Washington Gas Energy Services, Inc.

(An Indirect, Wholly Owned Subsidiary of
WGL Holdings, Inc.)

Financial Statements as of and for the Years Ended
September 30, 2009 and 2008, and
Independent Auditors' Report

WASHINGTON GAS ENERGY SERVICES, INC.
(An Indirect, Wholly Owned Subsidiary of WGL Holdings, Inc.)

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Deloitte.

Deloitte & Touche LLP
1750 Tysons Blvd.
McLean, VA 22102-4219
USA

Tel: +1 703 251 1000
Fax: +1 703 251 3400
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
Washington Gas Energy Services, Inc.
Herndon, Virginia

We have audited the accompanying balance sheets of Washington Gas Energy Services, Inc. (the "Company") as of September 30, 2009 and 2008, and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Washington Gas Energy Services, Inc. as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

March 12, 2010

WASHINGTON GAS ENERGY SERVICES, INC.
(An Indirect, Wholly Owned Subsidiary of WGL Holdings, Inc.)

BALANCE SHEETS
AS OF SEPTEMBER 30, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,322,002	$ -
Accounts receivable—trade and other, net of allowance for doubtful accounts of $2,349,510 and $1,363,844, respectively	88,355,141	70,431,118
Accounts receivable — associated companies — net	11,553,637	23,345,983
Unbilled revenues	59,296,288	29,738,304
Inventory and exchange gas imbalance	76,081,778	90,400,410
Risk management assets	4,301,614	7,147,957
Collateral receivable	34,643,960	400,000
Prepaid expenses and other current assets	296,959	501,278
Deferred income taxes — net	5,872,063	2,675,999
Total current assets	281,723,442	224,641,049
PROPERTY AND EQUIPMENT — Net of accumulated depreciation of $3,539,211 and $3,001,953, respectively	4,004,576	2,368,196
RISK MANAGEMENT ASSETS	5,140,054	472,701
DEFERRED INCOME TAXES — Net	4,379,953	466,964
OTHER NON-CURRENT ASSETS	3,087,107	-
TOTAL ASSETS	$ 298,335,132	$ 227,948,910
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable — commodity	$ 78,329,331	$ 66,700,289
Accounts payable — associated companies	72,208,027	50,947,406
Tax collections payable	1,957,733	1,438,247
Accrued taxes	2,053,858	319,716
Risk management liabilities	13,602,587	10,984,843
Other current liabilities	6,191,485	3,542,125
Total current liabilities	174,343,021	133,932,626
RISK MANAGEMENT LIABILITIES	16,272,144	77,607
OTHER NON-CURRENT LIABILITIES	459,809	156,971
Total liabilities	191,074,974	134,167,204
NET ASSETS	107,260,158	93,781,706
TOTAL LIABILITIES AND NET ASSETS	$ 298,335,132	$ 227,948,910

See notes to financial statements.

WASHINGTON GAS ENERGY SERVICES, INC.
(An Indirect, Wholly Owned Subsidiary of WGL Holdings, Inc.)

STATEMENTS OF INCOME
YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
COMMODITY SALES	$1,192,021,443	$1,062,691,998
COST OF COMMODITY SALES	1,127,408,333	1,023,297,101
Gross margin	64,613,110	39,394,897
EXPENSES:		
Salaries and personnel-related costs	14,025,042	12,454,456
Gross receipts taxes and fees	3,424,149	2,762,235
Marketing and customer acquisition	8,983,463	3,219,317
General and administrative	4,117,412	4,389,028
Customer services and billing costs	8,590,755	7,100,532
Depreciation and amortization	752,832	803,314
Total expenses	39,893,653	30,728,882
INCOME FROM ENERGY MARKETING OPERATIONS	24,719,457	8,666,015
INCOME (EXPENSE) FROM OTHER OPERATIONS —		
Interest expense — net and other income	(551,541)	(1,040,068)
INCOME BEFORE INCOME TAXES	24,167,916	7,625,947
INCOME TAXES	9,193,038	2,813,019
NET INCOME	$ 14,974,878	$ 4,812,928

See notes to financial statements.

WASHINGTON GAS ENERGY SERVICES, INC.
(An Indirect, Wholly Owned Subsidiary of WGL Holdings, Inc.)

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 14,974,878	$ 4,812,928
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	752,832	803,314
Gain/loss on retirement of assets	3,325	17,852
Provision for uncollectible accounts	3,766,167	3,195,441
Deferred income taxes	(7,890,766)	(4,894,951)
Stock-based compensation expense	199,351	158,829
Changes in assets and liabilities:		
Accounts receivable — trade	(21,791,442)	2,140,898
Accounts receivable — associated companies	11,792,346	(3,037,455)
Unbilled revenues	(29,557,984)	(858,666)
Inventory and exchange gas imbalance	14,318,632	(5,119,328)
Risk management assets	(1,142,616)	2,662,420
Collateral receivable	(39,300,000)	(400,000)
Prepaid expense and other current assets	204,319	(179,468)
Other non-current asset	3,087,107	-
Accounts payable — commodity	11,629,042	1,860,132
Accounts payable — associated companies	(854,466)	(1,108,039)
Tax collections payable	519,486	217,726
Accrued taxes	1,734,142	(634,727)
Risk management liabilities	18,812,281	8,358,162
Other current and non-current liabilities	2,079,402	341,638
Net cash (used in) provided by operating activities	(16,663,964)	8,336,706
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term financing — net with associated companies	21,739,463	(7,597,074)
Dividends Paid	(2,250,721)	(745,343)
Net cash provided by (used in) financing activities	19,488,742	(8,342,417)
CASH FLOWS FROM INVESTING ACTIVITIES — Purchases of property and equipment	(1,502,776)	(343,862)
Net cash used in investing activities	(1,502,776)	(343,862)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,322,002	(349,573)
CASH AND CASH EQUIVALENTS — Beginning of year	-	349,573
CASH AND CASH EQUIVALENTS — End of year	$ 1,322,002	$ 0
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 19,070,211	$ 9,711,094
Interest paid	$ 665,768	$ 1,175,255

See notes to financial statements.

1. ORGANIZATION AND BUSINESS

Washington Gas Energy Services, Inc. ("WGES" or the "Company"), organized in 1996, is a wholly owned subsidiary of Washington Gas Resources Corp., which in turn is a wholly owned subsidiary of WGL Holdings, Inc. ("WGLH"), a holding company. Washington Gas Light Company ("WGL"), also a wholly owned subsidiary of WGLH, is a regulated utility which provides delivery services of natural gas to the customers of WGES located in the WGL services territory.

WGES was organized to conduct several types of retail energy-related activities, primarily energy marketing. Currently, the Company engages in the marketing of energy in the unregulated retail marketplace, competing with regulated utilities and other unregulated third-party marketers to sell natural gas and electricity directly to residential, commercial, and industrial customers with the objective of earning a profit through competitive pricing. The Company's energy-related activities are conducted in the competitive, unregulated retail marketplace and are not subject to price regulation by state or federal regulatory agencies. Thus, the Company does not apply the requirements of Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 980, *Regulated Operations,* to its financial statements. However, WGES is subject to the regulatory licensing requirements of the jurisdictions in which it conducts business.

During the fiscal year ended September 30, 2009, WGES contracted for and completed the construction of one Solar PV facility, which includes ownership of the operational asset, and contracted for two additional facilities which have been completed as of December 31, 2009. Other than these facilities, WGES does not own or operate any natural gas or electric generation, production, transmission, or distribution assets.

Natural gas sales are made to customers who are eligible to purchase natural gas commodity from unregulated suppliers operating in the retail marketplace. The Company sells natural gas to retail customers in Delaware, Maryland, Virginia, and the District of Columbia, which includes sales outside of the WGL service territory. As of September 30, 2009, the Company had 151,500 natural gas customers, versus 133,300 as of September 30, 2008. Sales outside the WGL territory comprised approximately 24 and 28 percent of the volumes sold by the Company during fiscal years 2009 and 2008, respectively.

The Company also has sales programs for electricity, principally in Delaware, Maryland and the District of Columbia. The Company has entered into master purchase agreements with wholesale suppliers and is a participant in the PJM interconnection, the regional transmission organization ("RTO") in order to serve retail customers. Under the wholesale supply agreements, WGES purchases electric energy, capacity and certain ancillary services from the wholesaler or RTO, for resale to retail electricity customers. As of September 30, 2009, the Company had 113,000 residential and commercial electric customers, versus 61,800 as of September 30, 2008. These customers are in the Potomac Electric Power Company ("PEPCO") service territory in Maryland and the District of Columbia, the Baltimore Gas and Electric ("BGE") service territory in Maryland, Delmarva Power ("DPL") service territory in Delaware, Maryland and Virginia and Allegheny Power ("AP") service territory in Maryland. WGES, although a licensed electric service provider in Virginia, did not have any Virginia electric customers as of

September 30, 2009. The Company recently announced plans to enter the Pennsylvania Power and Light (PPL) service territory in Pennsylvania beginning January 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“US GAAP”). The Company uses a fiscal year ending September 30.

Use of Estimates — The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company’s most significant estimate relates to the valuation of certain derivative instruments (see Note 5). To value these instruments, the Company uses financial models that require significant judgment related to model assumptions. The Company continually reviews its modeling approaches and assumptions to ensure that they are reflective of the optimal valuation methods. As part of this review process, refinements are made periodically that could significantly impact the estimates of value in future periods.

Cash and Cash Equivalents — The Company considers all liquid securities with original maturities of three months or less to be cash equivalents. All short-term cash requirements or cash investments are handled through the WGLH money pool, including daily funding of the Company’s disbursement account and are included on the Balance Sheet in Accounts payable-associated companies (see Note 8).

Property and Equipment — Property and equipment consists of office equipment and leasehold improvements related to office space in Herndon, Virginia, and Timonium, Maryland; an investment in a trade capture computer system (placed in service during fiscal year 2007) and PV solar electricity generating assets (in service during fiscal year 2009). All additions to property and equipment are recorded at original cost and depreciated on a straight-line basis over various useful lives, primarily five to eight years, though generating assets are depreciated over 20 years. Property and equipment balances as of September 30, 2009 and 2008 consisted of the following:

	2009	2008
Furniture and fixtures	$ 757,489	$ 757,489
Office equipment	795,339	836,862
Leasehold improvements	1,743,015	1,743,015
Computer systems	2,032,783	2,032,783
Generating assets	1,128,967	-
Construction work in progress	1,086,194	-
Subtotal	7,543,787	5,370,149
Less accumulated depreciation	(3,539,211)	(3,001,953)
Net property and equipment	$ 4,004,576	$ 2,368,196

Revenue Recognition:

Gas — The Company enters into indexed or fixed-rate contracts with residential customers for firm sales of natural gas and with commercial and industrial customers for firm or interruptible sales of natural gas. Customer contracts typically have terms of less than twenty-four months (though there are instances of contract lengths up to five years) and allow WGES to bill customers based upon metered gas usage at customer premises or quantities delivered to the local utility for the customer. The billing cycles for customers do not coincide with the accounting periods used for financial reporting purposes; therefore, the Company recognizes revenue including an accrual for unbilled revenues for natural gas delivered, but not yet billed, at the end of each accounting period.

Electricity — The Company enters into indexed or fixed-rate contracts with residential, commercial, and industrial customers. Customer contracts typically have terms of less than twenty-four months (though there are instances of contract lengths up to five years). Customers are billed based on the metered usage which is provided to the Company by the retail electric utility company. The billing cycles for customers do not coincide with the accounting periods used for financial reporting purposes; therefore, the Company recognizes revenue including an accrual for unbilled revenues for electricity delivered, but not yet billed, at the end of each accounting period.

Unbilled Revenues — At September 30, 2009 and 2008, Unbilled revenues were approximately $59.3 million and $29.7 million, respectively, with these balances consisting primarily of September revenues billed in October. As of September 30, 2009, the unbilled amount includes $49.6 million related to electricity and $9.7 million related to natural gas. The unbilled amount as of September 30, 2008, consists of $21.2 million related to electricity and $8.5 million related to natural gas.

Exchange Gas Imbalance — An exchange gas imbalance asset was carried at a cost of approximately $5.5 million and $5.8 million as of September 30, 2009 and 2008, respectively, based on the weighted-average cost method. The exchange gas imbalance asset represents the Company's gas purchases which have been delivered to a local utility in excess of volumes used by the Company's firm customers. This asset will be realized in subsequent periods through seasonal changes in customer usage and volume settlements with the local utility.

Inventory — The Company maintains natural gas inventory with WGL and BGE. As of September 30, 2009, the Company carried inventory at a cost of approximately $62.7 million and $6.1 million on the WGL and BGE systems, respectively. As of September 30, 2008, the Company carried inventory at cost of approximately $75.4 million and $8.6 million on the WGL and BGE systems, respectively. Inventory is carried at the lower of cost or market. WGES records inventory additions (actual injections of gas volumes) using the monthly weighted average purchase price of gas and records inventory reductions (actual withdrawals from storage) using a first-in, first-out ("FIFO") method applied after all injections for the month have been recorded. Beginning in fiscal year 2008, the Company has maintained an inventory of renewable energy credits (RECs) for resale to customers, which are accounted for as inventory available for sale. The RECs are accounted for under the specific identification method of inventory tracking. The balance of this inventory as of September 30, 2009 and 2008, was $1.7 million and $0.6 million, respectively.

Employee Benefits — WGES sponsors a defined contribution 401(k) plan for Company employees. The Company currently matches 100 percent of the first four percent of employees' contributions to this 401(k) plan. The Company recognized approximately $353,000 and $309,000 in contribution expense for the fiscal years ended September 30, 2009 and 2008, respectively.

Active WGES employees are eligible to participate in benefit plans sponsored by the Company, including medical and other insurance plans. The Company recognized expense of approximately $791,000 and $775,000 for the fiscal years ended September 30, 2009 and 2008, respectively, relating to these plans.

Income Taxes — The Company accounts for income taxes in accordance with ASC Topic 740, *Income Taxes*. Deferred income tax assets and liabilities are recorded for the tax impact of temporary differences between the carrying value of assets and liabilities for tax purposes and the carrying value for financial statement purposes. The deferred taxes are classified as current and non-current based on the nature of the item that creates the deferral (see Note 7). WGES amortizes investment tax credits related to its solar projects as reductions to income tax expense over the estimated service lives of the related properties. The Company adopted the provisions of FASB Interpretation (FIN) No. 48 (now part of ASC Topic 740, *Income Taxes*) on October 1, 2007. As a result of the implementation, there was no change to our recorded assets or liabilities for unrecognized income tax benefits. As of September 30, 2009 and 2008, we did not have a liability for unrecognized tax benefits, and we do not anticipate that this will change materially during the next year. The Company recognizes any accrued interest and/or accrued penalties associated with uncertain tax positions in Interest expense — net and other income.

Gross Receipts Taxes and Fees — Gross receipts taxes are applicable to customers in Delaware. Gross receipts taxes are reported gross in both operating revenue and expense on the income statement. Also included in Gross receipts taxes and fees expense on the income statements are the costs associated with the assessments by the state of Maryland, state of Delaware and the District of Columbia for fiscal years 2009 and 2008 related to the Company's pro-rata share of operating the Public Service Commissions and the Office of the People's Counsel of each jurisdiction. These assessments are based on the proportion of the Company's sales to the total of all sales subject to the assessment. For the years ended September 30, 2009 and 2008, these amounts totaled approximately $2.3 million and $2.2 million, respectively.

Sales and Use Tax — Sales and use taxes are applicable to sales revenue collected from certain customers located in Maryland and the District of Columbia. These taxes are collected at the prescribed rates and remitted to the jurisdictional government monthly. Sales and use taxes are not reported in gross operating revenue or expenses on the Company's income statement.

Fair Value of Financial Instruments — The fair values of derivative instruments are recorded in Risk management assets and Risk management liabilities, in both the current and non-current sections of the balance sheet based on quoted market prices or pricing models using current market data when available. The carrying value of Cash and cash equivalents as well as trade receivables and payables included in Accounts receivable — trade and other and Accounts payable — commodity on the balance sheet, approximate fair values due to the short-term nature of those instruments.

Derivative Activities — The Company applies the provisions of FASB Statement No. ("SFAS No.") 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* and by SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (now included in ASC Topic 815, *Derivatives and Hedging).* ASC Topic 815 requires derivative instruments, including certain derivative instruments embedded in other contracts, to be recorded at fair value as either an asset or a liability. Changes in the derivative's fair value are recorded in earnings, unless the derivative meets specific hedge accounting criteria (and is designated as such) or qualifies for the normal purchase or normal sale exception. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and the hedged item are recognized in earnings. If the derivative is designated as a cash flow hedge, changes in the fair value of the derivative are recorded in other comprehensive income and

are recognized in the income statement when the hedged item affects earnings. The accounting standard requires that the Company formally document, designate, and assess the effectiveness of derivatives that are accounted for as hedging instruments at both the inception of the hedge and through the term of the hedge. The Company had not designated any derivative instruments as cash flow or fair value hedges as of September 30, 2009 and 2008.

The Company enters into forward contracts for the purchase and sale of natural gas and electricity that meet the definition of a derivative. The Company has elected to apply the normal purchases and normal sales exceptions to the majority of these contracts. As a result, the effects of these contracts are recorded to earnings as the commodity is received or delivered. Contracts for which the Company has elected the normal purchase and normal sale exception are monitored regularly for continuing eligibility to apply the exception. For derivatives where the normal purchase and sale exception is not elected, the instruments are recorded at their fair value in the Company's balance sheet under the captions Risk management assets or Risk management liabilities in both the current and non-current sections.

The Company also enters into certain forward contracts involving the purchase or sale of variable volume natural gas, as well as other financial instruments (primarily in the form of call options, put options, and swaps) for the sale and purchase of natural gas and electricity. These contracts also meet the definition of a derivative, but do not qualify for the normal purchases and normal sales exception. These instruments are recorded at fair value in the Company's balance sheet.

Newly Issued and/or Adopted Accounting Standards:

Subsequent Events — In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (now included in ASC Topic 855, *Subsequent Events*). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 does not apply to the accounting for and disclosure of subsequent events addressed in other generally accepted accounting principles. Effective June 30, 2009, we adopted SFAS No. 165 for disclosures of events or transactions not within the scope of other applicable GAAP. Refer to Note 12 — *Subsequent Events* for the required disclosure under this standard.

Fair Value — In April 2009, the FASB issued FASB Staff Position (FSP) No. FAS 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (now part of ASC Topic 825, *Financial Instruments).* FSP No. FAS 107-1 and APB 28-1 amend SFAS No. 107 to require disclosures about fair value of financial instruments for interim reporting periods. This rule also amends APB Opinion No. 28 to require disclosures about the fair value of financial instruments in summarized financial information at interim reporting periods. This guidance was effective for us on June 30, 2009. Refer to Note 5 — *Fair Value of Financial Instruments* for the required disclosure under this standard.

Effective October 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (now part of ASC Topic 820, *Fair Value Measurements and Disclosures)*, as amended, for our financial assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in US GAAP and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit assets or liabilities to be measured at fair value, and does not require any new fair value measurements. Additionally, SFAS No. 157 requires retrospective application to financial instruments that were measured at fair value upon initial recognition at the transaction price. Upon adoption, the differences between the carrying amounts and the fair values of these instruments were recognized as a cumulative-effect adjustment to the opening balance of retained earnings or other appropriate components of net assets. As a result, WGES recorded a pretax $1.7 million cumulative-effect adjustment ($1.0 million after-tax) to increase the opening balance of retained earnings.

In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. This FSP clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that asset is not active. This standard was implemented in conjunction with our implementation of SFAS No. 157.

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly* (FSP FAS 157-4). This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased, and for identifying circumstances that indicate a transaction is not orderly. This FSP requires disclosure, in interim and annual periods, of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period. The guidance in this FSP was effective for us on June 30, 2009.

Derivative Instruments — In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (now part of ASC Topic 815, *Derivatives and Hedging).* SFAS No. 161 establishes, among other things, the disclosure requirements for derivative instruments and for hedging activities. This statement requires (i) qualitative disclosures about how and why we use derivative instruments; (ii) how derivative instruments and related hedged items are accounted for; and (iii) how derivative instruments and related hedged items affect our financial position, financial performance, and cash flows. SFAS No. 161 was effective for us on January 1, 2009. Refer to Note 6 — *Derivative and Weather-Related Instruments* for the required disclosures under this standard.

In April 2007, the FASB issued FSP No. FIN 39-1, *Amendment of FASB Interpretation No. 39.* This FSP amends FIN No. 39, *Offsetting of Amounts Related to Certain Contracts,* to replace the terms "conditional contracts" and "exchange contracts" with the term "derivative instruments" as defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* , as amended. Additionally, it permits a reporting entity to offset the fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. The guidance in this FSP was effective for us on October 1, 2008. As a result of the implementation of this standard, the fair value recorded for each of our cash collateral positions is netted against the net fair value amounts recorded for the associated derivative instruments executed under the same master netting arrangement. There were no material effects on prior periods. At September 30, 2009, and September 30, 2008, WGES had collateral receivables totaling $34.6 million and $0.4 million, respectively, which were not offset under master netting arrangements. The collateral is held by the third parties and recorded in Collateral receivable on the balance sheet. Refer to Note 6 — *Derivative and Weather-Related Instruments* for other required disclosures under this standard.

Accounting Standards Codification ("ASC") — In June 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-01, *Topic 105 — Generally Accepted Accounting Principles — Amendments Based on SFAS No. 168 — The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* The ASC is now the single source of authoritative US GAAP recognized by the FASB, replacing all previous US GAAP. The ASC does not change US GAAP, however it significantly changes the way in which the accounting literature is organized. The adoption of this standard did not have a material effect on our financial statements.

Other Newly Issued Accounting Standards:

Fair Value — In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*, now part of ASC Topic 820-10-55. This FSP was adopted on October 1, 2008 in conjunction with our implementation of ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC Topic 820-10-55, delays the effective date of ASC Topic 820 for the Company by one year (October 1, 2009) for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. We have evaluated the possible effects of applying ASC Topic 820-10-55 to the non-financial assets and liabilities on our financial statements and do not believe the impact to be significant.

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

3. CONTRACTS FOR THE PURCHASE OF NATURAL GAS AND ELECTRICITY

The Company enters into both physical and financial contracts for the purchase of natural gas from several suppliers. These contracts obligate the Company to purchase fixed quantities of natural gas at contractual prices that may be either fixed or variable. The variable price contracts are generally structured as a fixed base price plus a market-based commodity component that is index-priced at the date of the delivery. Purchase contracts are designed to match the duration of the Company's sales commitments in terms of both quantity and pricing structure and effectively locks in a margin on the estimated sales for the term of existing sales contracts. WGES assumes the responsibility for matching its customer requirements with its supply purchases. To the extent WGES is not able to match its customer requirements relatively close with its supply purchases, it is exposed to natural gas commodity price risk for the unmatched portion of its portfolio. All purchases generally are made under fixed-volume contracts which are based on certain weather assumptions. If there are significant deviations in weather from these assumptions, WGES could be exposed to price and volume risk that negatively impact gross margins. The Company's gas purchase contracts provide for physical delivery of gas, which the Company uses to satisfy its sales commitments.

As of September 30, 2009, WGES' gas purchase contracts provide for firm, fixed deliveries over the next five fiscal years of approximately 71.5 million decatherms. The financial commitments relating to these forward purchases, assuming normal weather, are listed in the table below. The minimum contractual commitment is based on fixed-price commitments for gas delivered to city gate stations, including the cost of transportation to those points.

The Company also enters into physical and financial contracts for the purchase of electricity to match the duration of our sales commitments in quantity and pricing structure. The contracts effectively lock in a margin on estimated sales for the term of existing sales contracts.

As of September 30, 2009, WGES' electric purchase contracts provide for firm, fixed deliveries over the next five fiscal years of approximately 12.7 million mega watt hours. The financial commitments relating to these forward purchases, assuming normal weather, are listed in the table below. Under this electricity supply strategy, WGES assumes the responsibility for matching its customer requirements with its supply purchases. To the extent WGES is not able to match its customer requirements relatively close with its supply purchases, it is exposed to electricity commodity price risk on the unmatched portion of its portfolio. These purchases generally are made under fixed-volume contracts which are based on certain weather assumptions. If there are significant deviations in weather from these assumptions, WGES could be exposed to hourly price and volume risk that negatively impact gross margins.

The Company has entered into various contracts with interstate natural gas pipeline companies for the purchase of capacity on natural gas pipelines. These contracts obligate the Company to fixed obligations for the pipeline capacity for several years and enable the company to deliver gas supply to our market territory. Pipeline contracts are designed to provide the Company with flexibility for its gas purchase contracts which do not include physical delivery of the gas, which the Company uses to satisfy its sales commitments.

The following table summarizes the minimum contractual obligations of WGES for both natural gas and electricity for the next five years and thereafter:

	WGES Gas and Electric Minimum Purchase Commitments			
Fiscal Year	**Gas Purchases**	**Electric Purchases (1)**	**Pipeline Contracts**	**Total**
2010	$306,413,990	$474,681,319	$2,859,911	$ 783,955,220
2011	152,482,099	273,033,784	1,309,578	426,825,461
2012	69,786,950	116,330,353	1,138,888	187,256,191
2013	8,054,110	21,087,689	756,630	29,898,429
2014 and thereafter	-	686,447	2,276,772	2,963,219
Total	$536,737,149	$885,819,592	$8,341,779	$1,430,898,520

(1) Includes purchase commitments for renewable energy credits.

4. CONCENTRATION OF CREDIT RISK

The Company has a relatively low concentration of retail credit risk due to the large number of retail customers, none of which are significantly large as a percentage of the total customer base. The Company manages this risk by evaluating the credit quality of new customers as well as by monitoring collections from existing customers.

The Company also purchases natural gas or electricity from certain suppliers that have either relatively low credit ratings or are not rated by major credit rating agencies. Depending on the ability of these suppliers to deliver natural gas or electricity under existing contracts, the Company could be financially exposed for the difference between the price contracted to buy these commodities and the replacement cost of these commodities that may need to be purchased. WGES has a wholesale supplier credit policy in place that is designed to mitigate wholesale credit risks through a requirement for credit enhancements. In accordance with this policy, the Company has obtained credit enhancements, including but not limited to, letters of credit, parent guarantees, and cash collateral, from certain of its suppliers and continuously monitors the unsecured credit limits it will accept from certain suppliers or

their guarantors. This allows WGES to have greater flexibility in obtaining alternative sources of natural gas or electricity supplies in the event of non-performance by one or more of its suppliers.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective October 1, 2008, the Company adopted SFAS No. 157, now part of ASC Topic 820, for our financial assets and liabilities that are required to be measured at fair value on a recurring basis. These financial assets and liabilities primarily consist of derivatives recorded on our balance sheet under ASC Topic 815. Under ASC Topic 820, fair value is defined as the exit price, representing the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To value our financial instruments, we use market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about credit risk (both our own credit risk and the counterparty's credit risk) and the risks inherent in the inputs to our valuation technique, the income approach.

Derivative contracts are entered into via the over-the-counter (OTC) wholesale and retail markets. These markets are the principal markets for the respective wholesale and retail contracts. We have determined that all of our existing counterparties and others who have participated in energy transactions at our delivery points are the relevant market participants. These participants have access to the same market data as WGES. We value our derivative contracts based on an "in-exchange" premise and valuations are generally based on pricing service data or indicative broker quotes depending on the market location. Net credit exposure is measured at the counterparty level, where the right to set-off exists. The net exposure is determined using the mark-to-market exposure adjusted for collateral, letters of credit, and parent guarantees. Published default rates from Standard & Poor's Ratings Services and Moody's Investors Service are used as inputs for the determination of credit adjustments.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1 — Level 1 of the fair value hierarchy consists of assets or liabilities that are valued using observable inputs based upon unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date. Level 1 assets and liabilities include exchange traded derivatives and securities. At September 30, 2009, we do not have any financial assets or liabilities in this category.

Level 2 — Level 2 of the fair value hierarchy consists of assets or liabilities that are valued using directly or indirectly observable inputs that are corroborated with market data or based on exchange traded market data. Level 2 includes fair values based on industry-standard valuation techniques that consider various assumptions, including (i) quoted forward prices, including the use of mid-market pricing within a bid/ask spread; (ii) discount rates; (iii) implied volatility; and (iv) other economic factors. Substantially all of these assumptions are observable throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the relevant market. At September 30, 2009, Level 2 financial assets and liabilities included non-exchange traded energy-related derivatives, such as financial swaps and options and physical forward contracts for deliveries at active market locations.

Level 3 — Level 3 of the fair value hierarchy consists of assets or liabilities that are valued using significant unobservable inputs at the reporting date. These unobservable assumptions reflect our assumptions about estimates that market participants would use in pricing the asset or liability, including historical volatility and pricing data when delivery is to inactive market locations. These inputs may be

used with industry standard valuation methodologies that result in our best estimate of fair value for the assets or liabilities at the reporting date. At September 30, 2009, OTC derivative assets and liabilities in this category included (i) physical contracts valued with significant basis adjustments to observable market data when delivery is to inactive market locations; (ii) long-dated positions where observable pricing is not available over the life of the contract; (iii) contracts valued using historical volatility assumptions and (iv) valuations using indicative broker quotes for inactive market locations.

The following table sets forth financial instruments recorded at fair value on a recurring basis as of September 30, 2009. A financial instrument's classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy (in millions):

	Assets	**Liabilities**
Level 1	$ -	$ -
Level 2	3	(7)
Level 3	9	(31)
Counterparty and cash collateral netting	(3)	8
Total	$ 9	$ (30)

The following table is a summary of the changes in the fair value of our derivative assets (liabilities) that are measured at net fair value on a recurring basis in accordance with ASC Topic 820 using significant Level 3 inputs during the fiscal year ended September 30, 2009 (in millions):

Balance — October 1, 2008	$ 8
Realized and unrealized gains (losses) recorded to income	(53)
Transfers in and/or out of Level 3	-
Purchases and settlements — net	24
Balance — September 30, 2009	$ (21)

The table below sets forth the line items on the Statements of Income of the amounts recorded to income for the fiscal year ended September 30, 2009, related to fair value measurements using significant level 3 inputs.

Commodity sales	$ (4)
Cost of commodity sales	(49)
Total	$ (53)

Unrealized gains (losses) for the fiscal year ended September 30, 2009 attributable to derivative assets and liabilities measured using significant Level 3 inputs were recorded as follows:

Recorded to income:	
Commodity sales	$ 8
Cost of commodity sales	(27)
Total	$ (19)

6. DERIVATIVE AND WEATHER RELATED INSTRUMENTS

WGES enters into forward contracts for the purchase of natural gas, electricity, and renewable energy credits that meet the definition of derivatives under ASC Topic 815 to meet the contractual obligations to its retail sales customers. The Company generally elects to apply the normal purchases and normal sales exception to these contracts, as defined by ASC Topic 815. As a result, the effects of these contracts are recorded to earnings as the commodity is received or delivered. The Company also enters into certain forward contracts for which the normal purchases and normal sales exception is not eligible to be taken, along with other contracts involving the purchase of variable volume natural gas, and other financial instruments (primarily in the form of call options, put options, and swaps) for the sale and purchase of natural gas and electricity. These contracts meet the definition of derivative instruments under ASC Topic 815 and are recorded at their fair value in the Company's balance sheet under the captions Risk management assets and Risk management liabilities, in both the current and non-current sections. As of September 30, 2009 and 2008, these derivatives had net unrealized fair value losses of $20.4 million and $4.3 million, respectively. All realized and unrealized gains and losses are recorded in Commodity Sales or Cost of Commodity Sales in the statements of income based on the nature of the individual contracts.

To the extent that the information below is being disclosed under the requirements of SFAS No. 161 (now part of ASC Topic 815, *Derivatives and Hedging)*, no prior-period information is presented. Under the standard, only information after the date of implementation, January 1, 2009, is required to be disclosed. Therefore, only September 30, 2009, balances are being disclosed for the balance sheet information and, only activity for the nine-month period ended September 30, 2009, is being disclosed for the statement of income information.

At September 30, 2009, the absolute notional amounts of our open positions on derivatives instruments are as follows (in millions):

Derivative transactions	**Notional Amounts**
Natural gas:	
Retail sales	$ 4
Other risk-management activities	176
Electricity:	
Retail sales	2,057
Other risk-management activities	6,006

The balance sheet classification for all derivative instruments as of September 30, 2009, is as follows (in millions):

Balance Sheet location	**Derivative Assets**	**Derivative Liabilities**	**Netting of Collateral**	**Total**
Risk management current asset	$ 4	$ -	$ -	$ 4
Risk management non-current asset	5	-	-	5
Risk management current liabilities	3	(18)	1	(14)
Risk management non-current liabilities	1	(21)	4	(16)
Total	$ 13	$ (39)	$ 5	$ (21)

The gains and losses associated with derivative instruments for the nine months ended September 30, 2009, are as follows (in millions):

Recorded to income:	
Commodity sales	$ (9)
Cost of commodity sales	(20)
Total	$ (29)

Certain of WGES derivative instruments contain contract provisions that require collateral to be posted if the credit rating of WGL Holdings falls below certain levels or if counterparty exposure to WGES exceeds a certain level. Due to counterparty exposure levels, at September 30, 2009, WGES' posted $5.1 million of collateral related to its derivative liabilities that contained credit-related contingent features. The following table shows the aggregate fair value of all derivative instruments with credit-related contingent features that are in a liability position, as well as the maximum amount of collateral that would be required to be posted related to the net fair value of our derivative instruments if the most intrusive credit-risk-related contingent features underlying these agreements were triggered on September 30, 2009 (in millions):

Derivative liabilities with credit-risk-contingent features	$ 29
Maximum potential collateral requirements	26

WGES does not enter into derivative contracts for speculative purposes.

The Company entered into weather related contracts in 2009 and 2008, including both heating degree day (or HDD) and cooling degree day (or CDD) type derivatives, which are used to manage its weather related risks. These derivatives cover a portion of WGES' estimated revenue or energy-related cost exposure to variations in heating or cooling degree days. These contracts provide for payment to WGES of a fixed-dollar amount for every degree day over or under specific levels during the calculation period depending upon the type of contract executed. All weather risk contracts are accounted for under Emerging Issues Task Force Issue No. 99-2, *Accounting for Weather Derivatives* (now included in ASC Topic 815, *Derivatives and Hedging).* Expenses for these products are amortized into income based on the pattern of normal temperature days over the period of the respective weather-related instrument. Gains or losses from the contracts are recorded following the intrinsic value method and are netted against premiums that are amortized over the life of the contracts. WGES recorded a pretax benefit of $1.6 million and amortization expense of $2.4 million related to these derivatives in fiscal year 2009. For fiscal year 2008, WGES recorded a pretax benefit of $1.3 million and amortization expense of $1.6 million related to these derivatives.

7. INCOME TAXES

The Company is part of WGLH's consolidated federal income tax return. The Company has been allocated its share of the consolidated WGLH and subsidiaries' taxes based upon the Company's pro-rata contribution to the consolidated tax liability. The amount of the 2009 and 2008 tax obligations were less than the amounts that the Company would have paid, had a stand-alone tax return been filed. The reduction in taxes (or tax savings) from the stand-alone level is divided into two subcategories, permanent tax savings and temporary tax savings, and each subcategory is recorded differently as follows. The permanent tax savings are reflected in the Company's income statement and included in income taxes. The temporary tax savings are recorded as a deferred tax asset with an offsetting liability included in Accounts payable — associated companies. As part of WGLH's consolidated federal returns, we are no longer subject to income tax examinations by the Internal Revenue Service for years before September 30, 2006. In addition, substantially all state income tax years in major jurisdictions are closed for years before September 30, 2005.

As of September 30, 2009, income taxes of approximately $1.9 million were owed to WGES and such amounts are included in accounts payable — associated companies in the accompanying balance sheet. As of September 30, 2008, approximately $1.5 million of amounts due WGLH and its subsidiaries was included in accounts payable — associated companies in the accompanying balance sheet.

The significant components of deferred tax assets and liabilities are as follows:

	2009	2008
Current deferred tax asset (liability):		
Allowance for doubtful accounts	$ 942,629	$ 550,702
Derivative mark to market	4,876,055	2,125,022
Other	53,379	275
Total current deferred tax asset	5,872,063	2,675,999
Noncurrent deferred tax asset (liability):		
Deferred rent	36,734	88,157
Derivative mark to market	4,226,414	(158,512)
Accelerated depreciation	(176,509)	241,716
Other	293,314	295,603
Total noncurrent deferred tax asset	4,379,953	466,964
Net deferred income tax asset	$10,252,016	$3,142,963

Significant components of the Company's income tax expense are as follows:

	2009	2008
Current income tax expense	$17,095,346	$7,707,971
Deferred income tax benefit	(7,890,766)	(4,894,952)
Amortization of investment tax credits	(11,542)	-
Total income tax expense	$ 9,193,038	$2,813,019

The reconciliation of the differences between income tax expense calculated using the U.S. statutory rate and the effective tax rate based on income before income taxes is as follows:

	2009		2008	
	Amount	Percentage	Amount	Percentage
Income tax at federal statutory income tax rate	$8,458,771	35.00 %	$2,669,081	35.00 %
State income taxes — net of federal benefit	1,237,454	5.12	390,471	5.12
Benefit of consolidated filing	(511,429)	(2.12)	(220,328)	(2.89)
Other items	8,242	0.03	(26,205)	(0.34)
Income tax expense and effective tax rate	$9,193,038	38.03 %	$2,813,019	36.89 %

8. SHORT-TERM FINANCING

The Company borrows or invests money with the WGLH Money Pool. The Money Pool is designed to fulfill the working capital needs of the participants, which are the regulated and unregulated subsidiaries of WGLH. The Money Pool accumulates cash from certain unregulated subsidiaries and provides short-term loans to other unregulated subsidiaries to meet various working capital needs. The Company earns or is charged a rate of interest, based on commercial paper rates, on its investments or borrowings as specified by WGLH. As of September 30, 2009 and 2008, the Company had outstanding borrowings of $66.2 million and $43.3 million, respectively. These amounts are included in Accounts payable — associated companies in the accompanying balance sheet. During fiscal years 2009 and 2008, the Company incurred a net interest expense of approximately $0.6 million and $1.0 million, respectively. The average interest rates associated with WGES' borrowings were 0.89% for fiscal year 2009 and 4.55% for fiscal year 2008. The Company, along with other unregulated affiliates, is allocated a share of the fees associated with the WGLH line of credit facility. These fees are recorded in Interest expense — net and other income.

9. NET ASSETS

Net assets represent WGLH's 100 percent indirect ownership interest in the assets and liabilities of the Company. During the fiscal years ended September 30, 2009 and 2008, net assets for each period were as follows:

	2009	2008
Net assets — beginning of year	$ 93,781,706	$ 89,966,572
SFAS No. 157 Adoption cumulative adjustment	1,012,508	-
Adjusted Net assets — beginning of year	94,794,214	89,966,572
Net income	14,974,878	4,812,928
Stock compensation	117,410	121,927
Dividends declared	(2,626,344)	(1,119,721)
Net assets — end of year	$ 107,260,158	$ 93,781,706

10. RELATED PARTY TRANSACTIONS

The Company engages in several types of transactions with its affiliate, WGL, a regulated utility operating principally in Maryland, Virginia, and the District of Columbia. WGL employees perform certain accounting and treasury functions, and also serve as internal legal counsel for the Company. Approximately $0.3 million and $0.5 million of liabilities as of September 30, 2009 and 2008, related to services provided by WGL are netted with larger amounts of accounts receivable and are included in Accounts receivable — associated companies, in the accompanying balance sheets. Approximately $2.2 million and $2.1 million related to these services is included in Salaries and personnel-related costs in the accompanying statements of income for the fiscal years ended September 30, 2009 and 2008, respectively.

As described in Note 2, as of September 30, 2009 and 2008, the Company carried inventory with WGLH of $62.7 million and $75.4 million, respectively.

As described in Note 7, the Company is part of a consolidated tax filing with WGLH and its subsidiaries. As of September 30, 2009 and 2008, approximately $(1.9 million) and $1.5 million respectively, were due from/due to WGLH and its subsidiaries for taxes and is included in Accounts payable — associated companies in the accompanying balance sheet.

Certain customer billings and collections of customer accounts receivable are processed by WGL systems and employees; such services are offered to all third-party marketers. For certain revenues earned by the Company that relate to customers in WGL's service territories, the Company engages WGL to bill the customers, collect cash payments, and transfer cash for collections related to its accounts receivable. The Company reimburses WGL for the actual cost of these services and reflects these expenses as general and administrative expense in the statements of income. Approximately $0.3 million related to these services are included in the accompanying statements of income for each of the fiscal years ended September 30, 2009 and 2008. The Company retains the financial responsibility for uncollectible accounts and, accordingly, records a provision for uncollectible accounts in its statements of income.

WGL also charges the Company directly for services relating to balancing the gas deliveries from the Company with the actual WGES customer usage on WGL's delivery system. The rates for balancing services are cost based, established in the regulatory jurisdictions of WGL's operations, and apply uniformly to all third-party marketers that use this service. Expenses of approximately $24.8 million and $15.9 million related to balancing services are included in cost of commodity sales in the accompanying statements of income for fiscal years 2009 and 2008, respectively.

Certain key employees of WGES participate in a share-based awards plan sponsored by WGLH. Share based awards have been granted to certain WGES employees in the form of stock options, performance shares and performance units. Effective March 1, 2007, WGLH adopted a shareholder-approved Omnibus Incentive Compensation Plan ("Omnibus Plan"). The Omnibus Plan was adopted to replace, on a prospective basis, the previous plan. The Omnibus Plan provides similar benefits as provided under the previous plan. Stock options, stock appreciation rights, restricted stock, deferred stock, stock granted as a bonus in lieu of other awards, dividend equivalents, other stock-based awards, and cash awards may be granted under the Omnibus Plan. For both performance shares and performance units, WGLH imposes performance goals based on certain market conditions, which if unattained, may result in no performance shares or units being earned for the applicable performance period. These performance awards generally vest over three years from the date of grant. Stock options generally have a vesting period of three years, and expire ten years from the date of the grant. During the fiscal year ended September 30, 2009, performance shares and performance units were granted to certain WGES employees; however, no stock options were issued. As of September 30, 2009, there are prior years' stock option grants outstanding with an exercise price at the market value of WGLH common stock on the date of the grant. For the years ended September 30, 2009 and 2008, the Company recognized stock-based compensation expense related to performance units of $82,000 and $37,000, respectively. For the years ended September 30, 2009 and 2008, the Company recognized stock-based compensation expense related to performance shares and stock options of $117,000 and $122,000, respectively.

The Company recognizes a gas delivery imbalance with WGL that is calculated based upon the difference between the volumes of gas the Company delivers to the WGL system and the volumes used to supply the Company's customers on the WGL system. These amounts are subject to an annual volumetric true-up that occurs each spring, at which time the imbalance may be settled through a transfer of physical volumes or a cash payment. At September 30, 2009 and 2008, the Company had an imbalance asset of $4.6 million and $5.4 million, respectively, with WGL in Accounts receivable — associated companies, net in the accompanying balance sheets.

Certain revenues earned by the Company are related to a group of customers both inside and outside the WGL service territory. These customers are billed through a contract with an independent billing provider. The cash payments on these billings are collected by WGL and remitted to the Company. Accounts receivable due to the Company from WGL related to these customers are approximately $6.3 million and $11.5 million as of September 30, 2009 and 2008, respectively. This amount is included as Accounts receivable — associated companies in the accompanying balance sheets.

The Company acquires supplies of natural gas and electricity from certain suppliers that have received corporate guarantees from WGLH. Total guarantees outstanding at September 30, 2009, are $539.5 million. Of the total guarantees, $20 million will expire on December 31, 2009, and $17 million will expire on December 31, 2010. The remaining $502.5 million of guarantees do not have specific maturity dates. WGES does not compensate WGLH for the guarantees provided to suppliers on our behalf.

Refer to Note 8 for discussion of related-party financing.

11. OPERATING LEASES

The Company has operating leases for office space in Herndon, Virginia, and Timonium, Maryland. The Company entered into a lease for space in Herndon effective March 2001. This lease had an initial term of eight years and has been extended for an additional seven-year period. Rent payable under the renewed lease will decrease from original lease amount, though it will increase annually over the lease term, commencing with the second year. The Company also has a lease for office space in Timonium with an initial term of five years and is currently in the process of securing an extension. Rent expense is amortized based on the total of all scheduled lease payments (including lease payment escalations) and tenant allowances on a straight-line basis over the term of the lease. The Company recognized approximately $0.8 million and $0.7 million in rent expense for the fiscal years ended September 30, 2009 and 2008, respectively.

As of September 30, 2009, future minimum lease payments (including lease extension) under these leases are as follows:

Fiscal Year	Total
2010	$ 683,036
2011	652,761
2012	662,346
2013	678,909
Thereafter	1,730,848
Total	$ 4,407,900

12. SUBSEQUENT EVENTS

The Company has evaluated all events or transactions that occurred after September 30, 2009 through March 12, 2010, the date the accompanying financial statements were available to be issued. During this period, there were no material subsequent events which required disclosure.

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