

**PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
1325 G STREET, N.W., SUITE 800
WASHINGTON, D.C. 20005**

ORDER

June 29, 2018

**FORMAL CASE NO. 1142, IN THE MATTER OF THE MERGER OF ALTAGAS LTD.
AND WGL HOLDINGS, INC., Order No. 19396**

I. INTRODUCTION

1. By this Order, the Public Service Commission of the District of Columbia (“Commission”) approves the Unanimous Agreement of Stipulation and Full Settlement (“Settlement Agreement”)¹ filed by AltaGas Ltd. (“AltaGas” or “Company”), WGL Holdings, Inc. (“WGL Holdings”), and Washington Gas Light Company (“WGL”) (collectively, “Joint Applicants”); the Office of the People’s Counsel for the District of Columbia (“OPC”); the Apartment and Office Building Association of Metropolitan Washington (“AOBA”); the District of Columbia Government (“DCG”); the Department of Defense/Other Federal Executive Agencies (“DoD/FEA”); the National Consumer Law Center/National Housing Trust/National Housing Trust-Enterprise Preservation Corporation (“NCLC”); the Baltimore Washington Construction & Public Employees Laborers’ District Council (“LiUNA”); and the Office and Professional Employees International Union Local 2, AFL-CIO (“OPEIU”) (collectively, “the Settling Parties”). This Order also gives final approval to the Merger Application² (“Joint Application”) filed by AltaGas, WGL Holdings, and WGL pursuant to D.C. Code §§ 34-504 and 34-1001, subject to the conditions in this Order and Appendix A.³ The Settling Parties shall have five (5) days to indicate to the Commission whether they accept the conditions outlined in this Order and in Appendix A.

II. BACKGROUND

2. On April 25, 2017, the Commission opened this proceeding to review the merger Application filed by the Joint Applicants pursuant to D.C. Code § 34-504 and § 34-1001 on April 24, 2017.⁴ The Joint Applicants proposed to merge WGL Holdings, the parent of WGL, and Wrangler Inc. (“Merger Sub”), a wholly-owned indirect subsidiary of AltaGas (the “Proposed

¹ *Formal Case No. 1142, In the Matter of the Merger of AltaGas Ltd. and WGL Holdings, Inc.*, (“*Formal Case No. 1142*”), Consent Motion to Reopen the Record in Formal Case No. 1142 to Allow for Consideration of Unanimous Full Settlement Agreement and Stipulation, and to Waive Hearing on Proposed Settlement (“*Consent Motion*”), filed May 8, 2018.

² *Formal Case No. 1142*, Application of AltaGas Ltd., WGL Holdings, Inc. and Washington Gas Light Company (“*Joint Application*”), filed April 24, 2017.

³ D.C. Code §§ 34-504 and 34-1001 (2001 Ed.).

⁴ *Formal Case No. 1142*, Public Notice, rel. April 25, 2017.

Merger”).⁵ However, the Joint Applicants represent that WGL will continue to operate as a District of Columbia utility subject to the continuing jurisdiction of the Commission and without any reduction in the Commission’s existing oversight or authority.⁶ The Proposed Merger will be an all-cash transaction for approximately \$4.5 billion plus an assumption of approximately \$1.8 billion of WGL Holdings debt.⁷

3. After the filing of testimony and an evidentiary hearing held from December 5-13, 2017, the Joint Applicants filed the Consent Motion, including the Settlement Agreement, with the consent of the Settling Parties: OPC, AOBA, DCG, DoD/FEA, NCLC, LiUNA, and OPEIU, on May 8, 2018. The Settling Parties indicated that two of the parties in this proceeding, International Brotherhood of Teamster’s Local No. 96 (“Teamsters Local 96”) and Potomac Electric Power Company (“Pepco”), did not sign the Settlement Agreement but have stated that they do not oppose it.⁸

4. On May 25, 2018, the following parties submitted testimony in support of the Settlement Agreement: Joint Applicants,⁹ OPC,¹⁰ AOBA,¹¹ DCG,¹² LiUNA,¹³ and NCLC.¹⁴ The

⁵ Joint Application at 1.

⁶ Joint Application at 7.

⁷ Joint Application at 6.

⁸ Consent Motion at 2, n. 1.

⁹ *Formal Case No. 1142*, Settlement Testimony of John D. O’Brien, Jr. (“Exhibit JA 4(C) (O’Brien)”), Settlement Testimony of Adrian Chapman (“Exhibit JA 3(D) (Chapman)”), Settlement Testimony of John Reed (“Exhibit JA 4(L) (Reed)”), and Settlement Testimony of Paul Hibbard (“Exhibit JA 2(Q) (Hibbard)”), filed May 25, 2018.

¹⁰ *Formal Case No. 1142*, Office of the People’s Counsel of the District of Columbia’s Testimony in Support of the Unanimous Settlement Agreement and Stipulation (“Exhibit OPC 2(A) (Dismukes)”), filed May 25, 2018.

¹¹ *Formal Case No. 1142*, Testimony of AOBA Witness Margaret O. Jeffers in Support of Settlement (“Exhibit AOBA (C) (Jeffers)”), filed May 25, 2018. On June 1, 2018, AOBA filed an Errata to this Testimony, changing only the labelling of the testimony on the cover page.

¹² *Formal Case No. 1142*, Testimony of Witness Stephen G. Hill in Support of the Settlement Agreement (“Exhibit DCG 2(B) (Hill)”); Testimony of Witness Richard B. Kuprewicz in Support of the Settlement Agreement (“Exhibit DCG 2(F) (Kuprewicz)”); Testimony of Witness Asa S. Hopkins in Support of the Settlement Agreement (“Exhibit DCG 2(C) (Hopkins)”); Testimony of Witness Dev M. Murali in Support of the Settlement Agreement (“Exhibit DCG (K) (Murali)”), on behalf of the District of Columbia Government, filed May 25, 2018.

¹³ *Formal Case No. 1142*, Testimony in Support of the Settlement Agreement of David L. Allison, on behalf of the Baltimore Washington Construction and Public Employees Laborers’ District Council, Laborers’ International Union of North America and its Affiliated Local Unions, filed May 25, 2018.

¹⁴ *Formal Case No. 1142*, Testimony of Todd Nedwick Regarding the Proposed Settlement submitted by the National Consumer Law Center/National Housing Trust/National Housing Trust-Enterprise Preservation Corporation (“Exhibit NCLC 2(A) (Nedwick)”), filed May 25, 2018.

Joint Applicants supplemented their Testimony with the workpapers of Witness Hibbard.¹⁵ The Joint Applicants also responded to several data requests from the Commission about the Settlement Agreement.¹⁶ The Commission held a public interest hearing on June 13, 2018, at which the Settlement Agreement, testimony, data request responses, and other documents filed after the filing of the Settlement Agreement were placed on the record of this proceeding.¹⁷ A community hearing regarding the Settlement Agreement was also held on June 13, 2018. At the community hearing, most witnesses supported the Settlement Agreement. Before and after the community hearing, the Commission received several comments from members of the community, most of whom expressed support for the Settlement Agreement and the Proposed Merger.¹⁸ The record in this proceeding closed on June 18, 2018.

5. For 11 of the Terms in the Settlement Agreement, the Settling Parties originally included at least two options for the exact language to be included in the Term. The Commission requested the Settling Parties to clarify their positions regarding these Terms in Data Request No. 2.¹⁹ In their Supplemental Response to Data Request No. 2-1, the Joint Applicants indicated that they had reached an agreement with OPC, DCG, and AOBA on which of the options for the 11 Terms could be considered consensus language. The Joint Applicants represent that the rest of the Settling Parties have no position on the language of these Terms.²⁰ With this filing, the Settling Parties have resolved the questions regarding the option to select for these 11 Terms.

III. OVERVIEW OF APPLICANTS

A. AltaGas

6. AltaGas is a North American diversified energy infrastructure business with approximately 1,600 employees. AltaGas is headquartered in Calgary, Alberta, Canada, and was

¹⁵ *Formal Case No. 1142*, Workpapers of Joint Applicants' Witness Paul Hibbard, filed May 29, 2018.

¹⁶ *Formal Case No. 1142*, Joint Applicants' Responses to Commission Data Request No. 2 to the Applicants, filed May 25, 2018; Joint Applicants' Responses to Commission Data Request No. 3 to the Applicants, filed June 5, 2018; Joint Applicants' Supplemental Response to Commission Data Request No. 2-1, filed June 6, 2018; Joint Applicants' Response to Commission Data Request No. 4, filed June 8, 2018; Joint Applicants' Response to Commission Follow Up to Data Request No. 3-1, filed June 11, 2018; Joint Applicants' Response to Commission Data Request No. 5, filed June 11, 2018.

¹⁷ *Formal Case No. 1142*, Transcript of the Formal Public Interest Hearing held on June 13, 2018 at 12.

¹⁸ The Commission received eleven comments from members of the community. Nine commenters support WGL and the Settlement Agreement. One commenter has complaints about WGL, while another commenter seeks changes to the Settlement Agreement. The Commission appreciates all of the comments received, and has evaluated them in its determination on the Settlement Agreement. However, the Commission declines to impose conditions on its approval of the Settlement Agreement based on these comments.

¹⁹ *Formal Case No. 1142*, Commission Data Request No. 2 to AltaGas, Ltd., WGL Holdings, Inc., and Washington Gas Light Company, rel. May 22, 2018.

²⁰ *Formal Case No. 1142*, Joint Applicants Supplemental Response to Data Request No. 2-1 at 2. The Commission notes that this document is unpaginated.

founded in 1994. AltaGas is focused on three business segments: regulated utilities; unregulated gas; and unregulated power. The Company's utility business includes five (5) local distribution companies serving about 570,000 customers in Michigan, Alaska, and Canada (in Alberta, British Columbia, and Nova Scotia), and a regulated natural gas storage facility in Alaska. AltaGas entered the U.S. regulated utility business with the acquisition of SEMCO Holdings Corporation in 2012.²¹ The combined rate base of its two (2) U.S. regulated gas distribution utilities in 2016 was \$840 million;²² they serve approximately 443,000 customers.²³ The combined 2016 rate base of its three (3) Canadian regulated utilities is \$590 million; they serve approximately 127,500 customers.²⁴

7. AltaGas' gas business in Canada includes natural gas gathering and processing, natural gas liquids ("NGL") extraction and separation, transmission, storage, and natural gas and NGL marketing. The gas business transacts more than 2 Bcf/d of natural gas.²⁵ AltaGas' power generation business includes clean electric generation assets located across North America with approximately 1,700 MW of capacity from four (4) fuel types: hydro; gas-fired; wind; and biomass, as well as 20 MW of battery energy storage.²⁶

8. AltaGas' asset base has grown from approximately \$3 billion in 2011 to approximately \$7.4 billion in 2016.²⁷ A significant portion of AltaGas' earnings before interest, taxes, depreciation, and amortization ("EBITDA") are from unregulated gas and power operations. More specifically, 44% of AltaGas' revenues are currently derived from utility operations while 56% are from unregulated gas and power sales.²⁸ Approximately 65% of AltaGas' asset base is comprised of unregulated operations.²⁹ AltaGas is projecting to grow its unregulated business by

²¹ Exhibit JA-5 (contains a corporate structure which shows SEMCO Gas and ENSTAR (the two U.S. regulated gas distribution utilities) reporting to SEMCO Energy Inc., which in turn reports to SEMCO Holdings Corp. SEMCO Gas and ENSTAR are not separate companies, they are divisions of SEMCO Energy Inc. See Exhibit DCG (A)-33, JA Response to DCG DR 15-30 (dated August 15, 2017).

²² Exhibit JA-2, AltaGas 2016 Annual Report at 25-26. This Exhibit is not paginated and the Commission added page numbers for ease of reference. This \$840 million amount reflects AltaGas' 65% interest in Cook Inlet Natural Gas Storage Alaska LLC. Unless specifically noted, all references to dollars are U.S. dollars. A currency exchange rate of 1.34, as of January 2017, is used to convert to U.S. dollars. The exchange rate as of the close of the record was approximately 1.29.

²³ Exhibit JA-2, AltaGas 2016 Annual Report at 25-26. According to AltaGas' 2016 Annual Report, the rate base at year end is approximately \$478 million for SEMCO, \$279 million for ENSTAR, and \$83 million for CINGSA.

²⁴ Exhibit JA-2, AltaGas 2016 Annual Report at 27-28. The rate base for AltaGas Utilities Inc. is \$223 million; Pacific Northern Gas Ltd. is \$152 million; and Heritage Gas Limited is \$215 million. The total rate base is \$590 million.

²⁵ Exhibit JA-2, AltaGas 2016 Annual Report at 6-10. AltaGas has access to Asian markets through its relationship with the largest liquefied petroleum gas importer in Japan.

²⁶ Exhibit JA-2, AltaGas 2016 Annual Report at 21.

²⁷ Exhibit JA-2, AltaGas 2016 Annual Report at 11.

²⁸ Exhibit DCG (B)-27 (Hill) at DC-ALA-WGL_027726.

approximately an additional \$1.5 billion through various transactions in advanced development stages.³⁰ The Company's net debt was approximately \$2.9 billion at the end of 2016 with a common equity ratio of 42.4%.³¹

9. Going forward, AltaGas has \$1.4 billion of maturing debt over the next five (5) years or less.³² Although the Company has positive total equity, it has a retained earnings deficit of approximately \$447 million since the inception of the business.³³ AltaGas also experienced a significant decrease in working capital and cash, which resulted in a negative working capital of approximately \$192 million at the end of 2016.³⁴ Following the announcement of the Proposed Merger, Standard and Poor's ("S&P") affirmed AltaGas' BBB credit rating and continued AltaGas' placement on negative outlook. In addition, AltaGas is on negative outlook by S&P due to its financial risk, and may be downgraded.³⁵

B. WGL Holdings

10. WGL Holdings is a diversified utility holding company incorporated in Virginia and headquartered at Washington, D.C. WGL Holdings was established in 2000 and is the parent holding company that owns all of the shares of common stock of WGL, Hampshire Gas Company, and Washington Gas Resources. Washington Gas Resources owns four (4) unregulated subsidiaries that include WGL Energy Services, WGL Energy Systems, WGL Midstream and WGSW. Additionally, several subsidiaries of WGL Holdings own interests in other entities. WGL Holdings currently employs more than 1,500 people. WGL has been engaged in the natural gas distribution business since its incorporation by an Act of Congress in 1848 and provides regulated gas distribution services to customers in the District of Columbia, Maryland, and Virginia. WGL has approximately 1.1 million customers across its three jurisdictions: the District of Columbia (approximately 158,000 active meters or 14%); Maryland (approximately 473,000 active meters or 41%); and Virginia (approximately 520,000 active meters or 45%).³⁶

11. As of September 30, 2017, the consolidated asset base of WGL Holdings was approximately \$6.6 billion, split between the unregulated affiliate with \$1.65 billion of assets and the regulated operations with a combined asset base of \$4.95 billion (unregulated operations constitute about 25% of consolidated assets while regulated operations constitute about 75%).³⁷

²⁹ Exhibit JA-2, AltaGas 2016 Annual Report at 116 (goodwill and total assets by segment).

³⁰ Exhibit JA (2M)-8 (Lapson) at 28.

³¹ Exhibit JA-2, AltaGas 2016 Annual Report at 47; Exhibit JA (2M) (Lapson) at 9.

³² Exhibit JA-2, AltaGas 2016 Annual Report at 100.

³³ Exhibit JA-2, AltaGas 2016 Annual Report at 68.

³⁴ Exhibit JA-2, AltaGas 2016 Annual Report at 46.

³⁵ Exhibit JA (E) (Toivanen) at 8, citing to S&P Global Ratings, *AltaGas Ltd. 'BBB' Ratings Affirmed Following WGL Holdings Inc. Acquisition Announcement; Outlook Negative*, January 26, 2017.

³⁶ Joint Application at 5.

The consolidated cash/liquidity position of WGL Holdings, as of September 30, 2017, shows \$8.5 million of cash, the maintenance of a \$650 million credit line for unregulated operations, and access to the short-term commercial paper market. The cash/liquidity position of the regulated operations, as of September 30, 2017, indicates \$1,000 of cash on hand and cash equivalents (actual cash on hand, less checks issued, but outstanding, plus restricted cash), the maintenance of a \$350 million unsecured credit line, and access to short-term commercial paper market.³⁸ WGL Holdings' current senior, unsecured credit ratings are A- and A3, by S&P and Moody's respectively. WGL's current senior, unsecured credit ratings are A and A1, by S&P and Moody's respectively. Following the announcement of the Proposed Merger, S&P and Moody's revised their outlooks for WGL Holdings and WGL from stable to negative because of the planned acquisition by AltaGas.³⁹

IV. OVERVIEW OF THE TRANSACTION

12. The Joint Applicants represent that as a part of their merger agreement, Merger Sub will be merged into WGL Holdings, with WGL Holdings surviving as an indirect subsidiary of AltaGas.⁴⁰ WGL Holdings will hold 100% of SPE HoldCo, LLC,⁴¹ which will in turn own 100% of WGL as part of the ring fencing measures.⁴² This proposed transaction involves a prospective \$7.4 billion acquirer (AltaGas) buying a \$6.6 billion firm (WGL Holdings).⁴³

13. The Joint Applicants indicate that the Proposed Merger will be an all-cash transaction for approximately \$4.5 billion plus an assumption of approximately \$1.8 billion of WGL Holdings debt.⁴⁴ AltaGas expects that cash to close the transaction will be provided from a combination of: (a) the net proceeds from the offering of subscription receipts, for total proceeds of approximately \$2 billion;⁴⁵ and (b) an approximately \$3 billion bridge facility provided by a

³⁷ AOBA Cross Examination Exhibit No. 28; WGL Holdings 2017 Annual Report at 81, 90.

³⁸ AOBA Cross Examination Exhibit No. 28; WGL Holdings 2017 Annual Report at 81, 90.

³⁹ Exhibit JA (E) (Toivanen) at 16.

⁴⁰ Joint Application at 6.

⁴¹ Joint Application at 9.

⁴² Joint Application at 9-10.

⁴³ Exhibit JA-2, AltaGas 2016 Annual Report at 11; AOBA Cross Examination Exhibit No. 28; WGL Holdings 2017 Annual Report at 81.

⁴⁴ Joint Application at 6; Exhibit JA-2, AltaGas 2016 Annual Report at 116; *Formal Case No. 1142*, JA S-13 at 214. The Commission notes that the amount of assumed debt from WGL Holdings has increased to \$2.6 billion, for a total cost of \$7.1 billion. *See, Formal Case No. 1142*, Commission Data Request No. 4-3 to Joint Applicants, rel. June 6, 2018.

⁴⁵ Exhibit DCG (B)-8 (Hill) at 67; Exhibit DCG (B)-20 (Hill) at DC-ALA-WGL_003213. *See also*, Exhibit JA-2, AltaGas 2016 Annual Report at 14, 117 (states that the gross proceeds for a bought deal subscription receipts offering was approximately \$1.6 billion, plus the net proceeds from a \$298 million private placement of subscription

consortium of banks over a 12- to 18-month period with a floating rate spread over London Interbank Offered Rate (“LIBOR”) with standard terms and conditions including material adverse change provisions.⁴⁶ The purchase price together with approximately \$1.8 billion of assumed debt (as of September 30, 2016) constitutes a total transaction value of approximately \$6.4 billion as of the date of the announcement of the transaction.⁴⁷ The longer term merger financing plan is dependent on paying down the \$3 billion bridge facility loan with proceeds from asset sales and the issuance of senior debt, hybrid securities, equity or equity-linked securities.⁴⁸ On June 13, 2018, the Joint Applicants announced that it was selling a 35% interest in one of its assets, the Northwest British Columbia Hydro Electric Facilities, as a first step in repaying the bridge loan.⁴⁹

14. Upon consummation of the Proposed Merger, the Joint Applicants represent that each WGL Holdings shareholder will be entitled to \$88.25 per outstanding share of common stock. The Joint Applicants argue that this price represents a premium of about 12% over the closing price of WGL Holdings stock at the end of the day on January 24, 2017, and approximately 28% over the unaffected closing price of WGL Holdings stock on November 28, 2016. The Joint Applicants indicate that WGL Holdings stock will no longer be publicly traded post-Merger.⁵⁰

V. UNANIMOUS AGREEMENT OF STIPULATION AND FULL SETTLEMENT

15. The Settling Parties contend that the Settlement Agreement is in the public interest and, therefore, request Commission approval. In reviewing a settlement, we are careful not to undermine it by substituting our judgment for that of the parties nor will we engage in what is effectively a review of the case on the merits because to do so would defeat the purpose of encouraging parties to resolve litigation through settlements. With that in mind, we turn to consider the Settlement Agreement’s terms.

16. The Settling Parties offer 83 non-severable terms (“Terms”) for consideration by the Commission. As direct customer benefits, the Joint Applicants propose to provide a one-time bill credits of about \$20.5 million for residential customers and \$5.4 million for non-residential ratepayers;⁵¹ energy efficiency and energy conservation initiatives for low and limited-income

receipts to OMERS, the pension plan for Ontario’s municipal employees. Additionally, an over-allotment option resulted in the gross proceeds of \$88 million. Therefore, the total gross proceeds are approximately \$2 billion.).

⁴⁶ Exhibit JA-2, AltaGas 2016 Annual Report at 116-117; Exhibit DCG (B)-8 (Hill) at 67; *see also* Exhibit JA (2E) (Toivanen) at 16.

⁴⁷ Exhibit JA-2, AltaGas 2016 Annual Report at 14.

⁴⁸ Exhibit JA-2, AltaGas 2016 Annual Report at 117. The subsequent offerings and asset sales are expected to be completed prior to the closing of the Proposed Merger. Exhibit JA-2, AltaGas 2016 Annual Report at 14.

⁴⁹ *Formal Case No. 1142*, Joint Applicants’ Notification to the Commission of AltaGas’ Sale of its Minority Stake of the Northwest British Columbia Hydro Electric Facilities, filed June 13, 2018.

⁵⁰ Joint Application at 6.

⁵¹ Consent Motion, Appendix A at 3 (Terms 1 and 2).

customers (\$4.2 million):⁵² and supplemental funding ratably over five (5) years to the Washington Area Fuel Fund (“WAFF”) (\$260,000).⁵³ These direct customer benefits total \$30.4 million. None of these amounts will be recovered in rates.⁵⁴ AltaGas also pledges an additional \$13 million in public interest benefits, such as: one additional damage prevention educator/trainer for the District of Columbia;⁵⁵ incremental funding for mailing additional damage prevention materials;⁵⁶ additional funding for workforce initiatives;⁵⁷ and an increase in charitable contributions that benefit District of Columbia ratepayers.⁵⁸

17. The Settlement Agreement also includes Terms related to: AltaGas construction of 10MW of electric grid energy storage or Tier one renewable resources (the “10MW Project”);⁵⁹ AltaGas funding of a study exploring the development of renewable (bio) gas facilities in the Greater Washington, D.C. area (the “Renewable Study”);⁶⁰ safe and reliable service and capital expenditures;⁶¹ WGL board structure;⁶² District of Columbia presence;⁶³ local control of WGL post-Merger;⁶⁴ consent to Commission jurisdiction;⁶⁵ increasing WGL employment;⁶⁶ affiliate transactions;⁶⁷ ring fencing and credit ratings protections;⁶⁸ cost accounting, tax, and rate

⁵² Consent Motion, Appendix A at 3-4 (Term 3).

⁵³ Consent Motion, Appendix A at 4 (Term 4).

⁵⁴ Consent Motion, Appendix A at 3-4 (Terms 1- 4).

⁵⁵ Consent Motion, Appendix A at 5 (Term 7A).

⁵⁶ Consent Motion, Appendix A at 5 (Term 7B).

⁵⁷ Consent Motion, Appendix A at 5-6 (Term 8).

⁵⁸ Consent Motion, Appendix A at 6 (Term 10).

⁵⁹ Consent Motion, Appendix A at 4 (Term 5).

⁶⁰ Consent Motion, Appendix A at 4-5 (Term 6).

⁶¹ Consent Motion, Appendix A at 6-7 (Terms 11 and 12).

⁶² Consent Motion, Appendix A at 8 (Terms 16 and 17).

⁶³ Consent Motion, Appendix A at 8 (Terms 13 and 15).

⁶⁴ Consent Motion, Appendix A at 8-9 (Term 18).

⁶⁵ Consent Motion, Appendix A at 9 (Term 19).

⁶⁶ Consent Motion, Appendix A at 10 (Terms 21-22).

⁶⁷ Consent Motion, Appendix A at 10-12 (Terms 23-26).

⁶⁸ Consent Motion, Appendix A at 13-19 (Terms 27-38).

neutrality;⁶⁹ quality of service, including reduction of leaks and employee training;⁷⁰ cybersecurity;⁷¹ divestiture;⁷² a most-favored-nation clause relating to similar financial provisions in Maryland;⁷³ meter relocation;⁷⁴ limitations on PROJECTpipes⁷⁵ costs being collected by the PROJECTpipes surcharge;⁷⁶ acceleration of PROJECTpipes;⁷⁷ performance of a Root Cause Analysis (“RCA”) study to improve customer service;⁷⁸ confirmation of existing rights of the District of Columbia and United States governments to enact laws and regulations related to natural gas;⁷⁹ AltaGas acknowledgement of climate change and development of a business plan to support the District of Columbia’s 2050 climate goals;⁸⁰ WGL environmental remediation;⁸¹ a WGL commitment to file a rate case no earlier than January 3, 2020;⁸² and development of a promotional campaign for the Earned Income Tax Credit (“EITC”).⁸³ Many of the Terms are modifications of the list of Commitments presented earlier in the proceeding, but the Settlement Agreement also includes new Terms.

18. In their Testimony, the Joint Applicants highlight several terms in the Settlement Agreement that they believe provide additional benefits and protections to the District of Columbia and WGL’s ratepayers. As part of the 10MW Project, the Joint Applicants point out that they have committed to ensuring that at least 20% of the operational jobs are sourced from the District of Columbia workforce.⁸⁴ The Joint Applicants also commit \$2 million of the \$6 million workforce

⁶⁹ Consent Motion, Appendix A at 19-25 (Terms 39-49).

⁷⁰ Consent Motion, Appendix A at 25-26; 29-30, 31, 31-32 (Terms 50-58; 62-69; 71, 73).

⁷¹ Consent Motion, Appendix A at 26 (Term 59).

⁷² Consent Motion, Appendix A at 26-27 (Term 60).

⁷³ Consent Motion, Appendix A at 27-29 (Term 61).

⁷⁴ Consent Motion, Appendix A at 30-31 (Term 70).

⁷⁵ PROJECTpipes is WGL’s currently 40-year project to modernize the gas distribution system through pipe replacement. *See, generally, Formal Case No. 1115, Application of Washington Gas Light Company for Approval of a Revised Accelerated Pipe Replacement Program.*

⁷⁶ Consent Motion, Appendix A at 31 (Term 72).

⁷⁷ Consent Motion, Appendix A at 32 (Term 74).

⁷⁸ Consent Motion, Appendix A at 32-33 (Term 75).

⁷⁹ Consent Motion, Appendix A at 33 (Terms 77 and 78).

⁸⁰ Consent Motion, Appendix A at 33-34 (Terms 76 and 79).

⁸¹ Consent Motion, Appendix A at 34 (Term 80).

⁸² Consent Motion, Appendix A at 34 (Term 81).

⁸³ Consent Motion, Appendix A at 34 (Term 82).

⁸⁴ Exhibit JA 4(C) (O’Brien) at 5; Reed Testimony at 3.

and Science, Technology, Engineering, and Math (“STEM”) development funds to working with District of Columbia contractors to help grow their workforce.⁸⁵ Regarding cybersecurity, AltaGas will purchase a cyber-risk insurance policy for WGL to compensate for a cybersecurity event.⁸⁶ AltaGas also believes that it can accelerate PROJECTpipes.⁸⁷ The Joint Applicants also commit to limit cost recovery for PROJECTpipes under the PROJECTpipes surcharge.⁸⁸ Relating to Grade 2 leaks, the Settling Parties agree to Grade 2 leak reduction targets for five years with non-performance payments as an incentive to meet the targets.⁸⁹ The Joint Applicants identify the RCA study regarding service performance levels as another benefit.⁹⁰ An additional benefit is the commitment to place the burden of proof for any increased WGL cost of debt on WGL.⁹¹ The Joint Applicants assert that the Settlement Agreement promotes the District of Columbia’s Clean Energy Policy⁹² through the \$4.2 million commitment to improve energy efficiency and energy conservation initiatives for low and limited-income customers, the development of the 10MW Distributed Energy Resources Project, and the commitment to reduce Grade 2 leaks.⁹³ The Joint Applicants contend that their commitment not to file a base rate case until 2020 will provide rate stability and predictability during the merger transition process.⁹⁴ The Joint Applicants also assert that their commitments will incent the Joint Applicants to ensure that WGL’s credit rating remains an investment grade credit rating.⁹⁵

19. While several of the Settling Parties originally objected to the Proposed Merger, they identify several Terms that address their concerns and provide sufficient benefits to the public to merit approval of the Proposed Merger. OPC and AOBA point to the rate credits and to the commitment to delay the filing of a base rate case until January 2020 as benefits to ratepayers.⁹⁶ AOBA contends that the bill credit to non-residential customers offsets nearly two (2) years of the rate increase to non-residential customers that was included in WGL’s last base rate case.⁹⁷

⁸⁵ Exhibit JA 4(C) (O’Brien) at 6.

⁸⁶ Exhibit JA 4(C) (O’Brien) at 6-7.

⁸⁷ Exhibit JA 4(C) (O’Brien) at 7.

⁸⁸ Exhibit JA 3(D) (Chapman) at 4-5.

⁸⁹ Exhibit JA 3(D) (Chapman) at 6-8.

⁹⁰ Exhibit JA 3(D) (Chapman) at 8-9.

⁹¹ Exhibit JA 4(L) (Reed) at 3-4.

⁹² Exhibit JA 4(L) (Reed) at 4-5.

⁹³ Exhibit JA 2(Q) (Hibbard) at 2-3.

⁹⁴ Exhibit JA 4(L) (Reed) at 5-6.

⁹⁵ Exhibit JA 4(L) (Reed) at 6.

⁹⁶ Exhibit OPC 2(A) (Dismukes) at 5; Exhibit AOBA (C) (Jeffers) at 8.

⁹⁷ Exhibit AOBA (C) (Jeffers) at 3-4.

20. OPC also supports the inclusion of language in several Terms that places the burden of proof on WGL to demonstrate that WGL customers are not being harmed by any post-Merger cost of debt increases.⁹⁸ OPC approves of the changes to the energy efficiency and affordability programs for low and limited-income customers, especially the establishment of an RFP process for the disbursement of the \$4.2 million in funding.⁹⁹ OPC also notes that the Settlement Agreement contains many benefits for the District of Columbia as a whole, including the 10MW Distributed Energy Resources Project, the Renewable Study, funding for the additional damage prevention trainer/educator, funding for consumer damage prevention education, the workforce development funding, and charitable contribution increases.¹⁰⁰ OPC also supports the Joint Applicants' commitment to study the acceleration of PROJECTpipes and the limitation on recovery through the PROJECTpipes surcharge.¹⁰¹ OPC contends that the commitment to perform a RCA of customer services that do not meet certain service levels is beneficial.¹⁰² OPC also supports the meter relocation proposal.¹⁰³

21. NCLC supports both the \$4.2 million AltaGas will provide to support energy efficiency investments in affordable multifamily housing and the funding for EITC outreach. NCLC argues that these commitments will assist low income ratepayers.¹⁰⁴ AOBA finds the energy efficiency investments beneficial, since some of its members own affordable multifamily housing.¹⁰⁵ AOBA also supports the earmarking of \$250,000 of charitable contributions for seven years to the AOBA Educational Foundation.¹⁰⁶

22. Regarding the financial stability of the Joint Applicants post-Merger, DCG claims that many Settlement Agreement Terms seek to reduce the financial risk of the Proposed Merger to WGL. DCG argues that the ring fencing Terms in the Settlement Agreement along with a "double independence" feature, in which the SPE independent director and the holder of the Golden Share are from different independent companies, should prevent WGL's assets from being moved into AltaGas' bankruptcy estate to satisfy obligations owed by AltaGas. DCG also approves the Joint Applicants' commitment not to pass on any resulting higher cost of debt to

⁹⁸ Exhibit OPC 2(A) (Dismukes) at 6-7.

⁹⁹ Exhibit OPC 2(A) (Dismukes) at 7.

¹⁰⁰ Exhibit OPC 2(A) (Dismukes) at 8.

¹⁰¹ Exhibit OPC 2(A) (Dismukes) at 14.

¹⁰² Exhibit OPC 2(A) (Dismukes) at 14-15.

¹⁰³ Exhibit OPC 2(A) (Dismukes) at 15.

¹⁰⁴ Exhibit NCLC 2(A) (Nedwick) at 4-5.

¹⁰⁵ Exhibit AOBA (C) (Jeffers) at 4-5.

¹⁰⁶ Exhibit AOBA (C) (Jeffers) at 4-5.

ratepayers.¹⁰⁷ Further, DCG argues that Terms 35 through 38 address the impact of financial risk differences between AltaGas and WGL and shield WGL and ratepayers from increased debt costs that may occur due to lower credit ratings.¹⁰⁸

23. According to DCG, its concerns about local control of WGL have been alleviated by the Settlement Agreement. DCG argues that Terms 16 and 17, relating to board structure, ensure that there are independent or local directors on the WGL Board.¹⁰⁹ DCG also contends that Term 18 will ensure that WGL remains a local utility with local focus.¹¹⁰

24. DCG also argues that several new Terms benefit the District's policies of reducing greenhouse gases and improving environmental remediation. As benefits reducing greenhouse gases, DCG identifies: the additional funding for energy efficiency for low and limited-income customers in Term 3; the elimination of funding to expand natural gas service that was proposed in the Affordable Housing Multifamily Natural Gas Initiative;¹¹¹ the commitment to build 10MW of energy storage or renewable energy; the addition of leak volume information in leak reporting in Term 57; and the non-performance payments if leak targets are not met in Term 73. DCG argues that the Joint Applicants' statement regarding climate change lessens concerns that transfer of WGL to AltaGas would reduce WGL's commitment to combat climate change. To DCG, AltaGas' commitment to develop a business plan demonstrating how it can evolve its business model to meet the District's 2050 climate goals is important.¹¹² DCG contends that shareholder funding for many of these environmental initiatives would not be possible without the Proposed Merger.¹¹³ DCG also supports Term 80, the performance guarantee of \$20 million by WGL for cleanup of environmental sites near the Anacostia River, which would prevent disputes about WGL's ability to fund cleanup at a later date.¹¹⁴

25. The Settlement Agreement addresses the concerns that DCG and OPC had regarding WGL's failure to maintain its existing safety and reliability programs. OPC supports the requirements for new standards in compliance auditing, Engineering and Operating Standards, Operator Qualification programs, and periodic safety culture assessments. OPC contends that the Settlement Agreement contains annual targets to reduce Grade 2 leaks and provides for non-

¹⁰⁷ Exhibit DCG 2(B) (Hill) at 3-4, 29.

¹⁰⁸ Exhibit DCG 2(B) (Hill) at 25.

¹⁰⁹ Exhibit DCG 2(B) (Hill) at 18-20.

¹¹⁰ Exhibit DCG 2(B) (Hill) at 20-23.

¹¹¹ See, *Formal Case No. 1142*, Initial Brief, Appendix A at 2, filed January 16, 2018. The Joint Applicants proposed an Affordable Housing Multifamily Natural Gas Initiative in their Application and subsequent filings, but it was deleted from the Settlement Agreement.

¹¹² Exhibit DCG 2(C) (Hopkins) at 4.

¹¹³ Exhibit DCG 2(C) (Hopkins) at 5.

¹¹⁴ Exhibit DCG (K) (Murali) at 14.

compliance payments should WGL not meet these targets.¹¹⁵ OPC also supports the Joint Applicants' commitments to reduce the backlog of Grade 2 leaks, in part through additional AltaGas funding.¹¹⁶ DCG contends that the Settlement Agreement, particularly Term 58, addresses these risks.¹¹⁷ DCG believes that the Settlement Agreement includes provisions that either improve or do not reduce the safety and reliability of WGL's system post-Merger.¹¹⁸

VI. DISCUSSION

26. As a threshold matter, Section 130 of the Commission's Rules governs settlement agreements. Section 130.10 requires all settlement agreements to: be in writing; contain all of the terms and conditions agreed upon by the signatories; be clearly and accurately labeled as unanimous or nonunanimous; be clearly and accurately labeled as partial or full; state whether non-signatory parties oppose the settlement agreement; indicate whether the provisions are severable; and stipulate the admission into evidence the testimony and exhibits filed in the proceeding.¹¹⁹ The Commission has reviewed the Settlement Agreement and finds that it contains all of the above provisions. Thus, the Settlement Agreement complies with Section 130.10.

27. Generally, in reviewing a settlement, the Commission has used the same approach adopted by federal courts,¹²⁰ which have recognized that a settlement should be approved if it is fair, adequate, reasonable, and free of fraud or collusion.¹²¹ Courts have noted that settlements conserve judicial resources by avoiding the expense of a complicated and protracted litigation process and are highly favored by the law.¹²² In evaluating settlements, courts are mindful of the fact that compromise is the essence of settlement and are hesitant to substitute their judgment for that of the parties.¹²³ Additionally, approval of a settlement is appropriate if the Commission is

¹¹⁵ Exhibit OPC 2(A) (Dismukes) at 12-13.

¹¹⁶ Exhibit OPC 2(A) (Dismukes) at 13-14.

¹¹⁷ Exhibit DCG 2(F) (Kuprewicz) at 6-7.

¹¹⁸ Exhibit DCG 2(F) (Kuprewicz) at 9.

¹¹⁹ 15 DCMR § 130.10 (1995).

¹²⁰ *Gas Tariff 97-3, In the Matter of the Application of Washington Gas Light Company for Authority to Amend its Rate Schedule No. 6; Gas Tariff 06-1, In the Matter of the Application of Washington Gas Light Company for Authority to Amend General Service Provision No. 23; and Formal Case No. 1027, In the Matter of the Emergency Petition of the Office of People's Counsel for an Expedited Investigation into the Distribution System of Washington Gas Light Company*, Order No. 15627, ¶ 17, rel. December 16, 2009.

¹²¹ *Bennett v. Behring Corp.*, 737 F.2d 982, 986 (11th Cir. 1984).

¹²² *See, In re Gen. Motors Corp. Pick-Up Truck Fuel Tank Prod. Liab. Litig.*, 55 F.3d 768, 784 (3d Cir.1995) ("The law favors settlement, particularly in class actions and other complex cases where substantial judicial resources can be conserved by avoiding formal litigation. The parties may also gain significantly from avoiding the costs and risks of a lengthy and complex trial." (citations omitted)). *Cotton v. Hinton*, 559 F.2d 1326, 1330 (5th Cir. 1977) ("the trial judge, absent fraud, collusion, or the like, should be hesitant to substitute its own judgment for that of counsel.") cited by *Knight v. The State of Alabama*, 469 F. Supp.2d 1016, 1032 (N.D. Ala. 2006).

¹²³ *Bennett v. Behring Corp.*, 737 F.2d 982, 986.

satisfied that it was reached pursuant to arm's length negotiation between the parties and is otherwise consistent with the law.¹²⁴

28. In reviewing the settlement of a proposed merger, the Commission considers: “(1) whether the transaction balances the interests of shareholders and investors with ratepayers and the community; (2) whether the benefits to the shareholders do or do not come at the expense of the ratepayers; and (3) whether the proposed merger produces a direct and tangible benefit to ratepayers.”¹²⁵

29. It is uncontroverted that WGL Holdings shareholders will benefit greatly from the Proposed Merger. AltaGas will purchase WGL Holdings shares at \$88.25 each, which includes a premium of \$1.27 billion.¹²⁶ It is also clear from the record that the WGL Holdings Board of Directors exercised its fiduciary duty by approving the Proposed Merger because it enhances shareholder value.¹²⁷

30. The Settlement Agreement contains many provisions that benefit ratepayers, as articulated above by the Settling Parties. The Settlement Agreement also specifies that the shareholders will be responsible for much of the new funding added to the Settlement Agreement, such as: the rate credits;¹²⁸ the funding for energy efficiency and energy conservation for low and limited-income customers;¹²⁹ the supplemental funding for the WAFF;¹³⁰ the 10MW distributed energy resources Project;¹³¹ the Renewable Study;¹³² the damage prevention educator/trainer position;¹³³ the damage prevention outreach funding;¹³⁴ the workforce development initiatives;¹³⁵

¹²⁴ See, *Knight v. The State of Alabama*, 469 F. Supp.2d 1016, 1031 (N.D. Ala. 2006).

¹²⁵ *Formal Case No. 1142*, Order No. 18843, ¶ 6, rel. July 24, 2017; *Formal Case No. 1119, In the Matter of the Joint Application of Exelon Corporation, Pepco Holdings, Inc., Potomac Electric Power Company, Exelon Energy Delivery Company, LLC and New Special Purpose Entity, LLC for Authorization and Approval of Proposed Merger Transaction*, Order No. 17947, ¶ 54, rel. August 27, 2015.

¹²⁶ Joint Application at 6; *Formal Case No. 1142*, Joint Applicants Reply Brief at 8, filed February 7, 2018, citing *Formal Case No. 1142*, DCG Initial Brief at 3, n.7, filed January 16, 2018.

¹²⁷ *Formal Case No. 1142*, Transcript of Evidentiary Hearing at 641 (McCallister), filed December 7, 2017.

¹²⁸ Consent Motion, Appendix A at 3.

¹²⁹ Consent Motion, Appendix A at 3-4.

¹³⁰ Consent Motion, Appendix A at 4.

¹³¹ Consent Motion, Appendix A at 4.

¹³² Consent Motion, Appendix A at 4.

¹³³ Consent Motion, Appendix A at 5.

¹³⁴ Consent Motion, Appendix A at 5.

¹³⁵ Consent Motion, Appendix A at 5-6.

the increase in charitable contributions;¹³⁶ the costs of the SPE;¹³⁷ goodwill and transaction costs;¹³⁸ the PROJECTpipes cost-benefit analysis;¹³⁹ the funding for reducing Grade 2 leaks;¹⁴⁰ the costs to achieve and evaluate cybersecurity maturity;¹⁴¹ the cybersecurity insurance policy for WGL;¹⁴² the non-compliance payments for failure to reduce Grade 2 leaks;¹⁴³ the RCA;¹⁴⁴ the \$20 million performance guarantee for environmental remediation;¹⁴⁵ and the financial contribution to the D.C. EITC campaign.¹⁴⁶ Additionally, in the case of a downgrade in WGL's credit rating and any subsequent increase in the cost of debt, WGL will not absorb those costs; shareholders will.¹⁴⁷

31. The Settlement Agreement contains customer credits and other direct and public interest benefits totaling \$43.4 million. As a part of the \$43.4 million, WGL's current residential and non-residential customers will receive a one-time bill credit, totaling \$25.9 million.¹⁴⁸ In addition to the direct and public benefits, the Settlement Agreement contains other quantifiable benefits such as: limitations on certain costs to be collected through the PROJECTpipes surcharge;¹⁴⁹ a commitment to fund outside of rates an RCA study to improve customer service and to implement the recommendations of the study,¹⁵⁰ a commitment to provide a performance

¹³⁶ Consent Motion, Appendix A at 6.

¹³⁷ Consent Motion, Appendix A at 16.

¹³⁸ Consent Motion, Appendix A at 19.

¹³⁹ Consent Motion, Appendix A at 25.

¹⁴⁰ Consent Motion, Appendix A at 26.

¹⁴¹ Consent Motion, Appendix A at 26.

¹⁴² Consent Motion, Appendix A at 26.

¹⁴³ *Formal Case No. 1142*, Joint Applicants' Responses to Commission Data Request No. 3 to the Joint Applicants at 4, filed June 5, 2018. The Commission notes that this document is unpaginated.

¹⁴⁴ Consent Motion, Appendix A at 33.

¹⁴⁵ Consent Motion, Appendix A at 34.

¹⁴⁶ Consent Motion, Appendix A at 34.

¹⁴⁷ Consent Motion, Appendix A at 19.

¹⁴⁸ Consent Motion, Appendix A at 3 (Terms 1 and 2).

¹⁴⁹ Consent Motion, Appendix A at 31 (Term 72).

¹⁵⁰ Consent Motion, Appendix A at 32-33 (Term 75).

guarantee for environmental remediation outside of rates;¹⁵¹ and a commitment not to file for an increase in base rates any earlier than January 3, 2020.¹⁵²

32. The Settlement Agreement addresses the concerns of many of the Settling Parties regarding any effect a credit ratings downgrade may have on WGL's customers. The Settlement Agreement also addresses cybersecurity, environmental, safety, and reliability concerns previously articulated by several of the Settling Parties.

33. The Commission recognizes that the Settlement Agreement is the result of hard-fought negotiations between the parties representing a broad swath of the public. And the fact that the parties were able to reach a unanimous settlement in a difficult and close case carries considerable weight. However, modifications to several terms are needed to strengthen the commitments of the Joint Applicants. Therefore, the Commission proposes changes to several terms as set forth below.¹⁵³ We believe that the proposed changes are consistent with the overall commitments proposed by the Joint Applicants to residents of the District of Columbia and customers of WGL. In addition, given the immediate level of elevated financial risks, we will monitor AltaGas' post-merger finances closely so that we can act quickly to protect ratepayers if the need arises.

34. The proposed changes are (underlined language is language to be inserted, while struck out language is language to be stricken):

Definitions

“Material Adverse Effect” means any event, circumstance, occurrence, or change which materially impairs or has a material adverse effect on, or would reasonably be expected to materially impair or have a material adverse effect on : a) either the overall financial condition of AltaGas and its

¹⁵¹ Consent Motion, Appendix A at 34 (Term 80).

¹⁵² Consent Motion, Appendix A at 34 (Term 81). The Commission notes that since many of the Settlement Agreement Terms seek to protect WGL ratepayers from risks posed by the Proposed Merger and thus leave them unharmed, these terms cannot be construed as benefits of the Proposed Merger.

¹⁵³ In *Formal Case No. 951, In the Matter of the Joint Application of Baltimore Gas and Electric, Potomac Electric Power Company and Constellation Energy for Authorization and Approval of Merger and for a Certificate Authorizing the Issuance of Securities*, Order No. 11075 at 107, rel. October 20, 1997, the Commission imposed conditions on a merger application. In *Formal Case No. 1002*, the Commission found that it “has both express and implied statutory authority to review an application for authority to merge, and to set forth the terms and conditions upon which a merger may be approved or denied.” See, *Formal Case No. 1002, In the Matter of the Joint Application of Pepco and the New RC, Inc. for Authorization and Approval of Merger Transaction*, Order No. 12395, ¶ 129, rel. May 1, 2002. The Commission has proposed conditions in other proceedings where there has been a settlement agreement. See, *Formal Case No. 1057, In the Matter of Verizon Washington, DC Inc.’s Price Cap Plan 2007 for the Provision of Local Telecommunications Service in the District of Columbia*, Order Nos. 15056, rel. September 8, 2008 and 15071, rel. September 26, 2008; *Formal Case No. 1005, In the Matter of Verizon Washington, DC Inc.’s Price Cap Plan 2004 for the Provision of Local Exchange Services in the District of Columbia*, Order No. 23263, ¶¶ 16-17, rel. August 4, 2004, citing to *Formal Case No. 814, Phase VI, In the Matter of the Investigation into the Impact of the AT&T Divestiture and Decisions of the Federal Communications Commission on Bell Atlantic – Washington, D.C. Inc.’s Jurisdictional Rates*, Order No. 10877 at 39, rel. November 12, 1996 and *Formal Case No. 1005*, Order No. 12338, ¶¶ 19-24, rel. February 28, 2002.

consolidated affiliates and subsidiaries, or b) the ability of AltaGas and AltaGas Services (U.S.) Inc (the borrowers), to repay the borrowings under the \$3 billion term credit facility (the acquisition bridge loan) with JP Morgan Chase Bank, NA (the agent) and other financial institutions. Such Material Adverse Effects would include, but not be limited to, an event of default and/or a breach of a covenant, under the terms of the above \$3 billion term credit facility.

~~“Minimum Equity Ratio” means the weighted average of the ratemaking equity ratios for Washington Gas in its three state regulatory jurisdictions, based on the respective rate base in each jurisdiction, less five percentage points.¹⁵⁴~~

Term 3

AltaGas will provide \$4.2 million for energy efficiency and energy conservation initiatives with a primary focus on assisting low and limited-income residents who are living in affordable multifamily units, whether in buildings that are wholly master-metered, buildings where the tenants pay all of the utility bills, or buildings with mixed owner- and tenant-meters. Within 180 days of a Merger Close AltaGas will utilize a widely-publicized Request for Proposal (RFP) process to select an entity to administer the funds. The RFP will be open to all qualified bidders, and selection of a successful bidder will be based on a combination of relevant factors including price terms, relevant experience in delivering energy efficiency measures (particularly in affordable multifamily housing), and ability to carry out the scope of work in a timely manner. Within 180 days after selection of the administrator, and no less than thirty (30) days prior to the initial disbursement of funds to the administering agency or agencies, AltaGas and Washington Gas will, after consultation with interested stakeholders, file a proposal with the Commission regarding the aforementioned programs. No portion of the contribution will be recovered in utility rates.

Within 30 days of Merger Close, Washington Gas shall provide and maintain a performance guarantee for the \$4.2 million in funding. The cost of providing and maintaining this performance guarantee shall not be recovered in rates. Should a Material Adverse Effect occur, the Commission may require an alternative performance guarantee, such as a surety bond, irrevocable letter of credit, trust fund, or insurance policy.

Term 5

AltaGas shall, within five (5) years after Merger Close, develop or cause to be developed 10MW of either electric grid energy storage or Tier one renewable resources in Washington, D.C. If AltaGas or one of its affiliates develops the project, the construction of the project shall be competitively bid. AltaGas may retain the renewable energy certificates (“RECs”) and tax attributes for the Tier one resource. AltaGas will use reasonable best efforts to ensure at least 20% of the operational jobs for the 10 MW are sourced from the local workforce. The costs of this project shall not be recovered through Washington Gas’s utility rates. AltaGas shall use best efforts to target this project in capacity constrained electric distribution areas.¹⁵⁵ The Joint Applicants shall file its plan

¹⁵⁴ This definition is no longer necessary, since it is included in an alternative that the Settling Parties did not choose.

for the 10MW project for approval by the Commission within 180 days of Merger Close and an annual progress report following approval of the plan.

Term 29

The Applicants shall commit to maintain separate books and records, system of accounts, financial statements, a separate utility commercial paper financing program supported by the utility's third-party credit facility, and bank accounts for Washington Gas. The Applicants commit that relevant records of any affiliate for which any direct or indirect charge is made to Washington Gas, and included in said utilities' cost of service and rates on either direct or indirect basis, will be made available, upon request, to the Commission and its Staff in its District offices.

Term 32

Washington Gas will maintain its own separate debt and preferred stock, if any. Washington Gas will maintain its own debt securities and will maintain its own corporate and debt credit ratings as well as ratings for long term debt and preferred stock. Washington Gas will maintain separate capital structure to finance the activities and operations of Washington Gas. Washington Gas will maintain a 12-month rolling average common equity ratio of not less than 48 percent and no more than 55 percent, provided that this range is consistent with future orders that address capital structure for Washington Gas. Washington Gas will report to the Commission within thirty ~~(30)~~75 days of the end of each quarter the following credit metrics for the then-current year: FFO/debt, FFO/interest, and debt/capitalization.

Washington Gas will maintain a separate credit facility. Within ninety (90) days of Merger Close, Washington Gas will provide the Commission with a third-party study that recommends the optimal size, parameters, and terms for a new credit facility. The costs of this third-party study shall not be recovered in rates.

AltaGas acknowledges the Commission's preference for maintaining Washington Gas' credit rating at least at the minimum investment grade level of BBB+ as rated by S&P and Fitch or Baa1 as rated by Moody's, assuming a reasonable regulatory environment and reasonable capital market conditions.

Term 37

The Applicants commit that Washington Gas will not make any dividend payments to its parent company to the extent that the payment would result in a drop of Washington Gas's common equity level below 48 percent of its total capitalization provided that this common equity level is consistent with future capital structure orders, or it rates below investment grade by any of the three major credit agencies.

¹⁵⁵ The Commission's approval of this condition shall not be construed as any determination regarding cost recovery for such projects.

Term 39

Washington Gas will not issue debt or equity in connection with, or to fund, the Merger. AltaGas or its affiliates will not charge Washington Gas with any financing acquisition costs, including: fees related to the \$3 billion credit facility bridge loan, including interest, as well as any fees related to the \$2 billion in subscription receipts such as issuance, and other costs and dividend or dividend equivalent payments. AltaGas will not sell a minority interest in Washington Gas, WGL, or AUHUS in connection with, or to fund, the Merger, and will comply with all District of Columbia laws and regulations regarding the sale of any interest in Washington Gas. The Applicants acknowledge that the Commission has authority over any sale of any direct or indirect interest in Washington Gas, WGL, or AUHUS of more than 10 percent.

Term 80

Washington Gas shall provide and maintain a performance guarantee of \$20 million for the benefit of the District of Columbia to meet current and future environmental study and clean-up obligations under CERCLA or other Federal or District law(s) regarding sites or substances in the District relating to the Anacostia River or any other site. The performance guarantee shall be in a form substantially similar to that for the 2012 Consent Decree for East Station. The instant paragraph neither admits nor limits responsibility or liability. The performance guarantee shall be issued no later than 28 days from merger close. The costs associated with providing and maintaining this performance guarantee shall not be recovered in rates. Should a Material Adverse Effect occur, the Commission may require an alternative performance guarantee, such as a surety bond, irrevocable letter of credit, trust fund, or insurance policy.

Term 84

Commencing in the first quarter after Merger Close, and quarterly thereafter, the Applicants will file with the Commission updates on the Applicants' post-closing acquisition financing plan, including updates on how the Applicants are paying down the bridge loan. These reports may be filed confidentially. This reporting requirement shall terminate when the bridge loan is paid in full. The Joint Applicants acknowledge that the Commission has the right to open an investigation and take actions that are necessary to protect Washington Gas should a Material Adverse Effect occur.

Term 85

The Applicants agree to work with Commission staff to implement a mutually agreeable method to provide construction notices, consistent with the provisions of Virginia safety Commitment No. 15, through an online database or another efficient method. The Applicants agree to expand the currently available reporting data provided to Commission staff, to also encompass appropriate detailed reporting elements outlined in Virginia safety Commitment No. 17 (a-i),¹⁵⁶ with respect to construction project reporting. Such reporting will be implemented within six (6) months of Merger Close.

¹⁵⁶ See, *Formal Case No. 1142*, Commonwealth of Virginia State Corporation Commission's Final Order on the Joint Petition of Washington Gas Light Company, WGL Holdings, Inc., and AltaGas, Ltd. for Approval of an

35. The Commission recognizes that, by deviating from the terms of the Settlement Agreement, the Joint Applicants have reserved the right to reject this merger rather than proceed to closing. Accordingly, the Settling Parties have five (5) days from the date of this Order to indicate in a filing whether the conditions articulated above are accepted by the Settling Parties.

36. If these modifications are accepted, then the Commission finds that the Settlement Agreement is in the public interest for the reasons stated in this Order. Therefore, the Commission concludes that the Proposed Merger, as modified by the terms and conditions as now set forth in Attachment A to this Order, and when taken as a whole, is in the public interest pursuant to D.C. Code §§ 34-504 and 34-1001 and the Joint Application for the Proposed Merger is approved.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

A. Findings of Fact

37. Based on the evidence presented in the record for this proceeding, the Commission makes the following findings:

- A. On April 24, 2017, AltaGas, WGL Holdings, and WGL filed their Application of AltaGas Ltd., WGL Holdings, Inc. and Washington Gas Light Company pursuant to D.C. Code §§ 34-504 and 34-1001.
- B. WGL Holdings is a diversified utility holding company incorporated in Virginia and headquartered at Washington, D.C. WGL Holdings was established in 2000 and is the parent holding company for WGL, Hampshire Gas Company, and Washington Gas Resources Corporation. Through its utility, WGL, WGL Holdings serves customers in the District of Columbia, Maryland, and Virginia.
- C. WGL is a wholly owned subsidiary of WGL Holdings and is the public utility regulated by this Commission pursuant to D.C. Code § 1-204.93¹⁵⁷ and D.C. Code § 34-101 *et seq.*¹⁵⁸ WGL was founded in 1848. WGL Holdings is financially healthy as a stand-alone company and there is no record evidence that it would not continue to be so if the merger is not consummated.
- D. AltaGas is a North American diversified energy infrastructure business headquartered in Calgary, Alberta, Canada that was founded in 1994. AltaGas is focused on three business segments: regulated utilities; unregulated gas; and unregulated power. The Company's utility business includes five (5) local distribution companies in Michigan, Alaska, and Canada (in Alberta, British Columbia, and Nova Scotia), and a regulated natural gas storage facility in Alaska.

Acquisition of Control of a Public Utility Pursuant to Chapter 5 of Title 56 of the Code of Virginia, Appendix at 6, filed October 23, 2017.

¹⁵⁷ D.C. Code § 1-204.93 (2001 Ed.).

¹⁵⁸ D.C. Code § 34-101 *et seq* (2001 Ed.).

AltaGas entered the U.S. regulated utility business with the acquisition of SEMCO Holdings Corporation in 2012.

- E. The Joint Applicants propose to merge WGL Holdings, the parent of WGL, and Wrangler Inc. (“Merger Sub”), a wholly-owned indirect subsidiary of AltaGas. Under the terms of the Merger, Merger Sub will be merged into WGL Holdings, with WGL Holdings surviving as an indirect subsidiary of AltaGas. WGL Holdings will hold 100% of SPE HoldCo, LLC, which will in turn own 100% of WGL.
- F. The Joint Applicants indicate that the Proposed Merger will be an all-cash transaction for approximately \$4.5 billion plus an assumption of at least \$1.8 billion of WGL Holdings debt.
- G. Upon Merger Close, each WGL Holdings shareholder will be entitled to \$88.25 per outstanding share of common stock.
- H. AltaGas commits to fund a one-time direct bill credit of \$20.5 million to be distributed among WGL residential customers and \$5.4 million to be distributed among WGL non-residential customers.
- I. AltaGas commits to fund \$4.2 million for energy efficiency and energy conservation initiatives for low and limited-income customers. Within 180 days of Merger Close, AltaGas commits to utilize a widely-publicized RFP process to select an entity to administer the funds.
- J. AltaGas commits to provide \$1.5 million of supplemental funding over five (5) years from Merger Close to the Washington Area Fuel Fund.
- K. AltaGas commits to develop 10MW of either electric grid energy storage or Tier one renewable resources in the District of Columbia, within five (5) years of Merger Close.
- L. AltaGas commits to spending \$450,000 to fund a study assessing the development of renewable (bio) gas facilities in the Greater Washington, D.C. area to be commenced within one (1) year of Merger Close.
- M. For the first five (5) years after Merger Close, AltaGas commits to provide \$480,000 annually to provide one Damage Prevention Trainer/Educator per jurisdiction.
- N. Within thirty (30) days of Merger Close, AltaGas commits to provide \$350,000 to WGL for additional education regarding damage prevention awareness.
- O. AltaGas commits to contribute \$6 million over two years to fund workforce development initiatives. Of the \$6 million, \$2 million will be allocated to a program to work with District of Columbia-based contractors to grow their capacity to work on WGL systems and to promote hiring of District of Columbia residents.

- P. WGL commits to an aspirational goal to increase its share of non-gas spending with diverse suppliers to 35% over the next ten (10) year period.
- Q. For ten (10) years following Merger Close, AltaGas and its affiliates commit to donate at least \$1.2 million annually to charitable organizations located in the Greater Washington D.C. area. At least \$210,000 of the \$1.2 million will support District residents.
- R. AltaGas commits to devote resources necessary to ensure that current service quality and reliability levels and standards under existing Commission orders and regulations are maintained.
- S. AltaGas commits that WGL will be provided access to capital to meet its total project capital expenditures through 2021.
- T. WGL's headquarters will remain in, and not removed from, the District of Columbia.
- U. AltaGas commits to relocating the head office of AltaGas U.S. power business to Prince George's County, Maryland, within twelve (12) months of Merger Close.
- V. AltaGas commits that, when scheduling its Board of Directors and Executive Committee meetings, no state will host the meetings on a more frequent basis than the District of Columbia.
- W. AltaGas commits that the WGL Board of Directors will have seven (7) members: the CEO of WGL; the CEO of AltaGas; four independent members; and one other member.
- X. AltaGas commits that at least one (1) member of the WGL Board of Directors will be nominated to the AltaGas Board of Directors.
- Y. AltaGas commits that the WGL CEO will be on the AltaGas Executive Committee.
- Z. AltaGas commits that at least two (2) current WGL directors will be nominated to the AltaGas Utility Holdings (U.S.) Inc. Board.
- AA. AltaGas commits to make reasonable efforts to retaining WGL's current executive management team.
- BB. AltaGas commits that the WGL CEO will have the same authority as under current WGL authorized approval levels.
- CC. AltaGas commits that the WGL Board of Directors will have the final authority to approve WGL's budgets and programs.
- DD. The Joint Applicants commit that the authority and responsibility delegated to local management shall be clearly delineated in two formal documents: a statement of Corporate Governance Principles; and Delegation of Authority.

- EE. AltaGas submits to the Commission's jurisdiction on all matters related to the merger and affiliate transactions between WGL and AltaGas or its affiliates pertaining to WGL's operations in the District of Columbia.
- FF. WGL commits to honor all collective bargaining agreements and will not merge its pension plan with AltaGas' or any other entity.
- GG. For the first two (2) years following Merger Close, AltaGas commits to not permit a net reduction in the employment levels at WGL. AltaGas commits to offer WGL employee compensation and benefits that are at least as favorable as those provided prior to the Merger.
- HH. Within five (5) years of Merger Close, the total number of employees (actual headcount) within the Greater Washington, D.C. metropolitan area at WGL and its affiliates will be at least 65 greater than as of March 31, 2017, and the total budgeted full-time equivalents (FTEs) within the Greater Washington, D.C. metropolitan area will be at least 190 greater (65+125) than actual headcount as of March 31, 2017, to allow for the estimated future vacancy run rate.
- II. AltaGas will comply with and ensure that WGL and other AltaGas affiliates will comply with statutes, regulations, and orders relating to WGL and its affiliates regarding affiliate transactions.
- JJ. The Joint Applicants commit to provide access to the books and records of WGL, as well as all affiliates of AltaGas that do business with WGL, to the Commission and to OPC, on demand.
- KK. WGL commits to comply with its Cost Allocation Manual ("CAM") in transactions with AltaGas and its affiliates. An updated WGL CAM and service agreements between any service company or affiliate allocating costs to WGL shall be filed with the Commission within 12 months of Merger Close.
- LL. WGL commits to hold itself out as an entity separate from AltaGas and the SPE, except to the extent that WGL may hold itself out as an AltaGas affiliate.
- MM. For five (5) years after Merger Close, WGL commits to file side-by-side comparisons, by function, of the pre-Merger corporate and shared services costs charged to WGL regulated utility operations for the most recent three (3) years pre-Merger and the post-Merger corporate and shared services costs.
- NN. WGL commits to not include in any credit or debt agreements cross default provisions between WGL securities and the securities of AltaGas or its affiliates.
- OO. The Joint Applicants commit that the SPE shall not pledge its assets for the benefit of any entity. WGL shall not pledge assets or cash flow as security for the benefit of AltaGas or its affiliates.
- PP. The Joint Applicants commit to maintain separate books and records, system of accounts, financial statements, and bank accounts for WGL.

- QQ. WGL commits to hold all of its property in its own name and will not assume liability for the debts and will not guarantee the credit instruments of AltaGas, the SPE, or any AltaGas affiliate.
- RR. The Joint Applicants commit that neither AltaGas nor any affiliate will cause WGL to sell, lease, rent, or otherwise convey any asset without Commission approval.
- SS. WGL commits to not participate in a money pool with AltaGas or other entities and commits to not commingle funds or other financial assets with other utilities or entities.
- TT. WGL commits to maintain its own separate debt, preferred stock, and debt securities. WGL also commits to maintain its own corporate and debt credit ratings and ratings for long term debt and preferred stock.
- UU. WGL commits to maintain a separate capital structure. WGL commits to maintain a 12-month rolling average common equity ratio of not less than 48% and not more than 55%.
- VV. WGL commits to report to the Commission the following credit metrics: FFO/debt; FFO/interest; and debt/capitalization.
- WW. The Joint Applicants have established their ring-fencing commitments to mitigate the financial risks from AltaGas' unregulated businesses, provide a robust level of protection for WGL and WGL's ratepayers, and provide provisions for the divestiture of WGL from AltaGas in the event of a bankruptcy.
- XX. The Joint Applicants commit that WGL will be a wholly-owned direct subsidiary of the bankruptcy-remote SPE.
- YY. Within 180 days of Merger Close, AltaGas commits to obtain a legal opinion regarding the legal sufficiency of the ring fencing measures.
- ZZ. AltaGas commits to use reasonable efforts to ensure that WGL's credit ratings remain at or above investment grade for its publicly-traded securities and to preserve an investment grade credit rating for WGL's senior unsecured debt.
- AAA. WGL commits to demonstrate that WGL customers are held harmless from adverse rate impacts due to an increased cost of debt.
- BBB. WGL commits to not issue debt or equity to fund the Proposed Merger.
- CCC. AltaGas commits to not sell a minority stake in WGL to fund the Proposed Merger.
- DDD. WGL commits to not seek recovery in distribution rates of acquisition premiums or goodwill associated with the Proposed Merger or transaction costs associated with the Proposed Merger.

- EEE. WGL commits to not pay extraordinary dividends to its parent for three years after Merger Close.
- FFF. WGL commits to not pay dividends if immediately after the payment, WGL's common equity level would fall below 48% of its total capitalization.
- GGG. WGL commits to not pay dividends to its parent if its senior unsecured debt is rated below investment grade.
- HHH. WGL commits to track and account for Merger-related savings in all base rate cases filed in the first five (5) years after Merger Close, or in the next two (2) base rate cases if the second case is filed more than five years after Merger Close.
- III. AltaGas commits to ensure that Proposed Merger accounting is rate neutral for WGL customers.
- JJJ. AltaGas commits to indemnify WGL for any liability for federal or state income taxes in excess of WGL's standalone liability for federal and state income taxes for any period in which WGL is included in a consolidated group with AltaGas.
- KKK. AltaGas commits to ensure that consummation of the Proposed Merger will not affect accounting and ratemaking treatments of WGL's accumulated deferred income taxes.
- LLL. Upon Merger Close and every year thereafter, WGL commits to provide the Commission a certificate from a corporate officer of AltaGas attesting to the separateness of AltaGas and WGL.
- MMM. AltaGas commits to promptly inform the Commission of any change from US GAAP to another method of accounting.
- NNN. The Joint Applicants commit that any increase in expenses due to accounting changes made by WGL because of the Proposed Merger will not be charged to WGL customers.
- OOO. If the Proposed Merger affects pensions and other post-retirement benefits, then WGL commits to file a report with the Commission detailing these changes.
- PPP. In the first two base rate cases after Merger Close, WGL commits to include a detailed quantification of all Merger-related impacts in financial and regulatory accounting policies and procedures on the revenue requirements in the base rate case filing.
- QQQ. The Joint Applicants commit to file quarterly quality of service reports that examine pre- and post-Merger reliability and customer service performance.
- RRR. The Joint Applicants commit to file an annual report comparing the AltaGas utilities relating to reliability, customer service, safety, and regulatory matters.

- SSS. WGL commits to notify the Commission of any changes to threat definitions required by PHMSA.
- TTT. Annually, WGL commits to file a detailed report relating to the status of each accelerated pipe replacement project, including those in PROJECTpipes.
- UUU. WGL commits to engage a consultant to perform a cost benefit analysis regarding the feasibility of accelerating PROJECTpipes.
- VVV. Within three (3) years of Merger Close, WGL commits to reduce its Grade 2 leak backlog to SEMCO's 2017 Grade 2 leak backlog.
- WWW. Within ninety (90) days of Merger Close, AltaGas commits to provide WGL with \$4 million to hire and train additional repair crews.
- XXX. WGL commits to complete its Leak Survey Mobile Mapping Program.
- YYY. WGL commits to file annual reports of its District of Columbia distribution system leaks.
- ZZZ. WGL commits to maintain safety and reliability standards that are substantially comparable to, or better than, such standards that were in place pre-Merger.
- AAAA. WGL commits to continue to operate its cybersecurity program independently and not integrate AltaGas' IT systems with WGL's IT systems until the Commission has approved such integration.
- BBBB. Upon Merger Close, AltaGas commits to ensure that WGL is covered through an industry-standard cyber risk insurance policy against adverse impacts due to a cybersecurity event on the AltaGas IT systems.
- CCCC. The Settlement Agreement permits, that after notice and a hearing, the Commission may require AltaGas to divest its interests in WGL if certain conditions are met.
- DDDD. The Settlement Agreement contains a Most Favored Nation clause to allocate certain Merger benefits between Maryland and District of Columbia ratepayers.
- EEEE. AltaGas commits to not degrade the competence level of the WGL workforce after Merger Close.
- FFFF. By each April for the first five (5) years following Merger Close, WGL commits to file a report with the Commission regarding the number of critical valves on its system.
- GGGG. For five (5) years after Merger Close, WGL commits to continue its compliance auditing program for field personnel performing safety-related tasks and its quality observation program. By each April 1 of the five (5) year period, WGL commits to file a report regarding these audits.

- HHHH. WGL commits to continue to qualify its covered employees and contract employees in accordance with the Virginia Gas Operator's Association Operator Qualification ("OQ") Program after Merger Close. WGL commits to modify its Engineering and Operating Standards to conform to the OQ program.
- IIII. Within six (6) months of Merger Close, WGL commits to develop and implement a plan to set new, secure OQ testing protocols.
- JJJJ. Within six (6) months of Merger Close, WGL commits to develop and implement a pipeline safety management system in compliance with American Petroleum Institute Recommended Practice 1173.
- KKKK. WGL commits to continue to maintain all safety records and make them available to the Commission in a reasonable amount of time.
- LLLL. WGL commits to establishing an online database or other method to inform the Commission of any and all field projects related to WGL's transmission integrity management program.
- MMMM. Within six months of Merger Close, WGL commits to develop meter relocation protocols for moving gas meters from inside a customer's residence to the outside.
- NNNN. The Joint Applicants commit to use their best efforts to update existing drawings of pipe locations in the District of Columbia by review of other records (such as original installation notes) for the inclusion of missing information on the location of all services stubs.
- OOOO. WGL commits to calculate excess costs for PROJECTpipes and not include these costs in the PROJECTpipes surcharge.
- PPPP. For the first five years following Merger Close, the Joint Applicants commit to reduce WGL's number of PHMSA-reported Grade 2 leaks to specified levels below its 2017 annual level.
- QQQQ. If WGL fails to meet an annual leak reduction target, WGL commits to make non-compliance payments.
- RRRR. Within 12 months of Merger Close, AltaGas and WGL commit to develop a proposal to accelerate PROJECTpipes to a 30-year program.
- SSSS. The Joint Applicants commit that WGL will conduct a Root Cause Analysis of, and develop an action plan to improve, WGL's customer satisfaction scores in the District of Columbia.
- TTTT. AltaGas recognizes the scientific consensus that climate change exists.
- UUUU. The Joint Applicants recognize the authority of the District of Columbia and United States governments to enact bona fide laws and regulations relating to the production and distribution of natural gas and other carbon-based energy sources.

- VVVV. The Joint Applicants acknowledge that the Commission is not creating any special expectations to induce AltaGas as an entity covered by North American Free Trade Agreement (“NAFTA”), to close the Merger by virtue of the approval of the Settlement Agreement and the Proposed Merger.
- WWWW. By January 1, 2020, AltaGas commits to file with the Commission a long-term business plan on how it can evolve its business model to support and serve the District of Columbia’s 2050 climate goals. After the filing of this plan, AltaGas will hold bi-annual public meetings to report on its progress under the plan.
- XXXX. WGL commits to provide and maintain a \$20 million performance guarantee for the benefit of the District of Columbia to meet current and future environmental study and clean-up obligations imposed by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 or any other federal or District of Columbia law regarding sites or substances in the District of Columbia related to the Anacostia River or any other site.
- YYYY. WGL commits to file its next base rate case no earlier than January 3, 2020.
- ZZZZ. AltaGas and WGL commit to actively assist in promoting the number of District of Columbia residents who apply for the EITC. AltaGas and WGL will contribute \$250,000 to the D.C. EITC Campaign to offset the cost of critical outreach activities.
- AAAAA. The Joint Applicants agree that they are subject to D.C. Code § 34-706, along with any other penalties to enforce any order approving the Settlement Agreement. No penalties will be recovered in rates.
- BBBBB. These findings incorporate by reference the Proposed Merger Application as modified by the Settlement Agreement and the conditions in Attachment A of this Order.

B. Conclusions of Law

38. Based on the entire record in this proceeding, the Commission makes the following conclusions of law:
- A. The Commission has jurisdiction to render a decision on the Joint Application’s request for a change of control of WGL.
 - B. The Commission has both express and implied statutory authority to review an application for a change of control and authority to merge, and to set forth the terms and conditions upon which a merger may be approved or denied.
 - C. The Proposed Merger, as set forth in Settlement Agreement, subject to the conditions outlined in this Order, produces direct and tangible benefits to ratepayers and upon balance of the interests of WGL Holdings’ shareholders and investors with the interests of ratepayers and the community, the benefits to the shareholders do not come at the expense of the ratepayers.

- D. The Proposed Merger, as set forth in the Settlement Agreement, subject to the conditions outlined in this Order, will benefit District ratepayers and the District rather than merely leave them unharmed.
- E. The Proposed Merger, as set forth in the Settlement Agreement, subject to the conditions outlined in this Order, when taken as a whole, is in the public interest under D.C. Code §§ 34-504 and 34-1001.

THEREFORE, IT IS ORDERED THAT:

39. The Joint Application for approval of a change of control of Washington Gas Light Company submitted on April 24, 2017, as amended by the Settlement Agreement, subject to the conditions outlined in this Order and in Appendix A, is **APPROVED** as being in the public interest pursuant to D.C. Code §§ 34-504 and 34-1001;

40. The Settling Parties shall file with the Commission a statement indicating whether they accept the conditions outlined in this Order and in Appendix A within five (5) days from the date of this Order;

41. The Commission reserves the right to issue such orders as may be necessary to implement the Proposed Merger and enforce the terms contained in the Settlement Agreement and the conditions outlined in this Order; and

42. No later than three (3) days following Merger Closing, the Joint Applicants shall notify the Commission of the exact date when the Proposed Acquisition was consummated and shall confirm that no material modifications were made to the terms and conditions of the Purchase Agreement.

A TRUE COPY:

BY DIRECTION OF THE COMMISSION:



CHIEF CLERK:

**BRINDA WESTBROOK-SEDGWICK
COMMISSION SECRETARY**

**UNANIMOUS AGREEMENT OF STIPULATION
AND FULL SETTLEMENT**

DEFINED TERMS

“AltaGas” means AltaGas Ltd.

“Applicants” means AltGas Ltd., WGL Holdings, Inc., and Washington Gas Light Company.

“ASUS” means AltaGas Services (U.S.) Inc.

“AUHUS” means AltaGas Utility Holdings (U.S.) Inc.

“Commission” means the Public Service Commission of the District of Columbia.

“Greater Washington, D.C. metropolitan area” includes each county, city or township in which Washington Gas is authorized to provide natural gas distribution service.

“Independent Director” means an individual who satisfies the New York Stock Exchange’s (“NYSE”) definition of “independent” and does not have any other relationship with AltaGas or any of its affiliates that a majority of either the Washington Gas board or the AltaGas board determines would impact the independence of the individual from the management of AltaGas and its affiliates.

“Low-income customers” are those customers whose gross annual household income is at or below 200 percent of the federal poverty level.

“Material Adverse Effect” means any event, circumstance, occurrence, or change which materially impairs or has a material adverse effect on, or would reasonably be expected to materially impair or have a material adverse effect on: a) either the overall financial condition of AltaGas and its consolidated affiliates and subsidiaries, or b) the ability of AtlaGas and AltaGas Services (U.S.) Inc (the borrowers), to repay the borrowings under the \$3 billion term credit facility (the acquisition bridge loan) with JP Morgan Chase Bank, NA (the agent) and other financial institutions. Such Material Adverse Effects would include, but not be limited to, an event of default and/or a breach of a covenant, under the terms of the above \$3 billion term credit facility.

“Merger” means the merger among AltaGas, Wrangler, Inc. (an indirect, wholly-owned subsidiary of AltaGas), and WGL, which shall have the effect of WGL becoming an indirect subsidiary of AltaGas.

“Merger Close” or “Merger Closing” means the date the Merger is consummated.

“Moderate-income customers” are those customers whose gross annual household income is at or below 80 percent of the area median income as most recently determined by the U.S. Department of Housing and Urban Development.

“Primary office” means the business location where the individual is expected to spend the majority of office hours each year, recognizing that the individual’s duties will often require extensive business travel, including to other business locations.

“Washington Gas” means Washington Gas Light Company.

“WGL” means WGL Holdings, Inc. or its successors and assigns

DIRECT CUSTOMER BENEFITS

1. AltaGas will fund \$20,482,254 for a one-time rate credit for each Washington Gas residential customer in the District of Columbia, and allocated in accordance with each residential class’s cumulative non-gas revenues as determined by the Commission in Washington Gas’s last base rate case. This results in a \$150 rate credit for each Washington Gas residential-heating customer. The residential rate credits will be provided within 60 days after the Merger Closing based on active customer accounts as of the billing cycle commencing 30 days after the Merger Closing. No portion of the rate credits will be recovered in utility rates.

2. AltaGas will also fund \$5,422,582 for one-time rate credits for each Washington Gas non-residential customer in the District of Columbia, and the amount of each non-residential customer’s credit will be determined on a volumetric basis. The non-residential rate credits will be provided within 60 days after the Merger Closing based on active customer accounts as of the billing cycle commencing 30 days after the Merger Closing. No portion of the rate credits will be recovered in utility rates.

3. AltaGas will provide \$4.2 million for energy efficiency and energy conservation initiatives with a primary focus on assisting low and limited-income residents who are living in affordable multifamily units, whether in buildings that are wholly master-metered, buildings where the tenants pay all of the utility bills, or buildings with mixed owner- and tenant-meters. Within 180 days of a Merger Close AltaGas will utilize a widely-publicized Request for Proposal (RFP) process to select an entity to administer the funds. The RFP will be open to all qualified bidders, and selection of a successful bidder will be based on a combination of relevant factors including price terms, relevant experience in delivering energy efficiency measures (particularly in affordable multifamily housing), and ability to carry out the scope of work in a timely manner. Within 180 days after selection of the administrator, and no less than 30 days prior to the initial disbursement of funds to the administering agency or agencies, AltaGas and Washington Gas will, after consultation with interested stakeholders, file a proposal with the Commission regarding the aforementioned programs. No portion of the contribution will be recovered in utility rates.

Within 30 days of Merger Close, Washington Gas shall provide and maintain a performance guarantee for the \$4.2 million in funding. The cost of providing and maintaining this performance guarantee shall not be recovered in rates. Should a Material Adverse Effect occur, the Commission may require an additional performance guarantee, such as a surety bond, irrevocable letter of credit, trust fund, or insurance policy.

4. AltaGas will provide \$1.5 million of supplemental funding over the five years following Merger Close (or until expended) to the Washington Area Fuel Fund to provide emergency gas utility bill assistance to Washington Gas qualifying Low-income customers and Moderate-income customers who have exhausted low-income benefits or who do not qualify for low-income benefits. These contributions will be single contributions made with respect to all of the Washington Gas service territories, however, at least \$260,000 of these contributions will be earmarked for assistance to qualifying customers in the District of Columbia. No portion of the supplemental funding will be recovered in utility rates. Moreover, this funding is wholly unrelated to, and is entirely separate and apart from, the \$261,094.50 of overcollection refunds the Commission, in Formal Case No. 1126, recently directed Washington Gas to disburse to the Washington Area Fuel Fund and the \$261,094.50 the PSC ordered the Company to disburse to the Greater Washington Area Urban League for the benefit of the District's low-income residential ratepayers and customers.

PUBLIC INTEREST BENEFITS

5. AltaGas shall, within five (5) years after Merger Close, develop or cause to be developed 10MW of either electric grid energy storage or Tier one renewable resources in Washington, D.C. If AltaGas or one of its affiliates develops the project, the construction of the project shall be competitively bid. AltaGas may retain the renewable energy certificates ("RECs") and tax attributes for the Tier one resource. AltaGas will use reasonable best efforts to ensure at least twenty percent of the operational jobs for the 10MW are sourced from the local workforce. The costs of this project shall not be recovered through Washington Gas's utility rates. AltaGas shall use best efforts to target this project in capacity constrained electric distribution areas. The Applicants shall file its plan for the 10MW project for approval by the Commission within 180 days of Merger Close and an annual progress report following approval of this plan.

6. AltaGas will provide \$450,000 to fund a study to assess the development of renewable (bio) gas facilities in the Greater Washington, D.C. metropolitan area. The study will assess the potential environmental benefits of repurposing locally sourced waste streams into pipeline quality renewable gas, compressed natural gas and/or liquefied natural gas that can be used for carbon neutral vehicle fueling and onsite energy production. The study will evaluate the economic viability, identify operating challenges and solutions, and offer recommendations relating to

regulatory and market approaches that can facilitate the utilization of renewable sources to support the achievement of local, state, and regional climate and energy plans. This study will be a single study funded by AltaGas with respect to all of the Washington Gas service territories and will be commenced within one year after Merger Close. Neither AltaGas nor any AltaGas affiliate will perform the study. The costs of this study shall not be recovered through Washington Gas's utility rates.

7. AltaGas will fund a new public safety program at Washington Gas focused on preventing third party excavation damages. This will be accomplished by increasing staffing and resources in two primary areas: A) Excavator Engagement and Training; and B) Customer and Community Engagement, Education and Outreach.

A. Excavator Engagement and Training: AltaGas will provide Washington Gas with \$480,000 in annual funding for the five (5) year period commencing after Merger Closing for Washington Gas to add one Damage Prevention Trainer/Educator to each of its three jurisdictions. AltaGas will not seek to recover the costs of this funding through Washington Gas's utility rates.

B. Customer and Community Engagement, Education and Outreach: AltaGas will provide \$350,000 in incremental funding to Washington Gas, recovery of which will not be sought from Washington Gas's customers, over and above Washington Gas's current expenditures for educational and damage prevention awareness in accordance with applicable regulations, in order to increase Washington Gas's direct mailing efforts regarding educational and damage prevention awareness materials in each of its three jurisdictions. This contribution will be a single contribution made with respect to all of the Washington Gas service territories. In addition to mailing materials and bill inserts, Washington Gas will implement events and programs specifically intended to create greater awareness of the dangers of unsafe digging, and greater compliance with the one-call requirements. Washington Gas will also seek to engage a growing population of Spanish speaking residents in its communities with bilingual messaging. Washington Gas will consult with interested stakeholders prior to implementation of the above programs. At the conclusion of the five-year period after Merger Close, Washington Gas shall file a report with the Commission demonstrating the program's impact on the incidence of third party excavation damages. The \$350,000 in incremental funding will be provided by AltaGas as a single contribution to Washington Gas within 30 days after Merger Close. No portion of the funding will be recovered in utility rates.

8. In order to promote local employment in the energy sector in the District of Columbia, AltaGas will contribute \$6,000,000 over the two-year period after Merger Close to fund workforce development initiatives in the District of Columbia, such as the Mayor's DC Infrastructure Academy. These contributions will not be recovered in utility rates. AltaGas will focus its contributions to programs that promote training and job creation in the energy sector and Science,

Technology, Engineering and Math (“STEM”) fields, and enable the participants in these programs to achieve advancement both within and outside of their immediate communities and neighborhoods. AltaGas will work with the District of Columbia Government and District of Columbia Attorney General’s Office to direct these funds to programs designed to support District residents. In particular, AltaGas will take special efforts to fund programs to support returning citizens. AltaGas will also take special efforts to fund programs to support formerly justice-involved juveniles, who have successfully completed the District’s A.C.E. program.

a. AltaGas and Washington Gas shall allocate \$2 million of the \$6.0 million in workforce development funding to a program to work with District of Columbia-based contractors on growing their capacity to work on Washington Gas’s District of Columbia system and to promote hiring by those contractors of District of Columbia residents. Diverse suppliers shall have priority in the program. No portion of the funding will be recovered in utility rates.

9. Washington Gas will continue its supplier diversity efforts as outlined in the Memoranda of Understanding with the Commission, and will commit to an aspirational goal to increase the company’s share of non-gas spending with diverse suppliers to 35% over the next ten-year period. Washington Gas shall report to the Commission and other interested stakeholders annually by April 30 of each year on: (a) its progress in achieving this goal, (b) the steps it took in the previous year to achieve this goal, and (c) its going-forward plans to achieve this goal.

10. AltaGas, Washington Gas, and their affiliates will, in aggregate, during the 10-year period following Merger Close, provide at least \$1.2 million in charitable contributions and traditional local community support per year in the Greater Washington, D.C. metropolitan area, which represents an approximately 20% increase over the highest of any of the past five fiscal years for WGL and its affiliates. In order to ensure that District of Columbia residents benefit from the charitable contributions described above, the Applicants will earmark at least \$210,000 of the charitable contributions and traditional local community support per year to charities serving District of Columbia residents (including charities that may not be based in the District but that serve District residents). Of the \$1.2 million per year in charitable contributions and traditional community support, AltaGas, Washington Gas, and their affiliates shall allocate \$250,000 per year for 7 years post-Close for contributions to the AOBA Educational Foundation (“AEF”), beginning upon AEF’s qualification for 501(c)(3) exempt status. The contributions made shall be cash contributions, not “in-kind” contributions. This commitment is separate from and in addition to any other contributions made to charitable organizations under other Merger commitments. These contributions will not be recovered in Washington Gas’s District of Columbia rates.

ADDITIONAL COMMITMENTS*Ensuring Safe and Reliable Service*

11. AltaGas will continue to devote resources necessary to maintain current service quality and reliability levels and standards under existing Commission orders and regulations, including those issued in Formal Case Nos. 977 and 1089, as well as any additional or revised requirements adopted by the Commission, such as those resulting from the current examination of service quality standards in Formal Case No. 977. Washington Gas will continue all reporting requirements under existing Commission orders and regulations. Washington Gas will continue to be subject to and will comply with all state and federal pipeline safety requirements. Should the Commission decide to require additional reporting as part of this proceeding, Washington Gas will comply with those requirements.

12. AltaGas guarantees, including by means of any necessary equity infusion, that Washington Gas will be provided access to capital to meet its total projected capital expenditures through 2021 listed in Applicants' response to DCG 4-9 Attachment 1. Starting in 2020 and on an annual basis for a period of ten years thereafter, Washington Gas will provide the Commission with a report of AltaGas's compliance with the foregoing guarantee. The report shall include Washington Gas's: (a) actual capital expenditures for the previous two calendar years; and (b) projected capital expenditures for the next two years. For example, in 2020, Washington Gas shall provide the Commission with a report of AltaGas's support for and Washington Gas's actual capital expenditures for 2018 and 2019, and provide the Commission with its projected capital expenditures for 2020 and 2021. Washington Gas acknowledges that the capital expenditures described in this paragraph must go through the regular ratemaking processes of the Commission before they can be recovered in customers' rates, with the exception of accelerated pipeline replacement capital expenditures as part of an approved PROJECTpipes plan, which based on the Commission's decision would be recovered through an approved customer surcharge; and Washington Gas's commitments here do not imply an endorsement by any party or the Commission that such costs or expenses are just and reasonable.

Local Corporate Presence

13. Washington Gas's headquarters will remain in, and will not be moved from, the District of Columbia.

14. Within twelve months after Merger Close, the head office of the AltaGas U.S. power business, including the Primary office of the President of AltaGas's U.S. power businesses, will be relocated to Prince George's County, Maryland. Additional U.S. power business functions available to be transitioned to Prince George's County, Maryland within five years after Merger Closing include corporate accounting, human resources, and tax and risk management.

15. The AltaGas Board of Directors and Executive Committee will include the District of Columbia among the locations of their meetings. No other state will host these meetings on a more frequent basis than the District of Columbia.

Board Structure

16. Washington Gas will have a board of directors consisting of seven members, including: (a) the CEO of Washington Gas; (b) the CEO of AltaGas; (c) four independent members, including, up to three of the independent board members of WGL; and (d) one other member. Notwithstanding any other provision of this Settlement Agreement, the majority of the members of the Washington Gas board of directors must be Independent Directors. Each successor to a legacy-WGL board member will either (1) be an Independent Director, or (2) be a former director or officer of Washington Gas or WGL. The Washington Gas and AltaGas CEOs may nominate successors to their respective positions on the Washington Gas board, each of whom shall be a member of the executive team of the CEO's company.

17. Washington Gas will be adequately represented on AltaGas's board of directors as follows: At least one current member of the WGL board of directors will be recommended by AltaGas for nomination to the AltaGas board of directors. Following that individual's term(s) on the AltaGas board of directors, AltaGas will use all reasonable efforts to nominate at least one member of the Washington Gas board of directors to the AltaGas board of directors. At least two current members of the WGL board of directors will be recommended for nomination to the AUHUS board of directors.

Local Management

18. AltaGas will make reasonable efforts to retain Washington Gas's existing executive management team to manage Washington Gas's business and, as available, provide guidance to AltaGas's other U.S. regulated utility businesses. The executive officers of Washington Gas will maintain their Primary offices in the Greater Washington, D.C. metropolitan area, and the Washington Gas CEO will reside in Washington Gas's service territory. The Washington Gas CEO will have the same authority as under the current Washington Gas authorized approval levels. After Merger Closing, Washington Gas's CEO will be a member of the AltaGas Executive Committee, and Washington Gas's CEO and CFO shall meet with AltaGas's CEO and CFO at least monthly and have direct and frequent access to AltaGas's CEO, CFO, and other members of AltaGas's senior management team. This is intended to ensure that AltaGas's CEO and senior management team is kept informed about important matters affecting Washington Gas.

- a. The Washington Gas board of directors will have final authority to approve Washington Gas's budgets and programs.

b. If any of the following occurs, the Washington Gas board of directors shall have the unrestrained discretion and power to perform its own administrative services or secure administrative services from an entity other than AltaGas or its affiliates (for purposes of this paragraph, “administrative services” include, but are not limited to: corporate governance and strategy, financial services, tax and accounting services, legal and compliance services, information technology, enterprise resource planning and procurement, and employee compensation planning):

- i. Dividends are paid in violation of paragraphs 36 or 37, *infra*;
- ii. AltaGas’s or Washington Gas’s credit ratings fall below investment grade by any of the three major credit rating agencies; or
- iii. AltaGas files for bankruptcy.

c. The authority and responsibility delegated to local management shall be clearly delineated in two formal, written documents consisting of a statement of Corporate Governance Principles and Delegation of Authority (“DOA”). The DOA shall demarcate, among other things, levels of expenditures and defined categories of decisions that can be authorized solely by Washington Gas’s CEO or by Washington Gas CEO with Washington Gas Board of Directors’ approval.

d. The Applicants will maintain the financial integrity and independence of Washington Gas in all respects and will exercise management prudence in matters relating to dividends, capital investments and other financial actions in order to maintain an investment grade credit rating consistent with its pre-merger operations.

e. The Applicants shall report to the Commission within 90 days after Merger Closing concerning the current Washington Gas executive management that has been retained or lost through that date.

Consent to Commission Jurisdiction

19. AltaGas, its affiliates, and its subsidiaries all agree to submit to the jurisdiction of the Commission for: (1) all matters related to the Merger and the enforcement of the conditions set forth herein to the extent relevant to operations of Washington Gas in the District of Columbia; and (2) matters relating to affiliate transactions between Washington Gas and AltaGas or its affiliates to the extent relevant to operations of Washington Gas in the District of Columbia. AltaGas will also cause each of its affiliates that supplies goods or services to Washington Gas to submit to the jurisdiction of the Commission for matters relating to the provision or costs of such goods or services to Washington Gas. The Commission’s authority over Washington Gas will be undiminished by the Merger. AltaGas and its

affiliates acknowledge the jurisdiction of the District of Columbia local and federal courts over matters related to Washington Gas's businesses in the District of Columbia.

Employment

20. Washington Gas will honor all existing collective bargaining agreements.
 - a. Washington Gas will remain the sole sponsor of the Washington Gas Light Company Employee Pension Plan. Washington Gas will not merge its pension plan with a pension plan of AltaGas or another entity.

21. Upon Merger Closing and for at least the first two years following Merger Closing, AltaGas: (1) shall not permit a net reduction, due to involuntary attrition as a result of the Merger integration process, in the employment levels at Washington Gas; and (2) AltaGas will provide employees of Washington Gas and other WGL affiliates compensation and benefits (including retirement benefits; provided vested rights under the defined benefit pension plan will continue to be maintained in accordance with applicable legal requirements) that are at least as favorable in the aggregate as the compensation and benefits provided to those employees immediately before execution of the Merger Agreement. Washington Gas shall, on an annual basis and for the first three years following the consummation of the Merger, report to the Commission regarding employment levels at Washington Gas. The reports shall detail job losses - including whether attrition was involuntary or voluntary - as well as any job gains, delineated using an industry-accepted categorization method such as by SIC code. Washington Gas shall also continue its efforts to promote workforce diversity.

22. Five years after Merger Closing, the total number of employees (actual headcount) within the Greater Washington, D.C. metropolitan area at Washington Gas and its affiliates will be at least 65 greater than as of March 31, 2017, and the total budgeted full-time equivalents (FTEs) within the Greater Washington, D.C. metropolitan area will be at least 190 greater (65+125) than actual headcount as of March 31, 2017, to allow for the estimated future vacancy run rate. AltaGas will file a report annually with the Commission demonstrating its progress meeting this commitment.

Affiliate Requirements

23. AltaGas will comply and will cause Washington Gas and other AltaGas affiliates to comply with the statutes, regulations, and orders applicable to Washington Gas and its affiliates regarding affiliate transactions. AltaGas will permit the Commission and OPC to examine the accounting records and supporting workpapers of AltaGas and its affiliates that are the basis for charges to Washington Gas's operations in the District of Columbia to determine the reasonableness of allocation factors used by AltaGas to assign those costs and amounts subject to

allocation and direct charges. To the extent consistent with the external auditors' standards, the Applicants shall provide Commission and its Staff with timely access to any external auditor workpapers and/or reports relevant to Washington Gas.

24. Washington Gas will comply with its Cost Allocation Manual ("CAM") in transactions with AltaGas and its affiliates. AltaGas and its subsidiaries will use pricing protocols consistent with the rules of the Commission for transfer prices of any intercompany transfers of supplies and services related to Washington Gas. The Applicants agree that Washington Gas will continue to use its CAM (as updated) for all entities that allocate costs to Washington Gas's regulated operations. Within the CAM, the entities should also include all foreign exchange rates used, method of determining the exchange rates used (i.e., average annual, date certain, etc.) and source of the exchange rates used. An updated Washington Gas CAM and the service agreement(s) between any service company or affiliate allocating costs to Washington Gas shall be filed with the Commission within 12 months of Merger Close and thereafter, consistent with the Commission's affiliate reporting requirements. Further, the Applicants commit that current service agreements between Washington Gas and any affiliates that Washington Gas either provides services to or receives services from will be provided with the 21-day compliance filing in any future rate case proceedings. This will include, but not be limited to, service agreements with AltaGas and ASUS, as well as agreements Washington Gas has with its unregulated affiliates.

25. Washington Gas will hold itself out as an entity separate from AltaGas and the Special Purpose Entity (defined in Commitment 33) and conduct business in its own name, will maintain its separate existence and separate franchise and privileges, and will not use the trademarks or service marks of AltaGas in rendering services to its customers (except that Washington Gas may identify itself as an affiliate of AltaGas on a basis consistent with other AltaGas utility subsidiaries).

26. Washington Gas shall provide a side-by-side comparison by function of the pre-Merger corporate and shared-services costs charged to Washington Gas's regulated utility operations for the most recent three-years pre-merger as compared to the net post-Merger corporate and shared-services costs charged to Washington Gas's regulated utility operations for five years after Merger Close. The comparisons shall be filed on an annual basis as a separate letter, and the first letter shall be filed no later than the end of the second quarter following the first full year after Merger Close. In the event Washington Gas files a base rate case prior to the receipt of the first comparison, Washington Gas will include as part of its base rate application a side-by-side comparison, by function, of pre-and post-Merger corporate and shared-services costs available through the test year, to the extent applicable. The side-by-side comparison will specifically disclose any costs to achieve associated with the Business Process Outsourcing and Business Process Outsourcing 2.0 included in each year in the comparison, by function. Additionally, in the second quarter after the first full calendar year following Merger Closing, and for every subsequent year for the next ten years, Washington Gas shall prepare

and file with the Commission a side-by-side comparison of (i) AltaGas's, ASUS and any other affiliate charging costs to Washington Gas, annual charges to Washington Gas and (ii) Washington Gas's corporate and shared services costs.

Ring Fencing and Credit Rating Protections

27. Washington Gas will not include in any of its debt or credit agreements cross-default provisions between Washington Gas securities and the securities of AltaGas or any other AltaGas affiliate. Washington Gas will not include in its debt or credit agreements any financial covenants or rating agency triggers related to AltaGas or any other AltaGas affiliate. Washington Gas will not assume liability for nor issue any guarantees of the debt of any other entities.

28. The SPE shall not pledge its assets for the benefit of any other entity or make loans to, or purchase or hold any indebtedness of, any other entity. Washington Gas will not pledge or use as collateral, or grant a mortgage or other lien on any asset or cash flow, or otherwise pledge such assets or cash flow as security for repayment of the principal or interest of any loan or credit instrument of, or otherwise for the benefit of, AltaGas or any other AltaGas affiliate.

29. The Applicants shall commit to maintain separate books and records, system of accounts, financial statements, a separate utility commercial paper financing program supported by the utility's third-party credit facility, and bank accounts for Washington Gas. The Applicants commit that relevant records of any affiliate for which any direct or indirect charge is made to Washington Gas, and included in said utilities' cost of service and rates on either direct or indirect basis, will be made available, upon request, to the Commission and its Staff in its District offices.

30. Washington Gas will hold all its property in its own name, will not assume liability for the debts and will not guarantee the debt or credit instruments of AltaGas, the SPE or any affiliate of AltaGas. Neither AltaGas nor any of its other affiliates will cause Washington Gas to sell, lease, rent or otherwise convey any of its assets, outside routine business practices, without Commission approval.

31. Washington Gas will not participate in a money pool with AltaGas or any other entities, and will not commingle funds or other financial assets with those of other utilities or entities.

32. Washington Gas will maintain its own separate debt and preferred stock, if any. Washington Gas will maintain its own debt securities and will maintain its own corporate and debt credit ratings as well as ratings for long term debt and preferred stock. Washington Gas will maintain separate capital structure to finance the activities and operations of Washington Gas. Washington Gas will maintain a 12-month rolling average common equity ratio of not less than 48 percent and no more than 55 percent, provided that this range is consistent with future orders that address capital structure for Washington Gas. Washington Gas will report to the

Commission within 30 days of the end of each quarter the following credit metrics for the then-current year: FFO/debt, FFO/interest, and debt/capitalization.

Washington Gas will maintain a separate credit facility. Within 90 days of Merger Close, Washington Gas will provide the Commission with a third-party study that recommends the optimal size, parameters, and terms for a new credit facility. The costs of this third-party study shall not be recovered in rates.

AltaGas acknowledges the Commission's preference for maintaining Washington Gas' credit rating at least at the minimum investment grade level of BBB+ as rated by S&P and Fitch or Baa1 as rated by Moody's, assuming a reasonable regulatory environment and reasonable capital market conditions.

33. Within the AltaGas corporate structure, Washington Gas will be a wholly-owned, direct subsidiary of a bankruptcy-remote Special Purpose Entity ("SPE") established for the purpose of owning the equity of Washington Gas and ring-fencing Washington Gas, with the intention of removing Washington Gas from the bankruptcy estate of AltaGas and its affiliates. In addition, the following conditions shall apply to the SPE:

- a. The SPE will have no employees and no operational functions other than those related to holding the equity interests in Washington Gas.
- b. The SPE shall maintain adequate capital in light of its contemplated business purpose, transactions, and liabilities; provided, however, the foregoing shall not require the owners to make any additional capital contributions.
- c. At least one of the directors of the SPE will be an independent director, who will be an employee of an administration company in the business of protecting SPEs.
- d. The SPE will issue a non-economic interest in the SPE (a "Golden Share") to an administration company in the business of protecting SPEs, separate from the administration company retained to provide the person to serve as the independent director for the SPE.
- e. The independent director and the holder of the SPE's Golden Share will have a voting right on matters specified in the SPE governing documents, as described below.
- f. A voluntary petition for bankruptcy by the SPE will require the affirmative consent of the holder of the Golden Share and the unanimous vote of the SPE board of directors.
- g. A voluntary petition for bankruptcy by Washington Gas will require the affirmative consent of the holder of the Golden Share, the unanimous

vote of the SPE board of directors (including the independent director), and the unanimous vote of the Washington Gas board of directors.

- h. A unanimous vote by the SPE's board of directors and the affirmative consent of the holder of the Golden Share shall also be required to amend the SPE's organizational documents affecting the voting rights and the other aspects of ring fencing in the SPE governing documents.
- i. The SPE will maintain arms-length relationships with each of its affiliates and observe all necessary, appropriate and customary company formalities in its dealings with its affiliates.
- j. At all times, the SPE will hold itself out as an entity separate from its affiliates, will conduct business in its own name through its duly authorized directors and officers and comply with all organizational formalities to maintain its separate existence and shall use commercially reasonable efforts to correct any known misunderstanding regarding its separate identity.
- k. The SPE shall maintain its own separate books, records, bank accounts and financial statements reflecting its separate assets and liabilities.
- l. The SPE shall comply with Generally Accepted Accounting Principles in all material respects (subject, in the case of unaudited financial statements, to the absence of footnotes and to normal year-end audit adjustments) in all financial statements and reports required of it and issue such financial statements and reports separately from any financial statements or reports prepared for its affiliates; provided that such financial statements or reports may be consolidated with those of its affiliates if the separate existence of the SPE and its assets and liabilities are clearly noted therein.
- m. The SPE shall account for and manage all of its liabilities separately from any other entity, and pay its own liabilities only out of its own funds.
- n. The SPE shall not make loans.
- o. The SPE shall neither guarantee nor become obligated for the debts of any other entity nor hold out its credit or assets as being available to satisfy the obligations of any other entity.
- p. None of the costs of establishing or operating the SPE shall be charged or allocated to Washington Gas.

34. Within 180 days following Merger Close, AltaGas will obtain a legal opinion in customary form and substance reasonably satisfactory to the Commission, to the effect that, as a result of the ring-fencing measures AltaGas has

implemented for Washington Gas and its subsidiaries, a bankruptcy court would not consolidate the assets and liabilities of the SPE or Washington Gas or Washington Gas's subsidiaries with those of AltaGas or its affiliates other than the SPE and Washington Gas or Washington Gas's subsidiaries in the event of a bankruptcy of AltaGas or its affiliates other than the SPE and Washington Gas or Washington Gas's subsidiaries. In the event that such opinion cannot be obtained, AltaGas will promptly implement such measures as are required to obtain such opinion. AltaGas shall conduct an analysis of its operational and financial risk to determine the adequacy of existing ring fencing measures. AltaGas shall file this analysis with the Commission no later than the later of the end of the third quarter in 2018 or 180 days following Merger Close. AltaGas shall not implement any internal corporate reorganization impacting the ring-fencing measures of the SPE and Washington Gas without giving 90 days prior written notice to the Commission, which shall include: (a) an opinion of reputable bankruptcy counsel that the reorganization does not materially impact the effectiveness of Washington Gas's existing ring fencing; or (b) a letter from a reputable bankruptcy counsel describing what changes to the ring fencing would be required to ensure Washington Gas is at least as effectively ring-fenced following the reorganization and a letter from AltaGas committing to obtain a new non-consolidation opinion following the reorganization, and to take any further steps necessary to obtain such an opinion. AltaGas shall not object if the Commission elects to open an investigation into the matter.

- a. The ring-fencing measures described in these Commitments may only be changed with permission of the Commission and the Applicants may not seek such permission during the first five years after Merger Close to act otherwise.

35. AltaGas shall commit to issuing separate debt and maintaining separate credit ratings for Washington Gas. The Applicants shall maintain a separate capital structure to finance the activities of Washington Gas. AltaGas shall use reasonable efforts to ensure that Washington Gas's credit ratings remain at or above investment-grade for its publicly-traded securities and to preserve an investment grade credit rating for Washington Gas's senior unsecured debt. Washington Gas shall report to the Commission promptly if either AltaGas's, WGL's, or Washington Gas's credit rating from any of the major credit rating agencies falls below its level at the date of the notification to the Commission that the Merger had been consummated. Washington Gas shall also report to the Commission within 30 days of the reporting of each quarter the following credit metrics for the then-current year: FFO/debt, FFO/interest, and debt/capitalization. AltaGas shall also report to the Commission if AltaGas, WGL, or Washington Gas are put on negative outlook or is downgraded below current bond ratings by any of the major credit rating agencies. Washington Gas, within 30 days of such action by any of the major credit rating agencies, shall also describe any measures and plans it intends to implement to restore Washington Gas's credit ratings to investment grade within a targeted timeframe. The plan should identify all reasonable steps, taking into account the costs, benefits, and expected outcomes of such actions that will be taken

to restore and maintain an investment grade rating for Washington Gas. If the Applicants find that the costs of returning Washington Gas to investment grade are above the benefits of such actions, the Applicants shall be required to show and explain why it is not necessary, or cost-effective, to take such actions and how Washington Gas can continue to provide efficient and sufficient service in the District under such circumstances. The Applicants shall also file a report, filed with the Commission every 60 days, until such time that Washington Gas regain an investment-grade credit rating, detailing the steps being taken to restore an investment grade rating and the financial or other support being provided to Washington Gas to provide efficient and sufficient service in the District. The major credit rating agencies are Standard & Poor, Moody's and Fitch, plus DBRS Limited (DBRS) which rates AltaGas.

36. Washington Gas will not pay extraordinary dividends (i.e., an irregular dividend that is not declared as part of Washington Gas's ordinary course of business) to its parent for three years after Merger Close. Washington Gas will not pay dividends to its parent company if its senior unsecured debt rating is rated below investment grade by any of the three major credit rating agencies.

37. The Applicants commit that Washington Gas will not make any dividend payments to its parent company to the extent that the payment would result in a drop of Washington Gas's common equity level below 48 percent of its total capitalization provided that this common equity level is consistent with future capital structure orders, or it rates below investment grade by any of the three major credit rating agencies.

38. Washington Gas shall demonstrate that customers of Washington Gas are held harmless from adverse rate impacts due to an increase in Washington Gas's cost of debt that is caused by the Merger with AltaGas, or the ongoing affiliation with AltaGas and its affiliates after the Merger. Nothing in this condition will restrict the Commission's authority in setting Washington Gas's rates or Washington Gas's responsibility to support its cost of capital.

Cost Accounting, Tax, and Rate Neutrality

39. Washington Gas will not issue debt or equity in connection with, or to fund, the Merger. AltaGas or its affiliates will not charge Washington Gas with any financing acquisition costs, including: fees related to the \$3 billion credit facility bridge loan, including interest, as well as any fees related to the \$2 billion in subscription receipts such as issuance and other costs and dividend or dividend equivalent payments. AltaGas will not sell a minority interest in Washington Gas, WGL, or AUHUS in connection with, or to fund, the Merger, and will comply with all District of Columbia laws and regulations regarding the sale of any interest in Washington Gas. The Applicants acknowledge that the Commission has authority over any sale of any direct or indirect interest in Washington Gas, WGL, or AUHUS of more than 10 percent.

40. Washington Gas will not seek recovery in distribution rates of: (1) any acquisition premium or “goodwill” associated with the Merger; or (2) any transaction costs incurred in connection with the Merger. Washington Gas shall have the burden of proof to clearly identify where all transactions costs are recorded and shall be required to attest in all future rate proceedings before the Commission that none of these costs are included in its cost of service and rates, and to provide a complete explanation of the procedures used to ensure that these transactions cost are not included in the cost of service or rates. The categories of transaction costs incurred in connection with consummation of the Merger that will not be recovered from utility customers are: (1) consultant, investment banker, legal, and regulatory support fees; (2) change in control or retention payments, executive severance payments, and the accelerated portion of supplemental executive retirement plan payments; (3) costs associated with the shareholder meetings and a proxy statement related to the Merger approval by WGL shareholders; (4) costs associated with the imposition of conditions or approval of settlement terms in other state jurisdictions; (5) costs of setting up and operating the SPE; (6) costs associated with shareholder litigation concerning the Merger; (7) termination fees associated with the Merger, and (8) the purchase price. AltaGas and Washington Gas will file a Report of Action within one hundred and twenty (120) days after closing of the Merger. The Report of Action will contain: (1) the closing date of the Merger; (2) the actual total sale price; and (3) the actual accounting entries recorded in AltaGas’s and Washington Gas’s books to reflect the Merger. The Merger-related accounting entries in AltaGas and Washington Gas’ books will include: all Transaction Cost accounting entries for AltaGas and Washington Gas; all Merger-related fair value, goodwill, and/or acquisition premium accounting entries for AltaGas and Washington Gas; all Merger-related tax accounting entries for AltaGas and Washington Gas; all Merger-related debt-equity financing accounting entries for AltaGas and Washington Gas; all SPE set-up cost accounting entries for AltaGas and Washington Gas; and all non-consolidation opinion cost accounting entries for AltaGas and Washington Gas, organized by company, data, account number, account title, and amount. The Applicants commit that they shall have the burden of proof to clearly identify where all transactions costs are recorded and shall be required to attest in all future rate proceedings before the Commission that none of these costs are included in its cost of service and rates, and to provide a complete explanation of the procedures used to ensure that these transactions cost are not included in the cost of service or rates.

41. Washington Gas will track and account for its system-wide and District-specific Merger-related savings, and transition costs to enable those savings, in all base rate cases filed during the first five-years post-merger or in its next two base rate cases if the second base rate case is not filed within the first five years post-merger. Washington Gas will amortize the transition costs over five years, will not seek recovery in rate proceedings over those five years of any amortized transition costs or any corporate costs allocated from AltaGas, ASUS, or any other affiliated entities to Washington Gas in excess of Merger-related savings, and will ensure that customer rates reflect an annual net benefit to Washington Gas’s District of

Columbia customers of not less than \$400,000 per year over the five years following Merger Close commencing with the first post-Merger base rate case (i.e., \$2 million over five years). In the event that Washington Gas files a base rate case in the District of Columbia prior to Washington Gas capturing the anticipated savings in the test period for such a rate case, then Washington Gas will consent to a ratemaking adjustment to reduce Washington Gas's revenue requirements by an amount that is needed to guarantee that base rates include net cost savings of \$400,000 if the net cost savings in the test year are less than \$400,000 as a known and measurable reduction in Washington Gas's cost of service during the new rate-effective period. In determining if net cost savings of at least \$400,000 are included in base rates, the additional charges to Washington Gas from AltaGas, ASUS, and any other affiliates, and Merger-related savings, will be considered in the determination. "Transition costs" as used in this commitment are incremental non-recurring costs to facilitate the integration of the companies. "Merger-related savings" as used in this commitment refers to the tangible financial benefits achieved as a result of the Merger for the five years after Merger Close that would not have been possible if the individual companies were to continue to operate separately. As part of this commitment, the Applicants are guaranteeing that costs charged to Washington Gas's ratepayers in the District of Columbia, taking into account Merger-related savings, will not be higher as a result of the Merger. In future rate case proceeding, the Applicants commit to bear the burden of proving to the Commission that costs charged to Washington Gas's ratepayers in the District of Columbia, taking into account Merger-related savings, are not higher than they otherwise would have been absent the Merger.

42. AltaGas will ensure that Merger accounting is rate-neutral for Washington Gas customers. AltaGas will ensure that any accounting treatments associated with Merger accounting do not affect rates charged to Washington Gas's customers. AltaGas will not record any of the impacts of purchase accounting at Washington Gas, thereby maintaining historical cost accounting at Washington Gas. No goodwill or other fair value adjustments will be recorded at Washington Gas upon consummation of the Merger. If the SEC requires that goodwill be recorded on Washington Gas's books then AltaGas and Washington Gas will ensure that such goodwill does not impact rates charged to Washington Gas's customers. The Applicants commit that any Merger-related financial and accounting changes must be reported to the Commission and such changes must be shown to not harm the District customers.

a. Washington Gas shall not record Goodwill resulting from the Merger on its books. The Goodwill resulting from the Merger shall be recorded on the books of AltaGas Utility Holdings (U.S.) Inc., and no amount of Goodwill related to the transaction shall be recorded on the books of WGL or Washington Gas. No "push down" account shall be used to result in any amount of Goodwill associated with the proposed transaction to be recorded on the books of WGL or Washington Gas. AltaGas and Washington Gas shall also ensure that such Goodwill does not impact rates

charged to Washington Gas's customers, or the capital structure of Washington Gas.

b. Within 10 days after a report to the SEC or to Canadian securities regulators by AltaGas or its subsidiaries including AUHUS of Goodwill impairment tests that indicates that the amount of Goodwill on AltaGas's or AUHUS's books has been impaired, AltaGas shall notify the Commission.

43. AltaGas shall indemnify Washington Gas for any liability for federal or state income taxes (including interest and penalties related thereto, if any) in excess of Washington Gas's standalone liability for federal and state income taxes (including interest and penalties related thereto, if any) for any period during which Washington Gas is included in a consolidated group with AltaGas. Under applicable law, following the Merger Washington Gas shall have no liability for federal or state income taxes (including interest and penalties related thereto if any) of AltaGas or any other subsidiary of AltaGas for any period during which Washington Gas was not included in a consolidated group with AltaGas (i.e., any period before the Merger). AltaGas shall take no action to cause Washington Gas to have any liability for federal or state income taxes (including interest and penalties thereto, if any) of AltaGas or any other subsidiary of AltaGas for any period during which Washington Gas was not included in a consolidated group with AltaGas for purposes of filing federal or state income tax returns. If Washington Gas is included in a consolidated group with AltaGas subsidiaries for purposes of filing federal or state income tax returns and the rating for AltaGas' senior unsecured long term public debt securities, without third party credit enhancement, is downgraded to a rating that indicates "substantial risks" (below B3 by Moody's or B- by S&P or Fitch) by any of the three major credit rating agencies, the Commission, may, after investigation and hearing, require AltaGas to deliver to Washington Gas collateral of the type and amount determined by the Commission pursuant to hearing to secure AltaGas's tax indemnity to Washington Gas if the Commission finds that such collateral is necessary for the protection of Washington Gas' interests under AltaGas's tax indemnity. Washington Gas shall be required to surrender or release such collateral security to AltaGas: (1) promptly after the rating of AltaGas's senior unsecured long term public debt, without third party enhancement, is restored to a rating above "substantial risks" (at or above B3 by Moody's, B- by S&P or Fitch, or B by DBRS) by at least two of the four credit rating agencies; (2) when Washington Gas is determined by a body of competent jurisdiction no longer to be liable for federal or state income taxes as a member of a consolidated group with AltaGas, other than Washington Gas' standalone liability for federal or state income taxes (including interest and penalties related thereto, if any); or (3) upon finding by the Commission, after investigation and hearing upon application of AltaGas that the conditions under which such collateral security was originally required to no longer exist.

44. AltaGas will ensure that consummation of the Merger will not affect accounting and ratemaking treatments of Washington Gas's accumulated deferred

income taxes, including excess deferred income taxes, accumulated deferred tax credits and net operating losses (including net operating loss carrybacks and net operating loss carryforwards). No tax elections or accounting methods shall be employed related to the Merger that would in any way result in any reduction to Washington Gas's net accumulated deferred income tax balances that are used to reduce rate base in Washington Gas's rate cases.

45. At the time of Merger Close and every year thereafter, Washington Gas shall provide the Commission with a certificate from an officer of AltaGas certifying that: (a) AltaGas shall maintain the requisite legal separateness in the corporate reorganization structure; (b) the organization structure serves important business purposes for AltaGas; (c) AltaGas acknowledges that subsequent creditors of WGL and Washington Gas may rely upon the separateness of WGL and Washington Gas and would be significantly harmed in the event separateness is not maintained and a substantive consolidation of Washington Gas with AltaGas were to occur; and (d) Washington Gas shall make all books and records available to the Commission and to the Office of People's Counsel.

46. In the event that AltaGas is required to change from US GAAP to a different method of accounting in the future, the Applicants should implement and ensure the following processes and procedures:

- a. Promptly notify the Commission if AltaGas or any of its affiliates change from US GAAP to another method of accounting;
- b. All filings submitted to the Commission will be based on US GAAP;
- c. Washington Gas's books and records will continue to be kept based on US GAAP;
- d. If AltaGas switches from US GAAP to another basis of accounting at a future date, Washington Gas's ratepayers in the District will be held harmless from any increased costs caused by such a change. This should include, but not be limited to, the impacts of changed accounting methods on the determination of allocation factors used to allocate AltaGas and ASUS corporate costs to affiliates as well as the impacts on the costs being allocated. AltaGas shall be required to disclose all impacts of the non-US GAAP accounting methods on AltaGas and ASUS's allocable costs that are charged to Washington Gas's regulated operations;
- e. If AltaGas switches from US GAAP to another basis of accounting at a future date, no costs associated with changing accounting methods or with the need to keep accounting records under two separate methods of accounting will be passed on to Washington Gas's ratepayers.

47. The Applicants shall commit that any increase in expenses due to accounting changes made by Washington Gas caused by the Merger will not be charged to District ratepayers.

a. Washington Gas will file with the Commission a detailed report that is available to all interested parties, describing, in detail, all changes in Washington Gas's financial and regulatory accounting policies and procedures implemented as a result of the merger. The report should include a detailed description of the impact of the changes in the financial and regulatory accounting policies and procedures on the various components of the revenue requirement calculations, including, but not limited to, items included in rate base, revenues, expenses and the capital structure.

48. In the event that the Merger impacts Washington Gas's accounting for pension and post-retirement benefits other than pensions, Washington Gas shall file a detailed report with the Commission, that is available to all interested parties, describing, in detail, all impacts of the Merger on the accounting for Washington Gas's pension and post-retirement benefits other than pensions obligations.

49. For the first two post-Merger rate cases submitted by Washington Gas in the District of Columbia, Washington Gas will provide as part of its application a detailed quantification of all merger-related impacts of the changes in both financial and regulatory accounting policies and procedures on the revenue requirements presented in the Company's filing. This should include a detailed description of the changes, disclosing all impacts of the changes on the filing, as well as the workpapers showing how the impacts were quantified.

50. To the extent not already provided to the Commission, the Applicants shall file, quarterly, quality of service reports that examine pre- and post-Merger reliability and customer service performance. The reports shall examine and report monthly, items including but not limited to, the number of service disruptions/outages, cause of service disruptions/outages, length and duration of service disruption/outage, the number of safety/gas odor calls, average time to respond to safety/gas odor calls, the number of confirmed gas leaks, the number of leaks repaired, and the month-end Grade 2 leak backlog.

51. The Applicants shall file a report, on an annual basis, which compares the performance of the utilities within the AltaGas utility family. The reports should include, but not be limited to, an examination of reliability, customer service, safety, and regulatory matters.

52. Washington Gas shall notify the Commission of any changes to threat definitions required by PHMSA.

53. For accelerated pipe replacement projects, such as *PROJECTpipes*, Washington Gas shall continue to publicly file with the Commission an annual

report stating the status of each accelerated replacement sub-project and will modify those reports as required by the Commission. The report should be broken down by ward, and shall include a description of each project. This commitment is in addition to any other existing PROJECT*pipes* reporting requirements.

54. Washington Gas, with agreement by the parties, will retain a qualified third-party consultant to perform a cost-benefit analysis for acceleration of Washington Gas's PROJECT*pipes* program and minimization of future leaks, that addresses Grade 1 hazardous leaks not caused by excavation damage. If the parties cannot agree on a consultant, they shall each propose a candidate to the Commission. The Commission shall approve the selection of the consultant prior to hiring. Washington Gas shall file a public copy of such analysis with the Commission in its second five-year PROJECT*pipes* filing in 2019. The costs of this analysis shall not be recovered from ratepayers.

55. Within three years after Merger Close, Washington Gas shall reduce its Grade 2 leak backlog in the District of Columbia to a level consistent with SEMCO Energy Gas Company's 2017 Grade 2 leak backlog. Once Washington Gas's Grade 2 leak backlog is at a level consistent with SEMCO Energy Gas Company's Grade 2 leak backlog, Washington Gas will modify its annual operating performance metrics to reflect Washington Gas's target to carry forward 35 or fewer active Grade 2 leaks in the District of Columbia on an annual basis. The benchmark date for measurement of Grade 2 leaks shall be on September 30th of each Calendar Year. Within 90 days after Merger Close, AltaGas will provide Washington Gas with \$4 million to hire and train additional repair crews, thereby offsetting a portion of the costs to achieve the aforementioned Grade 2 leak backlog reductions. No portion of this funding will be recovered in utility rates.

56. Washington Gas will complete its Leak Survey Mobile Mapping Program.

57. Pursuant to Commitment 11 and to the extent not already provided, Washington Gas will conduct annual reports of its District of Columbia distribution system leaks. These reports will be provided, on a confidential basis, to the Commission and other stakeholders as approved by the Commission. These reports shall be by; (i) ward, (ii) type (main/service lines), (iii) grade, and (iv) cause. Once mobile mapping results are available (Commitment 56), leak volumes (e.g. liters/min) shall also be included in these reports where available.

58. Pursuant to Commitment 11, AltaGas shall otherwise ensure that Washington Gas will maintain safety and reliability standards and policies that are substantially comparable to, or better than, those standards and policies maintained by Washington Gas at Merger Closing.

59. Following Merger Close, Washington Gas will continue to operate its existing cybersecurity program on a standalone basis. AltaGas will not reduce the number of staff or capital budget at WGL and Washington Gas dedicated to cybersecurity. AltaGas will continue to invest in its cybersecurity program.

AltaGas will not integrate the IT systems of AltaGas and its pre-Merger affiliates (“AltaGas IT Systems”) with the IT systems of WGL and its pre-Merger affiliates, including Washington Gas (“Washington Gas IT Systems”) until the Commission determines that AltaGas has achieved an aggregate cybersecurity capability maturity comparable to or greater than Washington Gas, as evaluated by a reputable third-party expert. Until AltaGas has achieved an aggregate cybersecurity capability maturity comparable to or greater than Washington Gas’s, AltaGas shall (i) provide annual reports to the Commission documenting compliance with this Commitment, and (ii) upon Merger Close, ensure that Washington Gas is insured through an industry-standard cyber-risk insurance policy (at a coverage level that is commercially reasonable and typical for critical energy infrastructure companies) against adverse impacts associated with a cybersecurity event on the AltaGas IT systems. The insurance policy will be filed with the Commission. The costs to achieve and evaluate capability maturity in compliance with this commitment, and any increase in the cost of Washington Gas’s existing cyber-risk insurance policy as a result of this commitment, will not be included in customers’ rates.

60. The Applicants agree that the Commission may, after investigation and a hearing, order AltaGas to divest its interest in Washington Gas on terms adequate to protect the interests of utility investors (including AltaGas investors) and consumers and the public, if the Commission finds that: (a) one or more of the divestiture conditions described below has occurred; (b) that as a consequence Washington Gas has failed to meet its obligations as a public utility; and (c) that divestiture is necessary to allow Washington Gas to meet its obligations and to protect the interests of its customers in a financially healthy utility and in the continued receipt of reasonably adequate utility service at just and reasonable rates. Any divestiture order made pursuant to this commitment shall be applicable to Washington Gas only to the extent consistent with the application of the criteria in the preceding clauses (a) — (c) and shall be limited to the assets and operations of Washington Gas in the District of Columbia. The divestiture conditions covered by this commitment are: (i) a bankruptcy filing by AltaGas or any of its subsidiaries constituting 10% or more of AltaGas’s consolidated assets at the end of its most recent fiscal quarter, or 10% or more of AltaGas’s consolidated net income for the twelve (12) months ended at the close of its most recent fiscal quarter; (ii) the rating for AltaGas’s senior unsecured long-term public debt securities, without third-party credit enhancement, are downgraded to a rating that indicates “substantial risks” (i.e., below B3 by Moody’s or B- by S&P or Fitch) by at least two of the three major credit rating agencies, and, such condition continues for more than six (6) months; or (iii) AltaGas and/or WGL have committed a pattern of material violations of lawful Commission orders or regulations, or applicable provisions of the D.C. Code and, despite notice and opportunity to cure such violations, have continued to commit the violations.

61. The Applicants will ensure that the level of shareholder-funded customer benefits and programs in the District of Columbia and Maryland are comparable in each jurisdiction, as follows:

a. In the event that the Applicants reach a settlement with parties in Case No. 9449 pending with the Maryland Public Service Commission before the District of Columbia Commission enters its final order in this case, the Applicants will file with the District of Columbia Commission a copy of the Maryland settlement agreement along with an analysis indicating the total dollar amount of any Jurisdiction Allocable Benefits (defined below).

- i. X is the quotient established by dividing the D.C. Jurisdiction Allocable Benefits with the D.C. Jurisdictional Factor.
- ii. Y is the quotient established by dividing the Maryland Jurisdiction Allocable Benefits with the Maryland Jurisdictional Factor.
- iii. If X is materially smaller than Y, then the Applicants will consent to an order by the District of Columbia Public Service Commission for AltaGas to provide additional money (“MFN Dollars”) for District of Columbia energy distribution-related customer or educational programs or other programs the Commission deems to be in the public interest, such that after taking into consideration such MFN Dollars, the value of X will be equivalent to Y. Any MFN Dollars required under this provision shall be distributed by the Commission in its final order in this case in a manner that is consistent with the public interest.

b. In the event that the Maryland Public Service Commission issues its final order in Case No. 9449 pending with the Maryland Public Service Commission before the District of Columbia Commission enters its final order in this case, the Applicants will file with the District of Columbia Commission a copy of the Maryland Public Service Commission’s final order along with an analysis indicating the total dollar amount of any Jurisdiction Allocable Benefits (defined below).

- i. X is the quotient established by dividing the D.C. Jurisdiction Allocable Benefits with the D.C. Jurisdictional Factor.
- ii. Y is the quotient established by dividing the Maryland Jurisdiction Allocable Benefits with the Maryland Jurisdictional Factor.
- iii. If X is materially smaller than Y, then the Applicants will consent to an order by the District of Columbia Public

Service Commission for AltaGas to provide additional money (“MFN Dollars”) for District of Columbia energy distribution-related customer or educational programs or other programs the Commission deems to be in the public interest, such that after taking into consideration such MFN Dollars, the value of X will be equivalent to Y. Any MFN Dollars required under this provision shall be distributed by the Commission in its final order in this case in a manner that is consistent with the public interest.

c. The term “Jurisdiction Allocable Benefits” means jurisdictional-specific direct financial payments (to the extent they will not be recoverable in distribution customer rates) required to be made by the Applicants under the Maryland settlement agreement and/or final order for (i) rate credits or rate offsets or reductions (other than the commitment to minimum net synergies) or (ii) funding of any energy distribution-related customer or educational programs (such as: weatherization, energy efficiency, low-income customer support, customer arrearage forgiveness, facilitation of access to gas distribution service including any programs similar to the Natural Gas Expansion Programs, safety, or energy-industry workforce or educational development).

d. The following elements shall not be considered “Jurisdictional Allocable Benefits”: (a) employment and hiring commitments; (b) fuel fund and/or charitable contributions commitments; (c) corporate headquarters commitments; (d) synergy savings commitments; and (e) electric grid energy storage and/or Tier 1 renewable resources development commitments.

e. The term “Jurisdictional Factor” means 39.78 for Maryland and 17.72 for the District of Columbia. The Jurisdictional Factor figures are derived from Washington Gas’s Maryland and District of Columbia rate base (as of December 31, 2016 – the last full month prior to Merger announcement).

62. The Applicants shall be prohibited from degrading the competence level of the Washington Gas workforce following Merger Close.

63. Washington Gas shall submit a report to the Commission by no later than April 1 of each calendar year documenting the number of critical valves on its system as of the end of the previous calendar year and shall provide an explanation for any critical valves removed during the previous calendar year. This reporting requirement shall continue for five years following Merger Close.

64. Washington Gas shall maintain its compliance auditing program for field personnel performing safety-related tasks and its quality observation program for a period of at least 5 years following Merger Close. In addition, Washington Gas shall submit to the Commission an annual report by no later than April 1 of each year containing a summary of the findings of these programs over the past calendar year. This report shall include the number of audits completed by month and in total for the year. It shall also include the number of audits in which the personnel being audited were deficient in some way and a list of any and all deficiencies noted with accompanying remedial actions taken by Washington Gas. It shall also include the number of employees assigned to carrying out these internal auditing programs and an explanation for any change in the number of total personnel assigned. This reporting requirement shall continue for a period of five years following the Merger Close.

65. Washington Gas shall continue to qualify its covered employees and contract employees in accordance with the Virginia Gas Operator's Association ("VGOA") Operator Qualification Program ("OQ Program") after Merger Close. In addition, Washington Gas shall revise its Engineering and Operating Standards ("EOS") to conform to the OQ Program and maintain records to support Washington Gas's compliance with the requirements of the Commission's pipeline safety standards relative to qualifications of Washington Gas's covered workforce.

66. Washington Gas shall devise a plan to implement a new, secure set of OQ testing protocols and to ensure that the testing process is secure. This plan shall be implemented within six months of Merger Close.

67. Washington Gas shall continue its plans to develop and implement a pipeline safety management system ("PSMS") in compliance with the American Petroleum Institute Recommended Practice 1173 ("RP 1173"). The PSMS shall be in place within six months of Merger Close. In addition, Washington Gas shall, as a part of its PSMS, be required to conduct a pipeline safety culture assessment in accordance with RP 1173 at a frequency it determines that does not exceed three years.

68. Washington Gas shall continue to maintain all safety records in accordance with local and federal laws and make such records available to the Commission in hard copy and electronic format at Washington Gas's Springfield, Virginia Operations Center in a reasonable amount of time.

69. Washington Gas shall establish an online database, or another method mutually agreeable to the Commission and Washington Gas, to inform the Commission of any and all field projects related to Washington Gas's transmission integrity management program ("TIMP"), to include, but is not limited to, surveys, direct assessment digs, in-line inspection tool runs, and any and all other field activities that result from Washington Gas's TIMP. In addition, Washington Gas shall also notify the Commission at the earliest practicable moment of the date and time for which any and all of these integrity management activities are scheduled.

70. No later than six months following Merger Close, Washington Gas shall develop protocols for meter relocations from inside a customer's residence to the outside—including policies concerning the aesthetics of such infrastructure in both historic and non-historic districts and a customer notice and communications plan for its meter relocation practices, including policies concerning the aesthetics of such infrastructure in both historic and non-historic districts—for review and approval by a multi-stakeholder working group, including the Office of the People's Counsel. Washington Gas shall also submit with the Commission (for review and comment of the Office of the People's Counsel and all interested parties) the list of factors (if any) it is using to determine whether moving a meter from inside a home to the outside is appropriate; and the criteria to be applied and measures to be taken by Washington Gas and its contractors to mitigate damage to the aesthetics of ratepayers' property. Washington Gas shall conduct all meter relocation work in historic districts in the District of Columbia in accordance with the most up-to-date District of Columbia Historic Preservation Office guidelines and the most stringent federal safety and historic preservation requirements. Unless the Commission rules otherwise in the future, Washington Gas shall not recover meter relocation costs through the surcharge mechanism related to its accelerated pipeline replacement program and shall affirm, in all accelerated pipeline replacement program surcharge and financial reconciliation filings, that no meter relocation costs have been recovered through the accelerated pipeline replacement program surcharges.

71. The Applicants will use their best efforts to update existing drawings of piping locations in the District by review of other records (such as original installation notes) for the inclusion of missing information on the location of all service stubs.

72. Washington Gas will calculate, on an annual basis, the average costs from the prior two (2) years of replacing/remediating the necessary infrastructure to reduce leaks within its PROJECTpipes program. Average costs will be calculated on a "per mile (or foot) of main pipe replaced/remediated and per service replaced/remediated" basis, and applicable to each PROJECTpipes program (currently Program 1 – Bare and/or Unprotected Steel Service Replacement; Program 2 – Bare Steel Main and Unprotected Steel Main and Affected Service Replacement; and Program 4 – Cast Iron Main and Affected Service Replacement; and any future PROJECTpipes programs). Washington Gas will not be allowed to recover any replacement/remediation expenditures for completed program work incurred post-Merger Close (Fiscal Year 2019 and beyond) in the surcharge tracker mechanism that are above 120 percent of the rolling two year annual average program cost (calculated from program years 2017 and 2018) of the per unit and per program material replacement/remediation cost, hereafter referred to as "excess costs;" provided, for cast iron replacement/remediation costs, "excess costs" shall be defined as costs above 120% of the Class 3 estimates for such projects until such time as Washington Gas has sufficient data to establish average costs of cast iron replacements/remediation by pipe diameter. Any excess costs for leak replacement/remediation under the PROJECTpipes program will be treated as

normal replacement costs and will be reviewed by the Commission and stakeholders in a prudence review in Washington Gas’s next base rate case to determine if the costs were prudently incurred and are appropriate for recovery through base rates.

73. During the first five (5) years after the Merger Close, the Applicants’ shall reduce Washington Gas’s number of PHMSA-reported Grade 2 Leaks annually to levels below its 2017 annual level (including both mains leaks and service leaks, but excluding leaks due to third party damages), consistent with the following target Grade 2 leak reductions versus the 2017 annual level:

- 2019: 2%
- 2020: 4%
- 2021: 6%
- 2022: 8%
- 2023: 10%

If Washington Gas fails to meet an annual leak-reduction target, it will notify the Commission with a filing within 60 days of its failure to comply with this provision with a full explanation of the reasons why this target has not been met. In addition, if Washington Gas fails to accomplish an annual leak reduction target in 2019, 2020, 2021, 2022, or 2023, the Company shall make non-compliance payments as shown in Table 1.

Table 1: Non-Compliance Payments by Year

2019	535,000
2020	669,000
2021	1,003,000
2022	1,755,000
2023	3,510,995

Any non-compliance payments by Washington Gas shall be directed equally to, and used for, the following purposes:

- (1) For workforce development initiatives in the District under Commitment 8 above, such as the Mayor’s DC Infrastructure Academy;
- (2) To assist high-usage, low-income Residential Essential Service (RES) customers by funding the replacement of aged gas appliances with high-efficiency gas appliances; and
- (3) Funding the replacement of aged gas appliances with high-efficiency gas appliances or the installation of high-efficiency gas appliances in new construction.

Washington Gas may request, and the Commission may grant, an exception from the requirements of this leak reduction requirement based on extraordinary circumstances, such as extreme weather, labor disputes, natural disasters, acts of

war or terrorism, other utility company work and/or construction or District initiatives, changes in regulatory requirements, or other force majeure circumstances. Washington Gas shall meet the above hazardous leak reduction targets via multiple methods of their choice.

74. AltaGas and Washington Gas shall, within twelve (12) months after Merger Close, develop a proposal to accelerate PROJECTpipes to a 30-year program rather than a 40-year program.

75. Customer Service Root Cause Analysis: Consistent with American Society for Quality (ASQ) principles, Washington Gas shall be required to have a root cause analysis (RCA) conducted of performance categories not meeting established service levels, and develop an action plan to improve Washington Gas' overall customer satisfaction scores in the deficient categories. The RCA shall investigate service level deficiencies that may include billing, SAP and eService system reliability and customer service. The analysis also must provide a solution or action plan to improve service levels by linking appropriate performance metrics/initiatives to the primary cause identified in the RCA. An independent ASQ-certified professional with expertise in root-cause analyses will perform the RCA. Washington Gas will file this analysis and action plan with the District of Columbia Public Service Commission no later than twelve (12) months after Merger Close and provide interested parties with the opportunity to comment on the RCA. Washington Gas shall apply the documented and recommended solution(s) after a review period, not to exceed six months. The costs incurred by Washington Gas in preparing and filing the RCA will not be recovered from District of Columbia Customers in Washington Gas' rates.

76. AltaGas recognizes the scientific consensus that human activity – primarily GHG emissions and the conversion of land for agriculture and development – is contributing to changes in the global climate including changing weather patterns, rising sea levels and more extreme weather events. AltaGas believes that actions must be taken now to stabilize and reduce emissions in line with the international goal of preventing temperatures from rising more than two degrees Celsius by the end of this century. Climate change presents risks to AltaGas and its operations, but also provides it with an opportunity to be part of the solution. These factors underlie AltaGas's commitment to continued change and improvement in its operations, and provide an evolving portfolio of clean and renewable products and services to communities AltaGas serves.

77. The Applicants recognize that the District of Columbia and the Government of the United States retain the full right to enact bona fide laws and regulations in relation to the production and distribution of natural gas and other carbon-based energy sources. Nothing in this Settlement Agreement or the Commission's orders restrict or alter these rights, or creates or implies any limitation on the District of Columbia or its agencies, or on the Government of the United States and its agencies, with respect to future measures in this regard. This includes measures

to address climate change and other public interest issues such as air quality, and including the District's Sustainable DC Plan and Clean Energy Plan.

78. The Applicants expressly acknowledge that the Commission, by approving the Merger and adopting the terms of this Settlement Agreement, is not creating any special expectations to induce AltaGas, as an entity covered by North American Free Trade Agreement ("NAFTA"), to close the Merger.

79. By January 1, 2020, AltaGas will file with the Commission a long-term business plan on how it can evolve its business model to support and serve the District's 2050 climate goals (e.g., providing innovative and new services and products instead of relying only on selling natural gas). After the business plan is filed, AltaGas will hold bi-annual public meetings to report on and discuss its progress on the business plan.

80. Washington Gas shall provide and maintain a performance guarantee of \$20 million for the benefit of the District of Columbia to meet current and future environmental study and clean-up obligations under CERCLA or other Federal or District law(s) regarding sites or substances in the District relating to the Anacostia River or any other site. The performance guarantee shall be in a form substantially similar to that for the 2012 Consent Decree for East Station. The instant paragraph neither admits nor limits responsibility or liability. The performance guarantee shall be issued no later than 28 days from merger close. The costs associated with providing and maintaining this performance guarantee shall not be recovered in rates. Should a Material Adverse Effect occur, the Commission may require an additional performance guarantee, such as a surety bond, irrevocable letter of credit, trust fund, or insurance policy.

81. Washington Gas will file its next base rate case no earlier than 34 months from the date of the Commission's most recent base rate order (i.e., no earlier than January 3, 2020).

82. AltaGas and Washington Gas shall actively assist in promoting the number of income-eligible District residents who become aware of and apply for the Earned Income Tax Credit. To do so, the Applicants will utilize their ability to communicate with customers and the public through various means such as: bill stuffers and bill messages, interactions between customers and the company's customer service representatives on the phone and walk-in visits, newsletters, e-mails, advertising, and displaying information in their physical office locations. AltaGas and WGL also commit to making a financial contribution to the D.C. EITC Campaign of \$250,000 to offset the cost of critical outreach activities, including, but not limited to, paid media and access to free tax preparation services. No portion of the funding will be recovered in utility rates. They shall coordinate their efforts with existing groups promoting awareness of the Earned Income Tax Credit, including Capital Area Asset Builders and the D.C. EITC Campaign, a partnership of D.C. government, business, and nonprofit organizations to promote the EITC and other tax benefits for low-income workers. The Applicants shall coordinate

their efforts to focus their outreach and communications efforts on customers on the RES discount and who receive fuel assistance payments on their accounts. They will consider making in-kind contributions to other groups working on EITC outreach.

83. AltaGas, Washington Gas, and WGL agree that each of them are subject to D.C. Code § 34-706, in addition to any other penalties provided by law, to enforce the provisions of any order approving this Settlement Agreement. Payment of any penalties will be made by the entity, or entities, upon which compliance responsibility falls under this Settlement Agreement. No payments under this paragraph shall be recovered in rates.

84. Commencing in the first quarter after Merger Close, and quarterly thereafter, the Applicants will file with the Commission updates on the Applicants' post-closing acquisition financing plan, including updates on how the Applicants are paying down the bridge loan. These reports may be filed confidentially. This reporting requirement shall terminate when the bridge loan is paid in full. The Applicants acknowledge that the Commission has the right to open an investigation and take actions that are necessary to protect Washington Gas should a Material Adverse Effect occur.

85. The Applicants agree to work with Commission staff to implement a mutually agreeable method to provide construction notices, consistent with the provisions of Virginia safety Commitment No. 15, through an online database or another efficient method. The Applicants agree to expand the currently available reporting data provided to Commission staff, to also encompass appropriate detailed reporting elements outlined in Virginia safety Commitment No. 17 (a-i), with respect to construction project reporting. Such reporting will be implemented within six months of Merger Close.