In the 1980s, Crab Run Gas Co. had exploration leases in West Virginia, Virginia, Louisiana and Oklahoma.
The Natural Gas Policy Act of 1978, which deregulated natural gas prices at the wellhead, was having its desired effect: higher prices at the wellhead quickly stimulated natural gas exploration and discovery. Nearly 63,000 gas and oil wells were drilled in 1980 alone—10 percent more than the previous record set in 1956.

While natural gas supplies increased in the early 1980s, Washington Gas and other gas companies nonetheless initially encountered higher prices due to the structure of contracts between producers and pipelines.

At the same time, inflation fanned by the energy crisis of the preceding decade eroded corporate earnings in the first years of the 1980s. In 1981, inflation reached an annual rate of 14 percent. High inflation persisted into the following year, before receding in 1983.

Side by side with inflation, unemployment rates also ticked upward during the early 1980s, and by the end of 1982 reached 10.8 percent—the high point during the decade².

The situation was bad enough that Washington Gas during this period organized the Washington Area Fuel Fund (WAFF) in 1983 to help economically stressed residents in the region pay their utility bills, regardless of the fuel source. Over the years, WAFF would grow to become the company’s signature philanthropic program to assist less fortunate residents in the community. Also in 1983, the company gave grants to a number of local organizations to provide home weatherization kits for low-income, elderly and handicapped residents.

While the economy may have had the jitters, at least now there was no dearth of gas. In fact, in the early years of the decade, newly discovered gas pushed supply above demand, creating a natural gas surplus by 1982.

The surplus was such that by the end of 1983, the company in its annual report to shareholders noted that a “nationwide excess of gas supply during the year fostered a buyers’ market, with delays in marketing new gas production and lower prices paid.”

By 1984, the market had begun to settle into the new deregulated environment, and the wholesale price of gas finally began to stabilize for the first time in many years.

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²Source: Bureau of Labor Statistics:
http://data.bls.gov/pdq/SurveyOutputServlet
Hitting the Gas Fields

In the first half of the 1980s, the nation generally experienced excesses of natural gas supply over demand, often referred to as the natural gas “bubble.”

Washington Gas did its share to bolster new supplies of natural gas during the decade. In 1980, the Crab Run Gas Co. subsidiary, formed in 1970 to explore for gas in West Virginia, had 55,000 acres of leaseholds in Virginia, Louisiana and Oklahoma.

At the time, its successful wells held estimated reserves of 7.3 billion cubic feet of gas and 199,000 barrels of condensate. As of 1980, Crab Run had participated in the drilling of 25 producing wells—16 in Louisiana, and nine in Oklahoma.

In 1981, one of the Crab Run exploratory drillings in Oklahoma tapped into a significant flow of gas. The strike, dubbed the “Tomcat Well,” unfortunately suffered from ongoing mechanical difficulties, eventually blew out and had to be closed. In 1983—on its third attempt—Crab Run succeeded in drilling the Tomcat lease.

By the beginning of 1983, Crab Run had interests in 25 natural gas wells in Oklahoma’s Deep Anadarko Basin. The firm took part the following year in the drilling or completion of 17 wells, 15 of which went on to become commercial producers.

Another subsidiary, the Hampshire Gas Co., through a joint venture drilled a successful well in West Virginia in 1980. At the time, the company owned leaseholds on 33,000 acres of land in the state.
As drillers across the country brought in new well after new well, market forces eventually took hold: by mid-decade, the growing surplus of gas had pushed down field prices for gas and oil—so much so that exploration for new reserves in 1986 receded to levels not seen since before World War II.

Like other drillers, Crab Run also scaled back its search for new reserves. Depressed prices persisted, and Washington Gas by 1988 had trimmed its budget for exploration and production together to less than $1 million.

**Diversifying Supply**

Washington Gas had been tied to a handful of supply sources during the lean years of the 1970s, with few options for obtaining additional gas even if it had been available.

But now with more gas in the market, Washington Gas saw the opportunity to start expanding and diversifying its sources of supply. To that end, the company in 1983 began to purchase a portion of its gas directly from independent producers.

After being connected to two pipelines during the previous decade’s gas shortages, the company in 1985 inked a 20-year pipeline supply contract with a third firm—Consolidated Natural Gas Transmission—which now would furnish the company with gas alongside Columbia Gas and Transco. Washington Gas estimated that the Consolidated supply would satisfy from 15 percent to 30 percent of the company’s needs in the years ahead.

The new gas source came online three years later when Washington Gas completed a 13-mile pipeline between Dranesville and Leesburg, Va., to connect its system to the Consolidated supply. Customers served by the new gas included a number of major commercial users in the Leesburg area, including Xerox Corp., as well as the Ashburn Village residential development.

*Converting existing homes to natural gas, as depicted here in Virginia, was a major source of growth and expansion in the 1980s.*
The company’s supply-diversification efforts received an additional boost in 1985, when Columbia Gas became the first major interstate pipeline to agree to open-access transportation of gas under an order issued by the Federal Energy Regulatory Commission.

Near the close of the decade, as gas supply and demand began once again to come into balance, Washington Gas also was able to free itself from a major ongoing contractual constraint. This was the so-called “take-or-pay” requirement in its contracts with pipeline suppliers Columbia Gas and Transco, which required Washington Gas to take the natural gas product or pay a penalty to the suppliers. In 1989, Washington Gas negotiated a restructuring of those supply agreements, at last resolving the take-or-pay issue that had plagued the old contracts. At the time, the company anticipated that the restructured Columbia Gas agreement alone would cut the annual cost of gas purchased from the pipeline by $8 million.

With these new agreements under its belt, the company now began to buy about half of its supply directly from natural gas producers, rather than from pipeline companies.

Making Up for Lost Time

The end of new-customer moratoriums at the top of the decade allowed Washington Gas to resume growing its customer base at the steady, solid pace that had characterized the decades of growth prior to the 1970s.
With restrictions on adding new customers now lifted, meters served increased by more than 87,000 meters during the 1980s—from 545,535 in 1979 to 632,825 in 1989. While one source of new hook-ups—new home construction—lagged in the early 1980s, new residential growth recovered in the second half of the decade, and Washington Gas customers increased along with it.

In addition to adding meters in the metropolitan area, the company posted strong customer gains on the northern and western reaches of its franchise territory through Shenandoah Gas Co. in Virginia and Frederick Gas Co. in Maryland. Both subsidiaries recorded solid residential growth, and made new connections to a number of large commercial and government customers.

In 1980, insulation manufacturer Johns Manville in Woodstock, Va., converted from oil to gas to become Shenandoah’s largest single customer at the time. In 1986, Frederick began to supply gas to Fort Detrick.

Also in 1986, Washington Gas completed a 3.5-mile transmission line in Maryland to connect its system to the Chalk Point generating station. The power plant, then owned by Potomac Electric Power Co., would become the company’s largest customer in terms of gas consumption.

The company’s franchise area also grew in the decade. With the outlying northern and western suburbs solidly incorporated into the Washington Gas service region, the company now looked south.
A signature philanthropy program is born.

In 1983, Washington Gas founded the Washington Area Fuel Fund to help residents in need heat their homes during the cold winter months. The program has grown over 30 years to assist hundreds of thousands of area residents, regardless of the fuel they use for heat. At right, at a fundraising carnival in 1986, company vice president Tom Duckenfield thanks (from left) D.C. Council members Charlene Drew Jarvis and H.R. Crawford, Channel 9’s J.C. Hayward, and Major Robert Griffin of The Salvation Army for supporting WAFF.
A “community clowns” parade sponsored by Washington Gas in Fairfax, Va.

In 1980, President Jimmy Carter honors employee Frank Hollewa for his work with the Waldorf, Md., Jaycees.

Washington Gas launched a food cooperative in the 1980s to help senior citizens in a public housing development.
Beginning in the mid-1980s, Washington Gas once more began to explore new lines of business in earnest.

In 1989, Washington Gas extended its franchise area to the tip of southern Maryland with the addition of St. Mary’s County and Calvert County.

To manage its growing business, the company made the decision in the 1980s to rearrange itself into state-specific units. The 1985 reorganization divided utility operations into three jurisdictional divisions: District of Columbia Natural Gas, Virginia Natural Gas and Maryland Natural Gas, each headed up by a jurisdictional vice president.

In 1988, the company also opened a satellite business office in the Anacostia section of the District of Columbia.

Trying New Ventures

Beginning in the mid-1980s, Washington Gas once more began to explore new lines of business in earnest.

In 1985, the company purchased half interest in Advanced Mechanical Technology Inc. (AMTI), a research and development firm that also manufactured high-efficiency heating, water heating and air conditioning systems. The company’s research included a project to develop a single appliance that would provide space heating, cooling and hot water.

Washington Gas later in the decade bought the remainder of AMTI and transferred ownership to another subsidiary, Washington Resources Group, which Washington Gas created in 1987 to hold its non-utility businesses.

AMTI, however, did not live up to the company’s expectations. In 1989, Washington Gas sold all of the assets of AMTI, and several years later divested all its remaining stock in the venture.

The same year it had acquired AMTI, Washington Gas also formed a new subsidiary called Utilitrol to provide automated energy-use accounting services to multi-family dwellings and shopping centers. However, the company relinquished that venture as well, selling it off in 1987.

During the 1980s, the company explored new business possibilities on a shared basis, as well. In 1988, for example, Washington Resources Group—along with companies such as Atlanta Gas Light Company and Japan’s Yazaki Corp.—invested in a venture called Angel Research. Angel, an acronym for American Nippon Gas Equipment Laboratories, was dedicated to bringing promising gas air conditioning systems to market.

An Emerging Idea: Energy Conservation

The tight gas supplies of the 1970s had spawned a number of new businesses tied not to the consumption of energy, but to satisfying consumers’ new appetite for energy conservation.

Customer conservation measures, along with the deployment of more efficient gas equipment and appliances, had begun to have an effect on gas consumption. In 1982, the company actually recorded lower
gas sales—despite a net increase in the number of meters served and rounds of cold weather. The rise in natural gas prices in the early years of the decade also sparked conservation efforts among industrial and commercial customers.

Washington Gas already had conservation businesses in place at the start of the decade. In 1980, the Washington Gas Energy Conservation Systems division logged retail sales of insulation, storm doors and windows worth $4 million. During the decade, the division also expanded into thermal wall systems and launched a conservation program for commercial and industrial users. Renamed Washington Gas Energy Systems, the division was organized into a Washington Gas subsidiary in 1988.

Another conservation-related subsidiary, Davenport Insulation, while it felt the effects of the slowdown in new home construction as the 1980s began, nonetheless held its own in terms of profitability. By 1983, Davenport posted what it called its “most successful year” since its acquisition by Washington Gas in 1977.

In 1983, Washington Gas formed two more units geared to energy conservation. The first, the Commercial Energy Systems division, furnished energy management systems to commercial and institutional users.

The second, the Air Conditioning Systems division, distributed new, high-efficiency commercial gas heating and air conditioning systems from Yazaki Corp.

*The Vietnam Veterans Memorial was dedicated in 1982 and “The Three Soldiers” statue was dedicated in 1984.*

*Sandra Day O’Connor made history in 1981 when she became the first female member of the United States Supreme Court, where she served until her retirement in 2006.*
Washington Gas’ Rockville Plant, seen here at night, is a multi-purpose facility, with peak shaving, gate station, electronic communications and other functions.
Spreading the Word

During the 1980s, Washington Gas continued to promote gas usage through broad-based consumer marketing, as well as through more narrowly focused efforts that targeted commercial and government customers.

The company’s decades-long appliance-dealer support program continued to be one of its most visible consumer-focused efforts. Under the oversight of its marketing department, which was reorganized in 1980, Washington Gas television ad campaigns regularly promoted the advantages of gas appliances for the home. The company noted that a 1984 fall campaign to promote gas ranges and dryers was particularly successful—bolstering sales of gas ranges and dryers by 14 percent and 5 percent, respectively, over sales generated by the firm’s fall campaign a year earlier.

Tapping into the emerging notion of environmental responsibility, Washington Gas in 1982 also began to market compressed natural gas (CNG) and CNG vehicles to commercial fleet owners as a cleaner fuel alternative.

By 1982, Washington Gas had converted more than 100 vehicles in its own fleet to CNG, and the company continued to equip more vehicles to run on CNG over subsequent years. During the 1980s, Washington Gas also helped establish CNG fleet-conversion pilot programs for the Washington Metropolitan Area Transit Authority, as well as for the Giant Foods supermarket chain.

Ramping Up Technology

America during the 1980s witnessed the rapid, across-the-board expansion of computing and communications technologies—including cellular telephony, mainframe and desktop computing, and data communications networking. Washington Gas adopted or increased its use of all of these new technologies during the decade.

Management information systems installed by the company in the early 1980s included a new responsibility reporting system to automate accounting and budgeting; a materials management system to help manage materials purchasing, handling, accounting and inventory control; and a rates and regulatory information system to help automate the preparation and presentation of rate case materials.

In 1984—the same year that personal computers began to appear on company desks—Washington Gas began to equip meter readers with hand-held microprocessors to improve reliability and cut the cost of meter-reading operations. That year, Washington Gas also launched an initiative that eventually would allow the company to collect remote meter readings from all its large customers.
The company's competitive position, as noted in the following significant achievements:

- Profitable business continued, with earnings growth sustainable, growing dividends to our shareholders.

- Largest, secure gas reserves were purchased at competitive prices. Average residential rates, adjusted for declines, while service improved.

Results

You, our shareholders, earnings grew and dividends increased, leading to an excellent year for your investment. During FY92, contributions to Washington investors, including earnings and dividends, compared to the Dow Jones Industrial average and 12.5% and 8.9% return on stock, respectively.

- Net income applicable to common shares reached $50.9 million in FY92, compared to $42.9 million last year.

The Board increased the annual dividend rate per share, to an annual dividend of $0.72 per share for the 16th consecutive year, that dividend rate increased.

Growth

Washington increased natural gas sales, adding more residential customer meters of 2.4 million cubic feet and new customers, including 31 million therms, for an increase of 1.3 million cubic feet of gas sales, about 4% of the amount as was added in FY91. Converting oil to natural gas, electricity to natural gas, accounted for 31% of the growth of customer load, while FY92, continued space load added to construction.

Among the signed this year...
The company in 1984 also started to digitize its mapping data to create a computerized database of all the company’s transmission and distribution facilities.

As the decade progressed, the company began to push out new technologies in support of its field staff. In 1987, the District of Columbia division installed cell phones in a number of service vans to permit service staff to contact customers before proceeding to their homes. And in 1989, Washington Gas began to test computer-aided dispatching of field personnel.

Also in 1989, the company took a big step in deploying technology at the customer premises when it launched an 18-month effort to install 75,000 automated meter reading devices—about 12 percent of the company’s total.

Washington Gas continued to install other technologies in its distribution system, as well. In 1984, for example, the company applied cathodic protection to another 350 miles of steel gas main to shield it from corrosion.

Closing a Decade of Solid Performance

Washington Gas had entered the early years of the 1980s under the leadership of Chairman and Chief Executive Officer Paul Reichardt, who also had led the company throughout most of the grueling 1970s.

On Reichardt’s retirement in 1983, company President Donald Heim in 1983 assumed the additional responsibilities of chairman and CEO. Heim relinquished the presidency in 1987 to Patrick Maher, but continued to serve as chairman and CEO. In addition, Jeremiah K. Hughitt was elected as company vice chairman and a member of the board of directors in 1988.

Under these men’s leadership, Washington Gas enjoyed income growth throughout much of the decade in spite of the economic challenges of the period. Thanks to higher retail rates, lower interest costs, cost-control measures, and greater sales to large-volume customers, the company posted record net income in 1983, 1984, 1985, 1988 and 1989.

While Washington Gas had spent much of the 1980s shedding practices dictated by old paradigms that governed the nation’s distribution and sale of gas, events yet to come would provide gas companies with even greater market flexibility.

The world was changing. On the international stage in November 1989, German citizens breached the Berlin Wall.

In similar fashion four years later, U.S. gas companies in November 1993 would breach a regulatory wall that would change the way the nation’s gas companies operated.

And Washington Gas would be there.