



**STATE OF DELAWARE  
THE PUBLIC SERVICE COMMISSION**

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June 17, 2014

TO: The Chair and Members of the Commission

FROM: Malika Davis, Public Utility Analyst

SUBJECT: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR AN INCREASE IN NATURAL GAS BASE RATES AND MISCELLANEOUS TARIFF CHANGES (FILED DECEMBER 7, 2012) – PSC DOCKET NO. 12-546

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**Application**

On March 18, 2014, Delmarva Power & Light Company (“Delmarva” or the “Company”) made a compliance filing for the purposes of implementing the Interface Management Unit (“IMU”) phase-in rate changes. The filing requests approval to implement the rates on July 1, 2014. The rate change includes the first of two phases related to recovery of the IMU regulatory asset (the “IMU Asset”) for a total revenue requirement of \$447,629. Approval of these rates will result in a slight increase of 0.3% or \$0.37 in the monthly bill of a typical residential customer using 120 ccf in a winter month.

In connection with its review of the Company’s compliance filing, Staff performed a field audit on May 5, 2014. The audit focused on the costs and benefits included in the IMU Asset and the requirements of Order No. 8465 (the “Commission Order”) issued by the Commission on October 22, 2013. The Order permits the Company to recover the Advanced Metering Infrastructure (“AMI”) regulatory asset as follows:

“AMI IMU Regulatory Asset Recovery

1. Pursuant to Order No. 7420 (Docket No. 07-28), Delmarva established a regulatory asset for operating costs associated with the deployment of the interface management unit (IMU) portion of Delmarva’s Advanced Metering Infrastructure (the “IMU Asset”). The IMU Asset has been accruing a return since its establishment. Unlike the installation of AMI meters for the electric metering portion of the Company’s Advanced Metering Infrastructure, the completion of the IMU portion has experienced a delay of approximately 24 months, compared to the installation of electric meters.
2. The Settling Parties agree to a phase-in of the recovery of the IMU Asset into customer rates (the “Phase-In”) as follows;
  - a. 50% of the IMU Asset will be put into rates on May 1, 2014.

- b. The remainder of the IMU Asset will be put into in rates on March 1, 2015.
3. In order to establish that the IMUs are functioning as planned before any percentage of the IMU Asset may be included in rates on the dates referenced above, the Company must establish that for a period of at least 90 days prior to the applicable dates:
    - a. with respect to the May 1, 2014 portion of the Phase-In, 95% of eligible meters have been equipped with an activated IMU device and those IMU devices are functioning as planned; and
    - b. with respect to the March 1, 2015 portion of the Phase-In, 99% of eligible meters have been equipped with an activated IMU device and those IMU devices are functioning as planned.

Eligible meters consist of meters that are intended to be equipped with IMU devices.

4. The filings for each portion of the Phase-In must be made at least 105 days prior to each phase-in date set forth above. Notwithstanding any language to the contrary contained herein, the 90 day period described in Section C. 3. hereof must include at least one of the following months: November, December, January, February, March, or April.
5. The IMUs will be considered to be “functioning as planned” if 95% of the IMU devices have been sending remote readings that are being used for billing purposes and those readings are both 99.5% accurate and 99.5% timely. For purposes of this requirement, the accuracy rate of 99.5% will be considered achieved if no more than 0.5% of the bills require adjustment after the bill has been presented for payment to the customer. The timeliness rate of 99.5% will be considered achieved if no more than 0.5% of bills are sent later than three full business days after the final meter reading within each customer’s monthly billing period. Any failure to achieve the 99.5% accuracy and timeliness requirements must be due to an error attributable to the IMUs. For purposes of calculating the percentage of meters functioning as planned, the IMU accuracy rate and the timeliness rate, IMUs that are unable to function as planned due to external forces outside the reasonable control of the Company will not be included in the total number of the activated IMUs for the purpose of determining compliance with the 95% and 99.5% requirements contained in this Section.
6. If the requirements for the portion of the Phase-In intended for May 1, 2014 are not met by the Company, then:
  - a. The portion of the Phase-In originally scheduled to occur on that date will be postponed until such time as the Company meets the requirements (as set forth above) to phase in rates on that date, and
  - b. The portion of the Phase-In originally scheduled to occur on March 1, 2015 will be postponed until 9 months from the date that the first portion of the Phase-In actually goes into effect.

If the requirements for the portion of the Phase-In originally scheduled to occur on March 1, 2015 are not met by the Company, then the Phase-In that would have occurred on that date will be postponed until the Company meets the requirements (as set forth above) to phase in rates on that date.”<sup>1</sup>

### Timing of the Filing

Delmarva did not meet the requirements to implement phase one of the rates on May 1, 2014. The Company made its filing on March 18, 2014 for the rates to be implemented on July 1, 2014 in accordance with the Commission Order. The Company’s filing indicated that as of February 28, 2014, 95.38% of the eligible 118,386 meters had been equipped with an activated IMU and that 96.97% were of those were functioning as planned. Of those functioning as planned 99.50% met the accuracy requirement and 100% met the timeliness requirement.

### Staff Review

#### Performance Milestones

Attachment E of the Company’s filing included 1,618 commercial accounts as ineligible. Order No. 8465 states **“Eligible meters consist of meters that are intended to be equipped with IMU devices. ...IMUs that are unable to function as planned due to external forces outside the reasonable control of the Company will not be included in the total number of activated IMUs for the purpose of determining compliance with the 95%...”** The IMU is currently in development for these commercial meters. As stated in Order No. 8465 “Unlike the installation of AMI meters for the electric metering portion of the Company’s Advanced Metering Infrastructure, the completion of the IMU portion has experienced a delay of approximately 24 months, compared to the installation of electric meters.” Due in part to the issues which caused the delay the Company and its vendor have been unable to develop an IMU solution for these commercial accounts.

Staff does not believe that these 1,618 meters should be included as ineligible because these meters are intended to be equipped with an IMU and the development of the IMU is not completely outside of Delmarva’s control. During the field audit, Staff expressed its concerns and asked the Company to provide updated information for Exhibit E.

The Company provided updated information showing that as of April 11, 2014, 95.57% of the eligible 131,798 meters had been equipped with an IMU and that 95.57% of those were functioning as planned. The updated information removed the 1,618 commercial accounts from the ineligible population. Of those functioning as planned 99.58% met the accuracy requirement and 100% met the timeliness requirement.

#### IMU Regulatory Asset Balance

The documentation in the Company’s filing included work papers supporting the first phase-in of recovery of the IMU Asset. During the field audit Staff examined Delmarva’s general ledger accounts

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<sup>1</sup> PSC Order No. 8465, Exhibit A pgs. 6-8

along with records and invoices related to the IMU Asset. The IMU Asset is comprised of several components which include loss on early retirement of remote index devices; deferred operating & maintenance expenses; AMI related returns; incremental depreciation expense; and AMI operating and maintenance savings. All documentation was consistent and accurate with the filing.

### **Recommendation**

Staff's review supports the revised tariffs as consistent with the Settlement Agreement. Accordingly, Staff recommends that the Commission approve implementation of the Company's proposed rates to be effective with usage on and after July 11, 2014 rather than July 1<sup>st</sup> as requested by the Company. Staff has selected this date because it meets the requirements specified in Order No. 8465.