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STATE OF DELAWARE
THE PUBLIC SERVICE COMMISSION
CANNON BUILDING
861 SILVER LAKE BLVD., SUITE 100
DOVER, DELAWARE 19904

TELEPHONE: (302) 736-7529
TELECOPIER: (302) 739-4849

FILING COVER SHEET

1. NAME OF APPLICANT: Delmarva Power & Light

2. TYPE OF FILING:
   - RATE CHANGE ☐
   - FUEL ADJUSTMENT ☐
   - ADMINISTRATIVE ☐
   - CPCN ☐
   - NEW SERVICE OFFERING ☐
   - OTHER - DESCRIBE: Compliance with Settlement Agreement in Docket No. 13-349F

   IF A TELECOMMUNICATIONS FILING, WHAT TYPE OF SERVICE IS IMPACTED?

   BASIC ____ COMPETITIVE ____ DISCRETIONARY ____

3. PROPOSED EFFECTIVE DATE: November 15, 2015

   IS EXPEDITED TREATMENT REQUESTED? YES ☐ NO ☒

4. SHORT SUMMARY OF FILING: Propose changes to the methodology for calculating Balanacing Fees associated with the Gas Cost Rate

5. DOES THIS FILING RELATE TO OTHER DOCKETS: YES ☒ NO ☐

   IF YES, LIST DOCKET(S) NO(S): 13-349F

6. IS PUBLIC NOTICE REQUIRED? YES ☒ NO ☐
   IF YES, PLEASE ATTACH COPY OF PROPOSED PUBLIC NOTICE.

7. APPLICANT'S CONTACT PERSON:
   NAME: Pamela J. Scott
   TITLE: Assistant General Counsel
   PHONE: 302 429-3143
   FAX: 302 429-3801
   EMAIL: PJScott@pepcoholdings.com
   WEBSITE (IF APPLICABLE) ____

8. DID YOU PROVIDE A COMPLETE COPY OF THE FILING TO THE PUBLIC ADVOCATE?
   YES ☒ NO ☐ IF YES, WHEN? ____

9. FILING FEE ENCLOSED: AMOUNT: $ 100.00

NOTE: House Bill 681, enacted into law 7/13/98, authorizes the Commission to recover the cost of time spent by in-house staff to process all filings initiated after the date of enactment. You may be required to reimburse the Commission for staff time.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF) **DELMARVA POWER & LIGHT COMPANY)** **TO CHANGE THE METHODOLOGY FOR)** **THE CALCULATION OF BALANCING FEES)** **ASSOCIATED WITH THE GAS COST RATE)** **(FILED FEBRUARY 2, 2015))**	**PSC DOCKET NO.** **15 - _______**

APPLICATION OF DELMARVA POWER & LIGHT COMPANY TO CHANGE THE METHODOLOGY FOR THE CALCULATION OF BALANCING FEES ASSOCIATED WITH THE GAS COST RATE

Delmarva Power & Light Company
Pamela J. Scott
P.O. Box 6066
Newark, DE 19714-6066
(302) 429-3143
(302) 429-3801 (fax)
pjscott@pepcoholdings.com

Date: February 2, 2015

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF) DELMARVA POWER & LIGHT COMPANY) TO CHANGE THE METHODOLOGY FOR) THE CALCULATION OF BALANCING FEES) ASSOCIATED WITH THE GAS COST RATE) (FILED FEBRUARY 2, 2015))	**PSC DOCKET NO. 15 - _______**

APPLICATION OF DELMARVA POWER & LIGHT COMPANY TO CHANGE THE METHODOLOGY FOR THE CALCULATION OF BALANCING FEES ASSOCIATED WITH THE GAS COST RATE

Delmarva Power & Light Company ("Delmarva" or the "Company"), by and through its undersigned counsel, hereby files this application ("Application") with the Public Service Commission of the State of Delaware (the "Commission") seeking to change the methodology it uses for the calculation of balancing fees associated with its Gas Cost Rate ("Balancing Fees"). This Application is being submitted pursuant to the terms of a Settlement Agreement between Delmarva, the Delaware Public Service Commission Staff ("Staff") and the Division of the Public Advocate ("DPA") (together, the "Parties"), approved by Order No. 8578, in PSC Docket No. 13-349F (the "Order"). The Settlement Agreement provided, among other things, that on or before October 1, 2014, Delmarva would submit a regulatory filing to the Commission in which Delmarva would propose changes to its Balancing Fees. Extensions to the deadline for submitting the regulatory filing were approved by the Commission per Order Nos. 8649 and 8701, with the final deadline being February 2, 2015.

In support of this Application, Delmarva provides the following:

1. Delmarva is proposing changes to the manner in which Balancing Fees are calculated as part of the Gas Cost Rate ("GCR") in response to concerns raised by Staff and the DPA through the testimony of their consultant, Jerome Mierzwa, in Docket No. 13-349F, Delmarva's annual GCR filing for 2013-2014.

2. Specifically, Mr. Mierzwa raised two issues concerning the manner in which Delmarva calculates Balancing Fees. First, he questioned Delmarva's practice of assessing Balancing Fees on a customer's imbalances, and setting the balance fee rate based upon customer throughput. Second, he noted that Balancing Fees are designed to cover demand charges from interstate pipelines for providing both balancing service and system reliability, and that a significant percentage of Delmarva's balancing costs are for Eastern Shore capacity which provides pressure support for all customers. He concluded that Balancing Fees should be assessed on customer throughput rather than excess volumes.

3. Delmarva has been assessing Balancing Fees (which include balancing and pressure support costs) to Transportation Customers based on the imbalances (plus or minus) between gas delivered to the Company's gate stations on their behalf, and the amount of gas actually used.

4. In submitting this Application, Delmarva proposes to address the concerns of Staff and the DPA through an alternative fee structure for recovering these balancing and pressure support costs. The new Balancing Fee structure would consist of two separate components, as follows:

a. The Balancing Fee would recover swing and storage service costs attributable to customers in service classifications Firm Transportation ("FT"), Interruptible Transportation ("IT"), Large Volume Gas – Qualifying

Fuel Cell Provider-Renewable Capable ("LVG-QFCP-RC"), and certain contract customers (collectively, "Balancing Service Customers" or "BSC"). This rate would be $0.5530 per mcf for 2015-2016, and would be assessed on the differences (imbalances) between gas delivered to the Company gate stations and the amount of gas actually used by the customer; it would be assessed for both under and over deliveries of gas.

b. The Pressure Support Fee ("PSF") would recover the costs of Eastern Shore capacity. The Company proposes to use throughput as the determinant for allocating Eastern Shore capacity among the customer classes that benefit from the pressure support provided which are customers classified as Sales (GCR), FT and LVG-QFCP-RC. This rate, as proposed, would be $0.1893 per mcf for the affected customers.

5. The Company proposes the implementation of the new Balancing Fee structure to become effective as of November 1, 2015. For the PSF, specifically, the Company would like to have the opportunity to hear from affected stakeholders, and, based upon those comments, the Company would further analyze and potentially refine the PSF. The Company proposes that a stakeholder working group process be established in order to solicit those comments.

WHEREFORE, Delmarva requests that, after hearing or other appropriate proceeding, the Commission approve the changes to the methodology for calculating Balancing Fees associated with Delmarva's Gas Cost Rate as outlined herein.

Respectfully submitted,

DELMARVA POWER

By: ______________________

Pamela J. Scott
Assistant General Counsel
PO Box 6066
Newark, DE 19714-6066
(302) 429-3143
pjscott@pepcoholdings.com

Dated: February 2, 2015

<u>**CERTIFICATE OF SERVICE**</u>

I, Pamela J. Scott, do hereby certify that DELMARVA POWER & LIGHT COMPANY'S APPLICATION TO CHANGE THE METHODOLOGY FOR THE CALCULATION OF BALANCING FEES ASSOCIATED WITH THE GAS COST RATE and copies thereof were caused to be served by overnight delivery and electronic mail this 2nd day of February, 2015, upon the following:

The Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904
Attn.: Malika Davis

Division of the Public Advocate
29 South State Street
Dover, DE 19901
Attn.: Andrea Maucher

Regina A. Iorii, Esquire
Department of Justice
Carvel State Office Building
820 N. French Street
Wilmington, De 19801

Julie "Jo" Donoghue, Esquire
Department of Justice
Carvel State Office Building
820 N. French Street
Wilmington, De 19801

Pamela J. Scott

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF	**)**	
DELMARVA POWER & LIGHT COMPANY	**)**	
TO CHANGE THE METHODOLOGY FOR	**)**	**PSC DOCKET NO.**
THE CALCULATION OF BALANCING FEES	**)**	**15 - ________**
ASSOCIATED WITH THE GAS COST RATE	**)**	
(FILED FEBRUARY 2, 2015)	**)**	

ORDER NO. ________

AND NOW, to-wit, this ______ day of ______________, A.D., 2015, Delmarva Power & Light Company, having, on February 2, 2015, filed the above-captioned Application with the Commission seeking approval to change the methodology for the calculation of balancing fees associated with the Gas Cost Rate;

AND, the Commission having determined, pursuant to 26 Del. C. §§ 303 and 304, that the proposed changed in methodology for calculation of the balancing fees for the Gas Cost Rate should be permitted to become effective for usage on and after November 1, 2015, with proration and subject to refund pending evidentiary hearings and further review by the Commission;

NOW THEREFORE, IT IS ORDERED:

1. That ________________________ is designated as Hearing Examiner for this docket pursuant to the terms and provisions of 26 Del. C. §502 and 29 Del. C. Ch. 101 to schedule and conduct such public evidentiary hearings as may be necessary to develop a full and complete record concerning this matter, and to report to the Commission proposed findings and recommendations based on the evidence presented.

2. That Delmarva Power shall give public notice of the filing of this application and of the Commission action thereon by publishing notice in the form attached hereto as Addendum to Exhibit "A" in two-column format, outlined in black in the legal classified sections of The News Journal on ____________________, 2015, with proof of such publication to be provided to the Commission as soon as possible, but no later than the commencement of the evidentiary hearings concerning this matter.

3. That Delmarva Power is hereby put on notice that it will be charged the costs incurred in connection with this proceeding under the provisions of 26 Del. C. § 114(b)(1).

4. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

____
CHAIR

____
COMMISSIONER

____
COMMISSIONER

____
COMMISSIONER

____
COMMISSIONER

ATTEST:

____

SECRETARY

ADDENDUM TO EXHIBIT A

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF) DELMARVA POWER & LIGHT COMPANY) TO CHANGE THE METHODOLOGY FOR) THE CALCULATION OF BALANCING FEES) ASSOCIATED WITH THE GAS COST RATE) (FILED FEBRUARY 2, 2015))	**PSC DOCKET NO. 15 - ________**

PUBLIC NOTICE

TO: ALL NATURAL GAS CUSTOMERS OF DELMARVA POWER & LIGHT COMPANY

1. Pursuant to 26 Del. C. §§ 303 and 304, Delmarva Power & Light Company ("Delmarva" or the "Company") has filed an Application with the Delaware Public Service Commission ("Commission"). The Application requests changes to the methodology for the calculation of Balancing Fees associated with the Gas Cost Rate by proposing a new Balancing Fee structure consisting of two separate components, as follows:

    a. The Balancing Fee would recover swing and storage service costs attributable to customers in service classifications Firm Transportation ("FT"), Interruptible Transportation ("IT"), Large Volume Gas – Qualifying Fuel Cell Provider-Renewable Capable ("LVG-QFCP-RC"), and certain contract customers (collectively, "Balancing Service Customers" or "BSC"). This rate would be $0.5530 per mcf for 2015-2016, and would be assessed on the differences (imbalances) between gas delivered to the Company gate stations and the amount of gas actually used by the customer; it would be assessed for both under and over deliveries of gas; and

b. The Pressure Support Fee would recover the costs of Eastern Shore capacity. The Company proposes to use throughput as the determinant for allocating Eastern Shore capacity among the customer classes that benefit from the pressure support provided which are customers classified as Sales (GCR), FT and LVG-QFCP-RC. This rate, as proposed, would be $0.1893 per mcf for the affected customers.

The Commission's action on this Application will be based upon the evidence presented at evidentiary hearings to be scheduled at a later date.

Any person or group wishing to participate formally as a party in this docket (PSC Docket No. 15 - ________), with the right to submit evidence and to be represented by counsel must, in accordance with the requirements of the Commission's Rules of Practice and Procedure (26 *Del. Admin. C.* §1001-2.9), petition the Commission for and be granted leave to intervene in the proceedings in this docket. To be timely, all such petitions must be filed with the Delaware Public Service Commission at 861 Silver Lake Boulevard, Suite 100, Cannon Building, Dover, Delaware 19904 on or before ____________________ ____, 2015. All such petitions should be E-filed according to the Commission's Rules of Practice and Procedure. (26 *Del. Admin. C.* § 1001-1.6.4). Petitions filed after the deadline will not be considered except for good cause shown.

You are invited to review Delmarva's application and supporting documents to determine how your interest may be affected. You may review documents posted on the Commission's electronic filing site at https://delafile.delaware.gov/. If you would like to review documents at the Commission's offices, please contact Donna Nickerson at donna.nickerson@state.de.us to arrange a time for your review. You may also review copies of Delmarva's application and supporting documents at the office of the Division of the Public Advocate located at 29 South State Street, Dover, DE 19901. Please call (302) 241-2555 to arrange for a time to review the documents at that location.

Anyone who wishes to comment on the Application, but who may be unable to attend the public comment session, may file written comments with the Commission at the address below no later than ________________ ___, 2015. All such comments should be sent to:

> Attn: PSC Docket No. 15 - ________
>
> Delaware Public Service Commission
>
> 861 Silver Lake Boulevard
>
> Cannon Building, Suite 100
>
> Dover, DE 19904

Comments may also be filed at https://delafile.delaware.gov/.

If you wish to request copies of documents in this matter, please submit a Freedom of Information Act Request Form. This form may be found at http://smu.portal.delaware.gov/cgi-bin/mail.php?foia-request&subj=DOS. There is also a link to the Freedom of Information Act Request Form on the Commission's website, http://www.depsc.delaware.gov. The Commission will respond to your request in accordance with the Delaware Freedom of Information Act, 29 *Del. C. Ch.* 100.

If you have a disability and wish to participate or to review the materials in this matter, please contact the Commission to discuss any auxiliary aids or services you might need to help you. You may contact the Commission in person, by writing, by telephone (including text telephone), by Internet e-mail, or other means.

If you have questions about this matter, you may call the Commission at 1-800-282-8574 (toll-free in Delaware) or (302) 736-7500 (voice and text telephone). You may also send questions or comments regarding this matter by e-mail addressed to psc@state.de.us. Please include the words "PSC Docket No. 15- ________" in the subject matter of the e-mail.

STATE OF DELAWARE)
) SS.
COUNTY OF NEW CASTLE)

On this 26th day of January, 2015 personally came before me, the subscriber, a Notary Public in and for the State and County aforesaid Gary R Stockbridge, Regional President of Pepco Holdings, Inc., a Corporation existing under the laws of the State of Delaware, party to this Application, known to me personally to be such, and acknowledged this Application to be his act and deed and the act and deed of such Corporation, that the signature of such Regional President is in his own proper handwriting, and that the facts set forth in this Application are true and correct to the best of his knowledge and belief.

Gary R Stockbridge
President – Delmarva Region

SWORN TO AND SUBSCRIBED before me this 26th day of January 2015

~~Notary Public~~ Attorney-at-Law (DE)

My Commission expires: N/A

DELMARVA POWER & LIGHT COMPANY

TESTIMONY OF ROBERT W. BRIELMAIER

BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION

CONCERNING PROPOSED CHANGE TO THE BALANCING FEE

ASSOCIATED WITH THE GAS COST RATE

PSC DOCKET NO. 15 -____F

1. Q: <u>Please state your name, position and business address.</u>

A: Robert W. Brielmaier, Manager of Gas Operations, Delmarva Power & Light Company (Delmarva or the Company). My business address is 630 Martin Luther King Jr. Boulevard, PO Box 231, Wilmington, Delaware 19899-0231.

2. Q: <u>What are your responsibilities in your role as Manager of Gas Operations?</u>

A: As the Manager of Gas Operations, I oversee the day-to-day delivery of natural gas to Delmarva's customers. I am responsible for the operation of Delmarva's Gas Operations Control Room, its Liquefied Natural Gas Plant (LNG), and its gate and regulator stations. I am also responsible for related gas business, regulatory and system planning activities, including relationships with Delmarva's pipeline suppliers.

3. Q: <u>What is your educational and professional background and experience?</u>

A: I am a graduate of Rutgers University with a Bachelor's Degree in Business Administration. I have been employed by Delmarva since 1982, serving in various supervisory and management capacities including Gas Customer Service, Gas Engineering, Gas Construction and Maintenance, and Gas Operations.

4. Q: **<u>Have you previously testified before the Delaware Public Service Commission?</u>**

A: Yes. I have provided testimony before the Delaware Public Service Commission in the Annual Gas Cost Rate cases from 2010 through 2014. I also provided testimony in Docket No.11-362 concerning new tariff provisions for Qualified Fuel Cell Providers.

5: Q: **<u>What is the purpose of your testimony?</u>**

A: The purpose of my testimony is to support Delmarva's Application for changes to the Balancing Fees associated with the Gas Cost Rate (GCR). My testimony discusses a proposed revision to the current Balancing Fee which is intended to more appropriately allocate to customers the costs for storage and swing capacity and pressure support associated with the Eastern Shore contract. Susan A. Devito, Manager of Regulatory Compliance Pricing, will provide testimony to support the calculation of the proposed charges. My testimony was prepared by me or under my direct supervision and control. The source documents for my testimony are Company records. I also rely upon my personal knowledge and experience.

6. Q: **<u>Why is the Company proposing changes to the Balancing Fees associated with the Gas Cost Rate (GCR)?</u>**

A: The Company is proposing changes in compliance with the terms of the Settlement Agreement reached in Docket No. 13-349F, approved in PSC Order No. 8578, based upon its review of the structure and application of the Balancing Fees in conjunction with the testimony in that docket provided by Staff/DPA consultant Jerome Mierzwa.

7. Q: **<u>Please summarize Mr. Mierzwa's testimony in PSC Docket No. 13-349F with respect to Balancing Fees?</u>**

A: First, Mr. Mierzwa testified that the Company's Balancing Fee is a charge assessed to Transportation customers to recover (1) "the costs associated with the pipeline capacity used to accommodate differences, or imbalances, between the consumption of a transportation customer and the deliveries to Delmarva on that customer's behalf; and (2) the pipeline capacity necessary to ensure system reliability." PSC Docket No. 13-349F, Direct Testimony of Jerome D. Mierzwa, Page 6, Lines 21-24. Further, Mr. Mierzwa testified that the Balancing Fee should be assessed on total customer class throughput, as these were the billing determinants used to compute the Balancing Fee rate. Mr. Mierzwa also testified that the Balancing Fee was designed to cover demand charges from interstate pipelines for providing both balancing service and system reliability. He states that demand charges paid by the Company are "fixed and are not dependent on the extent to which Delmarva uses a particular service on a particular day" and that "the Balancing Fee should not be limited only to days on which the transportation customers require balancing services." Mierzwa Direct Testimony, Page 8, Lines 12-19. Mr. Mierzwa also stated that a significant percentage of the Company's Balancing Costs is for Eastern Shore capacity which provides improved system reliability by providing pressure support to the entire system.

8. Q: **<u>Does the Company agree with Mr. Mierzwa's testimony as summarized above?</u>**

A: While the Company acknowledges the statements made by Mr. Mierzwa, it takes a different view of some of the issues he raises. The Company agrees with Mr. Mierzwa's assertion that the Eastern Shore capacity is a significant portion of the total Balancing Costs (61%), and that the benefit of pressure support and reliability from Eastern Shore accrues to all customers. The Eastern Shore capacity functions as an extension of the Company's own transmission system; it was secured by the Company in lieu of constructing Company-owned transmission pipeline assets from the northern part of New Castle County to the southern part of the County. As the Company's customer base extended south from its historical base in the north and central parts of the County, the Eastern Shore pipelines became part of an integrated system which, as Mr. Mierzwa states, provides pressure support for all customers.

The Company also shares Mr. Mierzwa's view that the determinants used to design the Balancing Fee should be those used to assess those fees. However, the Company does not share Mr. Mierzwa's view with respect to using customer throughput to assess the Balancing Fees as further detailed in Question 12. The Company proposes a new Balancing Fee rate design as set forth herein.

9: **Q: <u>Does the Company believe that costs associated with the Balancing Fee are appropriately recovered from the Balancing Service Customers?</u>**

A: No, the Balancing Service Customers (BSC), consisting of those customers in service classifications Firm Transportation (FT), Interruptible Transportation (IT), Large Volume Gas – Qualifying Fuel Cell Provider-Renewable Capable (LVG-QFCP-RC), and certain other contract customers, are not equitably bearing their portion of these costs.

10. Q: **<u>How does the Company propose to revise the Balancing Fee to more equitably allocate these costs?</u>**

A: The Company recognizes that there are two distinct components in the current Balancing Fee and, therefore, proposes the creation of two charges. The first charge is the new Balancing Fee which consists of swing and storage services costs attributable to the Balancing Service Customers. The second charge, a Pressure Support Fee or PSF, would be assessed on the throughput of the tariffed customers who benefit from the pressure support provided by the Eastern Shore capacity.

11. Q: **<u>How does the Company propose to recover the revised Balancing Fee component?</u>**

A. The Balancing Fee will be assessed on the differences (imbalances) between gas delivered to the Company gate stations and the amount of gas actually used by the customer. The Balancing Fee will be assessed for both under and over deliveries of gas. The calculation of this fee will be addressed further in the direct testimony of Susan A. Devito.

12. Q: **<u>Why doesn't the Company's proposal include the use of throughput as the determinant for Balancing Fees as recommended by Staff/DPA Consultant Mierzwa?</u>**

A. The Company chose actual use of swing services as the determinant for the Balancing Fee for two reasons. First, customers should be charged Balancing Fees based on their actual use of swing services, and a customer's throughput does not necessarily correlate with their actual use of the swing services. If throughput is used as the sole determinant for assessing Balancing Fees, those customers who manage their deliveries well would be penalized by paying more than those customers who do not manage their deliveries as effectively. Second, the Company is concerned that a change to a fee allocated on throughput could eliminate the incentive for customers to control imbalances and create a need for increased storage and swing services, which would ultimately increase costs to GCR customers.

13. Q: <u>Please describe in more detail the Pressure Support Fee or PSF proposed by the Company.</u>

A. As previously indicated, the PSF is intended to recover the costs of Eastern Shore capacity. As recommended by DPA/Staff Consultant Mierzwa in his testimony in Docket No. 13-349F, the Company proposes to use throughput as the determinant for allocating Eastern Shore capacity among the customer classes that benefit from the pressure support provided. The Company has determined that customers classified as Sales (GCR), FT, and LVG-QFCP-RC benefit from this capacity and therefore proposes to allocate those costs in proportion to their respective throughput. The calculation of the PSF is addressed in the direct testimony of Susan A, Devito.

14. Q: <u>In addition to the customer bill impact identified in the Testimony of Witness Devito, does the Company anticipate any other impacts from the implementation of the PSF?</u>

A. Yes. The implementation of the PSF will cause an increase in Customers' bills which could prompt customers to switch from Transportation Service to Sales Service. Depending on the timing and magnitude of such switching, the change could place pressure on the Company's gas supply portfolio for Sales (GCR) Customers as well as its gas reserve margin. As shown in the Company's most recent Strategic

Natural Gas Supply Plan, the Company's gas reserve margin on design day declines below 5% beginning in the 2015-16 heating season (See Table 1 below).

Table 1				
Firm Deliverability vs Design Day				
GCR Year	Firm Deliverability (MCF)	Design Day (MCF)	Reserve Margin (MCF)	Reserve Margin %
2014-2015	183,485	173,776	9,709	5.6%
2015-2016	183,485	175,158	8,327	4.8%
2016-2017	183,485	176,526	6,959	3.9%
2017-2018	183,485	177,735	5,750	3.2%
2018-2019	183,485	178,814	4,671	2.6%

Given this declining margin, the Company wants to ensure that decisions with the potential to negatively impact the reserve margin are carefully considered. Table 2 below shows the potential impact of customer migration on the gas reserve margin for Sales (GCR) customers under different scenarios.

Table 2					
Sensitivity Analysis to Migration from Transportation to GCR					
Migration Percentage	Additional Firm Deliverability Required	Remaining Reserve Margin After Migration	Reserve Margin % After Migration	Estimated Unit Cost to Add Pipeline Capacity $/MCF/Day	Estimated Cost to Add Pipeline Capacity
10%	4,000	5,709	3.1%	$ 0.74	$ 1,080,400
20%	8,000	4,327	2.4%	$ 0.74	$ 2,160,800
30%	12,000	2,959	1.6%	$ 0.74	$ 3,241,200
40%	16,000	1,750	1.0%	$ 0.74	$ 4,321,600
50%	20,000	671	0.4%	$ 0.74	$ 5,402,000
Notes:	Starting Reserve Margin is 9,709 MCF				
	Firm Transportation MDQ is estimated at 40,000 MCF				
	Unit Cost estimate is based on recent Interstate Pipeline Projects				

With reserve margins reduced, there is the potential that the Company would have to seek additional pipeline capacity from upstream suppliers. The pipeline capacity market has undergone substantial change in recent years due to the proliferation of hydraulic fracking and the resultant number of new pipeline projects. The projected cost of any potential new pipeline capacity required by the Company should be studied based on both current and expected market rates for such new capacity. Table 2 shows the estimated cost of acquiring various levels of new capacity using a nominal capacity charge of $0.74 per MCF per day.

It is also important to note that the construction of new pipeline capacity projects can typically take anywhere from two (2) to five (5) years and are dependent on pipeline company plans and constraints. Given these long lead times for new capacity, the issue of capacity allocation should also be considered. Finally, the current tariff provisions governing Transition Charges for switching between Transportation and Sales Service should be thoroughly reviewed and modified as appropriate.

15. Q: <u>Given the potential impacts from the implementation of the proposed PSF, what is the Company's recommendation with respect to proceeding forward?</u>

A. The Company recommends implementation of the new Balancing Fee effective November 1, 2015. In terms of the PSF, the Company would like to have the opportunity to hear from affected stakeholders. Based upon the information provided, the Company would then further analyze and refine the PSF.

16. Q: <u>Does this conclude your pre-filed direct testimony?</u>

A. Yes it does.

DELMARVA POWER & LIGHT COMPANY

TESTIMONY OF SUSAN A. DEVITO

BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION

CONCERNING PROPOSED CHANGES TO THE BALANCING FEE

ASSOCIATED WITH THE GAS COST RATE

PSC DOCKET NO. 15-___F

1. Q: <u>State your name, position, and business address.</u>

A: My name is Susan A. Devito, CPA, Manager of Regulatory Compliance Pricing, for PHI Service Company, a subsidiary of PEPCO Holdings, Inc. which is the parent company of Delmarva Power and Light Company (Delmarva or the Company). My office is located at 401 Eagle Run Road, Newark, Delaware 19714.

2. Q: <u>Please state your educational background and relevant experience.</u>

A: I graduated from Widener University with a Bachelor of Science in Accounting. I am a licensed CPA in the Commonwealth of Pennsylvania. I started working for PHI Service Company in 2006 as the Manager of Revenue Accounting responsible for accounting for all regulated revenue of Pepco Holdings and its regulated subsidiaries. In 2010, I became the Manager of Credit, Collection and Remittance for Atlantic City Electric and Delmarva Power. In that role I was responsible for all credit activities related to the collection of customer accounts receivable. In 2012, I began serving in my current position as the Manager of Regulatory Compliance Pricing where I oversee all of the regulatory filings for Standard Offer Service Programs, the Gas Cost Rate, Demand Side Management, Environmental Surcharge and other related activities. Prior to joining

PHI, I was the Controller for a Manufacturing Company and also held a position as an Accounting Manager for a large integrated Health Delivery System.

3. **Q: <u>Have you previously testified before the Delaware Public Service Commission?</u>**

A: Yes, I testified in the 2013-2014 and 2014-2015 ESR and GCR Dockets, No.13-348, No. 13-349F, 14-0296 and 14-0295F.

4. **Q: <u>What is the purpose of your testimony?</u>**

A: The purpose of my testimony is to describe the current methodology for calculating the Balancing Fee, develop the calculations to support the proposed changes to the Balancing Fee and develop the calculations for the proposed new charge, the Pressure Support Fee, as described by Company Witness Brielmaier. My testimony was prepared by me or under my direct supervision and control. The source documents for my testimony are company records. I also rely on my personal knowledge and experience.

5. **Q: <u>Please describe the current methodology for calculating the Balancing Fee as filed in Docket #14-0295F.</u>**

A: As Witness Brielmaier states in his testimony, the Balancing Fee is calculated based on two distinct costs: costs associated with swing and storage services and costs for annual capacity provided by Eastern Shore Natural Gas. These combined costs are then divided by "Projected System Throughput" to derive the Balancing Fee rate. The Balancing Fee is applied to customers' daily imbalance volumes. See Schedule SAD-1. SAD-1 is copied from Docket No. 14-0295F where it was labeled as SAD-11 page 1 of 1. Under the current methodology for calculating the Balancing Fee, the rate for 2014-2015 is $0.3388 per MCF.

6. Q: **<u>Please summarize the Company's proposal to change the methodology for calculating the Balancing Fee and explain what costs should be included in the new calculation for the Balancing Fee.</u>**

A: As stated in Witness Brielmaier's testimony, the Company proposes to separate the two types of costs described in Question 5 above into two different rates and to utilize a different methodology for calculating each rate. The Balancing Fee, as proposed, includes the estimated costs for swing and storage services only, divided by actual system swing storage volume from the prior period. As shown on Schedule SAD-2, the actual balancing volumes of the BSC customers in the 2014-15 GCR year are compared to the actual annual swing volume provided by the Company's swing and storage services providers in the previous GCR year (2013-2014). This allocation factor of 30% is then applied to the total cost of swing and storage services to determine the BSC customers' share of those costs, in this case $729,540. The BSC customers' share of those costs is then divided by their actual balancing volumes to derive a balancing fee per MCF. This revised calculation method results in a Balancing Fee of $0.5530 per MCF. The Balancing Fee would continue to be assessed on the daily differences (imbalances) between gas delivered to the Company gate stations and the amount of gas actually used.

7. Q: **<u>What would be the estimated impact to Balancing Service Customer (BSC) bills if Delmarva were to implement the new Balancing Fee methodology?</u>**

A. Please refer to Schedule SAD-4. SAD-4 is a Tariff Class Comparison. It details the potential impact that the change in the Balancing Fee would have on BSC customers if Delmarva implements the proposed changes. This Schedule shows an increase in the monthly costs for the Balancing Fee, ranging from 0.5% to 5.2% for BSC customers.

8. **Q: <u>Please explain the impact on the GCR demand credits for the 2014-2015 GCR year with the implementation of the revised Balancing Fee.</u>**

A: The Balancing Fee is collected from the BSC customers who have a daily imbalance between gas delivered to the Company's gate stations and the amount of gas actually used. Balancing Fees collected are used to offset the Total Gas Demand Expense in the calculation of the Adjusted Total Firm Gas Supply Demand Expense. Adjusted Total Firm Gas Supply Demand Expense is then divided by Estimated Firm Volumetric Sales to derive the Demand Factor to be collected in the GCR, as shown on Schedule SAD-5 Pages 1, 2 and 3. In the 2014-2015 GCR filing (Docket No. 14-0295F), it was estimated that customers would receive a $384,799 demand credit related to the Balancing Fee. Utilizing the volume reflected on SAD-2 of 1,319,334 MCF, and applying the new Balancing Fee of $0.5530, the 2014-2015 estimated demand credit for Balancing Fees would be $729,540, or an additional $344,741 in demand credit.

9. **Q: <u>Please explain the calculation of the newly proposed Pressure Support Fee supported by Witness Brielmaier.</u>**

A. The Pressure Support Fee (PSF), as described by Witness Brielmaier, would be calculated by allocating a portion of the Eastern Shore capacity to Firm Transportation (FT) and Large Volume Gas-Qualifying Fuel Cell Provider– Renewable Capable (LVG-QFCP-RC) customers based on their annual throughput in the most recent GCR year. As shown on Schedule SAD-3, thirty-five percent (35%) of the Eastern Shore capacity costs are allocated to the FT and LVG-QFCP-RC customers. After applying the 35% allocation to the estimated costs for Eastern Shore capacity, there is a requirement to recover $1,409,310 from FT and LVG-QFCP-RC customers. The calculated PSF rate is $0.1893 per MCF for FT and LVG-QFCP-RC customers.

10. **Q: <u>Please explain the impact of the new Balancing Fee and the newly proposed Pressure Support Fee on Firm Transportation Customers.</u>**

A: Refer to Schedule SAD-4. This Schedule details the potential impact that the change in the Balancing Fee and the PSF would have on an average customer's monthly bill for classes General Volume Firm Transportation, Medium Volume Firm Transportation, and Large Volume Firm Transportation. On Schedule SAD -4 the estimated impacts are shown for the revised Balancing Fee alone, for the PSF alone, and for the two charges combined. The combined impacts for the new Balancing Fee and the Pressure Support Fee range from increases of 6.0% to 30.5%.

11. **Q: <u>Had the proposed Balancing Fee and the Pressure Support Fee been in place for the 2014-2015 GCR filing, please explain the impacts on the as filed 2014-2015 GCR rates.</u>**

A. Schedule SAD-5, pages 1, 2 and 3 show the revised GCR calculation for the 2014-2015 GCR year. The Commodity Cost would remain the same, but the demand rate for customers in Residential Gas, General Gas and Gas Light would decrease by approximately 8.0% and for Medium Volume Gas and Large Volume Gas the demand rate would also decrease by 8.0%. The effect of this proposed decrease on a residential space heating customer, using 120 CCF in a winter month would be a decrease of $1.75. The proposed Balancing Fee and Pressure Support Fee would decrease the as filed customer total bill from $129.08 to $127.33 or 1.4%.

12. Q. **<u>Does this conclude your testimony?</u>**

A. Yes it does.

Delmarva Power & Light Company
Derivation of Transportation Balancing Charge

Current Balancing Fee

	(2014-2015 GCR) Services Required For Swing & System Reliability	Estimated Annual Cost	
1	TRANSCO GSS	$ 1,491,398	
2	COLUMBIA FSS	$ 364,044	
3	COLUMBIA SST	$ 536,658	
4	EASTERN SHORE FT	$ 3,906,660	
5	EASTERN SHORE T-1	$ 66,432	
6	Estimated Upstream Costs of Balancing	$ 6,365,192	
	Projected System Throughput (mcf)		
7	Projected Firm Sales	12,035,925	64.1%
8	Projected FT	6,190,234	32.9%
9	Projected IT	562,962	3.0%
10	Total Sales and Transportation Deliveries	18,789,121	100.00%
11	Proposed Balancing Fee [line 6/line10]	$ 0.34	per mcf

Delmarva Power & Light Company
Derivation of Proposed Balancing Fee

		Estimated from 2014-2015 GCR Annual Cost	Actual Annual Balancing Requirements 2013-14 GCR (MCF)
	Services Required For Swing and Storage Services		
1	TRANSCO GSS	$ 1,491,398	3,481,242
2	COLUMBIA FSS and SST	$ 900,702	844,740
3	Estimated Upstream Costs of Balancing	$ 2,392,100	4,325,982
	Actual Balancing Volumes (2013-2014 GCR)	**Volume**	**%**
4	Other Contract Customers	280,016	21.2%
5	LVG-QFCP- RC	42,700	3.2%
6	Interruptible Transportation	96,075	7.3%
7	Firm Transportation	900,543	68.3%
8	Total Balancing Service Customer Requirements (BSC)	1,319,334	100.00%
9	BSC Allocation Factor (1,319,334 mcf/4,325,982 mcf)	30%	
10	GCR Allocation Factor (1- BSC allocation factor)	70%	
	Allocation of Balancing Costs		
11	BSC Cost (30% x $2,392,100)	$ 729,540	
12	GCR Cost (70% x $2,392,100)	$ 1,662,560	
13	Total	$ 2,392,100	
14	Balancing Rate for BSC Customers	$ 0.5530	per MCF of imbalance

Delmarva Power & Light Company
Derivation of Proposed Pressure Support Fee

		Estimated 2014-2015 Annual Cost	
	Contract Costs for Pressure Support		
1	Eastern Shore Natural Gas FT	$ 3,906,660	
2	Eastern Shore Natural Gas T-1	$ 66,432	
3	Estimated Upstream cost of Pressure Support	$ 3,973,092	
	Actual Throughput Volumes (2013-2014)	**Volume**	**%**
4	GCR Customers (PFS does not apply)	13,543,958	64.5%
5	LVG-QFCP -RC (PSF applies)	1,523,150	7.3%
6	Firm Transportation Customers (PSF applies)	5,921,961	28.2%
7	Total Requirements (MCF)	20,989,069	100.00%
8	PSF Allocation Factor	35%	
9	GCR Allocation Factor (1- PSF Allocation Factor)	65%	
	Allocation of Pressure Support Costs		
10	PSF Cost (35% x $3,973,092)	$ 1,409,310	
11	GCR Cost (65% x $3,973,092)	$ 2,563,782	
12	Total	$ 3,973,092	
13	Pressure Support Fee for Applicable Customers (LVG-QFCP-RC and Firm Transportation)	$ 0.1893	per MCF of throughput

SAD-4

Estimated Customer Monthly Bill Impact - Examples by Tariff Class

Rate Determinants	GVFT (Avg)		MCF	MVFT (Avg)		MCF	LVFT (Avg)		MCF	Top 5 Customer		MCF
	Monthly Use		750	Monthly Use		2,790	Monthly Use		20,700	Monthly Use		48,000
	Demand MDQ		112	Demand MDQ		218	Demand MDQ		1,380	Demand MDQ		2,580
	Balancing Volume		55	Balancing Volume		260	Balancing Volume		3,970	Balancing Volume		8,800
Existing Balancing Fee												
Customer Charge	$	119.76	$ 120	$	749.79	$ 750	$	1,086.02	$ 1,086	$	1,086.02	$ 1,086
Demand Charge			$ -	$	15.98	$ 3,484	$	9.84	$ 13,579	$	9.84	$ 25,387
Delivery Charge step 1	$	4.1726	$ 313	$	0.51276	$ 1,431	$	0.12335	$ 2,553	$	0.12335	$ 5,921
Delivery Charge step 2	$	3.1167	$ 2,104			$ -			$ -			$ -
Gas Cost Rate Commodity												
Gas Cost Rate Demand												
Balancing Fee	$	0.3388	$ 19	$	0.3388	$ 88	$	0.3388	$ 1,345	$	0.3388	$ 2,981
ESR	$	0.01220	$ 9	$	0.01215	$ 34	$	0.01215	$ 252	$	0.01215	$ 583
Total			$ 2,564			$ 5,786			$ 18,815			$ 35,959
Projected with Proposed Balancing & Reliability Fees												
Customer Charge	$	119.76	$ 120	$	749.79	$ 750	$	1,086.02	$ 1,086	$	1,086.02	$ 1,086
Demand Charge			$ -	$	15.98	$ 3,484	$	9.84	$ 13,579	$	9.84	$ 25,387
Delivery Charge Step 1	$	4.1726	$ 313	$	0.51276	$ 1,431	$	0.12335	$ 2,553	$	0.1234	$ 5,921
Delivery Charge Step 2	$	3.1167	$ 2,104			$ -			$ -			$ -
Pressure Support Fee	$	0.1893	$ 142	$	0.1893	$ 528	$	0.1893	$ 3,919	$	0.1893	$ 9,086
Balancing Fee	$	0.5530	$ 30	$	0.5530	$ 144	$	0.5530	$ 2,195	$	0.5530	$ 4,866
ESR	$	0.01220	$ 9	$	0.01215	$ 34	$	0.01215	$ 252	$	0.01215	$ 583
Total			$ 2,718			$ 6,370			$ 23,584			$ 46,930

	GVFT	MVFT	LVFT	Top 5 Customer
Percent Increase - **New Bal Fee + PSF**	6.0%	10.1%	25.3%	30.5%
Monthly $ Increase-**New Bal Fee + PSF**	$ 154	$ 584	$ 4,769	$ 10,971
Percent Increase due to **Balancing Fee only**	0.5%	1.0%	4.5%	5.2%
Monthly $ Increase due to **Balancing Fee only**	$ 12	$ 56	$ 850	$ 1,885
Percent Increase due to **Pressure Support Fee only**	5.5%	9.1%	20.8%	25.3%
Monthly $ Increase due to **Pressure Support Fee only**	$ 142	$ 528	$ 3,919	$ 9,086

Delmarva Power & Light Company
Summary of Gas Cost Rate
Using Proposed New Balancing Fee and New Pressure Support Fee
For November 2014 Through October 2015

Description	RG, GG, and GL	Non-Electing MVG	Electing MVG	LVG
Commodity	$3.5695 / Mcf	$3.5695 / Mcf	Varies	Varies
Demand	$1.6410 / Mcf	$9.0301 / Mcf of MDQ	$9.0301 / Mcf of MDQ	$9.0301 / Mcf of MDQ
Total GCR	$5.2105 / Mcf			

Delmarva Power & Light Company
Revised GCR Rate implementing revised Balancing Fee
and new Pressure Support Fee for Non -Volumetric Customers

From Docket 14-0296F (SAD 1 Page 3 of 5)

Total Gas Demand Expense	$	27,832,257
Demand Credits		
Off System Sales and SWAPS Margin	$	(2,087,121)
Capacity Release Margins	$	(768,605)
FPS Margins	$	-
Interruptible Gas Transporation Margins	$	(639,525)
Transition Charges	$	(13,740)
No Notice Swing Charges	$	-
Balancing Charges (Fees) Current	$	(384,799)
Additional Balancing Charges (proposed)	$	(344,741)
Pressure Support Fees	$	(1,409,310)
Unauthorized Overrn	$	-
Total Demand Revenue Credits	$	(5,647,841)
Total Firm Gas Supply Demand Expense	$	22,184,416
Total Demand Expense True Up	$	(2,456,275)
Adjusted Total Firm Gas Supply Demand Expense	$	19,728,141

Allocation of Demand Expenses Based on Average Daily and Excess Load Factors

	System		Volumetric		MVG		LVG	
Average Daily Load Allocation @ $160.55	$	5,294,197	$	5,197,063	$	97,134	$	-
Excess Load Allocation	$	14,433,944	$	14,190,933	$	243,011	$	-
Total Demand Costs to be Collected	$	19,728,141	$	19,387,996	$	340,145	$	-
MVG and LVG Allocation	$	340,145						
MVG and LVG Forecast MDQ (mcf)		3,139						
Annual Demand Rate		108.36						
Monthly Demand Rate	$	9.0301						

	Design Day	Average Daily	Excess
MVG	3,139	605	2,534
LVG	-	-	-
Volumetric	180,346	32,370	147,976

Delmarva Power & Light Company
Revised GCR Rate implementing revised Balancing Fee
and new Pressure Support Fee for Volumtric Customers

Total Firm Gas Expense	$	22,184,416	
FPS Margin True Up		0	
Demand Expense True Up	$	(2,456,275)	
Total Recoverable Gas Expenses	$	19,728,141	
MVG Demand Credit	$	(340,145)	
LVG Demand Credit		0	
Total Demand Credits	$	(340,145)	
Demand Revenue Collections RG, GG, GL	$	19,387,996	
Estimated Firm Volumetric Sales (mcf)		11,815,014	
Demand Factor to be collected in GCR Volumetrically	$	1.6410	/mcf