

September 30, 2014

MEMORANDUM

TO: The Chair and Members of the Commission

FROM: Pamela Knotts, Regulatory Policy Administrator

SUBJECT: THE MATTER OF THE PROVISION OF STANDARD OFFER SUPPLY TO RETAIL CONSUMERS IN THE SERVICE TERRITORY OF DELMARVA POWER & LIGHT COMPANY (FILED APRIL 1, 2014) – PSC Docket No. 14-144

Application

On April 1, 2014, Delmarva Power & Light Company (“Delmarva” or the “Company”) filed with the Commission revised electric tariffs reflecting new Standard Offer Service (“SOS”) rates, its new Procurement Cost Adjustment (the “PCA”),¹ its Reasonable Allowance for Retail Margin (“RARM”),² and its Renewable Energy Portfolio Standard Charge (“RPS Charge”) with an effective date of June 1, 2014, (the “2014 SOS-PCA-RARM-RPS Filing”). Delmarva also provided supporting work papers. According to the Company’s calculations, not including the Qualified Fuel Cell Provider Project (“Bloom”) or the RPS Charge which is reflected in the

¹ The PCA is a component of the “Full Requirements Cost” portion of both “fixed” and “hourly” priced SOS rates. It is designed to collect, or return, over the subsequent rate year any past period differences between the amounts billed to customers for fixed-price SOS (FP-SOS) and Hourly Priced services (HPS) and the amounts Delmarva actually paid to wholesale suppliers and PJM Interconnection to provide such full requirements for FP-SOS and HPS. The PCA is calculated by customer class, and any differences are also subject to an interest charge.

² When the Commission approved the settlement agreement in PSC Docket No. 04-391, the “Electric Utility Restructuring Act of 1999” directed Delmarva to include in its SOS rates a “reasonable allowance for retail margin to be determined by the Commission.” See *26 Del. C.* §1006(a) (2) (c), prior to 2006 amendments. With the “Electric Utility Supply Act of 2006” (i.e., House Bill No. 6), the General Assembly rewrote §1006 and, among other things, deleted the reference to “reasonable allowance for retail margin (“RARM”). While there is no longer any specific statutory requirement for SOS to include an RARM, the new §1007(c)(1)(a) from the Supply Act of 2006 cites the SOS “procurement process approved in PSC Docket No. 04-391” as comprising a portion of the SOS resource mix, which process includes collection of the RARM at this time.

delivery charge, the monthly bill for a residential customer using 1,000 kWh on an annual average basis will be increased by approximately \$0.32³ (or an increase of 0.2%).

Additionally, the Settlement Agreement approved by the Commission in PSC Docket No. 09-9⁴ (“RARM Settlement”) provides that where the change in the total RARM rate exceeds +/- 5.25%, the Company is required to submit a formal filing for review. According to the Company’s filing, the RARM rate for fixed price customers decreased by 5.30% from the RARM rate currently in effect. Therefore, the Company considers the RARM component to be a formal filing, and the RARM factor will decrease. The Company provided workpapers supporting the results of the RARM factor on an actual basis for the reporting year ended December 31, 2013 and estimated basis for the rate period.

The 2014 SOS-PCA-RARM-RPS Filing also includes recovery of certain franchise and State utility taxes that DPL is required to collect from customers and transfer to State and local taxing authorities. For a three-year period, beginning June 1, 2007, and ending May 31, 2010, DPL paid those taxes but failed to collect the amounts that it paid to taxing authorities in SOS rates (the “Uncollected Amounts”). According to the Settlement Agreement in Docket No. 11-528 dated August 28, 2012, the total amount to be collected over a three-SOS year period, beginning June 1, 2012, is \$3,346,205 (“\$3.4 million”). Thus, each year there will be a true-up for the Uncollected Amounts. The total Uncollected Amounts, however, will not exceed the \$3.4 million.

Lastly, the Company’s 2014 SOS-PCA-RARM-RPS Filing includes implementation of the RPS Charge.⁵ This charge consists of (1) the cost to acquire renewable energy credits (“RECs”), solar renewable energy credits (“SRECs”), and their equivalents necessary to comply with the Delaware Renewable Energy Portfolio Standards Act (“RPS”); (2) the cost and/or benefit of the energy from contracts for renewable energy entered into by the Company with the approval of the Commission; and (3) the adjustment of the Qualified Fuel Cell Provider Project (Bloom) on the RPS obligations. The imputed RPS Charge is \$0.003448/kWh for all service classifications.

Additionally in this filing Delmarva seeks to recover the solicitation and administrative costs for the 2013 SREC Procurement Program. Pursuant to Order No. 8450 dated September 10, 2013, the Commission approved the 2013 SREC Procurement Program, and stated, “Delmarva will be required to justify any SEU-related costs above what ratepayers would have paid had Delmarva managed the solicitation itself and had Delmarva not used the SEU as a contractual intermediary.”

On April 29, 2014, the Commission issued Order No. 8557 which, among other things, placed the proposed rates into effect on June 1, 2014, on a temporary basis, with proration, subject to refund.

³ This does not include the Qualified Fuel Cell Provider Monthly Charge.

⁴ See PSC Order No. 7703, issued December 22, 2009.

⁵ This term is defined above in the first paragraph.

Analysis

Staff met with the Company in one workshop to discuss and resolve issues and served informal as well as one formal round of discovery. Staff appreciated the detailed exchange of information which helped to alleviate rounds of formal discovery questions.

As part of the cost recovery for the RPS costs in the instant filing, Delmarva included the 2013 SREC Procurement Program auction and administrative costs charged by the SEU and its contract administrator for the period January-December 2013. Pursuant to Order No. 8450 Delmarva is required to justify any SEU-related costs above what ratepayers would have paid had Delmarva managed the solicitation itself.

As part of Staff's analysis, they relied on New Energy Opportunities, Inc.'s ("NEO") report on the **Evaluation of the 2013 Delaware SREC Procurement Program** dated August 7, 2013, and revised September 20, 2013. In the report, NEO noted that "the costs to run the 2013 auction were significantly reduced from the costs to run the 2012 auction" mostly because much of the software and set-up from the 2012 auction was usable in the 2013 auction. NEO as well as Meister Consulting concluded that the costs to run the auctions were significantly less than the costs to administer the New Jersey SREC long-term contract solicitation conducted by NERA Economic Consulting on behalf of Atlantic City Electric Company, Delmarva Power's affiliate, as well as Jersey Central Power & Light Company, and Rockland Company based on data from the "EDC Solar Long-Term Contracting Program Analysis."⁶ Using a third party to provide an auction platform is not unique to this program; Delmarva uses World Energy Solutions, Inc. for the SOS contract solicitations.

Concerning the 2013 SREC Procurement Program's administrative costs, NEO stated that "there would have been considerable contract administration work that would have been, and would be, performed by Delmarva employees that is obviated as a result of using the SEU as a contract intermediary and SRETrade⁷ to perform the contract administration functions." Staff investigated the yearly administrative costs charged by the SEU and its contract administrator for the 2013 SREC Procurement Program. After a thorough examination, Staff concluded that these costs were not over and above what it would have cost Delmarva to administer the 2013 Program itself.

Staff also reviewed all the other sections of the filing, and did not note any calculation errors, and found the filing to be consistent with prior orders.

⁶ Report authored by the Center for Energy, Economic and Environmental Policy for the New Jersey Board of Public Utilities dated May 2, 2012 is located at [http://www.njcleanenergy.com/files/file/Renewable_Programs/SRECs/Solar%20Page%20updates/CEEEP%20Solar%20Long-term%20Financing%20Analysis%20\(5-3-12\)%5B1%5D.pdf](http://www.njcleanenergy.com/files/file/Renewable_Programs/SRECs/Solar%20Page%20updates/CEEEP%20Solar%20Long-term%20Financing%20Analysis%20(5-3-12)%5B1%5D.pdf).

⁷ SRETrade spun off its solicitation management business line which now operates under InClimate, an independent company.

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Staff's Recommendation

Staff respectfully recommends that the Commission approve as final the rates that went into effect on a temporary basis on June 1, 2014, with proration for the period from June 1, 2014, to May 31, 2015.