Contractor's Overhead & Fee, Contingency as delineated herein and other Owner approved direct Contractor costs where no Overhead & Fee is charged (i.e., builder's risk insurance, performance and payment bonds, permits, government inspection fees).

§ 5.2.2 The Guaranteed Maximum Price is based on the following alternates, if any, which are described in the Contract Documents and are hereby accepted by the Owner:

(Paragraph deleted)

The alternates are to-be-determined and will be established as part of the Authorization to Proceed.

§ 5.2.3 Allowances included in the Guaranteed Maximum Price, if any:

(Paragraph deleted)

Item	Price
Allowances, if any, are to-be-determined and shall be established as part of the Authorization to Proceed.	

§ 5.2.4 Assumptions, if any, on which the Guaranteed Maximum Price is based:

Notwithstanding the Contingency noted in this Section 5.2.4, assumptions, if any, are to-be-determined and shall be established as part of the Authorization to Proceed.

Owner agrees to establish, as part of the GMP, a Contingency in the amount of Three Hundred Thousand Dollars ($300,000). The Contingency is established solely for the purpose to resolve Contractor claims with regards to discrepancies (“Gaps in the Scope of Work”), to the extent any exist, between the Plans and Specifications and the GMP at the subcontractor and/or supplier level. Contractor shall use its commercially reasonable best efforts to obviate, mitigate or limit any such claims prior to seeking Owner’s approval to draw against the Contingency.

Any and all uses of the Contingency shall be subject to the Owner’s express approval prior to its use by Contractor. Any draw down by the Contractor of the Contingency, as approved by Owner, shall include Contractor’s Overhead & Fee, but shall not include additional Contractor General Conditions; unless expressly approved by Owner. Any remaining unused Contingency shall, at the final completion of the Project, be credited one-hundred percent (100%) to the Owner. Such Contingency is not part of any Shared Savings calculations. It is anticipated by Contractor and Owner that the Contingency is sufficient for the purposes expressed herein. Nonetheless and notwithstanding anything to the contrary contained herein, in the event that the Owner approved draw down on the Contingency is exhausted, the Contractor may seek from Owner additional contingency funds to cover other Gaps in the Scope of Work which shall be subject to Owner’s reasonable approval. Notwithstanding the Contingency noted above, the Owner shall carry within its Project budget other contingencies Owner deems appropriate in its sole and absolute discretion.

§ 5.2.5 To the extent that the Drawings and Specifications are anticipated to require further development by the Architect, the Contractor has provided in the Guaranteed Maximum Price for such further development consistent with the Contract Documents and reasonably inferable therefrom and as expressly approved by Owner. Such further development does not include such things as changes in scope, systems, kinds and quality of materials, finishes or equipment, all of which, if changed and required, shall be incorporated by Change Order.

§ 5.2.6 Shared Savings Between Owner and Contractor. Owner desires to incentivize the Contractor to help Owner to reduce the cost of the Work without diluting the functionality or workmanship quality of the completed Work. Any Shared Savings will accrue seventy-five percent (75%) to the benefit of the Owner and twenty-five percent (25%) to the benefit of the Contractor. Shared Savings are defined and determined as follows:

a) Shared Savings are those savings derived solely from all subcontracted work including but not limited to suppliers and sundry vendors.

b) Shared Savings shall be established in the following manner:

1. Upon receipt of the initial bids for the Work from subcontractors and suppliers, Contractor shall recommend and Owner shall select the Best Qualified Bidder for each trade or work discipline. All selections shall be subject to Owner’s express approval and in Owner’s sole and absolute discretion.

2. The Best Qualified Bidder from each trade and/or supplier discipline is the bidder which offers the best overall value to Owner taking into account cost, schedule, project team, supplier diversity — i.e., Minority Disadvantaged Business Enterprise (“MDBE”) status, ability to perform to Contractor’s and Owner’s expectations, and if any, clarifications and exceptions.

3. The sum total of the Best Qualified Bidder from each trade and/or supplier discipline combined with Contractor’s General Conditions, Overhead & Fee and other Owner approved direct Contractor costs where no Overhead & Fee is charged (i.e., builder’s risk insurance, performance and payment bonds, permits, government inspection fees) shall establish the GMP; which shall become the Contract Sum. In no event shall the GMP be established as the Contract Sum without the Owner’s advance written approval; which Owner may withhold in its sole and absolute discretion.

4. Upon establishment of the Contract Sum and Authorization to Proceed from Owner in part or in whole, Contractor shall endeavor, in good faith to ethically negotiate best and final prices (“BAFO Prices”) from the Best Qualified Bidders to reduce the cost of the Work to the Owner. The cumulative sum of the mathematical difference between each of the Best Qualified Bidders’ original bids and each of the BAFO Prices shall establish the Shared Savings.

5. Contractor’s Overhead & Fee shall not be applied to or paid on top of any of Contractor’s Shared Savings.

6. Contractor shall not be allowed to add costs or allowances of any kind to the original bids of the Best Qualified Bidders or to the BAFO Prices without the Owner’s advance written approval; which shall not be unreasonably withheld by the Owner.

6. Contractor's General Conditions, Overhead & Fee are not part of any Shared Savings calculations.

7. Contractor's allowances and/or contingencies are not part of any Shared Savings calculations. Any allowances or contingencies (to the extent the Owner allows and expressly approves any contingencies) not fully obligated or spent shall accrue one hundred percent (100%) to the Owner.

8. Reductions in scope of Work which reduce the Contract Sum, as expressly approved by Owner and implemented by Contractor, are not a part of any Shared Savings calculations. Any savings resulting from such reductions in scope of Work shall accrue one hundred percent (100%) to the Owner. However, in such event, Contractor shall not have to credit to Owner and shall be entitled to keep its proportionate Overhead & Fee in the Contract Sum directly related to the proportionate value of the reduced Work by Owner.

9. Self-performed work shall not be included in any Shared Savings calculation unless there is a direct benefit to the Owner and only upon Owner's advance approval; which may be withheld in Owner's sole and absolute discretion.

c) Contractor shall not obligate, appropriate, use or draw down on any of Contractor's portion of Shared Savings without the Owner's advance written approval, which Owner may withhold in its sole and absolute discretion, except at the end of the project and in accordance with the procedures herein.

d) Owner, at the sooner to occur of 120 calendar days from the Authorization to Proceed or the final establishment of the BAFO Prices for the Work, in its sole and absolute discretion, may use any and all of its portion of accrued Shared Savings (created through the Subcontractor Buy Out process) to pay for Owner approved change orders, or Owner may use any and all of Owner's accrued portion of the Shared Savings to reduce the Contract Sum.

e) There shall be no inequitable gain, unjust enrichment or benefit to the Contractor from the Shared Savings outside the express purpose and calculation of the Shared Savings as delineated herein.

f) Contractor shall create, maintain and provide Owner a Shared Savings tracking report on an on-going basis but no less than once per month. Such tracking report will identify the date, source and amount of the savings by item and in total with Owner's and Contractor's cumulative savings clearly delineated.

g) Contractor shall not be entitled to receive any of Contractor's accrued Shared Savings until the final payment by Owner, unless otherwise expressly approved in advance and in writing by the Owner. Such Shared Savings reconciliation shall be part of the final payment application submitted by Contractor to Owner. Notwithstanding anything contained herein to the contrary, Owner may elect to authorize the disbursement to Contractor of fifty-percent (50%) of Contractor's accrued Shared Savings at fifty-percent completion of the Work via a duly prepared and executed Application for Payment as approved by Owner. If Owner so elects, then the final fifty-percent (50%) of Contractor's accrued Shared Savings shall be disbursed by Owner upon Final Completion of the Work via a duly prepared and executed Application for Payment as approved by Owner.

ARTICLE 6 CHANGES IN THE WORK

§ 6.1 Adjustments to the Guaranteed Maximum Price on account of changes in the Work may be determined by any of the methods listed in Section 7.3.3 of AIA Document A201–2007, General Conditions of the Contract for Construction; subject to Owner's approval.

§ 6.2 In calculating adjustments to subcontracts the terms "cost" and "Fee" as used in Section 7.3.3.3 of AIA Document A201–2007 and the term "costs" as used in Section 7.3.7 of AIA Document A201–2007 shall have the meanings assigned to them in AIA Document A201–2007 and in Articles 5, 7 and 8 of this Agreement.

§ 6.3 In calculating adjustments to the Guaranteed Maximum Price, the terms "cost" and "costs" as used in the above-referenced provisions of AIA Document A201–2007 shall mean the Cost of the Work as defined in Article 7 of this Agreement and the term "Fee" shall mean the Contractor's Overhead & Fee as defined in Section 5.1.1 of this Agreement.

§ 6.4 [Intentionally Omitted]

§ 6.5 Any Value Engineering that is accepted must be documented by the Architect and Engineer of Record with drawings and specifications as necessary to allow competitive pricing by the subcontractors.

ARTICLE 7 COSTS TO BE REIMBURSED

§ 7.1 COST OF THE WORK

§ 7.1.1 The term Cost of the Work shall mean costs necessarily incurred by the Contractor in the proper performance of the Work. Such costs shall be at rates not higher than the standard paid at the place of the Project except with prior consent of the Owner. The Cost of the Work shall include only the items set forth in this Article 7.

§ 7.1.2 Where any cost is subject to the Owner's prior approval, the Contractor shall obtain this approval prior to incurring the cost.

§ 7.2 LABOR COSTS

§ 7.2.1 Wages of construction workers directly employed by the Contractor to perform the construction of the Work at the site or at off-site workshops as delineated in Exhibit E-1 General Conditions and Exhibit E-2 General Conditions attached hereto and made a part hereof. Such General Conditions includes all fringe benefits, general and administrative burden and any and all taxes or sundry costs of any kind applicable to Contractor's employees excepting only Contractor's Overhead & Fee.

§ 7.2.2 Wages or salaries of the Contractor's supervisory and administrative personnel as delineated in Exhibit E-1 General Conditions and Exhibit E-2 General Conditions attached hereto and made a part hereof. Such General Conditions includes all fringe benefits, general and administrative burden and any and all taxes or sundry costs of any kind applicable to Contractor's employees excepting only Contractor's Overhead & Fee.

§ 7.2.3 Contractor represents and warrants to Owner that the staff and charges delineated in Exhibits E-1 and E-2 are sufficient to execute the Work using the Contractor's best skill and attention. Excepting for changes in the Work approved by the Owner subsequent to the Authorization to Proceed, there shall be no increase in General Conditions charges.

(Paragraphs deleted)

§ 7.3 SUBCONTRACT COSTS

Payments made by the Contractor to Subcontractors in accordance with the requirements of this Agreement and the subcontracts.

§ 7.4 COSTS OF MATERIALS AND EQUIPMENT INCORPORATED IN THE COMPLETED CONSTRUCTION

§ 7.4.1 Costs, including transportation and storage, of materials and equipment incorporated or to be incorporated in the completed construction.

§ 7.4.2 Costs of materials described in the preceding Section 7.4.1 in excess of those actually installed to allow for reasonable waste and spoilage. Unused excess materials, if any, shall become the Owner's property at the completion of the Work or, at the Owner's option, shall be sold by the Contractor. Any amounts realized from such sales shall be credited to the Owner in a change order as a deduction from the Cost of the Work.

§ 7.5 COSTS OF OTHER MATERIALS AND EQUIPMENT, TEMPORARY FACILITIES AND RELATED ITEMS

§ 7.5.1 Costs of transportation, storage, installation, maintenance, dismantling and removal of materials, supplies, temporary facilities, machinery, equipment and hand tools not customarily owned by construction workers that are provided by the Contractor at the site and fully consumed in the performance of the Work all of which are provided by Contractor as part of its non-personnel costs as delineated in Exhibit E-1 General Conditions.

§ 7.5.2 Rental charges for temporary facilities, machinery, equipment and hand tools not customarily owned by construction workers that are provided by the Contractor from an arms-length unrelated third party equipment rental company at the site and costs of transportation, installation, minor repairs, dismantling and removal; which are provided by Contractor as part of its non-personnel costs to the extent delineated in Exhibit E-1 General Conditions..

§ 7.5.3 Costs of removal of debris from the site of the Work and its proper and legal disposal; some of which are provided by Contractor as part of its non-personnel costs as delineated in Exhibit E-1 General Conditions.

§ 7.5.4 Costs of document reproductions, facsimile transmissions and long-distance telephone calls, postage and parcel delivery charges, telephone service at the site and reasonable petty cash expenses of the site office all of which are provided by Contractor as part of its non-personnel costs as delineated in Exhibit E-1 General Conditions.

§ 7.5.5 [Intentionally Omitted]

§ 7.5.6 Beginning with the Authorization to Proceed, the general conditions costs delineated in Exhibit-1 General Conditions shall be billed monthly on a pro-rata basis over the entire schedule for the Work. For example, if the construction schedule approved by the Owner is seventy-five (75) weeks in duration, then the $1,600,000 of General Conditions costs are divided equally over that period and billed monthly on the basis of $21,333 per week.

In no event shall general conditions be charged beyond the Substantial Completion date(s) including but not limited to incomplete, corrective or warranty work.

§ 7.6 MISCELLANEOUS COSTS

§ 7.6.1 Premiums for that portion of bonds required by the Contract Documents that can be directly attributed to this Contract.

§ 7.6.2 Sales, use or similar taxes imposed by a governmental authority that are related to the Work and for which the Contractor is liable.

§ 7.6.3 Fees and assessments for the building permit and for other permits, licenses and inspections for which the Contractor is required by the Contract Documents, or at Owner's request, to pay at cost without Contractor mark up.

§ 7.6.4 Fees of laboratories for tests required by the Contract Documents, except those related to defective or nonconforming Work for which reimbursement is excluded by Section 13.5.3 of AIA Document A201–2007 or by other provisions of the Contract Documents, and which do not fall within the scope of Section 7.7.3.

§ 7.6.5 Royalties and license fees paid for the use of a particular design, process or product required by the Contract Documents; the cost of defending suits or claims for infringement of patent rights arising from such requirement of the Contract Documents; and payments made in accordance with legal judgments against the Contractor resulting from such suits or claims and payments of settlements made with the Owner's consent. However, such costs of legal defenses, judgments and settlements shall not be included in the calculation of the Contractor's Overhead & Fee or subject to the Guaranteed Maximum Price. If such royalties, fees and costs are excluded by the last sentence of Section 3.17 of AIA Document A201–2007 or other provisions of the Contract Documents, then they shall not be included in the Cost of the Work.

§ 7.6.6 [Intentionally Omitted]

§ 7.6.7 Deposits lost for causes other than the Contractor's negligence or failure to fulfill a specific responsibility in the Contract Documents.

§ 7.6.8 [Intentionally Omitted]

§7.6.9 [Intentionally Omitted]

§ 7.6.10 That portion of the reasonable expenses of the Contractor's supervisory or administrative personnel incurred while traveling in discharge of duties connected with the Work all of which are provided by Contractor as part of non-personnel costs as delineated in Exhibit E-1 General Conditions (even if the value is $0 in such Exhibit, such costs are included by Contractor at no additional charge to Owner).

§ 7.7 OTHER COSTS AND EMERGENCIES

§ 7.7.1 Other costs incurred in the performance of the Work if, and to the extent, approved in advance in writing by the Owner.

§ 7.7.2 Costs incurred in taking action to prevent threatened damage, injury or loss in case of an emergency affecting the safety of persons and property, as provided in Section 10.4 of AIA Document A201–2007.

§ 7.7.3 Costs of repairing or correcting damaged or nonconforming Work executed by the Contractor, Subcontractors or suppliers, provided that such damaged or nonconforming Work was not caused by negligence or failure to fulfill a specific responsibility of the Contractor including but not limited to its Subcontractors, Suppliers or others under contract with the Contractor.

§ 7.8 RELATED PARTY TRANSACTIONS

§ 7.8.1 For purposes of Section 7.8, the term "related party" shall mean a parent, subsidiary, affiliate or other entity having common ownership or management with the Contractor; any entity in which any stockholder in, or management employee of, the Contractor owns any interest in excess often percent in the aggregate; or any person or entity which has the right to control the business or affairs of the Contractor. The term "related party" includes any member of the immediate family of any person identified above.

§ 7.8.2 If any of the costs to be reimbursed arise from a transaction between the Contractor and a related party, the Contractor shall notify the Owner of the specific nature of the contemplated transaction, including the identity of the related party and the anticipated cost to be incurred, before any such transaction is consummated or cost incurred. If the Owner, after such notification, authorizes the proposed transaction, then the cost incurred shall be included as a cost to be reimbursed, and the Contractor shall procure the Work, equipment, goods or service from the related party, as a Subcontractor, according to the terms of Article 10. If the Owner does not authorize the transaction, the Contractor shall procure the Work, equipment, goods or service from some person or entity other than a related party according to the terms of Article 10.

ARTICLE 8 COSTS NOT TO BE REIMBURSED

§ 8.1 The Cost of the Work shall not include the items listed below:

.1 Salaries and other compensation of the Contractor's personnel stationed at the Contractor's principal office or offices other than the site office, except as specifically provided in Section 7.2.;

.2 Expenses of the Contractor's principal office and offices other than the site office;

.3 Overhead and general expenses, except as may be expressly included in Article 7;

.4 The Contractor's capital expenses, including interest on the Contractor's capital employed for the Work;

.5 Except as provided in Section 7.7.3 of this Agreement, costs due to the negligence or failure of the Contractor, Subcontractors and suppliers or anyone directly or indirectly employed by any of them or for whose acts any of them may be liable to fulfill a specific responsibility of the Contract;

.6 Any cost not specifically and expressly described in Article 7; and

.7 Costs, other than costs included in Change Orders approved by the Owner, that would cause the Guaranteed Maximum Price to be exceeded.

ARTICLE 9 DISCOUNTS, REBATES AND REFUNDS

§ 9.1 Cash discounts obtained on payments made by the Contractor shall accrue to the Owner if (1) before making the payment, the Contractor included them in an Application for Payment and received payment from the Owner, or (2) the Owner has deposited funds with the Contractor with which to make payments; otherwise, cash discounts shall accrue to the Contractor. Trade discounts, rebates, refunds and amounts received from sales of surplus materials and equipment shall accrue to the Owner, and the Contractor shall make provisions so that they can be obtained by Owner.

§ 9.2 Amounts that accrue to the Owner in accordance with the provisions of Section 9.1 shall be credited in a change order to the Owner as a deduction from the Cost of the Work.

ARTICLE 10 SUBCONTRACTS AND OTHER AGREEMENTS

§ 10.1 Those portions of the Work that the Contractor does not perform with the Contractor's own personnel shall be performed under subcontracts or by other appropriate agreements with the Contractor. The Owner may designate specific persons from whom, or entities from which, the Contractor shall obtain bids. The Contractor shall submit to Owner in advance for Owner's approval a list of subcontractors from which Contractor will seek bids. No subcontractor may be invited to bid without the Owner's advance approval. Furthermore, Contractor must obtain Owner's advance approval of all subcontractor bid packages prepared by Contractor, including but not limited to instructions to bidders and bid forms. The Contractor shall obtain bids from Subcontractors and from suppliers of materials or equipment fabricated especially for the Work and shall deliver such bids to the Owner. Owner, at its sole election, may observe the receipt of bids at Contractor's offices simultaneously with the submissions thereof. Contractor shall prepare for Owner's review a comparative bid abstract analysis of the competitive bids by trade. Contractor shall review each bid to determine the best value to Owner and shall endeavor to ensure that there are no Gaps in Scopes of Work which are not covered by a respective subcontractor or supplier. The Owner shall then determine and have final approval, with the advice of the Contractor and the Architect and Owner's consultants, as to which bids will be accepted. The Contractor shall not be required to contract with anyone to whom the Contractor has demonstrated reasonable objection.

§10.2
When a specific bidder (1) is recommended to the Contractor by the Owner; (2) is qualified to perform that portion of the Work; (3) is not objected to by the Contractor unless in good faith and for valid demonstrable reasons and (4) has submitted a bid that conforms to the requirements of the Contract Documents without reservations or exceptions, and the Owner requires that such bid be accepted, then the Contractor shall use such bid as part of establishing the Guaranteed Maximum Price.

§ 10.3 Subcontracts or other agreements shall conform to the applicable payment provisions of this Agreement, and shall not be awarded on the basis of cost plus a fee without the prior consent of the Owner. If the Subcontract is awarded on a cost-plus a fee basis, the Contractor shall provide in the Subcontract for the Owner to receive the same audit rights with regard to the Subcontractor as the Owner receives with regard to the Contractor in Article 11, below.

§ 10.4 The Contractor may elect to propose self-performed work. However, at Owner's sole and absolute discretion, the Contractor will still be required to competitively bid such work to independent subcontractors. The Contractor agrees to submit its own sealed competitive bid directly to Owner no less than twenty-four (24) hours in advance of the subcontractor bid due date for any such work it proposes to self-perform. Any and all labor rates for self-performed work shall include full fringe benefit burden and all taxes.

Owner is not bound to use the Contractor's own forces for any reason, and may require the Contractor to hire and engage a subcontractor(s) to perform the Work. Owner may install any natural gas piping, services, equipment or facilities itself.

ARTICLE 11 ACCOUNTING RECORDS

The Contractor shall keep full and detailed records and accounts related to the cost of the Work and exercise such controls as may be necessary for proper financial management under this Contract and to substantiate all costs incurred; particularly as it relates to MDBE expenditures. The accounting and control systems shall be satisfactory to the Owner. The Owner and the Owner's auditors shall, during regular business hours and upon reasonable notice, be afforded access to within three (3) business days, and shall be permitted to audit and copy, the Contractor's records and accounts, including complete documentation supporting accounting entries, books, correspondence, instructions, drawings, receipts, subcontracts, Subcontractor's proposals, purchase orders, vouchers, memoranda, copies of checks and other data relating to this Contract. The Contractor shall preserve these records for a period of three years after final payment, or for such longer period as may be required by law.

ARTICLE 12 PAYMENTS

§ 12.1 PROGRESS PAYMENTS

§ 12.1.1 Based upon Applications for Payment submitted to the Architect by the Contractor and Certificates for Payment issued by the Architect, the Owner shall make progress payments on account of the Contract Sum to the Contractor as provided below and elsewhere in the Contract Documents.

§ 12.1.2 The period covered by each Application for Payment shall be one calendar month ending on the last day of the month.

§ 12.1.3 Provided that an Application for Payment is received by the Architect not later than the 25th day of a month, the Owner shall make payment of the certified amount to the Contractor not later than the 30th day of the following month. If an Application for Payment is received by the Architect after the application date fixed above, payment shall be made by the Owner not later than forty-five (45) days after the Architect receives the Application for Payment.

§ 12.1.4 [Intentionally Omitted]

§ 12.1.5 Each Application for Payment shall be based on the Owner approved schedule of values submitted by the Contractor in accordance with the Contract Documents. The schedule of values shall allocate the entire Guaranteed Maximum Price among the various portions of the Work in accordance with the subcontractor and supplier bids approved by the Owner, except that the Contractor's Overhead & Fee and General Conditions each shall be shown as single separate items. The schedule of values shall be prepared in such form and supported by such data to substantiate its accuracy as the Owner and Architect may require. This schedule, unless objected to by the Owner and Architect, shall be used as a basis for reviewing the Contractor's Applications for Payment.

§ 12.1.6 Applications for Payment shall show the percentage of completion of each portion of the Work as of the end of the period covered by the Application for Payment. The percentage of completion shall be the percentage of that portion of the Work which has actually been completed or for materials received and stored either in place (on-site) or off-site subject to Contractor's fulfillment of all conditions outlined in the A201-General Conditions including but not limited to Articles 9.3.2 and 9.3.3 of the A201. Each Application for Payment must be submitted by Contractor to Owner with duly executed lien waivers and releases (in a form approved by Owner) for the Contractor and each of its Subcontractors, Suppliers or other sundry vendors. No payments shall be made by Owner for any value where a lien waiver and release is not provided with a Payment Application.

§ 12.1.7 Subject to other provisions of the Contract Documents, the amount of each progress payment shall be computed as follows:

.1 Take that portion of the Guaranteed Maximum Price properly allocable to completed Work as determined by multiplying the percentage of completion of each portion of the Work by the share of the Guaranteed Maximum Price allocated to that portion of the Work in the schedule of values less retainage often percent (10%). Pending final determination of cost to the Owner of changes in the Work, amounts not in dispute shall be included as provided in Section 7.3.9 of AIA Document A201–2007;

.2 Add that portion of the Guaranteed Maximum Price properly allocable to materials and equipment delivered and suitably stored at the site for subsequent incorporation in the Work, or if approved in advance by the Owner, suitably stored off the site at a location agreed upon in writing less retainage of ten percent (10%);

.3 Notwithstanding anything contained herein to the contrary, in all instances the amounts billed by Contractor in each Application for Payment against the Schedule of Values shall be based upon actual invoices received from Contractor's Subcontractors and Suppliers as approved by Contractor.

.4 Add the Contractor's General Conditions and Overhead & Fee, less retainage of ten percent (10%). The Contractor's Overhead & Fee shall be computed upon the Cost of the Work at the rate stated in Section 5.1.1;

.5 [Intentionally Omitted];

.6 Subtract the aggregate of previous payments made by the Owner;

.7 Subtract the shortfall, if any, resulting from errors subsequently discovered by the Owner in such documentation; and

.8 Subtract amounts, if any, for which the Owner, Architect, or Owner's Agent have withheld or nullified a Certificate for Payment as provided in Section 9.5 of AIA Document A201–2007.

§ 12.1.8 The Owner at its sole and absolute election, may reduce the retainage to five percent (5%) upon fifty-percent (50%) completion of the Work and/or Owner may elect to not withhold any retainage for any subcontractor whose work is finally completed and for which there is no outstanding incomplete punchlist items.

§ 12.1.9 In taking action on the Contractor's Applications for Payment, the Architect shall be entitled to rely on the accuracy and completeness of the information furnished by the Contractor and shall not be deemed to represent that the Architect has made a detailed examination, audit or arithmetic verification of the documentation submitted in accordance with Section 12.1.4 or other supporting data; that the Architect has made exhaustive or continuous on-site inspections; or that the Architect has made examinations to ascertain how or for what purposes the Contractor has used amounts previously paid on account of the Contract. Such examinations, audits and verifications, if required by the Owner, will be performed by the Owner's Agent or auditors acting in the sole interest of the Owner.

§12.2 FINAL PAYMENT

§ 12.2.1 Final payment, constituting the entire unpaid balance of the Contract Sum, shall be made by the Owner to the Contractor when

.1 the Contractor has fully performed the Contract except for the Contractor's responsibility to correct Work as provided in Section 12.2.2 of AIA Document A201–2007, and to satisfy other requirements, if any, which extend beyond final payment;

.2 the Contractor has submitted all documentation ("as-builts") and O&M manuals as required by the Contract Documents;

.3 the Contractor has provided all Owner/Operator training on equipment as required by the Contract Documents;

.4 the Contractor has submitted all final lien releases and waivers from itself and all subcontractors and suppliers;

.5 the Contractor has submitted a final accounting for the Cost of the Work including MDBE and Shared Savings accounting and a final Application for Payment; and

.6 a final Certificate for Payment has been issued by the Architect and approved by Owner.

§ 12.2.2 The Owner and/or the Owner's auditors will review and report in writing on the Contractor's final accounting within 30 days after delivery of the final accounting to the Owner and Architect by the Contractor. Based upon such Cost of the Work as the Owner and/or the Owner's auditors report to be substantiated by the Contractor's final accounting, and provided the other conditions of Section 12.2.1 have been met, the Architect will, within seven days after receipt of the written report of the Owner and/or the Owner's auditors, either issue to the Owner a final Certificate for Payment with a copy to the Contractor, or notify the Contractor and Owner in writing of the Architect's reasons for withholding a certificate as provided in Section 9.5.1 of the AIA Document A201–2007. The time periods stated in this Section 12.2.2 supersede those stated in Section 9.4.1 of the AIA Document A201–2007. The Architect is not responsible for verifying the accuracy of the Contractor's final accounting.

§ 12.2.3 If the Owner and/or the Owner's auditors report the Cost of the Work as substantiated by the Contractor's final accounting to be less than claimed by the Contractor, the Contractor shall be entitled to request mediation of the disputed amount without seeking an initial decision pursuant to Section 15.2 of A201–2007. A request for mediation shall be made by the Contractor within 30 days after the Contractor's receipt of a copy of the Architect's final Certificate for Payment. Failure to request mediation within this 30-day period shall result in the substantiated amount reported by the Owner and/or the Owner's auditors becoming binding on the Contractor. Pending a final resolution of the disputed amount, the Owner shall pay the Contractor the undisputed amount certified in the Architect's final Certificate for Payment.

§ 12.2.4 The Owner's final payment to the Contractor shall be made no later than forty five (45) days after the issuance of the Architect's final Certificate for Payment.

§ 12.2.5 If, subsequent to final payment and at the Owner's request, the Contractor incurs costs described in Article 7 and not excluded by Article 8 to correct defective or nonconforming Work, the Owner shall reimburse the Contractor such costs and the Contractor's Overhead & Fee applicable thereto on the same basis as if such costs had been incurred prior to final payment, but not in excess of the Guaranteed Maximum Price. If the Contractor has participated in savings as provided in Section 5.2, the amount of such savings shall be recalculated and appropriate credit given to the Owner in determining the net amount to be paid by the Owner to the Contractor.

ARTICLE 13 DISPUTE RESOLUTION

§ 13.1 INITIAL DECISION MAKER

The Architect or Owner's agent, at Owner's absolute election, shall serve as Initial Decision Maker pursuant to Section 15.2 of AIA Document A201–2007, unless the parties appoint below another individual, not a party to the Agreement, to serve as Initial Decision Maker.

(If the parties mutually agree, insert the name, address and other contact information of the Initial Decision Maker, if other than the Architect.)

§ 13.2 BINDING DISPUTE RESOLUTION

For any Claim subject to, but not resolved by mediation pursuant to Section 15.3 of AIA Document A201–2007, the method of binding dispute resolution shall be as follows:

(Check the appropriate box. If the Owner and Contractor do not select a method of binding dispute resolution below, or do not subsequently agree in writing to a binding dispute resolution method other than litigation, Claims will be resolved by litigation in a court of competent jurisdiction.)

☐

☑ Litigation in a court of competent jurisdiction

☐

ARTICLE 14 TERMINATION OR SUSPENSION

§ 14.1 Subject to the provisions of Section 14.2 below, the Contract may be terminated by the Owner or the Contractor as provided in Article 14 of AIA Document A201–2007.

§ 14.2 If the Owner terminates the Contract for cause as provided in Article 14 of AIA Document A201–2007, the amount, if any, to be paid to the Contractor under Section 14.2.4 of AIA Document A201–2007 shall not cause the Guaranteed Maximum Price to be exceeded, nor shall it exceed an amount calculated as follows:

.1 Take the Cost of the Work incurred by the Contractor to the date of termination;

.2 Add the Contractor's Overhead & Fee computed upon the Cost of the Work to the date of termination at the rate stated in Section 5.1.1; and

.3 Subtract the aggregate of previous payments made by the Owner.

§ 14.3 The Owner shall also pay the Contractor fair compensation, either by purchase or rental at the election of the Owner, for any equipment owned by the Contractor that the Owner elects to retain and that is not otherwise included in the Cost of the Work under Section 14.2.1. To the extent that the Owner elects to take legal assignment of subcontracts and purchase orders (including rental agreements), the Contractor shall, as a condition of receiving the payments referred to in this Article 14, execute and deliver all such papers and take all such steps, including the legal assignment of such subcontracts and other contractual rights of the Contractor, as the Owner may require for the purpose of fully vesting in the Owner the rights and benefits of the Contractor under such subcontracts or purchase orders.

§ 14.4 The Work may be suspended by the Owner as provided in Article 14 of AIA Document A201–2007; in such case, the Guaranteed Maximum Price and Contract Time may be equitably adjusted as provided in Section 14.3.2 of AIA Document A201–2007, except that the term "profit" shall be understood to mean the Contractor's Overhead & Fee as described in Section 5.1.1 of this Agreement.

§ 14.5 Notwithstanding anything contained herein to the contrary, the Owner may for any reason and at its sole and absolute election, terminate the Contract subsequent to the subcontractor and supplier bidding and prior to the Authorization to Proceed. In such event, the Owner shall owe the Contractor a total amount of only Ninety-

Thousand Dollars ($90,000) for Pre-Construction Services. If Owner has made partial payments against the Pre-Construction Services and there remains any amount outstanding and not paid against the $90,000, then Owner shall pay the remaining amount, but in no event more than the $90,000 in total, within 30 days of receipt of Contractor's invoice for same. However, if Owner issues the Authorization to Proceed to Contractor, then Owner shall pay to Contractor only Forty-Thousand Dollars ($40,000) for Pre-Construction Services.

ARTICLE 15 MISCELLANEOUS PROVISIONS

§ 15.1 Where reference is made in this Agreement to a provision of AIA Document A201–2007 or another Contract Document, the reference refers to that provision as amended or supplemented by other provisions of the Contract Documents.

§ 15.2 Payments due and unpaid under the Contract shall bear interest from the date payment is due at the rate stated below, or in the absence thereof, at the legal rate prevailing from time to time at the place where the Project is located.

(Insert rate of interest agreed upon, if any.)

Six percent (6%) per annum

§ 15.3 The Owner's representative:
(Name, address and other information.)

Ralph E. Fisher
Division Head
Washington Gas
6801 Industrial Road
Springfield, Virginia 22151

§ 15.4 The Contractor's representative:
(Name, address and other information.)

Jeremy S. Bardin
Executive Vice President
Hitt Contracting Inc.
2900 Fairview Park Drive
Falls Church, Virginia 22042

Or

Kim E. Roy
Vice President
HITT Contracting, Inc.
2900 Fairview Park Drive
Falls Church, VA 22042

§ 15.5 Neither the Owner's nor the Contractor's representative shall be changed without ten days' written notice to the other party.

§ 15.6 Other provisions:

Confidentiality Contractor shall maintain in confidence any and all information regarding the Owner obtained or developed by Contractor in the course of performance of its obligations hereunder ("Confidential Information"). Confidential Information shall not include information that:

a. is already known to Contractor and was properly obtained by Contractor prior to the effective date of this Agreement;

b. is already in the public domain or becomes available to the public other than through a negligent act or omission or willful misconduct of the Contractor;

c. is acquired in good faith from a third party and at the time of acquisition the Contractor had no knowledge or reason to believe that such information was wrongfully obtained or disclosed by the third party;

d. is independently developed by Contractor from information not defined as "Confidential Information " in this Agreement, as evidenced by Contractor's written records or

Contractor shall not disclose any Confidential Information to any third party without the prior written consent of Owner. The fact that Owner is a client of Contractor is information within the meaning of this Section. All third parties must sign a confidentiality agreement with Owner prior to the disclosure by Contractor. Contractor shall, upon request by Owner and promptly upon the expiration of this Agreement, return to Owner any and all documents and materials regarding Owner that Contractor obtained from Owner during the course of the performance of this Agreement.

Notwithstanding anything in this Agreement to the contrary, Contractor may disclose Confidential Information without Owner's prior written consent when such disclosure by the Contractor is required under applicable law or by a valid subpoena or other court or governmental order, decree, regulation or rule; provided, however, that if disclosure is required under this provision, Contractor shall advise Owner of the requirement to disclose Confidential Information prior to such disclosure and as soon as reasonably practicable after Contractor becomes aware of such required disclosure; and further provided that upon the request of the Owner, the Contractor agrees to cooperate in good faith with and at the expense of the Owner in any reasonable and lawful actions which the Contractor takes to resist such disclosure, limit the information to be disclosed or limit the extent to which the information so disclosed may be used or made available to third parties.

No party shall use the name or picture of any other party or of their property, in any public communication (printed, electronic, or photographic), including marketing materials, press releases, newpapers, or magazines (business, industry, trade), without the written consent of the party whose name is being used. Any request will allow at least five (5) business days for party to review and provide comments

ARTICLE 16 ENUMERATION OF CONTRACT DOCUMENTS

§ 16.1 The Contract Documents, except for Modifications issued after execution of this Agreement, are enumerated in the sections below.

§ 16.1.1 The Agreement is this executed AIA Document A102–2007, Standard Form of Agreement Between Owner and Contractor as modified.

§ 16.1.2 The General Conditions are AIA Document A201–2007, General Conditions of the Contract for Construction as modified.

§ 16.1.3 The Supplementary and other Conditions of the Contract:

Document	Title	Date	Pages

§ 16.1.4 The Specifications:

(Either list the Specifications here or refer to an exhibit attached to this Agreement.)

As delineated in Exhibit B attached to and made a part of this Agreement in the Authorization to Proceed

(Table deleted)

§16.1.5 The Drawings:

(Either list the Drawings here or refer to an exhibit attached to this Agreement.)

As delineated in Exhibit A attached to and made a part of this Agreement in the Authorization to Proceed

(Table deleted)

§ 16.1.6 The Addenda, if any:

Number	Date	Pages
As delineated in Exhibit C attached to and made a part of this Agreement in the Authorization to Proceed		

(Paragraph deleted)

§ 16.1.7 Additional documents, if any, forming part of the Contract Documents:

(Paragraphs deleted)

.1 Other documents, if any, listed below:

RFP dated January 11, 2010 issued by Owner including any and all addenda or Owner answered RFI's

Contractor's RFP response dated January 25, 2010

In the event of a conflict in interpretation between this Agreement and any of the documents referenced herein or attached hereto and made a part hereof, then in all instances and events the strictest and best interpretation in the interests of the Owner shall prevail. Nonetheless, the priority of document interpretation is as follows:

1) A-102 as modified herein with Exhibits
2) A-201 as modified herein with Exhibits
3) The Plans including Addenda
4) The Specifications including Addenda
5) GMP and applicable Clarifications as approved by Owner and attached to this Agreement as Exhibit F
6) Owner issued answers to RFI's during GC RFP bid period
7) The Contractor's RFP response issued January 25,2010
8) The Owner's RFP issued January 11, 2010

ARTICLE 17 INSURANCE AND BONDS

The Contractor shall purchase and maintain insurance and provide bonds as set forth in Article 11 of AIA Document A201–2007.

(State bonding requirements, if any, and limits of liability for insurance required in Article 11 of AIA Document A201–2007.)

Type of insurance or bond	Limit of liability or bond amount ($ 0.00)
Builder's Risk Insurance	100% of Contract Sum at a minimum
A 100% Payment and Performance Bond Notwithstanding the aforementioned, Owner reserves the right, in its sole and absolute discretion, to determine whether or not the actual placement, execution and delivery of the Payment and Performance Bond will be required as a condition of the Authorization to Proceed. In any event Owner and Contractor shall require 100% Payment and Performance Bonds for each subcontractor, supplier or self-performed work in excess of Two Hundred Fifty	100% of Contract Sum

Type of insurance or bond	Limit of liability or bond amount ($ 0.00)
Thousand Dollars ($250,000) per contract; which at the subcontractor, supplier and self-performed work shall be a cost of the Work	

This Agreement entered into as of the day and year first written above.

/s/ Adrian P. Chapman	/s/ Brett Hitt
OWNER *(Signature)*	CONTRACTOR *(Signature)*
Adrian P. Chapman President and Chief Operating Officer	Brett Hitt Co-President
(Printed name and title)	*(Printed name and title)*

Exhibit 31.1

CERTIFICATION OF WGL HOLDINGS, INC.

I, Terry D. McCallister, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WGL Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2010

/s/ Terry D. McCallister

Terry D. McCallister
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF WGL HOLDINGS, INC.

I, Vincent L. Ammann, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of WGL Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2010

/s/ Vincent L. Ammann, Jr.

Vincent L. Ammann, Jr.
Vice President and Chief Financial Officer

Exhibit 31.3

CERTIFICATION OF WASHINGTON GAS LIGHT COMPANY

I, Terry D. McCallister, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Washington Gas Light Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2010

/s/ Terry D. McCallister

Terry D. McCallister
Chairman and Chief Executive Officer

Exhibit 31.4

CERTIFICATION OF WASHINGTON GAS LIGHT COMPANY

I, Vincent L. Ammann, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Washington Gas Light Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2010

/s/ Vincent L. Ammann, Jr.

Vincent L. Ammann, Jr.
Vice President and Chief Financial Officer

Exhibit 32

CERTIFICATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER AND THE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the combined Quarterly Report of WGL Holdings, Inc. and Washington Gas Light Company (the “Companies”) on Form 10-Q for the quarterly period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Terry D. McCallister, Chairman and Chief Executive Officer of the Companies, and Vincent L. Ammann, Jr., Vice President and Chief Financial Officer of the Companies, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of their knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Companies.

This certification is being made for the exclusive purpose of compliance by the Chairman and Chief Executive Officer and the Vice President and Chief Financial Officer of the Companies with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be disclosed, distributed, or used by any person for any reason other than as specifically required by law.

/s/ Terry D. McCallister
Terry D. McCallister
Chairman and Chief Executive Officer

/s/ Vincent L. Ammann, Jr.
Vincent L. Ammann, Jr.
Vice President and Chief Financial Officer

August 6, 2010