

**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 March 31, 2011

OR

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

<i>Commission File Number</i>	<i>Exact name of registrant as specified in its charter and principal office address and telephone number</i>	<i>State of Incorporation</i>	<i>I.R.S. Employer Identification No.</i>
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 Smaller reporting company
(Do not check if a smaller reporting company)

Washington Gas Light Company:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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 April 30, 2011: 51,226,263 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 April 30, 2011.

WGL Holdings, Inc.
Washington Gas Light Company
For the Quarter Ended March 31, 2011
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WGL Holdings, Inc.
Washington Gas Light Company

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’ 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 the Southern LNG, Inc. Elba Island facility to Washington Gas’ 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’ 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;

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- 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

<i>(In thousands)</i>	March 31, 2011	September 30, 2010
ASSETS		
Property, Plant and Equipment		
At original cost	\$ 3,444,726	\$ 3,383,364
Accumulated depreciation and amortization	(1,059,817)	(1,037,156)
Net property, plant and equipment	2,384,909	2,346,208
Current Assets		
Cash and cash equivalents	190,004	8,849
Receivables		
Accounts receivable	372,169	208,467
Gas costs and other regulatory assets	8,946	18,714
Unbilled revenues	160,465	91,337
Allowance for doubtful accounts	(19,162)	(20,306)
Net receivables	522,418	298,212
Materials and supplies—principally at average cost	23,368	24,646
Storage gas—at cost (first-in, first-out)	83,505	242,223
Deferred income taxes	19,924	22,808
Other prepayments	59,421	93,700
Derivatives and other	21,642	26,827
Total current assets	920,282	717,265
Deferred Charges and Other Assets		
Regulatory assets		
Gas costs	25,570	5,991
Pension and other post-retirement benefits	442,522	452,035
Other	63,369	73,342
Derivatives and other	33,047	49,053
Total deferred charges and other assets	564,508	580,421
Total Assets	\$ 3,869,699	\$ 3,643,894
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shareholders' equity	\$ 1,264,008	\$ 1,153,395
Washington Gas Light Company preferred stock	28,173	28,173
Long-term debt	614,930	592,875
Total capitalization	1,907,111	1,774,443
Current Liabilities		
Current maturities of long-term debt	52,101	30,098
Notes payable	15,722	100,417
Accounts payable and other accrued liabilities	292,719	225,362
Wages payable	16,996	16,411
Accrued interest	3,955	3,983
Dividends declared	20,180	19,604
Customer deposits and advance payments	57,642	65,343
Gas costs and other regulatory liabilities	54,989	9,893
Accrued taxes	64,711	14,828
Derivatives and other	31,293	58,112
Total current liabilities	610,308	544,051
Deferred Credits		
Unamortized investment tax credits	10,088	10,561
Deferred income taxes	501,249	472,544
Accrued pensions and benefits	358,583	359,729
Asset retirement obligations	65,470	64,017
Regulatory liabilities		
Accrued asset removal costs	325,689	323,091
Other	14,356	13,446
Derivatives and other	76,845	82,012
Total deferred credits	1,352,280	1,325,400
Commitments and Contingencies (Note 13)		
Total Capitalization and Liabilities	\$ 3,869,699	\$ 3,643,894

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		Six Months Ended	
	March 31,		March 31,	
<i>(In thousands, except per share data)</i>	2011	2010	2011	2010
OPERATING REVENUES				
Utility	\$ 561,297	\$ 611,625	\$ 970,591	\$ 1,002,157
Non-utility	455,924	445,013	842,504	781,904
Total Operating Revenues	1,017,221	1,056,638	1,813,095	1,784,061
OPERATING EXPENSES				
Utility cost of gas	286,570	318,922	495,190	516,199
Non-utility cost of energy-related sales	422,325	451,783	751,118	764,988
Operation and maintenance	87,531	78,272	165,099	151,788
Depreciation and amortization	22,647	24,235	45,291	48,398
General taxes and other assessments	54,203	43,007	94,675	74,427
Total Operating Expenses	873,276	916,219	1,551,373	1,555,800
OPERATING INCOME	143,945	140,419	261,722	228,261
Other Income (Loss)—Net	(1,320)	495	(432)	864
Interest Expense				
Interest on long-term debt	10,123	10,008	19,897	19,903
AFUDC and other, net	249	194	421	56
Total Interest Expense	10,372	10,202	20,318	19,959
INCOME BEFORE INCOME TAXES	132,253	130,712	240,972	209,166
INCOME TAX EXPENSE	52,495	51,676	95,652	82,159
NET INCOME	79,758	79,036	145,320	127,007
Dividends on Washington Gas preferred stock	330	330	660	660
NET INCOME APPLICABLE TO COMMON STOCK	\$ 79,428	\$ 78,706	\$ 144,660	\$ 126,347
AVERAGE COMMON SHARES OUTSTANDING				
Basic	51,143	50,366	51,104	50,305
Diluted	51,242	50,572	51,191	50,502
EARNINGS PER AVERAGE COMMON SHARE				
Basic	\$ 1.55	\$ 1.56	\$ 2.83	\$ 2.51
Diluted	\$ 1.55	\$ 1.56	\$ 2.83	\$ 2.50
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.3875	\$ 0.3775	\$ 0.7650	\$ 0.7450

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)

<i>(In thousands)</i>	Six Months Ended March 31,	
	2011	2010
OPERATING ACTIVITIES		
Net income	\$ 145,320	\$ 127,007
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	45,291	48,398
Amortization of:		
Other regulatory assets and liabilities—net	1,832	1,815
Debt related costs	432	346
Deferred income taxes—net	35,784	(22,408)
Accrued/deferred pension cost (income)	10,051	3,137
Compensation expense related to equity awards	1,415	1,205
Provision for doubtful accounts	12,352	10,843
Other non-cash charges (credits)—net	(1,247)	92
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable and unbilled revenues—net	(246,326)	(260,993)
Gas costs and other regulatory assets/liabilities—net	54,864	75,948
Storage gas	158,718	157,521
Other prepayments	34,279	3,075
Accounts payable and other accrued liabilities	65,249	21,313
Wages payable	585	478
Customer deposits and advance payments	(7,701)	(8,787)
Accrued taxes	49,883	52,764
Accrued interest	(28)	601
Other current assets	6,463	(10,078)
Other current liabilities	(26,819)	19,673
Deferred gas costs—net	(19,579)	29,680
Deferred assets—other	32,621	(29,357)
Deferred liabilities—other	(17,027)	4,015
Other—net	1,872	(274)
Net Cash Provided by Operating Activities	338,284	226,014
FINANCING ACTIVITIES		
Common stock issued	7,105	9,689
Long-term debt issued	75,000	51,332
Long-term debt retired	(30,000)	(20)
Debt issuance costs	(155)	318
Notes payable issued (retired)—net	(84,717)	(75,397)
Dividends on common stock and preferred stock	(39,234)	(37,617)
Other financing activities—net	(3,692)	(1,042)
Net Cash Used in Financing Activities	(75,693)	(52,737)
INVESTING ACTIVITIES		
Capital expenditures (excluding Allowance for Funds Used During Construction)	(74,984)	(57,668)
Investment in non-utility interests	(6,452)	-
Net Cash Used in Investing Activities	(81,436)	(57,668)
INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Year	8,849	7,845
Cash and Cash Equivalents at End of Period	\$ 190,004	\$ 123,454
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid—net	\$ 1,509	\$ 49,144
Interest paid	\$ 20,295	\$ 19,193
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Project debt financing activities—net	\$ 873	\$ -
Capital expenditures included in accounts payable and other accrued liabilities	\$ 9,983	\$ 3,309

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)

<i>(In thousands)</i>	March 31, 2011	September 30, 2010
ASSETS		
Property, Plant and Equipment		
At original cost	\$ 3,400,238	\$ 3,343,842
Accumulated depreciation and amortization	(1,035,892)	(1,014,314)
Net property, plant and equipment	2,364,346	2,329,528
Current Assets		
Cash and cash equivalents	185,070	4,390
Receivables		
Accounts receivable	202,319	78,357
Gas costs and other regulatory assets	8,946	18,714
Unbilled revenues	77,111	20,484
Allowance for doubtful accounts	(16,047)	(16,704)
Net receivables	272,329	100,851
Materials and supplies—principally at average cost	23,316	24,594
Storage gas—at cost (first-in, first-out)	57,402	169,267
Deferred income taxes	15,885	10,633
Other prepayments	32,458	59,317
Receivables from associated companies	2,337	1,949
Derivatives and other	1,531	7,050
Total current assets	590,328	378,051
Deferred Charges and Other Assets		
Regulatory assets		
Gas costs	25,570	5,991
Pension and other post-retirement benefits	439,768	449,383
Other	63,364	73,336
Derivatives and other	16,334	33,987
Total deferred charges and other assets	545,036	562,697
Total Assets	\$ 3,499,710	\$ 3,270,276
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shareholder's equity	\$ 1,070,580	\$ 994,876
Preferred stock	28,173	28,173
Long-term debt	614,930	592,875
Total capitalization	1,713,683	1,615,924
Current Liabilities		
Current maturities of long-term debt	52,101	30,098
Notes payable	22	43,419
Accounts payable and other accrued liabilities	144,417	127,358
Wages payable	16,292	15,512
Accrued interest	3,955	3,983
Dividends declared	18,646	18,460
Customer deposits and advance payments	57,642	63,343
Gas costs and other regulatory liabilities	54,989	9,893
Accrued taxes	51,233	13,277
Payables to associated companies	39,574	9,170
Derivatives and other	10,514	19,714
Total current liabilities	449,385	354,227
Deferred Credits		
Unamortized investment tax credits	9,123	9,570
Deferred income taxes	501,559	477,912
Accrued pensions and benefits	356,139	357,456
Asset retirement obligations	64,301	62,801
Regulatory liabilities		
Accrued asset removal costs	325,689	323,091
Other	14,356	13,446
Derivatives and other	65,475	55,849
Total deferred credits	1,336,642	1,300,125
Commitments and Contingencies (Note 13)		
Total Capitalization and Liabilities	\$ 3,499,710	\$ 3,270,276

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		Six Months Ended	
	March 31,		March 31,	
<i>(In thousands)</i>	2011	2010	2011	2010
OPERATING REVENUES				
Utility	\$ 569,724	\$ 619,295	\$ 988,100	\$ 1,018,159
Non-utility	-	(5)	-	2
Total Operating Revenues	569,724	619,290	988,100	1,018,161
OPERATING EXPENSES				
Utility cost of gas	294,996	326,592	512,699	532,201
Operation and maintenance	72,980	67,142	136,977	130,995
Depreciation and amortization	22,128	23,766	44,243	47,480
General taxes and other assessments	51,273	41,247	89,628	71,064
Total Operating Expenses	441,377	458,747	783,547	781,740
OPERATING INCOME	128,347	160,543	204,553	236,421
Other Income (Loss)—Net	(597)	409	299	760
Interest Expense				
Interest on long-term debt	10,123	10,008	19,897	19,903
AFUDC and other, net	197	128	345	(66)
Total Interest Expense	10,320	10,136	20,242	19,837
INCOME BEFORE INCOME TAXES	117,430	150,816	184,610	217,344
INCOME TAX EXPENSE	46,427	59,710	72,830	85,388
NET INCOME	\$ 71,003	\$ 91,106	\$ 111,780	\$ 131,956
Dividends on preferred stock	330	330	660	660
NET INCOME APPLICABLE TO COMMON STOCK	\$ 70,673	\$ 90,776	\$ 111,120	\$ 131,296

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)

<i>(In thousands)</i>	Six Months Ended March 31,	
	2011	2010
OPERATING ACTIVITIES		
Net income	\$ 111,780	\$ 131,956
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	44,243	47,480
Amortization of:		
Other regulatory assets and liabilities—net	(1,970)	1,815
Debt related costs	432	346
Deferred income taxes—net	22,256	(9,645)
Accrued/deferred pension cost (income)	9,979	3,337
Compensation expense related to equity awards	1,351	1,155
Provision for doubtful accounts	10,022	8,858
Other non-cash charges (credits)—net	(1,971)	(627)
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable, unbilled revenues and receivables from associated companies—net	(191,656)	(196,585)
Gas costs and other regulatory assets/liabilities—net	54,864	75,948
Storage gas	111,865	97,314
Other prepayments	26,859	28,206
Accounts payable and other accrued liabilities, including payables to associated companies	45,302	37,705
Wages payable	780	584
Customer deposits and advance payments	(5,701)	(8,787)
Accrued taxes	37,956	57,218
Accrued interest	(28)	601
Other current assets	6,797	(822)
Other current liabilities	(9,200)	(5,156)
Deferred gas costs—net	(19,579)	29,680
Deferred assets—other	32,519	(15,422)
Deferred liabilities—other	(1,999)	(10,888)
Other—net	1,806	54
Net Cash Provided by Operating Activities	286,707	274,325
FINANCING ACTIVITIES		
Long-term debt issued	75,000	51,332
Long-term debt retired	(30,000)	(20)
Debt issuance costs	(155)	318
Notes payable issued (retired)—net	(43,419)	(124,791)
Dividends on common stock and preferred stock	(36,941)	(36,117)
Other financing activities—net	(574)	(937)
Net Cash Used in Financing Activities	(36,089)	(110,215)
INVESTING ACTIVITIES		
Capital expenditures (excluding Allowance for Funds Used During Construction)	(69,938)	(54,544)
Net Cash Used in Investing Activities	(69,938)	(54,544)
INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Year	4,390	5,160
Cash and Cash Equivalents at End of Period	\$ 185,070	\$ 114,726
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid—net	\$ -	\$ 38,600
Interest paid	\$ 20,219	\$ 19,106
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Project debt financing activities—net	\$ 873	\$ -
Capital expenditures included in accounts payable and other accrued liabilities	\$ 9,983	\$ 3,309

The accompanying notes are an integral part of these statements.

WGL Holdings, Inc.
Washington Gas Light Company
Part I—Financial Information
Item 1—Financial Statements (continued)
Notes to Consolidated Financial Statements (Unaudited)

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 four non-utility subsidiaries that include Washington Gas Energy Services, Inc. (WGEServices), Washington Gas Energy Systems, Inc. (WGESystems), Capitol Energy Ventures Corp. (CEV) and WGSW, Inc. 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, 2010. Due to the seasonal nature of Washington Gas' 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, 2011 and 2010 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 complete 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, 2010.

Accounting Standards Adopted in the Current Period

Receivables. In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 was effective for us on January 1, 2011. The adoption of this standard did not have a material effect on our consolidated financial statements.

Newly Issued Accounting Standards

Fair Value. In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Accounting Standards Codification (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. The adoption of this standard will affect disclosures only. 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. The adoption of these requirements did not have a material impact on our financial statements. Refer to Note 10 — *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 do not expect the adoption of the remaining requirements of this standard to have a material effect on our consolidated financial statements.

WGL Holdings, Inc.
Washington Gas Light Company
Part I—Financial Information
Item 1—Financial Statements (continued)
Notes to Consolidated Financial Statements (Unaudited)

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.

<i>(In thousands)</i>	March 31, 2011	September 30, 2010
Accounts payable — trade	\$ 242,652	\$ 193,776
Employee benefits and payroll accruals	18,091	24,078
Other accrued liabilities	31,976	7,508
Total	\$ 292,719	\$ 225,362

Washington Gas Light Company

<i>(In thousands)</i>	March 31, 2011	September 30, 2010
Accounts payable — trade	\$ 110,535	\$ 100,608
Employee benefits and payroll accruals	17,017	22,322
Other accrued liabilities	16,865	4,428
Total	\$ 144,417	\$ 127,358

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 March 31, 2011 and September 30, 2010.

Committed Credit Available (In millions)

As of March 31, 2011	WGL Holdings	Washington Gas	Total Consolidated
Committed credit agreements			
Unsecured revolving credit facility, expires August 3, 2012 (a)	\$ 400.0	\$ 300.0	\$ 700.0
Less: Commercial Paper	(15.7)	-	(15.7)
Net committed credit available	\$ 384.3	\$ 300.0	\$ 684.3

As of September 30, 2010	WGL Holdings	Washington Gas	Total Consolidated
Committed credit agreements			
Unsecured revolving credit facility, expires August 3, 2012 (a)	\$ 400.0	\$ 300.0	\$ 700.0
Less: Commercial Paper	(57.0)	(43.4)	(100.4)
Net committed credit available	\$ 343.0	\$ 256.6	\$ 599.6

(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' revolving credit facility permits it to borrow an additional \$100 million, with the banks' approval, for a total of \$400 million.

At March 31, 2011 and September 30, 2010, WGL Holdings and its subsidiaries had outstanding notes payable in the form of commercial paper supported by revolving credit facilities of \$15.7 million and \$100.4 million, respectively, at a weighted average interest rate of 0.31%, respectively. As of March 31, 2011 and September 30, 2010, there were no outstanding bank loans from WGL Holdings' or Washington Gas' revolving credit facilities.

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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 December 3, 2010, Washington Gas issued \$75.0 million of 5.21% fixed MTNs with a thirty year maturity due December 3, 2040. The estimated effective cost of the notes, including consideration of issuance fees and hedge costs, is 5.96%.

At March 31, 2011, Washington Gas had the capacity, under a shelf registration to issue up to \$375.0 million of additional MTNs. At March 31, 2011 and September 30, 2010, outstanding MTNs and private placement notes were \$660.0 million and \$615.0 million, respectively. At March 31, 2011 and September 30, 2010, the weighted average interest rate on all MTNs and private placement notes was 5.91% and 6.04%, respectively.

NOTE 5. COMMON SHAREHOLDERS' EQUITY

The tables below reflect the changes in "Common shareholders' equity" for WGL Holdings and Washington Gas for the six months ended March 31, 2011.

WGL Holdings, Inc.
Components of Common Shareholders' Equity

<i>(In thousands)</i>	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance at September 30, 2010	\$ 543,121	\$ 8,889	\$ 609,956	\$ (8,571)	\$ 1,153,395
Net income applicable to common stock	-	-	144,660	-	144,660
Post-retirement benefits adjustment, net of taxes	-	-	-	275	275
Comprehensive income					144,935
Stock-based compensation	7,187	(2,360)	-	-	4,827
Dividends declared:					
Common Stock	-	-	(39,149)	-	(39,149)
Balance at March 31, 2011	\$ 550,308	\$ 6,529	\$ 715,467	\$ (8,296)	\$ 1,264,008

Washington Gas Light Company
Components of Common Shareholder's Equity

<i>(In thousands)</i>	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance at September 30, 2010	\$ 46,479	\$ 470,825	\$ 486,143	\$ (8,571)	\$ 994,876
Net income before preferred stock dividends	-	-	111,780	-	111,780
Post-retirement benefits adjustment, net of taxes	-	-	-	275	275
Comprehensive income					112,055
Stock-based compensation	-	776	-	-	776
Dividends declared:					
Common Stock	-	-	(36,467)	-	(36,467)
Preferred Stock	-	-	(660)	-	(660)
Balance at March 31, 2011	\$ 46,479	\$ 471,601	\$ 560,796	\$ (8,296)	\$ 1,070,580

WGL Holdings had 51,167,487 and 50,974,992 shares issued of common stock at March 31, 2011 and September 30, 2010, respectively. Washington Gas had 46,479,536 shares issued of common stock at both March 31, 2011 and September 30, 2010.

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NOTE 6. COMPREHENSIVE INCOME

The tables below reflect the components of “Comprehensive income” for the three and six months ended March 31, 2011 and 2010 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

<i>(In thousands)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Net income applicable to common stock	\$ 79,428	\$ 78,706	\$ 144,660	\$ 126,347
Other comprehensive income (loss), net of taxes (a)	146	201	275	(169)
Comprehensive income	\$ 79,574	\$ 78,907	\$ 144,935	\$ 126,178

(a) Amounts relate to postretirement benefits.

Washington Gas Light Company
Components of Comprehensive Income

<i>(In thousands)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Net income	\$ 71,003	\$ 91,106	\$ 111,780	\$ 131,956
Other comprehensive income (loss), net of taxes (a)	146	201	275	(169)
Comprehensive income	\$ 71,149	\$ 91,307	\$ 112,055	\$ 131,787

(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 six months ended March 31, 2011 and 2010.

Basic and Diluted EPS

<i>(In thousands, except per share data)</i>	Net Income Applicable to Common Stock	Shares	Per Share Amount
Three Months Ended March 31, 2011			
Basic EPS	\$ 79,428	51,143	\$ 1.55
Stock-based compensation plans	-	99	
Diluted EPS	\$ 79,428	51,242	\$ 1.55
Three Months Ended March 31, 2010			
Basic EPS	\$ 78,706	50,366	\$ 1.56
Stock-based compensation plans	-	206	
Diluted EPS	\$ 78,706	50,572	\$ 1.56
Six Months Ended March 31, 2011			
Basic EPS	\$ 144,660	51,104	\$ 2.83
Stock-based compensation plans	-	87	
Diluted EPS	\$ 144,660	51,191	\$ 2.83
Six Months Ended March 31, 2010			
Basic EPS	\$ 126,347	50,305	\$ 2.51
Stock-based compensation plans	-	197	
Diluted EPS	\$ 126,347	50,502	\$ 2.50

There were no anti-dilutive shares for the three or six months ended March 31, 2011 or 2010.

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NOTE 8. INCOME TAXES

As of March 31, 2011, our uncertain tax positions were approximately \$27.0 million primarily due to our change in tax accounting for repair deductions in 2010. If the amounts of unrecognized tax benefits are eventually realized, it would not materially impact the effective tax rate. It is reasonably possible that the amount of the unrecognized tax benefit with respect to Washington Gas' uncertain tax positions will significantly increase or decrease in the next 12 months due to the on-going audit of Washington Gas by the IRS with respect to the tax year related to its change in accounting method for repairs. At this time an estimate of the range of reasonably possible outcomes cannot be determined.

Under the provision of ASC Topic 740, *Income Taxes*, Washington Gas recognizes any accrued interest associated with uncertain tax positions in interest expense and recognizes any accrued penalties associated with uncertain tax positions in other expenses in the statements of income. During the three and six months ended March 31, 2011, we accrued \$172,000 and \$401,000, respectively, in expense for interest on uncertain tax positions. We had \$210,000 of interest related to uncertain tax positions accrued as of September 30, 2010.

NOTE 9. DERIVATIVE AND WEATHER-RELATED INSTRUMENTS

DERIVATIVE INSTRUMENTS

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' derivative contracts relate to: (i) Washington Gas' asset optimization program, (ii) managing price risk associated with the purchase of gas to serve utility customers and (iii) managing interest rate risk.

Asset Optimization. Washington Gas optimizes the value of its long-term natural gas transportation and storage capacity resources during periods when these resources are not being used to physically serve utility customers. Specifically, Washington Gas utilizes its transportation capacity assets to benefit from favorable natural gas prices between different geographic locations and its storage capacity assets to benefit from favorable natural gas prices between different time periods. As part of this asset optimization program, Washington Gas enters into physical and financial derivative transactions in the form of forward, swap 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 the District of Columbia, Maryland and Virginia jurisdictions allow the profit from these transactions to be shared between Washington Gas' 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 March 31, 2011 and 2010 were gains of \$2.9 million and \$22.3 million, respectively, including unrealized losses of \$4.7 million and unrealized gains of \$16.1 million, respectively. Total net margins for the six months ended March 31, 2011 and 2010 were gains of \$1.1 million and \$21.8 million, respectively, including unrealized losses of \$14.5 million and unrealized gains of \$12.1 million, respectively.

Managing Price Risk. To serve utility customers, as authorized by its regulators, Washington Gas enters into forward contracts, option contracts, 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.

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Non-Utility Operations

WGEServices 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. CEV enters into derivative contracts for the purpose of optimizing its storage assets as well as managing the transportation and storage assets on behalf of third parties. Derivative instruments are recorded at fair value on our consolidated balance sheets. Neither WGEServices nor CEV 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 non-utility operations. These derivatives may cause significant period-to-period volatility in earnings; however, this volatility will not change the operating margins that WGEServices and CEV will ultimately realize from the sales to their customers or counterparties.

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 utility and non-utility operations.

At March 31, 2011 and September 30, 2010, respectively, the absolute notional amounts of our derivatives are as follows:

**Absolute Notional Amounts
of Open Positions on Derivative Instruments**

<i>(In millions)</i>	Notional Amounts	
As of March 31, 2011		
Derivative transactions	WGL Holdings	Washington Gas
Natural Gas (in therms)		
Asset Optimization	1,359.3	1,099.4
Retail sales	3.5	-
Other risk-management activities	553.0	386.3
Electricity (in kWhs)		
Retail sales	688.6	-
Other risk-management activities	12,057.2	-

**Absolute Notional Amounts
of Open Positions on Derivative Instruments**

<i>(In millions)</i>	Notional Amounts	
As of September 30, 2010		
Derivative transactions	WGL Holdings	Washington Gas
Natural Gas (in therms)		
Asset Optimization	1,271.1	1,271.1
Retail sales	5.0	-
Other risk-management activities	316.8	123.2
Electricity (in kWhs)		
Retail sales	1,417.0	-
Other risk-management activities	13,278.0	-
Interest Rate Swap (notional amount in millions)	\$ 75.0	\$ 75.0

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The following tables present the balance sheet classification for all derivative instruments as of March 31, 2011 and September 30, 2010.

WGL Holdings, Inc.
Balance Sheet Classification of Derivative Instruments

(In millions)

As of March 31, 2011

Balance sheet location	Derivative Assets	Derivative Liabilities	Netting of Collateral	Total
Current assets — Derivatives and other	\$ 17.9	\$ (5.4)	\$ -	\$ 12.5
Deferred charges and other assets — Derivatives and other	43.8	(31.0)	-	12.8
Accounts payable and other accrued liabilities	1.5	-	-	1.5
Current liabilities — Derivatives and other	8.3	(38.7)	4.8	(25.6)
Deferred credits — Derivatives and other	5.2	(26.8)	2.4	(19.2)
Total	\$ 76.7	\$ (101.9)	\$ 7.2	\$ (18.0)

As of September 30, 2010

Current assets — Derivatives and other	\$ 22.7	\$ (5.4)	\$ -	\$ 17.3
Deferred charges and other assets — Derivatives and other	85.1	(51.9)	-	33.2
Current liabilities — Derivatives and other (*)	12.2	(67.5)	1.3	(54.0)
Deferred credits — Derivatives and other	0.9	(30.2)	3.3	(26.0)
Total	\$ 120.9	\$ (155.0)	\$ 4.6	\$ (29.5)

(*) includes interest rate swaps of (\$11.6) million

Washington Gas Light Company
Balance Sheet Classification of Derivative Instruments

(In millions)

As of March 31, 2011

Balance sheet location	Derivative Assets	Derivative Liabilities	Netting of Collateral	Total
Current assets — Derivatives and other	\$ 6.6	\$ (5.1)	\$ -	\$ 1.5
Deferred charges and other assets — Derivatives and other	36.1	(31.0)	-	5.1
Current liabilities — Derivatives and other	4.3	(10.3)	-	(6.0)
Deferred credits — Derivatives and other	3.0	(12.2)	-	(9.2)
Total	\$ 50.0	\$ (58.6)	\$ -	\$ (8.6)

As of September 30, 2010

Current assets — Derivatives and other	\$ 12.4	\$ (5.4)	\$ -	\$ 7.0
Deferred charges and other assets — Derivatives and other	74.1	(51.9)	-	22.2
Current liabilities — Derivatives and other (*)	7.2	(23.7)	-	(16.5)
Deferred credits — Derivatives and other	0.2	(0.5)	-	(0.3)
Total	\$ 93.9	\$ (81.5)	\$ -	\$ 12.4

(*) includes interest rate swaps of (\$11.6) million

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The following tables present all gains and losses associated with derivative instruments for the three and six months ended March 31, 2011 and 2010.

Gains and (Losses) on Derivative Instruments

<i>(In millions)</i>	WGL Holdings, Inc.		Washington Gas Light Company	
	2011	2010	2011	2010
Three Months Ended March 31,				
Recorded to income				
Operating revenues - non-utility	\$ (0.8)	\$ 15.7	\$ -	\$ -
Utility cost of gas	(5.8)	17.6	(5.8)	17.6
Non-utility cost of energy-related sales	2.4	(46.3)	-	-
Recorded to regulatory assets/liabilities				
Gas costs	(5.6)	12.8	(5.6)	12.8
Other	-	(0.7)	-	(0.7)
Total	\$ (9.8)	\$ (0.9)	\$ (11.4)	\$ 29.7

Gains and (Losses) on Derivative Instruments

<i>(In millions)</i>	WGL Holdings, Inc.		Washington Gas Light Company	
	2011	2010	2011	2010
Six Months Ended March 31,				
Recorded to income				
Operating revenues - non-utility	\$ (7.6)	\$ 18.2	\$ -	\$ -
Utility cost of gas	(10.9)	19.1	(10.9)	19.1
Non-utility cost of energy-related sales	27.7	(49.5)	-	-
Recorded to regulatory assets/liabilities				
Gas costs	(20.9)	7.9	(20.9)	7.9
Other	6.2	0.2	6.2	0.2
Total	\$ (5.5)	\$ (4.1)	\$ (25.6)	\$ 27.2

Certain of Washington Gas' derivative instruments contain contract provisions that would require collateral to be posted if the credit rating of Washington Gas' debt falls below certain levels. Similarly, certain of WGEServices and CEV 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 and CEV exceeds a certain level. Due to counterparty exposure levels, at March 31, 2011, WGEServices had posted \$0.1 million of collateral related to its derivative liabilities that contained credit-related contingent features. Washington Gas and CEV were not required to post any collateral at March 31, 2011. The following table shows the aggregate fair value of all derivative instruments with credit-related contingent features that are in a liability position, as well as the maximum amount of collateral that would be required 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 March 31, 2011 and September 30, 2010, respectively.

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

<i>(In millions)</i>	WGL Holdings	Washington Gas
As of March 31, 2011		
Derivative liabilities with credit-risk-contingent features	\$ 70.1	\$ 39.7
Maximum potential collateral requirements	26.7	0.4
As of September 30, 2010		
Derivative liabilities with credit-risk-contingent features	\$ 111.3	\$ 54.6
Maximum potential collateral requirements	67.5	12.3

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

Concentration of Credit Risk

Washington Gas, WGEServices and CEV 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, Washington Gas, WGEServices and CEV 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 March 31, 2011, four counterparties each represented over 10% of Washington Gas' credit exposure to wholesale derivative counterparties for a total credit risk of \$9.3 million; Non-Utility Operations had three counterparties representing over 10% of its credit exposure to wholesale counterparties for a total credit risk of \$6.9 million.

Collateral Deposits

In accordance with ASC 815, WGL Holdings offsets the fair value of derivative instruments against the right to reclaim or obligation to return collateral for derivative instruments executed under the same master netting arrangement. At March 31, 2011, Washington Gas, WGEServices and CEV had \$10.5 million, \$15.2 million and \$10.2 million, respectively, of collateral deposits that were not offset against open and settled derivative contracts. At September 30, 2010, WGEServices had \$36.0 million of collateral deposits that were not offset against open and settled derivative contracts. All of the collateral deposited by Washington Gas and CEV was offset against open and settled derivative contracts at September 30, 2010.

WEATHER-RELATED INSTRUMENTS

Regulated Utility Operations

On September 24, 2010, Washington Gas executed heating degree day (HDD) weather derivatives to manage its financial exposure to variations from normal weather in the District of Columbia for fiscal year 2011. Washington Gas purchased protection against net revenue shortfalls due to warmer-than-normal weather and sold colder weather benefits. Washington Gas elected to value all weather derivatives at fair value.

Gains and losses associated with Washington Gas' weather-related instruments are recorded to "Operation and maintenance" expense. During the three months ended March 31, 2011 and 2010, Washington Gas recorded a pre-tax loss and gain of \$1.1 million and \$2.4 million, respectively. During the six months ended March 31, 2011 and 2010, Washington Gas recorded a pre-tax loss and gain of \$2.6 million and \$1.0 million, respectively.

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.

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These contracts provide for payment to 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 and six months ended March 31, 2011, WGEServices recorded pre-tax losses of \$2.3 million and \$4.2 million, respectively. For the three and six months ended March 31, 2010, WGEServices recorded pre-tax losses of \$867,000 and \$1.1 million, respectively, related to these derivatives.

NOTE 10. 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 March 31, 2011, 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 March 31, 2011, 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.

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 March 31, 2011, 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. Additionally, at March 31, 2011, Level 3 financial liabilities included Washington Gas' weather derivatives valued using unobservable data.

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The following tables set forth financial instruments recorded at fair value as of March 31, 2011 and September 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

<i>(In millions)</i>	Level 1	Level 2	Level 3	Total
At March 31, 2011				
Assets				
Natural gas related derivatives	\$ -	\$ 28.1	\$ 25.7	\$ 53.8
Electricity related derivatives	-	1.6	21.3	22.9
Total Assets	\$ -	\$ 29.7	\$ 47.0	\$ 76.7
Liabilities				
Natural gas related derivatives	\$ -	\$ (26.4)	\$ (39.4)	\$ (65.8)
Electricity related derivatives	-	(4.5)	(31.6)	(36.1)
Weather derivatives	-	-	(3.1)	(3.1)
Total Liabilities	\$ -	\$ (30.9)	\$ (74.1)	\$ (105.0)
At September 30, 2010				
Assets				
Natural gas related derivatives	\$ -	\$ 39.1	\$ 57.2	\$ 96.3
Electricity related derivatives	-	-	24.6	24.6
Weather derivative	-	-	1.6	1.6
Total Assets	\$ -	\$ 39.1	\$ 83.4	\$ 122.5
Liabilities				
Natural gas related derivatives	\$ -	\$ (42.1)	\$ (45.3)	\$ (87.4)
Electricity related derivatives	-	(10.4)	(45.6)	(56.0)
Interest rate swaps	-	(11.6)	-	(11.6)
Weather derivative	-	-	(2.1)	(2.1)
Total Liabilities	\$ -	\$ (64.1)	\$ (93.0)	\$ (157.1)

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

<i>(In millions)</i>	Level 1	Level 2	Level 3	Total
At March 31, 2011				
Assets				
Natural gas related derivatives	\$ -	\$ 24.8	\$ 25.2	\$ 50.0
Total Assets	\$ -	\$ 24.8	\$ 25.2	\$ 50.0
Liabilities				
Natural gas related derivatives	\$ -	\$ (20.5)	\$ (38.1)	\$ (58.6)
Weather derivatives	-	-	(3.1)	(3.1)
Total Liabilities	\$ -	\$ (20.5)	\$ (41.2)	\$ (61.7)
At September 30, 2010				
Assets				
Natural gas related derivatives	\$ -	\$ 37.3	\$ 56.6	\$ 93.9
Weather derivative	-	-	1.6	1.6
Total Assets	\$ -	\$ 37.3	\$ 58.2	\$ 95.5
Liabilities				
Natural gas related derivatives	\$ -	\$ (29.0)	\$ (40.9)	\$ (69.9)
Interest rate swaps	-	(11.6)	-	(11.6)
Weather derivative	-	-	(2.1)	(2.1)
Total Liabilities	\$ -	\$ (40.6)	\$ (43.0)	\$ (83.6)

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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 and six month periods ended March 31, 2011 and 2010, respectively.

Reconciliation of Fair Value Measurements Using Significant Level 3 Inputs

<i>(In millions)</i>	WGL Holdings	Washington Gas
Three Months Ended March 31, 2011		
Balance at January 1, 2011	\$ (16.1)	\$ (3.0)
Realized and unrealized gains (losses)		
Recorded to income	(3.8)	(2.3)
Recorded to regulatory assets - gas costs	(2.3)	(2.3)
Transfers in and/or out of Level 3	(6.7)	(7.8)
Purchases and settlements, net	1.8	(0.6)
Balance at March 31, 2011	\$ (27.1)	\$ (16.0)
Three Months Ended March 31, 2010		
Balance at January 1, 2010	\$ (38.4)	\$ (11.3)
Realized and unrealized gains (losses)		
Recorded to income	6.5	12.8
Recorded to regulatory assets - gas costs	9.4	9.4
Purchases and settlements, net	4.9	0.7
Balance at March 31, 2010	\$ (17.6)	\$ 11.6

Reconciliation of Fair Value Measurements Using Significant Level 3 Inputs

<i>(In millions)</i>	WGL Holdings	Washington Gas
Six Months Ended March 31, 2011		
Balance at October 1, 2010	\$ (9.6)	\$ 15.2
Realized and unrealized gains (losses)		
Recorded to income	(8.1)	(7.9)
Recorded to regulatory assets - gas costs	(14.9)	(14.9)
Transfers in and/or out of Level 3	(6.7)	(7.8)
Purchases and settlements, net	12.2	(0.6)
Balance at March 31, 2011	\$ (27.1)	\$ (16.0)
Six Months Ended March 31, 2010		
Balance at October 1, 2009	\$ (27.6)	\$ (6.3)
Realized and unrealized gains (losses)		
Recorded to income	(10.1)	11.2
Recorded to regulatory assets - gas costs	6.9	6.9
Transfers in and/or out of Level 3(a)	(2.1)	(2.1)
Purchases and settlements, net	15.3	1.9
Balance at March 31, 2010	\$ (17.6)	\$ 11.6

(a) Represents weather derivative.

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. For WGL Holdings, during both the three and six month periods ended March 31, 2011, \$6.7 million of net derivative assets were transferred from Level 3 to Level 2 in the fair value hierarchy. These transfers reflected an increase in observable market inputs used to value natural gas related derivatives for Washington Gas and CEV.

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The tables below set forth the line items on the Statements of Income of the amounts recorded to income for the three and six months ended March 31, 2011, and 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

<i>(In millions)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Operating revenues - non-utility	\$ (3.2)	\$ 15.7	\$ (8.5)	\$ 18.2
Utility cost of gas	(1.0)	10.4	(5.1)	10.2
Non-utility cost of energy-related sales	1.7	(22.0)	8.3	(39.5)
Operation and maintenance expense	(1.3)	2.4	(2.8)	1.0
Total	\$ (3.8)	\$ 6.5	\$ (8.1)	\$ (10.1)

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

<i>(In millions)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Utility cost of gas	\$ (1.0)	\$ 10.4	\$ (5.1)	\$ 10.2
Operation and maintenance expense	(1.3)	2.4	(2.8)	1.0
Total	\$ (2.3)	\$ 12.8	\$ (7.9)	\$ 11.2

Unrealized gains (losses) for the three and six months ended March 31, 2011 attributable to financial instruments measured using significant Level 3 inputs at March 31, 2011 were recorded as follows:

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

<i>(In millions)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Recorded to income				
Operating revenues - non-utility	\$ (0.3)	\$ 18.4	\$ 1.3	\$ 23.8
Utility cost of gas	(3.1)	10.4	(2.8)	10.5
Non-utility cost of energy-related sales	0.2	(42.9)	4.4	(51.8)
Operation and maintenance expense	(1.1)	2.4	(2.8)	1.0
Recorded to regulatory assets - gas costs	(3.7)	8.3	(15.1)	6.9
Total	\$ (8.0)	\$ (3.4)	\$ (15.0)	\$ (9.6)

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

<i>(In millions)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Recorded to income				
Utility cost of gas	\$ (3.1)	\$ 10.4	\$ (2.8)	\$ 10.5
Operation and maintenance expense	(1.1)	2.4	(2.8)	1.0
Recorded to regulatory assets - gas costs	(3.7)	8.3	(15.1)	6.9
Total	\$ (7.9)	\$ 21.1	\$ (20.7)	\$ 18.4

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The following table presents the carrying amount and estimated fair value of our long-term debt at March 31, 2011 and September 30, 2010, 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

<i>(In millions)</i>	March 31, 2011	
	Carrying Amount	Fair Value
Long-term debt (a)	\$ 614.9	\$ 680.6

	September 30, 2010	
	Carrying Amount	Fair Value
Long-term debt (a)	\$ 592.9	\$ 716.5

(a) Excludes current maturities and unamortized discounts.

Washington Gas' long-term debt is not actively traded. The fair value of long-term debt was estimated based on the quoted market prices of U.S. Treasury issues having a similar term to maturity, adjusted for Washington Gas' credit quality.

NOTE 11. 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' 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.

Activities and 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. These activities include the operations of CEV, a non-utility wholesale energy company that engages in acquiring and optimizing natural gas storage and transportation assets and WGSW, Inc., a holding company formed to invest in Solar Photovoltaic (Solar PV) facilities. Administrative costs associated with WGL Holdings and Washington Gas Resources are also included 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 six months ended March 31, 2011 and 2010.

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Operating Segment Financial Information

(In thousands)	Non-Utility Operations				Eliminations	Consolidated
	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities		
Three Months Ended March 31, 2011						
Operating Revenues (a)	\$ 569,724	\$ 447,734	\$ 7,775	\$ 415	\$ (8,427)	\$ 1,017,221
Operating Expenses:						
Cost of energy-related sales	294,996	415,662	6,664	-	(8,427)	708,895
Operation	60,298	13,029	924	1,302	-	75,553
Maintenance	11,978	-	-	-	-	11,978
Depreciation and amortization	22,419	211	17	-	-	22,647
General taxes and other assessments:						
Revenue taxes	34,339	1,611	-	-	-	35,950
Other	17,032	1,155	53	13	-	18,253
Total Operating Expenses	441,062	431,668	7,658	1,315	(8,427)	873,276
Operating Income (Loss)	128,662	16,066	117	(900)	-	143,945
Other Income (Expenses)-Net	(616)	9	4	(668)	(49)	(1,320)
Interest Expense	10,320	39	-	62	(49)	10,372
Income Tax Expense (Benefit)	46,553	6,454	47	(559)	-	52,495
Dividends on Washington Gas preferred stock	330	-	-	-	-	330
Net Income (Loss) Applicable to Common Stock	\$ 70,843	\$ 9,582	\$ 74	\$ (1,071)	\$ -	\$ 79,428
Total Assets	\$ 3,508,410	\$ 325,193	\$ 18,193	\$ 117,776	\$ (99,873)	\$ 3,869,699
Capital Expenditures/Investments	\$ 37,817	\$ 4,669	\$ 3	\$ 1,302	\$ -	\$ 43,791
Three Months Ended March 31, 2010						
Operating Revenues (a)	\$ 619,295	\$ 440,604	\$ 4,416	\$ (7)	\$ (7,670)	\$ 1,056,638
Operating Expenses:						
Cost of energy-related sales	326,592	447,944	3,839	-	(7,670)	770,705
Operation	55,166	9,907	689	1,251	-	67,013
Maintenance	11,259	-	-	-	-	11,259
Depreciation and amortization	24,020	206	9	-	-	24,235
General taxes and other assessments:						
Revenue taxes	24,330	702	-	-	-	25,032
Other	17,002	924	44	5	-	17,975
Total Operating Expenses	458,369	459,683	4,581	1,256	(7,670)	916,219
Operating Income (Loss)	160,926	(19,079)	(165)	(1,263)	-	140,419
Other Income (Expenses)-Net	402	18	16	129	(70)	495
Interest Expense	10,136	70	-	66	(70)	10,202
Income Tax Expense (Benefit)	59,856	(7,694)	(58)	(428)	-	51,676
Dividends on Washington Gas preferred stock	330	-	-	-	-	330
Net Income (Loss) Applicable to Common Stock	\$ 91,006	\$ (11,437)	\$ (91)	\$ (772)	\$ -	\$ 78,706
Total Assets	\$ 3,254,575	\$ 403,973	\$ 19,133	\$ 135,703	\$ (193,512)	\$ 3,619,872
Capital Expenditures/Investments	\$ 28,259	\$ 384	\$ 77	\$ -	\$ -	\$ 28,720

(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.

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Operating Segment Financial Information

(In thousands)	Non-Utility Operations				Eliminations	Consolidated
	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities		
Six Months Ended March 31, 2011						
Operating Revenues (a)	\$ 988,100	\$ 827,131	\$ 14,730	\$ 643	\$ (17,509)	\$ 1,813,095
Operating Expenses:						
Cost of energy-related sales	512,699	738,814	12,304	-	(17,509)	1,246,308
Operation	113,249	25,473	1,997	2,128	-	142,847
Maintenance	22,252	-	-	-	-	22,252
Depreciation and amortization	44,834	422	35	-	-	45,291
General taxes and other assessments:						
Revenue taxes	60,260	2,493	-	-	-	62,753
Other	29,523	2,283	95	21	-	31,922
Total Operating Expenses	782,817	769,485	14,431	2,149	(17,509)	1,551,373
Operating Income (Loss)	205,283	57,646	299	(1,506)	-	261,722
Other Income (Expenses)-Net	261	23	9	(624)	(101)	(432)
Interest Expense	20,242	83	-	94	(101)	20,318
Income Tax Expense (Benefit)	73,115	23,185	120	(768)	-	95,652
Dividends on Washington Gas preferred stock	660	-	-	-	-	660
Net Income (Loss) Applicable to Common Stock	\$ 111,527	\$ 34,401	\$ 188	\$ (1,456)	\$ -	\$ 144,660
Total Assets	\$ 3,508,410	\$ 325,193	\$ 18,193	\$ 117,776	\$ (99,873)	\$ 3,869,699
Capital Expenditures/Investments	\$ 70,214	\$ 4,759	\$ 11	\$ 6,452	\$ -	\$ 81,436
Six Months Ended March 31, 2010						
Operating Revenues (a)	\$ 1,018,159	\$ 774,128	\$ 7,778	\$ (2)	\$ (16,002)	\$ 1,784,061
Operating Expenses:						
Cost of energy-related sales	532,201	758,443	6,545	-	(16,002)	1,281,187
Operation	107,128	18,688	1,648	1,854	-	129,318
Maintenance	22,470	-	-	-	-	22,470
Depreciation and amortization	47,994	379	25	-	-	48,398
General taxes and other assessments:						
Revenue taxes	41,737	1,316	-	-	-	43,053
Other	29,462	1,814	84	14	-	31,374
Total Operating Expenses	780,992	780,640	8,302	1,868	(16,002)	1,555,800
Operating Income (Loss)	237,167	(6,512)	(524)	(1,870)	-	228,261
Other Income (Expenses)-Net	683	37	26	249	(131)	864
Interest Expense	19,837	129	-	124	(131)	19,959
Income Tax Expense (Benefit)	85,651	(2,674)	(195)	(623)	-	82,159
Dividends on Washington Gas preferred stock	660	-	-	-	-	660
Net Income (Loss) Applicable to Common Stock	\$ 131,702	\$ (3,930)	\$ (303)	\$ (1,122)	\$ -	\$ 126,347
Total Assets	\$ 3,254,575	\$ 403,973	\$ 19,133	\$ 135,703	\$ (193,512)	\$ 3,619,872
Capital Expenditures/Investments	\$ 54,947	\$ 2,617	\$ 104	\$ -	\$ -	\$ 57,668

(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.

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NOTE 12. 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, consistent with jurisdictional regulatory rules, 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' 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' balance sheets. These transactions recorded by Washington Gas impact the balance sheet only.

At March 31, 2011 and September 30, 2010, the Washington Gas balance sheets reflected receivables from associated companies of \$2.3 million and \$1.9 million, respectively. At March 31, 2011 and September 30, 2010, the Washington Gas balance sheets reflected payables to associated companies of \$39.6 million and \$9.2 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, \$8.4 million and \$7.7 million for the three months ended March 31, 2011 and 2010, respectively. In the six months ended March 31, 2011 and 2010, the charges were \$17.5 million and \$16.0 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 payable to Washington Gas in the amount of \$0.8 million at March 31, 2011 and a receivable from Washington Gas in the amount of \$2.3 million at September 30, 2010 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 13. COMMITMENTS AND CONTINGENCIES

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' jurisdictions.

District of Columbia Jurisdiction

Revenue Normalization Adjustment (RNA). On December 21, 2009, Washington Gas filed a revised tariff application seeking approval of an RNA, a sales adjustment mechanism that decouples Washington Gas' non-gas revenues from actual delivered volumes of gas. On December 22, 2009, the District of Columbia Office of the People's Counsel (DC OPC) filed a motion requesting that the District of Columbia Public Service Commission (PSC of DC) establish public hearing procedures to examine the merits of Washington Gas' 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 an evidentiary proceeding to consider issues surrounding Washington Gas' tariff application.

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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 and the Apartment and Office Building Association of Metropolitan Washington 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. Initial briefs were filed on August 13, 2010, and reply briefs were submitted on August 26, 2010. On December 17, 2010 the PSC of DC issued an order denying Washington Gas' application for an RNA stating that the RNA should be considered in the context of a base rate case proceeding. Washington Gas filed an application for reconsideration on January 18, 2011. The PSC of DC denied Washington Gas' application for reconsideration on February 28, 2011, affirming its previous rulings that the matter should be reviewed in a base rate case.

Affiliate Transactions Code of Conduct. On February 1, 2011, the PSC of DC issued an order adopting rules governing affiliate transactions code of conduct for regulated energy utilities and their affiliates. Included among the regulations are limitations on joint marketing with core service affiliates, and disclosure of customer-specific information, as well as restrictions on (i) favorable treatment of affiliates, (ii) the provision of loans and loan guarantees by the utility to an affiliate, and (iii) sharing and temporary assignment of electric company employees with an affiliate. These regulations also require the energy utilities to file Cost Allocation Manuals (CAM) with the PSC of DC demonstrating how they allocate and account for shared services with their affiliates. The CAM must be filed with the PSC of DC annually within four months of the close of the utility's fiscal year.

Maryland Jurisdiction

Order on and Reviews of Purchased Gas Charges. Each year, the Maryland Public Service Commission (PSC of MD) reviews the annual gas costs collected from customers in Maryland to determine if Washington Gas' purchased gas costs are reasonable.

The Office of the Staff of the PSC of MD (MD Staff) and the Maryland Office of the People's Counsel (MD OPC) are challenging a portion of Washington Gas' purchased gas charges for the twelve month period ended August 31, 2009 averring that Washington Gas did not have authority under its tariff to satisfy in cash its obligation (cash-out) for over-deliveries by suppliers over the 12-months ended March 2009 and also asserting that Washington Gas used an "excessive price" as the cash-out price. The MD Staff recommended that a second phase to the proceeding be initiated to investigate these assertions. Washington Gas has objected to both these assertions. Discovery and testimony were filed in the case, and a hearing was held on March 25, 2010. The MD OPC has taken a position that \$2.1 million of gas costs related to the purchase of competitive service provider (CSP) inventory included in the purchased gas charge should be disallowed. Briefs were filed April 30, 2010, and reply briefs were filed May 21, 2010. A proposed order was issued by the Hearing Examiner on August 25, 2010, finding that under the tariff, Washington Gas should have resolved supplier over-deliveries during the review period by adjusting future delivery volumes by suppliers, rather than by cash-out. The proposed order directed Washington Gas to refund to customers the excess costs paid to suppliers as a result of the cash-out of supplier over-deliveries. The proposed order also directed Washington Gas to present an "exact calculation" of the excess amount paid to suppliers in accordance with the methodology proposed by the MD OPC. The MD OPC had estimated the amount of the excess costs to Maryland ratepayers to be approximately \$2.1 million. The proposed order directs Washington Gas to credit \$2.1 million to the actual cost adjustment (ACA) as recommended by the MD OPC. The MD Staff and Washington Gas filed notices of appeal of the proposed order on September 23 and 24, 2010, respectively, and memorandums on appeal on October 1 and 4, 2010, respectively. A decision from the PSC of MD is pending.

Investigation of Asset Management and Gas Purchase Practices. On July 24, 2008, the Office of Staff Counsel of the PSC of MD (Staff Counsel) submitted a petition to the PSC of MD to establish an investigation into Washington Gas' 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 Staff Counsel. 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' 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.

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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' move to self-optimization of its gas assets, concluding that "the evidence on the record in this case is overwhelming that Washington Gas' decision to transition to self-management has in fact been prudent and resulted in substantial rate benefits." The POHE approved Washington Gas' 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 Purchased Gas Charge (PGC) provision.

The POHE approved Washington Gas' 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 strongly urged 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 MD OPC 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 MD Staff and the MD OPC's memoranda on appeal. A decision by the PSC of MD is pending.

Review of Washington Gas' 2009 — 2013 Gas Portfolio Plan. On March 19, 2009, the PSC of MD docketed a proceeding to review Washington Gas' 2009 — 2013 Gas Portfolio Plan, specifically noting Washington Gas' 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. Upon consideration of a motion to combine review of Washington Gas' Gas Portfolio Plans, on January 6, 2010, the PSC of MD consolidated this proceeding with Washington Gas' 2010 — 2014 Gas Portfolio Plan, which was filed on November 17, 2009. Washington Gas announced on May 6, 2010, that it projected a new in-service date for the on-system peaking facility: the 2015-2016 winter heating season. As a result, 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. The hearing examiner subsequently approved Washington Gas' portfolio plan, including the reserve margins reflected in Washington Gas' energy acquisition planning. Initial briefs were filed on August 13, 2010 and reply briefs were filed on September 17, 2010. On October 27, 2010, the hearing examiner issued a proposed order. The hearing examiner found:

- (i) the Gas Portfolio Plan proposed by Washington Gas for years 2009-2013 and 2010-2014 is reasonable;
- (ii) the design day forecasts contained in Washington Gas' plans are correct and reasonable in determining the design day requirement;
- (iii) a reserve margin proposed by Washington Gas of 5.0% to 6.5% continues to be reasonable; and that
- (iv) some additional information should be filed along with all future plans.

The proposed order became final on November 30, 2010 as it was not appealed by any party.

Virginia Jurisdiction

Conservation and Ratemaking Efficiency Plan (CARE 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 (VA Staff) on April 19, 2010 to implement the Conservation and Ratemaking Efficiency Plan on May 1, 2010. Washington Gas began applying the decoupling mechanism in Virginia in its July billings for residential customers consistent with the SCC of VA'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

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a portfolio of conservation and energy efficiency programs, an associated cost recovery provision and a decoupling mechanism that will adjust weather normalized non-gas distribution revenues for the impact of conservation or energy efficiency efforts. In accordance with the procedural schedule established for the proceeding, the VA Staff filed its report on September 13, 2010 and Washington Gas filed its response to the VA Staff report on September 24, 2010. On November 18, 2010, the SCC of VA issued an order that denied Washington Gas' application. The SCC of VA found that Washington Gas' current tariff and its underlying class cost of service and revenue apportionment studies do not segregate small versus large customers and that only small customers qualify under the CARE law. The SCC of VA stated that Washington Gas could amend the underlying tariff and studies in connection with its required February 1, 2011 base rate case filing. Such a tariff amendment was proposed in the filing made with the SCC of VA on January 31, 2011, and noted below.

Steps to Advance Virginia's Energy Plan (SAVE Plan). On August 4, 2010 Washington Gas filed an application (and supplemental testimony on October 25, 2010) with the SCC of VA for approval of a SAVE Plan which included four gas utility infrastructure replacement programs and a SAVE rider to recover certain costs associated with the replacement programs. An evidentiary hearing was held on March 8, 2011. On April 21, 2011, the SCC of VA issued an Order approving Washington Gas' proposed five year SAVE Plan encompassing a total of \$116.5 million in expenditures for the four replacement programs for the period from June 2010 to December 31, 2014. The SCC of VA also approved a SAVE rider to recover the costs of the replacement programs, effective for bills rendered on or after May 1, 2011. The SCC of VA also established a schedule for the Company's SAVE rider filings for the approved SAVE Plan.

New Base Rate Case

On January 31, 2011, Washington Gas filed a request with the SCC of VA for a \$29.6 million annual increase in revenues. The filing was made pursuant to the settlement agreement reached by the parties and approved by the SCC of VA in the company's last base rate case, which resulted in a Performance-Based Rate (PBR) plan. The filing made in January 2011 did not request either renewal or modification of the PBR plan; rather, the filing was based on traditional cost of service regulation. New rates cannot go into effect until after October 1, 2011, per the settlement agreement referenced above.

The \$29.6 million revenue increase requested in this application will result in an overall rate of return of 8.58% and a return on common equity of 10.5%, as compared to a return on common equity of 10.0% in the Company's last base rate proceeding.

Washington Gas proposes to continue the Weather Normalization Adjustment, which was previously approved by the SCC of VA. The Company also proposes a new sharing arrangement associated with Washington Gas' asset optimization program, and seeks to increase its research and development funding through programs sponsored by The Gas Technology Institute. In addition, the application includes various tariff revisions related to (i) payment processing, (ii) installation of service pipes and connections, (iii) economic evaluation of facilities extensions, (iv) Purchase Gas Charge, (v) automated payment plan, (vi) developmental natural gas vehicle service, (vii) balancing for natural gas-fired generating stations, and (viii) Rate Schedule Nos. 5, 5A and 6 pertaining to large non-residential customers.

The current procedural schedule provides for Washington Gas to file additional testimony on May 12, 2011, and testimony of other parties is due July 27, 2011. Hearings will take place this fall.

Performance-Based Rate Plans

In rate case proceedings in all local jurisdictions in 2006 and 2007, Washington Gas previously requested permission to implement 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 VA Staff 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' 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.

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On January 28, 2010, Washington Gas indicated in its annual information filing that there was no ESM liability for fiscal year 2009. On June 30, 2010, the SCC of VA accepted the VA 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 a regulatory asset 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. On July 22, 2010, the SCC of VA issued an Order for Notice and Comment in this proceeding. Washington Gas filed direct testimony on August 18, 2010 and the VA Staff issued its report on October 21, 2010. The VA Staff found that Washington Gas' request to recover \$0.5 million of hexane costs would not result in earnings exceeding Washington Gas' 10% allowed rate of return on average common equity threshold and therefore Washington Gas should be allowed to bill the amounts. Washington Gas filed its response to the VA Staff's report on November 4, 2010. On December 15, 2010, the SCC of VA issued an Order approving the Washington Gas proposed billing of the cost of hexane.

On January 31, 2011, Washington Gas filed its annual information filing indicating that there was no ESM liability for fiscal year 2010. The matter is pending before the SCC of VA.

The existing PBR Plan in Virginia will expire on September 30, 2011, and Washington Gas has not proposed to extend the Plan.

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' request to implement a PBR plan and issues raised by the parties associated with Washington Gas' business process outsourcing (BPO) agreement. On September 4, 2008, a POHE was issued in this phase-two proceeding. Consistent with Washington Gas' current accounting methodology, the proposed order approved 10-year amortization accounting for initial implementation costs related to Washington Gas' BPO plan. At March 31, 2011 and September 30, 2010, Washington Gas had recorded a regulatory asset of \$6.0 million and \$6.4 million, respectively, net of amortization, related to initial implementation costs allocable to Maryland associated with our BPO plan. Washington Gas' 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 BPO 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 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. Aspects of this proposed order were appealed by the parties in November, 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 base rate case proceeding. As part of that approved agreement, Washington Gas withdrew its application seeking approval of a PBR plan and is prohibited from seeking approval of a PBR plan in the District of Columbia until the filing of its next base rate case.

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' 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. As the lender funds the construction project, Washington Gas establishes a note receivable representing its customers' obligations to remit principal and interest and a long-term note payable to the lender. When these projects are formally "accepted" by the customer as completed, Washington Gas transfers the ownership of the note receivable to the lender and removes both the note receivable and the long-term financing from its financial statements. As of March 31, 2011, work on these construction projects that was not completed or accepted by customers was valued at \$6.9 million, which is recorded on the balance sheet as a note 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,

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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. Construction projects are financed primarily for government agencies, which Washington Gas considers to have minimal credit risk. Based on this minimal risk assessment and previous collection experience, Washington Gas considers these receivables to be collectible and did not record a corresponding reserve for bad debt at March 31, 2011.

Financial Guarantees

WGL Holdings has guaranteed payments primarily for certain purchases of natural gas and electricity on behalf of the retail energy-marketing segment. At March 31, 2011, these guarantees totaled \$555.3 million. WGL Holdings has also guaranteed certain purchase commitments of its CEV subsidiary. At March 31, 2011, these guarantees totaled \$86.4 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 counterparties when required by our credit policy. WGL Holdings also issued guarantees totaling \$3.0 million at March 31, 2011 on behalf of certain of our non-utility subsidiaries associated with their banking transactions. Of the total guarantees of \$644.7 million, \$49.1 million is due to expire on October 31, 2011 and \$36.0 million is due to expire on December 31, 2011. 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, 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.

NOTE 14. 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 six months ended March 31, 2011 and 2010:

Components of Net Periodic Benefit Costs (Income)

	Three Months Ended March 31,			
	2011		2010	
<i>(In thousands)</i>	Pension Benefits	Health and Life Benefits	Pension Benefits	Health and Life Benefits
Components of net periodic benefit costs (income)				
Service cost	\$ 3,033	\$ 1,856	\$ 2,418	\$ 1,648
Interest cost	10,323	6,278	10,522	6,331
Expected return on plan assets	(11,136)	(4,638)	(11,419)	(4,605)
Amortization of prior service cost	268	(980)	261	(1,005)
Amortization of actuarial loss	3,670	2,809	1,069	2,195
Amortization of transition obligation	-	272	-	272
Net periodic benefit cost	6,158	5,597	2,851	4,836
Amount allocated to construction projects	(767)	(931)	(253)	(758)
Amount deferred as regulatory asset/liability - net	(1,772)	488	(1,309)	504
Other	-	-	7	-
Amount charged to expense	\$ 3,619	\$ 5,154	\$ 1,296	\$ 4,582

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Components of Net Periodic Benefit Costs (Income)

	Six Months Ended March 31,			
	2011		2010	
<i>(In thousands)</i>	Pension Benefits	Health and Life Benefits	Pension Benefits	Health and Life Benefits
Components of net periodic benefit costs (income)				
Service cost	\$ 6,065	\$ 3,712	\$ 4,900	\$ 3,296
Interest cost	20,646	12,555	21,336	12,662
Expected return on plan assets	(22,273)	(9,275)	(23,174)	(9,210)
Amortization of prior service cost	537	(1,961)	531	(2,011)
Amortization of actuarial loss	7,339	5,619	2,157	4,390
Amortization of transition obligation	-	543	-	543
Net periodic benefit cost	12,314	11,193	5,750	9,670
Amount allocated to construction projects	(1,513)	(1,790)	(524)	(1,527)
Amount deferred as regulatory asset/liability - net	(3,558)	1,022	(2,613)	1,009
Other	-	-	15	-
Amount charged to expense	\$ 7,243	\$ 10,425	\$ 2,628	\$ 9,152

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.

During fiscal year 2011, Washington Gas expects to make contributions totaling \$29.6 million to its qualified pension plan.

NOTE 15. SUBSEQUENT EVENTS

On April 15, 2011, Washington Gas filed a request for a base rate increase of \$30.0 million with the PSC of MD requesting authority to increase its rates and charges and to revise the terms and conditions applicable to gas service in Maryland.

This application seeks to establish new base rates and charges that will increase annual operating revenues by approximately \$30.0 million, resulting in an overall rate of return of 8.59% and a return on common equity of 10.45%. This compares to the overall rate of return of 8.2% and return on common equity of 10.0% as authorized by the PSC of MD in its Final Order issued to Washington Gas on November 16, 2007.

Washington Gas has also included a request for approval of a rate adjustment mechanism to recover costs associated with the accelerated replacement of transmission and distribution pipe designed to enhance safety and system reliability. Washington Gas also proposes certain changes to its general service provisions which include the following areas: (i) payments; (ii) submetering; (iii) installation of service pipes and connections; (iv) economic evaluation of facilities extensions; (v) purchased gas charge and (vi) automatic payment plan. In addition, Washington Gas also proposed two new general service provisions pertaining to the balancing for natural gas-fired generating stations and the implementation of the accelerated pipe replacement plan rider.

On April 18, 2011, Washington Gas received an order from the PSC of MD related to this rate filing suspending the proposed rates and charges and the proposed changes in the terms and conditions for gas service for an initial period of 150 days following the 30 day notice period, as permitted under the Code of Maryland. New rates are expected to go into effect in November 2011.

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Financial Condition and Results of Operations

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, 2010 (2010 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 operations, including Washington Gas and Hampshire Gas Company (Hampshire), and 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.

Both sections of Management's Discussion—WGL Holdings and Washington Gas—are designed to provide an understanding of our operations and financial performance and should be read in conjunction with the respective company's financial statements and the combined Notes to Consolidated Financial Statements in this quarterly report.

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. 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' 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' 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' net revenues and net income.

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Washington Gas’ asset optimization program utilizes Washington Gas’ 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.

Other Activities. Activities and 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. These activities include the operations of Capitol Energy Ventures Corp. (CEV), a non-utility wholesale energy company that engages in acquiring and optimizing natural gas storage and transportation assets and WGSW, Inc., a holding company formed to invest in Solar PV power generating facilities. Administrative costs associated with WGL Holdings and Washington Gas Resources are also included in “Other Activities.”

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, regulatory decisions and changes in legislation;
- 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;

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- 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 2010 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 generally accepted accounting principles in the United States of America (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-utility 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 2010 Annual Report. There were no new critical accounting policies identified for the six month period ended March 31, 2011.

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WGL HOLDINGS, INC.

RESULTS OF OPERATIONS — Three Months Ended March 31, 2011 vs. March 31, 2010

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 \$79.4 million, or \$1.55 per share, for the three months ended March 31, 2011 over net income applicable to common stock of \$78.7 million, or \$1.56 per share, reported for the three months ended March 31, 2010.

The comparison of results for the three month period ended March 31, 2011 compared to the same period of the prior fiscal year primarily reflects an increase in earnings from the retail-energy marketing segment, partially offset by a decrease in earnings from the regulated utility segment.

The following table summarizes our net income (loss) applicable to common stock by operating segment for the three months ended March 31, 2011 and 2010.

Net Income (Loss) by Operating Segment

<i>(In millions)</i>	Three Months Ended		Increase/ (Decrease)
	March 31,		
	2011	2010	
Regulated Utility	\$ 70.8	\$ 91.0	\$ (20.2)
Non-utility operations:			
Retail Energy-Marketing	9.6	(11.4)	21.0
Design-Build Energy Systems	0.1	(0.1)	0.2
Other, principally non-utility activities	(1.1)	(0.8)	(0.3)
Total non-utility	8.6	(12.3)	20.9
Net income applicable to common stock	\$ 79.4	\$ 78.7	\$ 0.7
EARNINGS PER AVERAGE COMMON SHARE			
Basic	\$ 1.55	\$ 1.56	\$ (0.01)
Diluted	\$ 1.55	\$ 1.56	\$ (0.01)

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Regulated Utility Operating Results

The following table summarizes the regulated utility segment’s operating results for the three months ended March 31, 2011 and 2010.

Regulated Utility Operating Results

<i>(In millions)</i>	Three Months Ended		Increase/ (Decrease)
	March 31,		
	2011	2010	
Utility net revenues:			
Operating revenues	\$ 569.7	\$ 619.3	\$ (49.6)
Less: Cost of gas	295.0	326.6	(31.6)
Revenue taxes	34.3	24.3	10.0
Total utility net revenues	240.4	268.4	(28.0)
Operation and maintenance	72.3	66.5	5.8
Depreciation and amortization	22.4	24.0	(1.6)
General taxes and other assessments	17.0	17.0	-
Operating income	128.7	160.9	(32.2)
Interest expense	10.3	10.1	0.2
Other (income) expenses-net, including preferred stock dividends	1.0	(0.1)	1.1
Income tax expense	46.6	59.9	(13.3)
Net income applicable to common stock	\$ 70.8	\$ 91.0	\$ (20.2)

The regulated utility segment’s net income applicable to common stock was \$70.8 million for the three months ended March 31, 2011, compared to \$91.0 million for the same three month period in 2010. Changes in the composition of earnings from the prior period include: (i) a \$20.8 million decrease in unrealized margins associated with our asset optimization program; (ii) a \$3.3 million decrease relating to the impact of the reduction in Maryland depreciation rates effective on June 1, 2010, creating a timing difference between the recognition and recovery of depreciation expense; (iii) \$2.7 million in unfavorable effects of changes in natural gas consumption patterns; (iv) \$3.4 million in higher costs for weather protection products related to the District of Columbia and (v) \$1.7 million in higher employee benefit expense primarily due to changes in pension and retiree medical plan valuation assumptions. Partially offsetting these variances were: (i) a \$1.9 million decrease in recurring Business Process Outsourcing (BPO) costs; (ii) a \$1.5 million increase in revenues related to growth of more than 10,200 average active customer meters; (iii) a \$1.5 million increase in the recovery of storage gas inventory carrying costs reflecting higher average inventory values and (iv) a \$1.4 million increase in realized margins associated with our asset optimization program.

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 March 31, 2011 and 2010.

Composition of Changes in Utility Net Revenues

<i>(In millions)</i>	Increase / (Decrease)
Asset optimization:	
Realized margins	\$ 1.4
Unrealized mark-to-market valuations	(20.8)
Impact of rate/depreciation cases	(6.1)
Estimated change in natural gas consumption patterns	(2.7)
Customer growth	1.5
Storage carrying costs	1.5
Other	(2.8)
Total	\$ (28.0)

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Asset optimization — We recorded unrealized losses associated with our energy-related derivatives of \$4.7 million for the three months ended March 31, 2011 compared to gains of \$16.1 million for the same period of 2010. 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. Partially offsetting these decreases were pre-tax realized margins related to our asset optimization program which were \$1.4 million higher for the quarter ended March 31, 2011 compared to the quarter ended March 31, 2010. Refer to the section entitled “*Market Risk—Price Risk Related to the Regulated Utility Segment*” for a further discussion of our asset optimization program.

Impact of depreciation rate cases — New rates reflecting a lower provision for depreciation expense were effective on June 1, 2010 as a result of an order issued by the PSC of MD. This reduction is partially offset by lower depreciation expense.

Estimated change in natural gas consumption patterns — The variance in net revenues reflects the changes in natural gas consumption patterns in the District of Columbia. 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 heating degree day (HDD) that occur. Natural gas consumption patterns may also be affected by non-weather related factors such as customer conservation.

Customer growth — Average active customer meters increased by more than 10,200 for the three months ended March 31, 2011 compared to the same quarter of the prior fiscal year.

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 increase in the three months ended March 31, 2011 is due to higher average storage gas inventory investment balances reflecting higher weighted average cost of gas in inventory compared to the prior period.

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 March 31, 2011 compared to the same period in 2010.

Composition of Changes in Operation and Maintenance Expenses

<i>(in millions)</i>	Increase/ (Decrease)
BPO	\$ (1.9)
Employee benefits	1.7
Weather derivative benefits:	
Loss	0.1
Premium costs and fair value effects	3.4
Operations engineering and marketing	0.8
Uncollectible accounts	0.9
Other operating expenses	0.8
Total	\$ 5.8

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Weather derivative benefits — The effects of hedging variations from normal weather in the District of Columbia for the three months ended March 31, 2011 and 2010 are recorded to operation and maintenance expense. Washington Gas recorded losses of \$1.1 million and \$1.0 million related to its weather derivatives as a direct result of the colder-than-normal weather for the quarter ended March 31, 2011 and 2010, respectively. The benefits or losses of the weather-related instruments are offset by the effect of weather on utility net revenues. In addition, 2010 reflected \$3.4 million more in premium cost savings and fair value gains than in 2011 due to more favorable contract terms and market conditions in 2010.

Business process outsourcing — The decrease in BPO costs during the quarter ended March 31, 2011 compared to the same quarter of the prior year reflects a decrease in recurring service costs.

Employee benefits — The increase in employee benefits expense reflects higher pension and other post-retirement benefits due to changes in pension and retiree medical plan valuation assumptions.

Uncollectible accounts — The increase from prior year is due to a higher accrual rate for uncollectible expense in fiscal year 2011.

Depreciation and Amortization. The following table provides the key factors contributing to the changes in depreciation and amortization of the regulated utility for the three months ended March 31, 2011 compared to the same period in 2010.

Composition of Changes in Depreciation and Amortization

<i>(in millions)</i>	Increase/ (Decrease)
Property, plant and equipment additions	\$ 1.5
New depreciation rates — Maryland	(2.8)
Retirement of plant assets	(0.3)
Total	\$ (1.6)

New depreciation rates — Depreciation expense decreased reflecting lower depreciation rates effective June 1, 2010 as approved in an order issued by the PSC of MD. This reduction decreases revenues; however, the effective date of the new depreciation rates creates a timing difference between the recognition and the recovery of the depreciation expense. Refer to the section entitled “Rates and Regulatory Matters — Depreciation Study” in the Management’s Discussion section of our 2010 Annual Report for further discussion of depreciation matters.

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. These activities include the operations of CEV and WGSW, Inc. Total net income from our non-utility operations was \$8.6 million for the three months ended March 31, 2011, compared to a net loss of \$12.3 million for the same three-month period of the prior fiscal year. This comparison primarily reflects increased earnings from our retail energy-marketing and design-build energy systems segments.

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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 March 31,		Increase / (Decrease)
	2011	2010	
Operating Results (In millions)			
Gross margins:			
Operating revenues	\$ 447.7	\$ 440.6	\$ 7.1
Less: Cost of energy	415.7	447.9	(32.2)
Revenue taxes	1.6	0.7	0.9
Total gross margins	30.4	(8.0)	38.4
Operation expenses	13.0	9.9	3.1
Depreciation and amortization	0.2	0.2	-
General taxes and other assessments	1.1	0.9	0.2
Operating income (loss)	16.1	(19.0)	35.1
Interest expense	-	0.1	(0.1)
Income tax expense (benefit)	6.5	(7.7)	14.2
Net income (loss)	\$ 9.6	\$ (11.4)	\$ 21.0
Analysis of gross margins (In millions)			
Natural gas			
Realized margins	\$ 12.0	\$ 5.6	\$ 6.4
Unrealized mark-to-market losses	2.9	(13.2)	16.1
Total gross margins - natural gas	14.9	(7.6)	22.5
Electricity			
Realized margins	15.5	10.9	4.6
Unrealized mark-to-market losses	-	(11.3)	11.3
Total gross margins - electricity	15.5	(0.4)	15.9
Total gross margins	\$ 30.4	\$ (8.0)	\$ 38.4
Other Retail-Energy Marketing Statistics			
Natural gas			
Therm sales (millions of therms)	302.4	266.0	36.4
Number of customers (end of period)	173,400	159,700	13,700
Electricity			
Electricity sales (millions of kWhs)	2,611.0	2,134.8	476.2
Number of accounts (end of period)	183,700	130,100	53,600

WGEServices reported net income of \$9.6 million for the three months ended March 31, 2011, compared to a net loss of \$11.4 million reported for the same three-month period of the prior fiscal year.

The quarter-to-quarter comparison primarily reflects unrealized mark-to-market gains attributable to certain wholesale energy supply and retail sales contracts compared to unrealized losses in the prior year and higher gross margins from both natural gas and electric sales, partially offset by higher operating expenses. 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 increased \$22.5 million in the current quarter of fiscal year 2011 when compared to the same quarter in the prior fiscal year. This increase is primarily due to an increase in unrealized mark-to-market gains on energy-related derivatives of \$16.1 million resulting from fluctuating market prices and an increase in realized margins of \$6.4 million due to both higher sales volumes and higher unit margins. These higher unit margins reflect favorable price spreads on higher gas sales volumes driven by additional natural gas retail customers and favorable market conditions for portfolio optimization activity.

Gross margins from electric sales in the current quarter increased \$15.9 million from the same quarter of the prior period. This increase reflects an \$11.3 million increase in unrealized mark-to-market gains on energy-related derivatives and a \$4.6 million increase in realized margins due to higher electric sales associated with customer growth. In addition, electricity unit margins were higher in the current quarter as the prior year was impacted by increased balancing supply costs resulting from warmer weather which occurred in March 2010 and the pattern of margin recognition that results from sales under generally fixed-priced contracts with customers. Operating expenses were higher due to increased marketing initiatives (both mass market and large commercial) and higher labor costs.

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Design-Build Energy Systems. The design-build energy systems segment reported net income of \$0.1 million for the second quarter of fiscal year 2011, compared to a net loss of \$0.1 million reported for the same period of fiscal year 2010. This increase is due to the commencement of new projects that were delayed in the prior fiscal year. Operating expenses were also higher due to higher labor expense.

Interest Expense

The following table depicts the components of the change in interest expense for the three months ended March 31, 2011 compared to the same period in 2010.

Composition of Interest Expense Changes

<i>(In millions)</i>	Increase / (Decrease)
Long-term debt	\$ 0.1
Short-term debt	0.2
Other (includes AFUDC) (a)	(0.1)
Total	\$ 0.2

(a) Represents Allowance for Funds Used During Construction.

WGL Holdings' interest expense of \$10.4 million for the second quarter of fiscal year 2011 increased \$0.2 million from \$10.2 million of the same quarter of fiscal year 2010. The increase primarily relates to higher interest expense related to uncertain tax positions.

RESULTS OF OPERATIONS — Six Months Ended March 31, 2011 vs. March 31, 2010

Summary Results

WGL Holdings reported net income applicable to common stock of \$144.7 million, or \$2.83 per share, for the six months ended March 31, 2011 compared to \$126.3 million, or \$2.50 per share, reported for the six months ended March 31, 2010.

The comparison of results for the six month period ended March 31, 2011 compared to the same period of the prior fiscal year primarily reflects an increase in earnings from the retail-energy marketing segment.

The following table summarizes our net income (loss) applicable to common stock by operating segment for the six months ended March 31, 2011 and 2010.

Net Income (Loss) by Operating Segment

<i>(In millions)</i>	Six Months Ended March 31,		Increase/ (Decrease)
	2011	2010	
Regulated Utility	\$ 111.5	\$ 131.7	\$ (20.2)
Non-utility operations:			
Retail Energy-Marketing	34.4	(3.9)	38.3
Design-Build Energy Systems	0.2	(0.3)	0.5
Other, principally non-utility activities	(1.4)	(1.2)	(0.2)
Total non-utility	33.2	(5.4)	38.6
Net income applicable to common stock	\$ 144.7	\$ 126.3	\$ 18.4
EARNINGS PER AVERAGE COMMON SHARE			
Basic	\$ 2.83	\$ 2.51	\$ 0.32
Diluted	\$ 2.83	\$ 2.50	\$ 0.33

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Regulated Utility Operating Results

The following table summarizes the regulated utility segment’s operating results for the six months ended March 31, 2011 and 2010.

Regulated Utility Operating Results

<i>(In millions)</i>	Six Months Ended		Increase/ (Decrease)
	2011	March 31, 2010	
Utility net revenues:			
Operating revenues	\$ 988.1	\$ 1,018.2	\$ (30.1)
Less: Cost of gas	512.7	532.2	(19.5)
Revenue taxes	60.3	41.7	18.6
Total utility net revenues	415.1	444.3	(29.2)
Operation and maintenance	135.5	129.6	5.9
Depreciation and amortization	44.8	48.0	(3.2)
General taxes and other assessments	29.5	29.5	-
Operating income	205.3	237.2	(31.9)
Interest expense	20.2	19.8	0.4
Other expenses-net, including preferred stock dividends	0.5	-	0.5
Income tax expense	73.1	85.7	(12.6)
Net income	\$ 111.5	\$ 131.7	\$ (20.2)

The regulated utility segment’s net income applicable to common stock was \$111.5 million for the six months ended March 31, 2011 compared to \$131.7 million for the same six month period of the prior fiscal year. The decrease in net income primarily reflects: (i) a \$26.7 million decrease in unrealized margins associated with our asset optimization program; (ii) a \$3.9 million decrease relating to the impact of the reduction in Maryland depreciation rates effective on June 1, 2010, creating a timing difference between the recognition and recovery of depreciation expense; (iii) \$4.9 million in higher employee benefit expense primarily due to changes in pension and retiree medical plan valuation assumptions; (iv) \$1.2 million in unfavorable effects of changes in natural gas consumption patterns and (v) \$2.5 million in higher costs for weather protection products related to the District of Columbia. Partially offsetting these unfavorable variances were: (i) a \$5.9 million increase in realized margins associated with our asset optimization program; (ii) a \$4.5 million decrease in recurring BPO costs and (iii) \$2.9 million increase in revenues related to growth of more than 9,800 average customer meters.

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 six months ended March 31, 2011 and 2010.

Composition of Changes in Utility Net Revenues

<i>(In millions)</i>	Increase / (Decrease)
Asset optimization:	
Realized margins	\$ 5.9
Unrealized mark-to-market valuations	(26.7)
Impact of rate/depreciation cases	(9.6)
Customer growth	2.9
Estimated change in natural gas consumption patterns	(1.2)
Estimated weather effects	1.1
Other	(1.6)
Total	\$ (29.2)

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Asset optimization — We recorded unrealized losses associated with our energy-related derivatives of \$14.6 million for the six months ended March 31, 2011 compared to unrealized gains of \$12.1 million for the same period of 2010. When these derivatives settle, any unrealized amounts will ultimately be reversed, and Washington Gas will realize margins in combination with the related transactions that these derivatives economically hedge. Partially offsetting these decreases were pre-tax realized margins related to our asset optimization program, which were \$5.9 million higher for the six months ended March 31, 2011 compared to the six months ended March 31, 2010. (Refer to the section entitled “Market Risk—Price Risk Related to the Regulated Utility Segment” for a further discussion of our asset optimization program).

Impact of depreciation rate cases — New rates reflecting a lower provision for depreciation expense were effective on June 1, 2010 as a result of an order issued by the PSC of MD. This reduction is partially offset by lower depreciation expense.

Customer growth — Average active customer meters increased by more than 9,800 for the six months ended March 31, 2011 compared to the same period of the prior fiscal year.

Estimated change in natural gas consumption patterns — The variance in net revenues reflects the changes in natural gas consumption patterns in the District of Columbia. 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 such as customer conservation.

Estimated weather effects — Weather when measured by HDDs, was 7.4% and 4.5% colder than normal for the six months ended March 31, 2011 and 2010, respectively. Washington Gas 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 further discussion of our weather protection strategy). Washington Gas executed heating degree day derivative contracts to manage its exposure to variations from normal weather in the District of Columbia. Changes in the fair value of this derivative are reflected in operation and maintenance expenses. Including the effects of our weather protection strategy, there were no material effects on net income attributed to colder or warmer weather for the six months ended March 31, 2011 or 2010.

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 six months ended March 31, 2011 compared to the same period in 2010.

Composition of Changes in Operation and Maintenance Expenses

<i>(In millions)</i>	Increase/ (Decrease)
Employee benefits	\$ 4.9
BPO	(4.5)
Weather derivative benefits:	
Loss	1.1
Premium costs and fair value effects	2.5
Uncollectible accounts	1.2
Other operating expenses	0.7
Total	\$ 5.9

Employee benefits — The increase in benefit expenses reflects higher pension and other post-retirement benefits due to changes in pension and retiree medical plan valuation assumptions.

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Business process outsourcing — The decrease in BPO costs during the six months ended March 31, 2011 as compared to the same period of the prior year reflects a decrease in recurring service costs.

Weather derivative benefits — The effects of hedging variations from normal weather in the District of Columbia for the six months ended March 31, 2011 and 2010 are recorded to operation and maintenance expense. Washington Gas recorded losses of \$3.0 million and \$1.9 million related to its weather derivatives as a direct result of the colder-than-normal weather for the six months ended March 31, 2011 and 2010, respectively. The benefits or losses of the weather-related instruments are offset by the effect of weather on utility net revenues. In addition, 2010 reflected \$2.5 million more in premium cost savings and fair value gains than 2011 due to more favorable contract terms and market conditions in 2010.

Uncollectible accounts — The increase from prior year is due to a higher accrual rate for uncollectible expense in fiscal year 2011.

Depreciation and Amortization. The following table provides the key factors contributing to the changes in depreciation and amortization of the regulated utility for the six months ended March 31, 2011 compared to the same period in 2010.

Composition of Changes in Depreciation and Amortization

<i>(In millions)</i>	Increase/ (Decrease)
Property, plant and equipment additions	\$ 2.8
New depreciation rates — Maryland	(5.7)
Retirement of plant assets	(0.3)
Total	\$ (3.2)

New depreciation rates — Depreciation expense decreased reflecting lower depreciation rates effective June 1, 2010 as approved in an order issued by the PSC of MD. This reduction decreases revenues; however, the effective date of the new depreciation rates creates a timing difference between the recognition and the recovery of the depreciation expense. Refer to the section entitled “Rates and Regulatory Matters — Depreciation Study” in the Management’s Discussion section of our 2010 Annual Report for further discussion of depreciation matters

Non-Utility Operating Results

Total earnings from our non-utility operations were \$33.2 million for the six months ended March 31, 2011 compared to a net loss of \$5.4 million for the same six-month period of the prior fiscal year. This comparison primarily reflects an increase from our retail energy-marketing and design-build energy systems segments.

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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

	Six Months Ended		Increase / (Decrease)
	2011	March 31, 2010	
Operating Results (In millions)			
Gross margins:			
Operating revenues	\$ 827.1	\$ 774.1	\$ 53.0
Less: Cost of energy	738.8	758.4	(19.6)
Revenue taxes	2.5	1.3	1.2
Total gross margins	85.8	14.4	71.4
Operation expenses	25.5	18.7	6.8
Depreciation and amortization	0.4	0.4	-
General taxes and other assessments-other	2.2	1.8	0.4
Operating income (loss)	57.7	(6.5)	64.2
Interest expense	0.1	0.1	-
Income tax expense (benefit)	23.2	(2.7)	25.9
Net income (loss)	\$ 34.4	\$ (3.9)	\$ 38.3
Analysis of gross margins (In millions)			
Natural gas			
Realized margins	\$ 22.3	\$ 18.7	\$ 3.6
Unrealized mark-to-market losses	12.8	(16.7)	29.5
Total gross margins - natural gas	35.1	2.0	33.1
Electricity			
Realized margins	30.3	20.2	10.1
Unrealized mark-to-market losses	20.4	(7.8)	28.2
Total gross margins - electricity	50.7	12.4	38.3
Total gross margins	\$ 85.8	\$ 14.4	\$ 71.4
Other Retail-Energy Marketing Statistics			
Natural gas			
Therm sales (millions of therms)	518.9	442.9	76.0
Number of customers (end of period)	173,400	159,700	13,700
Electricity			
Electricity sales (millions of kWhs)	5,057.4	4,008.2	1,049.2
Number of accounts (end of period)	183,700	130,100	53,600

WGEServices reported net income of \$34.4 million for the six months ended March 31, 2011, compared to a net loss of \$3.9 million reported for the same six month period of the prior fiscal year.

The year-to-date comparison primarily reflects unrealized mark-to-market gains attributable to certain wholesale energy supply and retail sales contracts compared to unrealized losses in the prior year and higher gross margins from electric and natural gas sales, partially offset by higher operating expenses. 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 increased \$33.1 million in the six months ended March 31, 2011 compared to the same period in the prior fiscal year. This increase reflects a \$29.5 million increase in unrealized mark-to-market gains on energy-related derivatives resulting from fluctuating market prices and an increase in realized margins of \$3.6 million due to both higher sales volumes and unit margins. These higher unit margins reflect favorable price spreads on higher gas sales volumes driven by additional natural gas retail customers and favorable market conditions for portfolio optimization activity.

Gross margins from electric sales increased \$38.3 million in the six months ended March 31, 2011 compared to the same period of the prior fiscal year. This increase reflects a \$28.2 million increase in unrealized mark-to-market gains on energy-related derivatives and a \$10.1 million increase in realized margins due to higher electric sales associated with customer growth. In addition, electricity unit margins were higher in the current period as the prior year was impacted by increased balancing supply costs resulting from warmer weather which occurred in March 2010 and the pattern of margin recognition that results from sales under generally fixed-priced contracts with customers. Operating expenses were higher due to increased marketing initiatives (both mass market and large commercial) and higher labor costs.

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Design-Build Energy Systems. The design-build energy systems segment reported net income of \$0.2 million for the six months of fiscal year 2011, compared to a net loss of \$0.3 million reported for the six month period of fiscal year 2010. This increase is due to the commencement of new projects that were delayed in the prior fiscal year. 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 from the six months ended March 31, 2011 compared to the same period in 2010.

Composition of Interest Expense Changes

<i>(In millions)</i>	Increase / (Decrease)
Short-term debt	\$ 0.5
Other (includes AFUDC) (a)	(0.2)
Total	\$ 0.3

(a) Represents Allowance for Funds Used During Construction.

WGL Holdings’ interest expense of \$20.3 million for the six months ended March 31, 2011 increased \$0.3 million from \$20.0 million for the same six month period of the prior fiscal year. The increase for the period primarily reflects higher expense related to uncertain tax positions.

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 and 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 three months ended March 31, 2011, WGL Holdings met its liquidity and capital needs through the retention of earnings and the issuance of commercial paper and common stock. Washington Gas met its liquidity and capital needs through the retention of earnings and the issuance of commercial paper.

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 March 31, 2011, total consolidated capitalization, including current maturities of long-term debt and excluding notes payable, comprised 64.5% common equity, 1.5% preferred stock and 34.0% 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.

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Our plans provide for sufficient liquidity to satisfy our financial obligations. At March 31, 2011, 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' business is weather sensitive and seasonal, causing short-term cash requirements to vary significantly during the year. Approximately 80.0% of the total therms delivered in Washington Gas' 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 six 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' 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, WGEServices and CEV have seasonal short-term cash requirements to fund the purchase of storage gas inventory in advance of the winter heating periods in which a large portion of the storage gas is sold. At March 31, 2011 and September 30, 2010, Washington Gas had balances in gas storage of \$57.4 million and \$169.3 million, respectively; WGEServices had balances in gas storage of \$3.1 million and \$66.2 million, respectively, and CEV had balances in gas storage of \$23.0 million and \$6.7 million, respectively. Washington Gas collects the cost of gas under cost recovery mechanisms approved by its regulators. WGEServices and CEV collect revenues that are designed to reimburse their commodity costs used to supply their retail customer and wholesale counterparty contracts. Variations in the timing of cash receipts from customers under these collection methods can significantly affect short-term cash requirements. In addition, Washington Gas, WGEServices and CEV pay their respective commodity suppliers before collecting the accounts receivable balances resulting from these sales. WGEServices and CEV derive their funding to finance these activities from short-term debt issued by WGL Holdings. Additionally, Washington Gas, WGEServices and CEV may be required to post cash collateral for certain purchases or provide parent guarantees from WGL Holdings for certain non-utility purchases.

Variations in the timing of collections of gas costs under Washington Gas' gas cost recovery mechanisms can significantly affect short-term cash requirements. At March 31, 2011, Washington Gas had a \$42.0 million balance of unrecovered gas costs due from customers related to the most recent twelve month gas cost recovery cycle ended August 31, 2010. Most of this balance will be collected from customers in fiscal year 2011. 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 March 31, 2011, Washington Gas had a net regulatory liability balance related to the current gas recovery cycle of \$46.0 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 March 31, 2011.

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Committed Credit Available (In millions)

As of March 31, 2011	WGL Holdings	Washington Gas	Total Consolidated
Committed credit agreements			
Unsecured revolving credit facility, expires August 3, 2012 (a)	\$ 400.0	\$ 300.0	\$ 700.0
Less: Commercial Paper	(15.7)	-	(15.7)
Net committed credit available	\$ 384.3	\$ 300.0	\$ 684.3

As of September 30, 2010	WGL Holdings	Washington Gas	Total Consolidated
Committed credit agreements			
Unsecured revolving credit facility, expires August 3, 2012 (a)	\$ 400.0	\$ 300.0	\$ 700.0
Less: Commercial Paper	(57.0)	(43.4)	(100.4)
Net committed credit available	\$ 343.0	\$ 256.6	\$ 599.6

(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’ revolving credit facility permits it to borrow an additional \$100 million, with the banks’ approval, for a total of \$400 million.

WGL Holdings utilizes short-term debt in the form of commercial paper or unsecured short-term bank loans to meet its financing requirements including cash collateral requirements posted to counterparties associated with WGEServices’ and CEV’s contracts.

At March 31, 2011 and September 30, 2010, WGL Holdings and its subsidiaries had outstanding notes payable in the form of commercial paper of \$15.7 million and \$100.4 million, respectively, at a weighted average interest rate of 0.31%. Bank credit balances available to WGL Holdings and Washington Gas net of commercial paper balances were \$384.3 million and \$300.0 million at March 31, 2011 and \$343.0 million and \$256.6 million at September 30, 2010, respectively. Refer to Note 3—*Short-Term Debt* of the Notes to the Consolidated Financial Statements for further information.

To manage credit risk, Washington Gas, WGEServices and CEV may require deposits from certain customers and suppliers, which are reported as current liabilities in “Customer deposits and advance payments,” in the accompanying balance sheet. At March 31, 2011 and September 30, 2010, “Customer deposits and advance payments” totaled \$57.6 million and \$65.3 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’ 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 and CEV, deposits typically represent collateral for transactions with wholesale counterparties. 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 the use of deposit funds and interest is paid 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’ distribution system. Refer to the section entitled “*Capital Expenditures*” for further discussion of our capital expenditures forecast and our 2010 Annual Report for further discussion of our long-term debt maturities.

At March 31, 2011, Washington Gas had the capacity under a shelf registration to issue up to \$375.0 million of additional Medium-Term Notes (MTNs). Washington Gas has authority from its regulators to issue other forms of debt, including private placements.

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We are exposed to interest-rate risk associated with our debt financing. Washington Gas utilizes derivative instruments to minimize its exposure to the risk of interest-rate volatility. On December 3, 2010, Washington Gas Light Company issued \$75.0 million of 5.21% fixed MTNs due December 3, 2040. Refer to the section entitled “Interest-Rate Risk” included in Management’s Discussion for further discussion of our interest-rate risk management activity.

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’ 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.

Credit Ratings for Outstanding Debt Instruments

Rating Service	WGL Holdings		Washington Gas	
	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)	A+	A-1	A+	A-1

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

^(b) The long-term debt ratings outlook issued by Standard & Poor’s Ratings Services for WGL Holdings and Washington Gas is stable.

On March 18, 2011, Standard & Poor’s Ratings Services (Standard & Poor’s) lowered the corporate credit ratings of WGL Holdings and Washington Gas from AA- to A+, and lowered its commercial paper ratings of WGL Holdings and Washington Gas from A-1+ to A-1. Standard & Poor’s also revised its ratings outlook for both WGL Holdings and Washington Gas from negative to stable.

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’ 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’ failure to pay principal or interest when due on any other indebtedness may be deemed 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 March 31, 2011, we were in compliance with all of the covenants under our revolving credit facilities.

For certain of Washington Gas’ 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 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’ credit rating declines, then the counterparty may require additional credit support. At March 31, 2011, 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.

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WGL Holdings has guaranteed payments for certain purchases of natural gas and electricity on behalf of its wholly-owned subsidiaries, WGEServices and CEV (refer to our 2010 Annual Report for a further discussion of these guarantees). If the credit rating of WGL Holdings declines, WGEServices and CEV may be required to provide additional credit support for these purchase contracts. At March 31, 2011, WGEServices and CEV would not be required to provide 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 \$338.3 million for the six months ended March 31, 2011. 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 \$246.3 million from September 30, 2010, primarily due to increased sales volumes to customers during our winter heating season and increased sales volumes associated with Washington Gas' asset optimization program.
- Storage gas inventory cost levels decreased \$158.7 million from September 30, 2010 due to conversion to cash through seasonal physical withdrawals.
- Gas costs (current and deferred) and other regulatory assets / liabilities — net decreased \$35.3 million from September 30, 2010 primarily due to the recovery of gas cost under collections related to the prior gas cost recovery cycle, increases in the liability for weather related billing adjustment mechanisms and recoveries in excess of gas costs incurred.
- Accounts payable and other accrued liabilities increased \$65.2 million, due to an increase in the prices and volumes of natural gas purchases and increased trading activity in CEV. Volumes increased both for deliveries to customers for the 2010-2011 winter heating season and for Washington Gas' asset optimization program.
- Accrued taxes increased \$49.9 million from September 30, 2010 primarily due to an increase in fuel taxes in Maryland and the District of Columbia.
- Other current liabilities, primarily related to derivative instruments, decreased \$26.8 million primarily due to increases in energy price levels and an increase in electric swap volumes.

Cash Flows Used in Financing Activities

Cash flows used in financing activities totaled \$75.7 million for the six months ended March 31, 2011, reflecting the retirement of \$30.0 million of long-term debt and \$84.7 million of notes payable and our common and preferred stock dividend payments totaling \$39.2 million, partially offset by our long-term debt issuance of \$75.0 million.

Cash Flows Used in Investing Activities

During the six months ended March 31, 2011, cash flows used in investing activities totaled \$81.4 million, which primarily consists of capital expenditures made on behalf of Washington Gas. In addition, investing activities also reflects our initial investment in commercial Solar PV facilities and investments in a tax partnership to directly fund residential Solar PV facilities.

Capital Expenditures

The following table depicts our revised capital expenditures budget for fiscal years 2011 through 2015. Our capital expenditures program includes investments to extend service to new areas, and to provide safe, reliable and improved service.

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Projected Capital Expenditures

<i>(in millions)</i>	Year Ending September 30,					Total
	2011	2012	2013	2014	2015	
New business	\$ 50.5	\$ 55.4	\$ 51.7	\$ 53.3	\$ 59.3	\$ 270.2
Replacements - Other	66.6	70.9	68.2	65.6	71.0	342.3
LNG storage facility	0.4	18.7	66.2	39.2	31.5	156.0
SOC redevelopment project	46.7	21.6	-	-	-	68.3
Other ^(a)	98.4	92.5	72.0	38.8	34.7	336.4
Total-accrual basis	\$ 262.6	\$ 259.1	\$ 258.1	\$ 196.9	\$ 196.5	\$ 1,173.2

^(a) Excludes Allowance for Funds Used During Construction. Includes capital expenditures accrued and capital expenditure adjustments recorded in the fiscal year and amounts for expansion of solar investments and other non-utility projects.

The 2011 to 2015 projected periods include \$270.2 million for continued growth to serve new customers, and \$342.3 million primarily related to the replacement and betterment of existing distribution facilities, including \$114.0 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 State Corporation Commission (SCC of VA) on August 4, 2010, and \$18.4 million of expenditures for a mechanically coupled pipeline encapsulation program in the District of Columbia. Additionally, the projected period contains capital expenditures to construct a Liquefied Natural Gas (LNG) storage facility on land owned by Washington Gas in Chillum, Maryland (refer to the section entitled “Chillum LNG Facility”). Projected expenditures also reflect \$68.3 million for the development of new office and operations facilities at the Springfield Operations Center and \$336.4 million of other expenditures, which include general plant and various non-utility investments. Non-utility investments include additional commercial Solar PV facilities and investments in a tax partnership to directly fund residential Solar PV facilities.

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 BPO program.

Reference is made to the “Contractual Obligations, Off-Balance Sheet Arrangements and Other Commercial Commitments” section of Management’s Discussion in our 2010 Annual Report for a detailed discussion of our contractual obligations. Note 4 of the Notes to Consolidated Financial Statements in our 2010 Annual Report includes a discussion of long-term debt, including debt maturities. Note 13 of the Notes to Consolidated Financial Statements in our 2010 Annual Report reflects information about the various contracts of Washington Gas and WGEServices. Additionally, refer to Note 13 of the Notes to Consolidated Financial Statements 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’ 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. As the lender funds the construction project, Washington Gas establishes a note receivable representing its customers’ obligations to remit principal and interest and a long-term note payable to the lender. When these projects are formally “accepted” by the customer as completed, Washington Gas transfers the ownership of the note receivable to the lender and removes both the note receivable and the long-term financing from its financial statements. As of March 31, 2011, work on these construction projects that was not completed or accepted by customers was valued at \$6.9 million, which is recorded on the balance sheet as a note 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

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is accepted by the customer, the lender will have no recourse against Washington Gas related to this long-term debt. Construction projects are financed primarily for government agencies, which Washington Gas considers to have minimal credit risk. Based on this minimal risk assessment and previous collection experience, Washington Gas considers these receivables to be collectible and did not record a corresponding reserve for bad debt at March 31, 2011.

Financial Guarantees

WGL Holdings has guaranteed payments primarily for certain purchases of natural gas and electricity on behalf of the retail energy-marketing segment. At March 31, 2011, these guarantees totaled \$555.3 million. WGL Holdings has also guaranteed certain purchase commitments of its CEV subsidiary. At March 31, 2011, these guarantees totaled \$86.4 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 counterparties when required by our credit policy. WGL Holdings also issued guarantees totaling \$3.0 million at March 31, 2011 on behalf of certain of our non-utility subsidiaries associated with their banking transactions. Of the total guarantees of \$644.7 million, \$49.1 million is due to expire on October 31, 2011 and \$36.0 million is due to expire on December 31, 2011. 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, 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' 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' motion for summary judgment; however, Washington Gas has filed an amended complaint and there will be further proceedings for consideration of the preemption issues raised by Washington Gas.

In 2005, Washington Gas requested approval from the 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 analysis 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' 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 Washington Gas' 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.

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Operating Issues Related To Cove Point Natural Gas Supply

In late fiscal year 2003, Dominion reactivated its Cove Point LNG terminal. In June 2006, the FERC issued an order approving a request by Dominion to expand the capacity and output of its Cove Point LNG terminal by the end of 2008. Washington Gas has since filed several petitions with the United States Court of Appeals for the District of Columbia Circuit Court (the Court of Appeals), all of which have been denied, requesting a stay of action on the proposed expansion and further evidence from Dominion demonstrating the safety of Cove Point gas flowing through the Washington Gas distribution system. 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 Washington Gas' petition for review. Washington Gas did not appeal this decision.

A large portion of the gas delivered from the Cove Point LNG terminal comes to the Washington Gas service territory as a result of Washington Gas' 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 serves 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 a portion of our distribution system 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.

An additional 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' 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' distribution system, unless there is a decrease in the flow of Cove Point gas or blending of the gas sufficient to allow Washington Gas time to mitigate the effects of such flows. Washington Gas is attempting to mitigate this anticipated increase in leaks through: (i) mechanically coupled pipeline replacement programs; (ii) the operation of three 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 installed and operates HHC injection facilities at three gate stations. 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*" for details regarding cost recovery).

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. The current planned mechanical coupling remediation and replacement work includes a planned \$32 million mechanically coupled pipe replacement program approved by the SCC of VA on September 19, 2007 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 District of Columbia Public Service Commission (PSC of DC). Additionally, Washington Gas has budgeted \$8.0 million towards replacing mechanically coupled pipe in Maryland in fiscal year 2011. Washington Gas has also filed for approval of a fifteen-year replacement program for certain vintages of mechanically coupled pipe in the Virginia service territory under the Virginia SAVE Plan (refer to the section entitled "*Rates and Regulatory Matters*" for further discussion of this matter). Washington Gas estimates that it will spend approximately \$256.0 million over the fifteen-year period.

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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 and increased flow of the gas from Cove Point. 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' 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.

Notwithstanding Washington Gas' 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.

CREDIT RISK

Wholesale Credit Risk

Certain wholesale suppliers that sell natural gas to any or all of Washington Gas, WGEServices, and CEV 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.

For WGEServices, any failure of wholesale counterparties to deliver natural gas or electricity under existing contracts could cause financial exposure 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.

CEV enters into transactions with wholesale counterparties for the purposes of optimizing its portfolio of owned and managed natural gas assets. In the event of a counterparty's failure to deliver contracted volumes or fulfill purchase obligations, CEV could be financially exposed to the difference between the price at which it had contracted to buy or sell these commodities and the replacement cost or sale price, respectively. In addition to price risk, CEV may be exposed to payment risk if it is in a net receivable position with counterparties. CEV enters into contracts with third parties to hedge the costs of natural gas. Depending on the ability of the third parties to fulfill their commitments, CEV could be at risk for financial loss.

Washington Gas, WGEServices, and CEV have 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 these policies, Washington Gas, WGEServices and CEV have each obtained credit enhancements from certain of its counterparties. If certain counterparties or their guarantors meet the policy's credit

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worthiness criteria, Washington Gas, WGEServices, and CEV may grant unsecured credit to those counterparties or their guarantors. The credit worthiness of all counterparties is continuously monitored.

Washington Gas, WGEServices and CEV are also subject to the collateral requirements of their counterparties. At March 31, 2011, Washington Gas, WGEServices and CEV had provided \$10.5 million, \$22.3 million and \$10.2 million in cash collateral to counterparties, respectively.

The following table provides information on our credit exposure, net of collateral, to wholesale counterparties as of March 31, 2011 for both Washington Gas and Non-Utility Operations, 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	\$ 10.3	\$ -	\$ 10.3	4	\$ 9.3
Non-Investment Grade	-	-	-	-	-
No External Ratings	0.8	-	0.8	-	-
Non-Utility Operations					
Investment Grade	\$ 7.3	\$ -	\$ 7.3	3	\$ 6.9
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 by its retail customers for both invoiced and unbilled sales. 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. In addition, WGEServices participates in a POR program with certain Maryland and Pennsylvania utilities, whereby it sells its receivables to various utilities at approved discount rates. Under the POR program, WGEServices is exposed to the risk of non-payment by its retail customers for delivered commodities that have not yet been billed. However, once the invoices are billed, the associated credit risk is assumed by the purchasing utilities. While participation in the POR program reduces the risk of collections and locks in a discount rate on the receivables, there is a risk that the discount rate paid to participate in the POR program will exceed the actual bad debt expense and billing fees associated with these receivables.

CEV is not subject to retail credit risk.

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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’ 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 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’ 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 six months ended March 31, 2011:

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

<i>(In millions)</i>	
Net assets (liabilities) at September 30, 2010	\$ 24.0
Net fair value of contracts entered into during the period	(17.5)
Other changes in net fair value	(14.4)
Realized net settlement of derivatives	(0.7)
Net assets (liabilities) at March 31, 2011	\$ (8.6)

Regulated Utility Segment
Roll Forward of Energy-Related Derivatives

<i>(In millions)</i>	
Net assets (liabilities) at September 30, 2010	\$ 24.0
Recorded to income	(10.9)
Recorded to regulatory assets/liabilities	(21.0)
Realized net settlement of derivatives	(0.7)
Net assets (liabilities) at March 31, 2011	\$ (8.6)

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The maturity dates of our net assets (liabilities) associated with the regulated utility segment’s energy-related derivatives recorded at fair value at March 31, 2011, is summarized in the following table based on the level of the fair value calculation under Accounting Standards Codification (ASC) Topic 820:

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

(In millions)	Years Ended September 30,						
	Total	Remainder 2011	2012	2013	2014	2015	Thereafter
Level 1 — Quoted prices in active markets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Level 2 — Significant other observable inputs	4.3	(3.3)	(0.4)	5.6	0.3	2.1	-
Level 3 — Significant unobservable inputs	(12.9)	(2.0)	(4.1)	(7.0)	(0.3)	0.3	0.2
Total net assets (liabilities) associated with our energy-related derivatives	\$ (8.6)	\$ (5.3)	\$ (4.5)	\$ (1.4)	\$ -	\$ 2.4	\$ 0.2

Refer to Notes 9 and 10 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 Non-Utility Segments

WGEServices. 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.

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 (refer to the section entitled “Weather Risk” for a further discussion of our management of weather risk). WGEServices may manage these risks through the use of derivative instruments including financial products and wholesale supply contracts that provide for volumetric variability.

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).

Other Non-Utility. CEV engages in wholesale commodity transactions to optimize its owned and managed capacity assets. CEV’s risk management policy requires it to closely match its forward physical and financial positions with its asset base, thereby minimizing its price risk exposure. Depending upon the nature of its forward hedges, CEV may be exposed to fluctuations in mark-to-market valuations based on changes in forward price curves.

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The following two tables summarize the changes in the fair value of our net assets (liabilities) associated with the non-utility segments’ energy-related derivatives for both natural gas and electricity during the six months ended March 31, 2011:

Non-Utility Segments
Changes in Fair Value of Energy-Related Derivatives

<i>(In millions)</i>	
Net assets (liabilities) at September 30, 2010	\$ (46.6)
Net fair value of contracts entered into during the period	6.2
Other changes in net fair value	11.7
Realized net settlement of derivatives	12.1
Net assets (liabilities) at March 31, 2011	\$ (16.6)

Non-Utility Segments
Roll Forward of Energy-Related Derivatives

<i>(In millions)</i>	
Net assets (liabilities) at September 30, 2010	\$ (46.6)
Recorded to income	20.1
Recorded to accounts payable	(2.2)
Recorded to retained earnings	-
Net option premium payments	-
Realized net settlement of derivatives	12.1
Net assets (liabilities) at March 31, 2011	\$ (16.6)

The maturity dates of our net assets (liabilities) associated with the non-utility segment’s energy-related derivatives recorded at fair value at March 31, 2011 is summarized in the following table based on the level of the fair value calculation under ASC Topic 820:

Non-Utility Segments
Maturity of Net Assets (Liabilities) Associated with our Energy-Related Derivatives

<i>(In millions)</i>	Years Ended September 30,						
	Total	Remainder 2011	2012	2013	2014	2015	Thereafter
Level 1 — Quoted prices in active markets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Level 2 — Significant other observable inputs	(5.5)	(3.4)	(1.1)	(0.8)	(0.2)	-	-
Level 3 — Significant unobservable inputs	(11.1)	(2.7)	(7.1)	(1.3)	-	-	-
Total net assets (liabilities) associated with our energy-related derivatives	\$ (16.6)	\$ (6.1)	\$ (8.2)	\$ (2.1)	\$ (0.2)	\$ -	\$ -

Refer to Note 9 and 10 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 March 31, 2011 was approximately \$2,300 and \$155,200, related to its natural gas and electric portfolios, respectively.

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Weather Risk

We are exposed to various forms of weather risk in both our regulated utility and non-utility 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 and weather derivatives 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-utility 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 adjustment (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. On July 22, 2010, the State Corporation Commission of Virginia authorized Washington Gas to implement, effective from July 2010, 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 (VA Staff) on April 19, 2010 to implement the Conservation and Ratemaking Efficiency Plan on May 1, 2010. In the District of Columbia, Washington Gas filed a revised tariff application seeking approval of an RNA. A commission decision was issued on December 17, 2010, wherein the Commission determined that it would be more appropriate to consider Washington Gas’ RNA proposal in the context of a fully litigated base rate case. Washington Gas filed an application for reconsideration on January 18, 2011, but the Commission affirmed its previous ruling. The matter is pending. For a discussion of current rates and regulatory matters, refer to the section entitled “Rates and Regulatory Matters” in Management’s Discussion for Washington Gas.

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 and the Conservation and Ratemaking Efficiency (CARE) adjustment to function conversely because it adjusts billed revenues to provide a designed level of net revenue per meter.

Weather Derivatives. 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 9 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. Refer to the section entitled “Long-Term Cash Requirements and Related Financing” for further discussion of our interest-rate risk management activity.

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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 March 31, 2011 vs. March 31, 2010

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 net income applicable to common stock of \$70.7 million for the three months ended March 31, 2011, a decrease of \$20.1 million from net income applicable to common stock of \$90.8 million reported for the same three months of the prior fiscal year. Changes in the composition of earnings from the prior period include: (i) a \$20.8 million decrease in unrealized margins associated with our asset optimization program; (ii) a \$3.3 million decrease relating to the impact of the reduction in Maryland depreciation rates effective on June 1, 2010, creating a timing difference between the recognition and recovery of depreciation expense; (iii) \$2.7 million in unfavorable effects of changes in natural gas consumption patterns; (iv) \$3.4 million in higher costs for weather protection products related to the District of Columbia and (v) \$1.7 million in higher employee benefit expense primarily due to changes in pension and retiree medical plan valuation assumptions. Partially offsetting these variances were: (i) a \$1.9 million decrease in recurring BPO costs; (ii) a \$1.5 million increase in revenues related to growth of more than 10,200 average active customer meters; (iii) a \$1.5 million increase in the recovery of storage gas inventory carrying costs reflecting higher average inventory values and (iv) a \$1.4 million increase in realized margins associated with our asset optimization program.

Key gas delivery, weather and meter statistics are shown in the table below for the three months ended March 31, 2011 and 2010.

Gas Deliveries, Weather and Meter Statistics

	Three Months Ended March 31,		Increase/ (Decrease)
	2011	2010	
Gas Sales and Deliveries (millions of therms)			
Firm			
Gas sold and delivered	418.2	436.7	(18.5)
Gas delivered for others	212.5	211.6	0.9
Total firm	630.7	648.3	(17.6)
Interruptible			
Gas sold and delivered	0.8	1.4	(0.6)
Gas delivered for others	93.5	97.9	(4.4)
Total interruptible	94.3	99.3	(5.0)
Electric generation—delivered for others	7.1	12.4	(5.3)
Total deliveries	732.1	760.0	(27.9)
Degree Days			
Actual	2,207	2,177	30
Normal	2,109	2,104	5
Percent colder (warmer) than normal	4.6%	3.5%	n/a
Average active customer meters	1,088,647	1,078,358	10,289
New customer meters added	2,035	1,989	46

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’ 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).

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During the quarter ended March 31, 2011, total gas deliveries to firm customers were 630.7 million therms compared to 648.3 million therms delivered in the same quarter of the prior fiscal year. This decrease in natural gas deliveries to firm customers reflects unfavorable effects of changes in natural gas consumption patterns partially offset by colder weather and customer growth.

Weather, when measured by HDDs, was 4.6% colder than normal in the second quarter of fiscal year 2011, compared to 3.5% colder than normal for the same quarter of fiscal year 2010. Including the effects of our weather protection strategy, there were no material effects on net income attributed to colder or warmer than normal weather on either the quarter ended March 31, 2011 or March 31, 2010.

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 94.3 million therms during the second quarter of fiscal year 2011, compared to 99.3 million therms for the same quarter last year, reflecting reduced 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’ 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 quarter ended March 31, 2011, deliveries to these customers decreased by 5.3 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 — Six Months Ended March 31, 2011 vs. March 31, 2010

Washington Gas reported net income applicable to common stock of \$111.1 million for the six months ended March 31, 2011, a decrease of \$20.2 million over net income applicable to common stock of \$131.3 million reported for the same six months of the prior fiscal year. The decrease in net income primarily reflects: (i) a \$26.7 million decrease in unrealized margins associated with our asset optimization program; (ii) a \$3.9 million decrease relating to the impact of the reduction in Maryland depreciation rates effective on June 1, 2010, creating a timing difference between the recognition and recovery of depreciation expense; (iii) \$4.9 million in higher employee benefit expense primarily due to changes in pension and retiree medical plan valuation assumptions; (v) \$1.2 million in unfavorable effects of changes in natural gas consumption patterns and (vi) \$2.5 million in higher costs for weather protection products related to the District of Columbia. Partially offsetting these unfavorable variances were: (i) a \$5.9 million increase in realized margins associated with our asset optimization program; (ii) a \$4.5 million decrease in recurring BPO costs and (iii) \$2.9 million increase in revenues related to growth of more than 9,800 average customer meters.

Key gas delivery, weather and meter statistics are shown in the table below for the six months ended March 31, 2011 and 2010.

Gas Deliveries, Weather and Meter Statistics

	Six Months Ended		Increase/ (Decrease)
	2011	2010	
Gas Sales and Deliveries (millions of therms)			
Firm			
Gas sold and delivered	719.4	706.7	12.7
Gas delivered for others	379.3	370.5	8.8
Total firm	1,098.7	1,077.2	21.5
Interruptible			
Gas sold and delivered	1.6	2.9	(1.3)
Gas delivered for others	179.9	175.4	4.5
Total interruptible	181.5	178.3	3.2
Electric generation—delivered for others	23.4	23.5	(0.1)
Total deliveries	1,303.6	1,279.0	24.6
Degree Days			
Actual	3,712	3,608	104
Normal	3,455	3,451	4
Percent colder (warmer) than normal	7.4%	4.5%	n/a
Average active customer meters	1,083,555	1,073,732	9,823
New customer meters added	4,862	5,073	(211)

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Gas Service to Firm Customers. During the six months ended March 31, 2011, total gas deliveries to firm customers were 1,098.7 million therms compared to 1,077.2 million therms delivered in the same period of the prior year. This increase in natural gas deliveries to firm customers reflects colder weather in the current six-month period than in the same period of the prior fiscal year and customer growth, partially offset by unfavorable effects of changes in natural gas consumption patterns.

Weather, when measured by HDDs, was 7.4% colder than normal in the six months ended March 31, 2011, compared to 4.5% 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 six months ended March 31, 2011 or March 31, 2010.

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 181.5 million therms during the six months ended March 31, 2011, compared to 178.3 million therms for the same six month period of the prior year, reflecting increased 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' 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 six months ended March 31, 2011, deliveries to these customers decreased by 0.1 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.

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' jurisdictions.

District of Columbia Jurisdiction

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' non-gas revenues from actual delivered volumes of gas. On December 22, 2009, the District of Columbia Office of the People's Counsel (DC OPC) filed a motion requesting that the PSC of DC establish public hearing procedures to examine the merits of Washington Gas' 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 an evidentiary proceeding to consider issues surrounding Washington Gas' 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 and the Apartment and Office Building Association of Metropolitan Washington 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. Initial briefs were filed on August 13, 2010, and reply briefs were submitted on August 26, 2010. On December 17, 2010 the PSC of DC issued an order denying Washington Gas' application for an RNA stating that the RNA should be considered in the context of a base rate case proceeding. Washington Gas filed an application for reconsideration on January 18, 2011. The PSC of DC denied Washington Gas' application for reconsideration on February 28, 2011, affirming its previous rulings that the matter should be reviewed in a base rate case.

Affiliate Transactions Code of Conduct. On February 1, 2011, the PSC of DC issued an order adopting rules governing affiliate transactions code of conduct for regulated energy utilities and their affiliates. Included among the regulations are limitations on joint marketing with core service affiliates, and disclosure of customer-specific information, as well as restrictions on (i) favorable treatment of affiliates, (ii) the provision of loans and loan guarantees by the utility to an affiliate, and (iii) sharing and temporary assignment of electric company employees with an affiliate. These regulations also require the energy utilities to file Cost Allocation Manuals (CAM) with the PSC of DC demonstrating how they allocate and account for shared services with their affiliates. The CAM must be filed with the PSC of DC annually within four months of the close of the utility's fiscal year.

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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' purchased gas costs are reasonable.

The Office of the Staff of the PSC of MD (MD Staff) and the Maryland Office of the People's Counsel (MD OPC) are challenging a portion of Washington Gas' purchased gas charges for the twelve month period ended August 31, 2009 averring that Washington Gas did not have authority under its tariff to satisfy in cash its obligation (cash-out) for over-deliveries by suppliers over the 12-months ended March 2009 and also asserting that Washington Gas used an "excessive price" as the cash-out price. The MD Staff recommended that a second phase to the proceeding be initiated to investigate these assertions. Washington Gas has objected to both these assertions. Discovery and testimony were filed in the case, and a hearing was held on March 25, 2010. The MD OPC has taken a position that \$2.1 million of gas costs related to the purchase of competitive service provider (CSP) inventory included in the purchased gas charge should be disallowed. Briefs were filed April 30, 2010, and reply briefs were filed May 21, 2010. A proposed order was issued by the Hearing Examiner on August 25, 2010, finding that under the tariff, Washington Gas should have resolved supplier over-deliveries during the review period by adjusting future delivery volumes by suppliers, rather than by cash-out. The proposed order directed Washington Gas to refund to customers the excess costs paid to suppliers as a result of the cash-out of supplier over-deliveries. The proposed order also directed Washington Gas to present an "exact calculation" of the excess amount paid to suppliers in accordance with the methodology proposed by the MD OPC. The MD OPC had estimated the amount of the excess costs to Maryland ratepayers to be approximately \$2.1 million. The proposed order directs Washington Gas to credit \$2.1 million to the actual cost adjustment (ACA) as recommended by the MD OPC. The MD Staff and Washington Gas filed notices of appeal of the proposed order on September 23 and 24, 2010, respectively, and memorandums on appeal on October 1 and 4, 2010, respectively. A decision from the PSC of MD is pending.

Investigation of Asset Management and Gas Purchase Practices. On July 24, 2008, the Staff Counsel of the PSC of MD (Staff Counsel) submitted a petition to the PSC of MD to establish an investigation into Washington Gas' 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 Staff Counsel. 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' 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' move to self-optimization of its gas assets, concluding that "the evidence on the record in this case is overwhelming that Washington Gas' decision to transition to self-management has in fact been prudent and resulted in substantial rate benefits." The POHE approved Washington Gas' 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 Purchased Gas Charge (PGC) provision.

The POHE approved Washington Gas' 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 strongly urged 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 MD OPC 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 MD Staff and the MD OPC's Memoranda on Appeal. A decision by the PSC of MD is pending.

Review of Washington Gas' 2009 — 2013 Gas Portfolio Plan. On March 19, 2009, the PSC of MD docketed a proceeding to review Washington Gas' 2009 — 2013 Gas Portfolio Plan, specifically noting Washington Gas' 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. Upon consideration of a motion to combine review of Washington Gas' Gas Portfolio Plans, on January 6, 2010, the PSC of MD consolidated this proceeding with Washington Gas' 2010 — 2014 Gas Portfolio Plan, which was filed on November 17, 2009. Washington Gas announced on May 6, 2010, that it

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projected a new in-service date for the on-system peaking facility: the 2015-2016 winter heating season. As a result, 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. The hearing examiner subsequently approved Washington Gas' portfolio plan, including the reserve margins reflected in Washington Gas' energy acquisition planning. Initial briefs were filed on August 13, 2010 and reply briefs were filed on September 17, 2010. On October 27, 2010, the hearing examiner issued a proposed order. The hearing examiner found:

- (i) the Gas Portfolio Plan proposed by Washington Gas for years 2009-2013 and 2010-2014 is reasonable;
- (ii) the design day forecasts contained in Washington Gas' plans are correct and reasonable in determining the design day requirement;
- (iii) a reserve margin proposed by Washington Gas of 5.0% to 6.5% continues to be reasonable; and that
- (iv) some additional information should be filed along with all future plans.

The proposed order became final on November 30, 2010 as it was not appealed by any party.

New Base Rate Case

On April 15, 2011, Washington Gas filed a request for a base rate increase of \$30.0 million with the PSC of MD requesting authority to increase its rates and charges and to revise the terms and conditions applicable to gas service in Maryland.

This application seeks to establish new base rates and charges that will increase annual operating revenues by approximately \$30.0 million, resulting in an overall rate of return of 8.59% and a return on common equity of 10.45%. This compares to the overall rate of return of 8.2% and return on common equity of 10.0% as authorized by the PSC of MD in its Final Order issued to Washington Gas on November 16, 2007.

Washington Gas has also included a request for approval of a rate adjustment mechanism to recover costs associated with the accelerated replacement of transmission and distribution pipe designed to enhance safety and system reliability in a manner that does not financially burden Washington Gas or its customers. Washington Gas also proposes certain changes to its general service provisions which include: (i) payments; (ii) submetering; (iii) installation of service pipes and connections; (iv) economic evaluation of facilities extensions; (v) purchased gas charge and (vi) automatic payment plan. In addition, Washington Gas also proposed two new general service provisions pertaining to the balancing for natural gas-fired generating stations and the implementation of the accelerated pipe replacement plan rider.

On April 18, 2011, Washington Gas received an order from the PSC of MD related to this rate filing suspending the proposed rates and charges and the proposed changes in the terms and conditions for gas service for an initial period of 150 days following the 30 day notice period, as permitted under the Code of Maryland. New rates are expected to go into effect in November 2011.

Virginia Jurisdiction

Conservation and Ratemaking Efficiency Plan (CARE 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 (VA Staff) on April 19, 2010 to implement the Conservation and Ratemaking Efficiency Plan on May 1, 2010. Washington Gas began applying the decoupling mechanism in Virginia in its July billings for residential customers consistent with the SCC of VA'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 that will adjust weather normalized non-gas distribution revenues for the impact of conservation or energy efficiency efforts. In accordance with the procedural schedule established for the

WGL Holdings, Inc.
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Item 2—Management's Discussion and Analysis of
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proceeding, the VA Staff filed its report on September 13, 2010 and Washington Gas filed its response to the VA Staff report on September 24, 2010. On November 18, 2010, the SCC of VA issued an order that denied Washington Gas' application. The SCC of VA found that Washington Gas' current tariff and its underlying class cost of service and revenue apportionment studies do not segregate small versus large customers and that only small customers qualify under the CARE law. The SCC of VA stated that Washington Gas could amend the underlying tariff and studies in connection with its required February 1, 2011 base rate case filing. Such a tariff amendment was proposed in the filing made with the SCC of VA on January 31, 2011, and noted below.

Steps to Advance Virginia's Energy Plan (SAVE Plan). On August 4, 2010 Washington Gas filed an application (and supplemental testimony on October 25, 2010) with the SCC of VA for approval of a SAVE Plan which included four gas utility infrastructure replacement programs and a SAVE rider to recover certain costs associated with the replacement programs. An evidentiary hearing was held on March 8, 2011. On April 21, 2011, the SCC of VA issued an Order approving Washington Gas' proposed five year SAVE Plan encompassing a total of \$116.5 million in expenditures for the four replacement programs for the period from June 2010 to December 31, 2014. The SCC of VA also approved a SAVE rider to recover the costs of the replacement programs, effective for bills rendered on or after May 1, 2011. The SCC of VA also established a schedule for the Company's SAVE rider filings for the approved SAVE plan.

New Base Rate Case

On January 31, 2011, Washington Gas filed a request with the SCC of VA for a \$29.6 million annual increase in revenues. The filing was made pursuant to the settlement agreement reached by the parties and approved by the SCC of VA in the company's last base rate case, which resulted in a Performance-Based Rate (PBR) plan. The filing made in January 2011 did not request either renewal or modification of the PBR plan; rather, the filing was based on traditional cost of service regulation. New rates cannot go into effect until after October 1, 2011, per the settlement agreement referenced above.

The \$29.6 million revenue increase requested in this application will result in an overall rate of return of 8.58% and a return on common equity of 10.5%, as compared to a return on common equity of 10.0% in the Company's last base rate proceeding.

Washington Gas proposes to continue the Weather Normalization Adjustment, which was previously approved by the SCC of VA. The Company also proposes a new sharing arrangement associated with Washington Gas' asset optimization program, and seeks to increase its research and development funding through programs sponsored by The Gas Technology Institute. In addition, the application includes various tariff revisions related to (i) payment processing, (ii) installation of service pipes and connections, (iii) economic evaluation of facilities extensions, (iv) Purchase Gas Charge, (v) automated payment plan, (vi) developmental natural gas vehicle service, (vii) balancing for natural gas-fired generating stations, and (viii) Rate Schedule Nos. 5, 5A and 6 pertaining to large non-residential customers.

The current procedural schedule provides for Washington Gas to file additional testimony on May 12, 2011, and testimony of other parties is due July 27, 2011. Hearings will take place this fall.

Performance-Based Rate Plans

In rate case proceedings in all local jurisdictions in 2006 and 2007, Washington Gas previously requested permission to implement 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 VA Staff 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' 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.

WGL Holdings, Inc.
Washington Gas Light Company
Part I—Financial Information

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 Non-Utility Segments
- 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 March 31, 2011. 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by WGL Holdings in the reports that it files or submits under the Exchange Act is accumulated and communicated to senior management, including the Chairman and Chief Executive Officer, and the Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There have been no changes in the internal control over financial reporting of WGL Holdings during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting of WGL Holdings.

WGL Holdings, Inc.
Washington Gas Light Company
Part II—Other Information

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 13 — *Commitments and Contingencies*, contained in Part 1 under the Notes to Consolidated Financial Statements.

ITEM 6. EXHIBITS

Exhibits:

Schedule/
Exhibit

Description

Schedule/ Exhibit	Description
(a)(3)	Exhibits Exhibits Filed Herewith:
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 March 31, 2011, filed on May 6, 2011 formatted in Extensible Business Reporting Language (XBRL):* <i>(i)</i> Consolidated Balance Sheets (Unaudited); <i>(ii)</i> Consolidated Statements of Income (Unaudited); <i>(iii)</i> Consolidated Statements of Cash Flows (Unaudited); <i>(iv)</i> Balance Sheets (Unaudited); <i>(v)</i> Statements of Income (Unaudited); <i>(vi)</i> Statements of Cash Flows (Unaudited) and <i>(vii)</i> Related Footnotes (Unaudited). Exhibits Incorporated by Reference:
3	<i>Articles of Incorporation & Bylaws:</i> 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 December 3, 2010, filed as Exhibit 3(ii) to Form 8-K on December 7, 2010.

* 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.

**WGL Holdings, Inc.
Washington Gas Light Company**

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: May 6, 2011

/s/ William R. Ford

William R. Ford
Controller
(Principal Accounting Officer)

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: May 6, 2011

/s/ Terry D. McCallister

Terry D. McCallister
Chairman and Chief Executive Officer

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: May 6, 2011

/s/ Vincent L. Ammann, Jr.

Vincent L. Ammann, Jr.

Vice President and Chief Financial Officer

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: May 6, 2011

/s/ Terry D. McCallister

Terry D. McCallister
Chairman and Chief Executive Officer

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: May 6, 2011

/s/ Vincent L. Ammann, Jr.

Vincent L. Ammann, Jr.

Vice President and Chief Financial Officer

**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 March 31, 2011 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

May 6, 2011

