

**WGL HOLDINGS, INC.**  
**USE OF NON-GAAP OPERATING EARNINGS (LOSS)**  
*(Unaudited)*

The attached reconciliations are provided to clearly identify adjustments made to net income calculated in accordance with generally accepted accounting principles in the United States of America (GAAP) to derive non-GAAP operating earnings (loss). Management believes non-GAAP operating earnings (loss) provides a more meaningful representation of our earnings from ongoing operations by adjusting for the effects of: (i) unrealized mark-to-market gains and losses from energy-related derivatives; (ii) certain gains and losses associated with optimizing the utility segment's capacity assets and (iii) certain unusual transactions. This presentation facilitates analysis by providing a consistent and comparable measure to help management, investors and analysts better understand and evaluate our operating results and performance trends, and assist in analyzing period-to-period comparisons. Additionally, we use this non-GAAP measure to report to the board of directors and to evaluate management's performance.

The economic substance underlying our adjustments to calculate non-GAAP operating earnings (loss) is as follows:

- We exclude unrealized mark-to-market adjustments for our energy-related derivatives to provide a more transparent and accurate view of the ongoing financial results of our operations. For our regulated utility segment, we use derivatives to substantially lock-in a future profit. This profit does not change even though the unrealized fair value of the underlying derivatives may change period-to-period, until settlement. For our retail energy-marketing segment, we use derivatives to lock-in a price for energy supplies to match future retail sales commitments. These derivatives are subject to mark-to-market treatment, while the corresponding retail sales commitments are not. With the exception of certain transactions related to the optimization of system capacity assets, as discussed below, when these derivatives settle the economic impact is reflected in our non-GAAP operating results, as we are only removing the interim unrealized mark-to-market amounts which are ultimately reversed when the derivatives are settled.
- We adjust for certain gains and losses associated with the optimization of the regulated utility segment's capacity assets. Transactions to optimize our system storage capacity assets are structured to lock-in a profit that is recognized, for regulatory purposes, as the natural gas is delivered to end-use customers. These transactions may result in gains and losses that consist of: (i) the settlement of physical and financial derivatives related to the management of our storage inventory and (ii) lower-of-cost or market adjustments from the difference between the cost of physical inventory compared to the amount realized through rates when the inventory is ultimately delivered to customers. In our GAAP results, due to timing differences between when the physical and financial transactions settle, and when the natural gas is sold to the end-use customer, gains and losses associated with our storage optimization strategy may be spread across different reporting periods. For purposes of calculating non-GAAP operating earnings (loss), gains and losses associated with these transactions are included in the reporting period when the gas is delivered to the end-use customer and the ultimate profit is realized for regulatory purposes. In addition, losses incurred to terminate long-term contracts affecting transportation capacity optimization margins of future periods are matched with those future margins for regulatory sharing purposes. For purposes of calculating non-GAAP operating earnings (loss), these losses are included in the reporting period when the transportation capacity optimization margins earned as a result of the termination are realized and shared with customers. These adjustments reflect a better matching between the economic costs and benefits of the overall optimization strategy.

We also exclude valuation adjustments to the carrying value of non-system natural gas storage inventory. This inventory is held solely to support asset optimization transactions. Valuation adjustments to reflect lower-of-cost or market under current accounting standards may not be representative of the margins that will be realized and shared with our utility ratepayers. Non-GAAP earnings reflect actual margins realized based on the unadjusted historical cost in storage when inventory is withdrawn and sold.

- We exclude certain unusual transactions that may be the result of regulatory or legal decisions, or items that we may deem outside of the ordinary course of business.

There are limits in using non-GAAP operating earnings (loss) to analyze our results, as they are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. In addition, using non-GAAP operating earnings (loss) per share to analyze our earnings may have limited value as it excludes certain items that may have a material impact on our reported financial results. We compensate for these limitations by providing investors with the attached reconciliations to net income, the most directly comparable GAAP financial measure.

**WGL HOLDINGS, INC. (Consolidating by Segment)**  
**RECONCILIATION OF GAAP NET INCOME (LOSS) TO**  
**NON-GAAP OPERATING EARNINGS (LOSS)**  
*(Unaudited)*

**Fiscal Year Ended September 30, 2009**

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities*	Consolidated
<b>GAAP net income (loss)</b>	\$ 105,952	\$ 14,975	\$ 3,154	\$ (3,708)	\$ 120,373
Adjusted for (items shown after-tax):					
Unrealized mark-to-market loss (gain) on energy-related derivatives (a)	(2,545)	11,776	-	-	9,231
Storage optimization program (b)	33	-	-	-	33
Derivative contract termination (c)	2,035	-	-	-	2,035
Reversal of reserve for natural gas costs (d)	(2,781)	-	-	-	(2,781)
Reversal of prior period electric costs (e)	-	(1,229)	-	-	(1,229)
<b>Non-GAAP operating earnings (loss)</b>	\$ 102,694	\$ 25,522	\$ 3,154	\$ (3,708)	\$ 127,662
<b>GAAP diluted earnings (loss) per average common share (50,382 shares)</b>	\$ 2.10	\$ 0.30	\$ 0.06	\$ (0.07)	\$ 2.39
Per share effect of non-GAAP adjustments	(0.06)	0.21	-	(0.01)	0.14
<b>Non-GAAP operating earnings (loss) per share</b>	\$ 2.04	\$ 0.51	\$ 0.06	\$ (0.08)	\$ 2.53

**Fiscal Year Ended September 30, 2008**

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities*	Consolidated
<b>GAAP net income (loss)</b>	\$ 113,723	\$ 4,813	\$ 1,791	\$ (3,804)	\$ 116,523
Adjusted for (item shown after-tax):					
Unrealized mark-to-market loss (gain) on energy-related derivatives (a)	295	7,594	-	-	7,889
Storage optimization program (b)	(448)	-	-	-	(448)
Reversal of costs related to business process outsourcing (f)	(1,139)	-	-	-	(1,139)
Other regulatory adjustments (g)	(1,242)	-	-	-	(1,242)
<b>Non-GAAP operating earnings (loss)</b>	\$ 111,189	\$ 12,407	\$ 1,791	\$ (3,804)	\$ 121,583
<b>GAAP diluted earnings (loss) per average common share (49,912 shares)</b>	\$ 2.28	\$ 0.10	\$ 0.04	\$ (0.09)	\$ 2.33
Per share effect of non-GAAP adjustments	(0.05)	0.15	-	0.01	0.11
<b>Non-GAAP operating earnings (loss) per share</b>	\$ 2.23	\$ 0.25	\$ 0.04	\$ (0.08)	\$ 2.44

**Three Months Ended September 30, 2009**

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities*	Consolidated
<b>GAAP net income (loss)</b>	\$ (20,749)	\$ 11,342	\$ 287	\$ (2,009)	\$ (11,129)
Adjusted for (items shown after-tax):					
Unrealized mark-to-market loss (gain) on energy-related derivatives (a)	3,824	(4,632)	-	-	(808)
Storage optimization program (b)	(2,467)	-	-	-	(2,467)
Derivative contract termination (c)	2,035	-	-	-	2,035
<b>Non-GAAP operating earnings (loss)</b>	\$ (17,357)	\$ 6,710	\$ 287	\$ (2,009)	\$ (12,369)
<b>GAAP diluted earnings (loss) per average common share (50,142 shares)</b>	\$ (0.41)	\$ 0.23	\$ 0.01	\$ (0.05)	\$ (0.22)
Per share effect of non-GAAP adjustments	0.06	(0.10)	-	0.01	(0.03)
<b>Non-GAAP operating earnings (loss) per share</b>	\$ (0.35)	\$ 0.13	\$ 0.01	\$ (0.04)	\$ (0.25)

**Three Months Ended September 30, 2008**

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities*	Consolidated
<b>GAAP net income (loss)</b>	\$ (400)	\$ (10,142)	\$ 966	\$ (1,644)	\$ (11,220)
Adjusted for (items shown after-tax):					
Unrealized mark-to-market loss (gain) on energy-related derivatives (a)	(9,427)	9,568	-	-	141
Storage optimization program (b)	(448)	-	-	-	(448)
<b>Non-GAAP operating earnings (loss)</b>	\$ (10,275)	\$ (574)	\$ 966	\$ (1,644)	\$ (11,527)
<b>GAAP diluted earnings (loss) per average common share (49,914 shares)</b>	\$ (0.01)	\$ (0.20)	\$ 0.02	\$ (0.03)	\$ (0.22)
Per share effect of non-GAAP adjustments	(0.20)	0.19	-	-	(0.01)
<b>Non-GAAP operating earnings (loss) per share</b>	\$ (0.21)	\$ (0.01)	\$ 0.02	\$ (0.03)	\$ (0.23)

\* Per share amounts for "Other Activities" may include adjustments for rounding  
(Footnote references are described on the following page)

**WGL HOLDINGS, INC. (Consolidated by Quarter)**  
**RECONCILIATION OF GAAP NET INCOME (LOSS) TO**  
**NON-GAAP OPERATING EARNINGS (LOSS)**  
*(Unaudited)*

**Fiscal Year 2009**

<i>(In thousands, except per share data)</i>	Quarterly Period Ended <i>(h)</i>				
	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Fiscal Year
<b>GAAP net income (loss)</b>	\$ 54,625	\$ 75,070	\$ 1,807	\$ (11,129)	\$ 120,373
Adjusted for (items shown after-tax):					
Unrealized mark-to-market loss (gain) on energy-related derivatives <i>(a)</i>	(960)	6,407	4,592	(808)	9,231
Storage optimization program <i>(b)</i>	767	2,538	(805)	(2,467)	33
Derivative contract termination <i>(c)</i>	-	-	-	2,035	2,035
Reversal of reserve for natural gas costs <i>(d)</i>	(2,781)	-	-	-	(2,781)
Reversal of prior period electric costs <i>(e)</i>	-	(1,229)	-	-	(1,229)
<b>Non-GAAP operating earnings (loss)</b>	\$ 51,651	\$ 82,786	\$ 5,594	\$ (12,369)	\$ 127,662
<b>Diluted average common shares outstanding</b>	50,208	50,420	50,435	50,142	50,382
<b>GAAP diluted earnings (loss) per average common share</b>	\$ 1.09	\$ 1.49	\$ 0.04	\$ (0.22)	\$ 2.39
Per share effect of non-GAAP adjustments	(0.06)	0.16	0.07	(0.03)	0.14
<b>Non-GAAP operating earnings (loss) per share</b>	\$ 1.03	\$ 1.65	\$ 0.11	\$ (0.25)	\$ 2.53

**Fiscal Year 2008**

<i>(In thousands, except per share data)</i>	Quarterly Period Ended <i>(h)</i>				
	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Fiscal Year
<b>GAAP net income (loss)</b>	\$ 47,197	\$ 81,038	\$ (492)	\$ (11,220)	\$ 116,523
Adjusted for (items shown after-tax):					
Unrealized mark-to-market loss on energy-related derivatives <i>(a)</i>	2,613	1,495	3,640	141	7,889
Storage optimization program <i>(b)</i>	-	-	-	(448)	(448)
Reversal of costs related to business process outsourcing <i>(f)</i>	(1,139)	-	-	-	(1,139)
Other regulatory adjustments <i>(g)</i>	(1,242)	-	-	-	(1,242)
<b>Non-GAAP operating earnings (loss)</b>	\$ 47,429	\$ 82,533	\$ 3,148	\$ (11,527)	\$ 121,583
<b>Diluted average common shares outstanding</b>	49,645	49,781	49,638	49,914	49,912
<b>GAAP diluted earnings (loss) per average common share</b>	\$ 0.95	\$ 1.63	\$ (0.01)	\$ (0.22)	\$ 2.33
Per share effect of non-GAAP adjustments	0.01	0.03	0.07	(0.01)	0.11
<b>Non-GAAP operating earnings (loss) per share</b>	\$ 0.96	\$ 1.66	\$ 0.06	\$ (0.23)	\$ 2.44

**Footnotes:**

- (a)* Represents the change in the unrealized mark-to-market positions of our energy-related derivatives that were recorded to income during the period. For the regulated utility segment, to the extent that our unrealized mark-to-market gains and losses are not shared with customers, these amounts are recorded directly to income. All unrealized mark-to-market gains and losses for the retail energy-marketing segment are recorded directly to income.
- (b)* Adjustments to shift the timing of storage optimization margins from the periods recognized for GAAP purposes to the periods in which such margins are recognized for regulatory sharing purposes. In addition, lower-of-cost-or-market adjustments related to system and non-system storage optimization are eliminated for non-GAAP reporting, since the margins will be recognized for regulatory purposes when the withdrawals are made at the unadjusted historical cost of storage inventory. These storage optimization non-GAAP adjustments reported on multiple lines in previous quarters have been combined in this report.
- (c)* During the fourth quarter of 2009, Washington Gas terminated a long-term energy-related derivative contract related to its transportation capacity optimization and recognized an associated loss of \$3.9 million for GAAP purposes. For non-GAAP purposes this loss is being deferred to subsequent periods to be matched with the future margins earned as a result of the termination, consistent with the regulatory sharing treatment.
- (d)* In the quarter ended December 31, 2008, Washington Gas recorded a \$4.6 million reversal of a reserve for disallowed gas costs in Maryland and recorded income of \$4.6 million due to a February 5, 2009 Order issued by the Public Service Commission of Maryland. This Order resolved a contingency related to a proposed order issued by a Hearing Examiner of the PSC of MD in fiscal year 2006.
- (e)* Represents a non-GAAP adjustment to reverse a prior period electric cost adjustment during the quarter ended March 31, 2009.
- (f)* Represents the reversal of expenses that were incurred in prior fiscal years for initial implementation costs allocable to the District of Columbia associated with our business process outsourcing plan. These costs were recorded to a regulatory asset in the first quarter of fiscal year 2008 upon approval of 10-year amortization accounting by the District of Columbia Public Service Commission in a March 28, 2007 Final Order.
- (g)* Represents favorable regulatory adjustments made during the first quarter of fiscal year 2008 applicable to prior fiscal years due to revised treatment for hexane costs in Maryland and certain shared revenues in the District of Columbia.
- (h)* Quarterly earnings per share may not sum to year-to-date or annual earnings per share as quarterly calculations are based on weighted average common and common equivalent shares outstanding, which may vary for each of those periods.

**WGL HOLDINGS, INC.**  
**RECONCILIATION OF GAAP EARNINGS GUIDANCE TO**  
**NON-GAAP EARNINGS GUIDANCE**  
**FISCAL YEAR ENDING SEPTEMBER 30, 2010**

**Consolidated**

	Low	High
<b>GAAP Earnings Per Share Guidance Range</b>	\$ 2.21	\$ 2.33
Adjusted for:		
Unrealized mark-to-market gain on energy-related derivatives (a)	(0.08)	(0.08)
Storage optimization program (b)	(0.01)	(0.01)
Partial settlement of the Supplemental Employee Retirement Program (c)	0.04	0.04
<b>Non-GAAP Operating Earnings Per Share Guidance Range</b>	<b>\$ 2.16</b>	<b>\$ 2.28</b>

**Regulated Utility Segment**

	Low	High
<b>GAAP Earnings Per Share Guidance Range</b>	\$ 1.67	\$ 1.73
Adjusted for:		
Unrealized mark-to-market loss on energy-related derivatives (a)	0.05	0.05
Storage optimization program (b)	(0.01)	(0.01)
Partial settlement of the Supplemental Employee Retirement Program (c)	0.04	0.04
<b>Non-GAAP Operating Earnings Per Share Guidance Range</b>	<b>\$ 1.75</b>	<b>\$ 1.81</b>

**Unregulated Business Segments**

	Low	High
<b>GAAP Earnings Per Share Guidance Range</b>	\$ 0.54	\$ 0.60
Adjusted for:		
Unrealized mark-to-market gain on energy-related derivatives (a)	(0.13)	(0.13)
<b>Non-GAAP Operating Earnings Per Share Guidance Range</b>	<b>\$ 0.41</b>	<b>\$ 0.47</b>

**Footnotes:**

- (a) Represents the estimated reversal of certain of our existing unrealized mark-to-market positions related to our energy derivatives that will be recorded to income during fiscal year 2010. For the regulated utility segment, to the extent that our unrealized mark-to-market gains and losses are not shared with customers, these amounts are recorded directly to income. All unrealized mark-to-market gains and losses for the retail-energy marketing segment are recorded directly to income.
- (b) Adjustments to shift the timing of storage optimization margins from the periods recognized for GAAP purposes to the periods in which such margins are recognized for regulatory sharing purposes. In addition, lower-of-cost-or-market adjustments related to system and non-system storage optimization are eliminated for non-GAAP reporting, since the margins will be recognized for regulatory purposes when the withdrawals are made at the unadjusted historical cost of storage inventory. These storage optimization non-GAAP adjustments which were reported on multiple lines in previous quarters have been combined in this report.
- (c) Represents the partial settlement of the Supplemental Employee Retirement Program due to lump sum distributions to certain retired employees that are scheduled in 2010.