BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR APPROVAL OF MODIFICATIONS TO ITS GAS COST RATES (FILED AUGUST 31, 2004 AND AMENDED OCTOBER 1, 2004)	) PSC DOCKET NO. 04-301F

ORDER NO. 6683

AND NOW, this 9th day of August, 2005;

WHEREAS, the Commission having received and considered the Findings and Recommendations of the Hearing Examiner ("Report") issued in the above-captioned docket, which was submitted after a duly noticed public evidentiary hearing;

AND WHEREAS, the Commission finds that the proposed rates and tariff changes are just and reasonable and that adoption of the Hearing Examiner's Report is in the public interest; now, therefore,

IT IS ORDERED:

1. That, by and in accordance with the affirmative vote of a majority of the Commissioners, the Commission hereby adopts the July 15, 2005 Findings and Recommendations of the Hearing Examiner, appended to the original hereof as "Attachment A".

2. That the Commission approves the Company's proposed rates and tariff changes (made effective on a temporary basis on November 1, 2004 and December 21, 2004) with meter readings on and after October 30, 2004 until October 31, 2005 as shown below:

Rate Schedules	Proposed on 10/01/04 (Effective on temporary basis 11/01/04) GCR Demand Charge	GCR Commodity Charge	Proposed on 11/29/04 (Effective on temporary basis 12/29/04) GCR Demand Charge Charge	GCR Commodity Charge
RG, GG and GL	N/A	80.696¢/ccf	N/A	85.917¢/ccf
Non-electing MVG	$8.44/Mcf of Billing MDQ	$6.9909/Mcf	$8.36/Mcf of Billing MDQ	$7.5278/Mcf
Electing MVG & LVG	$8.44/Mcf of Billing MDQ	Varies	$8.36/Mcf of Billing MDQ	Varies
Standby Service	$8.44/Mcf of Standby MDQ	N/A	$8.36/Mcf of Standby MDQ	N/A

3. 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:

/s/ Arnetta McRae
Chair

__
Vice Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Dallas Winslow
Commissioner

ATTEST:

/s/ Karen J. Nickerson
Secretary

A T T A C H M E N T "A"

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FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

DATED: July 15, 2005

RUTH ANN PRICE
HEARING EXAMINER

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR APPROVAL OF MODIFICATIONS TO ITS GAS COST RATES (FILED AUGUST 31, 2004 AND AMENDED OCTOBER 1, 2004)	)	**PSC DOCKET NO. 04-301F**

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

Ruth Ann Price, duly appointed Hearing Examiner in this Docket pursuant to 26 *Del. C.* § 502 and 29 *Del. C.* ch. 101, by Commission Orders Nos. 6492 and 6541, dated October 19, 2004 and December 21, 2004, respectively, reports to the Commission as follows:

I. APPEARANCES

On behalf of the Applicant, Delmarva Power & Light Company ("Delmarva" or “the Company”):

TODD L. GOODMAN, ESQUIRE

On behalf of the Public Service Commission Staff (“Staff”):

Ashby & Geddes

BY: REGINA IORII, ESQUIRE

On behalf of the Division of the Public Advocate (“DPA”):

G. ARTHUR PADMORE, PUBLIC ADVOCATE

II. BACKGROUND

A. Initial Application

1. On October 1, 2004, Delmarva filed an application (the "Initial Application") with the Delaware Public Service Commission (the "Commission") to increase its Gas Cost Rate ("GCR") factors, effective on and after November 1, 2004, with proration, and with such revised factors to continue in effect until October 31, 2005.[1] The proposed rates, as compared to the current, approved rates are as follows:

	Present		Proposed	
Rate Schedules	GCR Demand Charge	GCR Commodity Charge	GCR Demand Charge	GCR Commodity Charge
RG, GG and GL	N/A	69.902¢/ccf	N/A	80.696¢/ccf
Non-electing MVG	$7.52/Mcf of Billing MDQ	6.0103/Mcf	$8.44/Mcf of Billing MDQ	$6.9909/Mcf
Electing MVG & LVG	$7.52/Mcf of Billing MDQ	Varies	$8.44/Mcf of Billing MDQ	Varies
Standby Service	$7.52/Mcf of Standby MDQ	N/A	$8.44/Mcf of Standby MDQ	N/A

2. In addition, the Initial Application requests approval of the Company's proposals to: (1) reconcile and "true-up" actual versus estimated monthly Weighted Average Commodity Cost of Gas ("WACCOG") assignments for sales under the Flexibly Priced Sales service to restate fuel cost and shared margin revenue credits; (2) reconcile and "true-up" actual versus estimated WACCOG assignments for sales under the Large Volume Gas service and for so-called "electing" customers taking service under the Medium Volume Gas Service; and (3) retain the surcharge that has been applied to non-firm services to collect a

[1]For purposes of the Initial Application and the Supplemental Application, the period in which the proposed rates are to be in effect is November 1, 2004 through October 31, 2005. This twelve-month period is referred to as "the Application Period."

portion of interstate pipeline charges related to the Federal Energy Regulatory Commission Orders Nos. 94, 436, 500, and 636.

3. The impact on customers would mean that those served under service classifications RG, GG and GL would experience a sixteen per cent increase (16.8%) in the gas cost rate. Residential space heating customers using 120 Ccf per month in the winter would experience an increase of $13.93 or 10.7% per month in their total bill. Commercial and industrial customers using “GG” and non-electing “MVG” service classifications would see increases in the range of 6.6% to 12.5% and 11.7% to 14.1%, respectively, in monthly billings depending on applicable service classification and load/consumption characteristics.

4. On October 19, 2004, pursuant to Order No. 6492, the Commission allowed the new proposed GCR factors, reconciliation and true-ups, and non-firm surcharge to become effective on a temporary basis, subject to refund, effective with meter readings on and after November 1, 2004, with proration. (Tr. 1-6.) In addition, the Commission designated Senior Hearing Examiner, William F. O’Brien, to conduct public evidentiary hearings and to report to the Commission proposed findings and recommendations based on the evidence presented. Senior Hearing Examiner O’Brien delegated this matter to me to conduct evidentiary hearings and to prepare a report and recommendation for the Commission.

5. Pursuant to Order No. 6492, notice of the application, including information on how to intervene in the proceeding, was

published on October 30, 2004 in *The News Journal* newspaper.[2] (Ex. 1).[3] The notice provided an explanation of temporary rates placed into effect by the Commission and gave information concerning how members of the public could participate and submit comments concerning the Company's proposal.

6. The Division of the Public Advocate made a timely notice to participate in the proceeding. No other party petitioned for intervention.

B. Supplemental Application

7. On November 29, 2004, the Company filed for adjustments to its GCR factors under Section XX of its tariff, P.S.C. Del. No. 5 – Gas Tariff.

8. Under Section XX of Conectiv's tariff, P.S.C. Del. No. 5 – Gas Tariff, the Company must apply to the Commission for an increase in the GCR if it appears that at any time during the one year GCR period (called "the Application Period") the use of the GCR in effect for the Application Period would result in an under-collection of gas costs by more than six percent (6%) of the projected annual costs.[4]

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[2]The affidavits of publication from the *Delaware State News* and *The News Journal* are included in the record as Exhibit 1. Exhibits will be cited as "Ex.__" and references to the hearing transcript will be cited as "Tr.__."

[3]Included in Exhibit 1 is the following: (1) the affidavit of publication in *The News* Journal newspaper on October 30, 2004 of the Initial Application on August 31, 2004; (2) the affidavit of publication in *The News* Journal newspaper on December 29, 30, 2004 of the Supplemental Application; (3) the notice of the originally scheduled public comment session on February 24, 2004; (4) the press release issued by the Public Service Commission canceling the February 24, 2004 public comment session due to inclement weather; and (5) the affidavits of publication dated March 2, 2005 from *The News Journal* and *Delaware State News* newspapers announcing the date of the rescheduled public comment session on March 31, 2005.

[4]P.S.C. Del. No. 5 – Gas Tariff, Section XX (D), Interim Gas Cost Rate Changes, provides in pertinent part:

. . . (footnote continued to next page.)

The Commission must authorize new GCR factors for the remainder of the applicable period. The new GCR must be applied to correct the under-recovery over a succeeding 12-month period.

9. The Company contended that the proposed rates filed on October 1st, and made effective by Order No. 6492, would, over the period of the application, continue to under-recover anticipated gas costs by 6.4%. Therefore, the Company filed the following supplemental rates designed to capture the estimated shortfall:

	Proposed on 10/01/04 (Effective on temporary basis 11/01/04)		Proposed on 11/29/04 (Effective on temporary basis 12/29/04)	
Rate Schedules	GCR Demand Charge	GCR Commodity Charge	GCR Demand Charge Charge	GCR Commodity Charge
RG, GG and GL	N/A	80.696¢/ccf	N/A	85.917¢/ccf
Non-electing MVG	$8.44/Mcf of Billing MDQ	$6.9909/Mcf	$8.36/Mcf of Billing MDQ	$7.5278/Mcf
Electing MVG & LVG	$8.44/Mcf of Billing MDQ	Varies	$8.36/Mcf of Billing MDQ	Varies
Standby Service	$8.44/Mcf of Standby MDQ	N/A	$8.36/Mcf of Standby MDQ	N/A

10. Under the upward adjusted rates, residential space heating customers using 120 Ccf of gas in the winter months would experience

> If it appears at any time during the Application Period that the use of the GCR then in effect for the remainder of that period will result in a net under-collection of the Company's gas cost by more than 6% of the latest estimate of the Application Period's gas cost calculated using the actual gas costs incurred to date and the Company's latest estimate of the gas costs and firm sales for the remainder of the Application Period, . . . the Company shall apply to the Commission for a change in the GCR and the Commission shall fix a new GCR for the balance of the Application Period which will correct for over- . . . recoveries by amortizing them over a twelve-month period instead of zeroing them out by the end of the current Application Period.

. . . (footnote continued to next page.)

an additional increase of $6.26 or 4.3% per month. Commercial and industrial customers using “GG” and non-electing “MVG” service classifications would see increases in the range of 2.8% to 7.3% in monthly billings depending on the applicable service classification and load/consumption characteristics.

11. At the Commission’s meeting on December 21, 2004, the rates set forth in the Company’s Supplemental Application (dated November 29, 2004) were made effective on a temporary basis, with proration, pending completion of the evidentiary hearings and the Commission’s final decision. PSC Order No. 6541 (Dec. 21, 2004). (Tr. 7-12.) The rates proposed in the Company’s November 29, 2004 application would apply to gas usage on or after December 29, 2004.

12. Consistent with PSC Order No. 6541, on December 29 and 30, 2004, notice of the Company’s filing was published in *The News Journal* newspaper with information on how interested persons could intervene as a party in the proceeding. The notice also contained information on how members of the public could review the filing and submit comments.

III. PUBLIC COMMENT SESSION

13. The Commission issued a press release on February 24, 2005 advising the public that the comment session scheduled for that day had been cancelled because of inclement weather. (Ex. 1.) On March 2, 2005, the Company published notice in *The News* Journal and *Delaware State News* newspapers of a public comment session to be held on March 31, 2005.

14. A duly noticed public comment session was conducted on the evening of March 31, 2005 from 7:22 PM until 8:50 PM at the Carvel

State Office Building in Wilmington, Delaware. In addition to publication of the notice in T*he News Journal* and *Delaware State News* newspapers, the Company directly notified the organizations that participate in its "Project Concern" as well as the Association of Community Organizations for Reform Now ("ACORN").

15. Senior Hearing Examiner William F. O'Brien presided at the public comment session where several customers of the Company appeared.[5] Approximately twenty (20) members of the public attended the public comment session, twelve (12) of whom asked to speak at the session scheduled for consideration of this application. Representatives from the Commission Staff, the Public Advocate, and the Company appeared at the hearing[6].

16. At the outset, Todd Goodman, Esquire, of Delmarva gave a presentation explaining the nature of the GCR. Mr. Goodman stated that the GCR is the commodity portion of the bill. (Tr. 16.) He informed the attendees that Delmarva buys its gas in the wholesale market at the most economical price that it can find (most of the gas comes from the Gulf of Mexico), and delivers the gas to its customers at the cost that it paid for the gas plus any pipeline charges (Tr. 17.) Mr. Goodman noted that "there's no profit made off that gas." (*Id.*) After the Company's Initial Application on October 1st, a

[5]The public comment session was jointly held for this docket and for the Environmental Surcharge Rate Rider case, PSC Docket No. 04-384. The transcript shows that the public comment session for the ESR case was held from 7:10 p.m. to 7:21 PM. Thereafter, the public comment session for the instant Gas Cost Rate Case began at 7:22 PM.

[6]The public comment session was attended by the following representatives of the parties: Todd Goodman, Esquire, counsel for Conectiv; Shen for the Division of the Public Advocate; and Funmi Jegede, Public Utilities Analyst, for the Staff of the Delaware Public Service Commission.

hurricane hit the Gulf of Mexico damaging oil drilling platforms and destroying pipelines. (Tr. 19.) The effect of the hurricane caused the price of oil to sustain a dramatic increase and the price of natural gas (which follows the price trend of oil) increased as well. (*Id.*)

17. Mr. Goodman asserted that, although the price of natural gas is high, it has increased at a lesser rate and a lesser overall cost than other heating fuels. (Tr. 20.) According to federal government estimates, it will cost the average residential customer who uses propane $1,400 to heat their home this year. A customer using heating oil will pay $1,200 and a natural gas customer will pay approximately $1,000 for the year. *Id.*

18. Mr. Goodman explained that the severe and unanticipated increases in natural gas prices caused the Company to charge its customers less than the actual cost of the gas that it bought to supply them. (Tr. 21.) This shortfall caused the Company to "under recover" the amount that it pays for gas which is the reason that it seeks to increase its GCR. *Id*.

19. The Company announced that customer service representatives were present and available to take individual complaints. (Tr. 21.) In addition, the attendees were informed that both the Commission Staff and the Public Advocate were prepared to take contact information from customers so that the Company could initiate investigation of individual customer complaints. (Tr. 22.)

20. John Kowalo, a member of ACORN and the Executive Director of Citizens for Legislative Accountability, objected to the rate increase calling it "excessive and obscene." (Tr. 23.) Mr. Kowalo described himself as a middle class citizen who was near retirement. *Id*. He

stated that utilities are as essential to life as basic necessities, such as food and medical care. (Tr. 24.)

21. Mr. Kowalo stated that ACORN has an affordable utilities program that would not only help the low to moderate income citizen pay their utilities, but would also assist Conectiv to get paid for the gas it supplies to its customers. (Tr.28-29.) Mr. Kowalo opined that ACORN's program would reduce Conectiv's uncollectibles thereby reducing the need for such steep rate hikes in the future. (Tr. 29-30.) Mr. Kowalo urged Conectiv to join ACORN in its efforts to have ACORN's affordable utilities program enacted. *Id.*

22. Richard Paredes, an ACORN member and an organizer, reported that he had visited low to moderate-income families who could not afford or could only barely afford utility payments. (Tr. 34.) He recounted that he had visited a man in the Hedgeville area who had been without electricity for three months. Another woman he knew of paid more for her gas and electricity than she did for her mortgage. (Tr. 35.) Mr. Paredes stated that there are insufficient resources to assist people who cannot afford their utilities. For example, he noted that by October, the Salvation Army had no more money to help people pay their heating bills. (Tr. 34-35.) Mr. Paredes recommended ACORN's plan that would assess a surcharge on all utility customers ranging from one dollar ($1.00) per month for individual accounts to two hundred and fifty dollars per month ($250) for industrial accounts. (Tr. 36.) Money collected through the surcharge would create a fund from which low to moderate-income families could draw, as administered by LIHEAP, to pay their utility bills. (*Id.*)

23. Lois Gaitwood expressed the concern of several of the attendees regarding the disproportional amount of their incomes that

they must use to pay utility bills. Mrs. Gaitwood stated that she is a senior citizen who lives on a fixed income provided by Social Security. (Tr. 39.) From her social security check of less than $650 per month, she must pay the amount of $258 just for her utility bill. *Id.* Mrs. Gaitwood stated that before retirement she worked as a domestic worker who paid her bills, but that she cannot afford to pay her bills on her Social Security retirement income. *Id.*

24. Deryl Waterman, a fifty year old teacher's assistant, related her story of how Conectiv's minimum payment requirements through the budget billing plan cause customers severe anxiety and depression and do not allow them to pay their bills with ease or to reduce the amount they owe. Ms. Waterman stated that in January of this year she had some financial obligations that necessitated her diverting funds usually devoted to her utility bills to her transportation and other needs. Among other things, she was required to make repairs on her automobile that she uses as transportation for work. (Tr. 50.) At that time, she had a $392.13 Conectiv bill, due on January 31st, for her monthly budget billing payment plan. (Tr. 52.) Since she could not pay the amount, she went to Catholic Charities for assistance but the organization could not help her at that time (Tr. 51.) Since she failed to pay the $392.13 on time, her budget billing payment plan was terminated on January 31st. (Tr. 52.) Since her payment plan was cancelled, Conectiv demanded she pay all outstanding charges, $1,900, in order to avoid having her service disconnected. (*Id.*) She appealed again to Catholic Charities who assisted her with a grant of $425. A family friend loaned her the amount of $1,545. (Tr. 52.)

25. Ms. Waterman made the $1,900 payment to Conectiv; thereby avoiding termination of her service. This payment also made her eligible for a new six-month budget billing plan, which she accepted. (Tr. 52.) Conectiv informed her that under her new billing plan she was required to pay $399 per month plus the current amount owed. Under her new budget billing plan she immediately owed the amount of $766 for the month of April; an amount that she could not pay. (*Id*.) Ms. Waterman expressed feelings of being in a never-ending cycle of depression and anxiety caused by her inability to pay her Conectiv bill. (*Id.*) Further, she stated that she tries to conserve energy and she uses as little heat and electricity as she can. (Tr. 54.) She stated, “I have never in my life felt as low as I feel when I go down to Conectiv. Those people … when they talk to you, they make you feel like dirt.” (Tr. 53.)

26. Ms. Waterman, and others, reported the downward spiral that results from having utility service disconnected. She stated that she cannot allow her utilities to be terminated because her landlord will terminate her lease rendering her homeless. (Tr. 55.) However, if she does not pay her automobile insurance, the Department of Motor Vehicles will request that she surrender her automobile license plates so she will not be able to drive to work and to school. (*Id*.)

27. Ms. Waterman stated that she is going to school to become certified in early childhood development so that she would have an opportunity to increase her income to be better able to pay her bills. (Tr. 56.) She related that out of her last paycheck of less than $500 she had to pay $450 for rent. (*Id.*) Regarding her situation, Ms. Waterman echoed the frustration of many of those who spoke at the meeting when she said, “ I know that things have to be paid, and I

like paying my bills. I like being off welfare and paying my bills and stuff like that, but I just don't make enough money right now." (Tr. 56.)

28. Darlene Battle, a Campaign Director for ACORN, advocated adoption of ACORN's affordable utilities program which the organization anticipates will generate sixteen million dollars ($16M) a year for low to moderate income heating assistance. (Tr. 72, 74.) She stated that she too visits homes where the occupants are trying to cope with high heating bills. (Tr. 72, 73.) She related her personal struggles regarding her decision to change from oil heat as a cheaper alternative, only to find that gas heat is also prohibitively expensive. (Tr. 73.)

IV. EVIDENTIARY HEARING

29. On May 5, 2005, an evidentiary hearing was held at the Carvel State Office Building in Wilmington. Having no substantive disputes, each of the parties presented their witnesses who summarized their testimonies and adopted their pre-filed testimonies for the record. The record, as developed at the hearing, consists of a fifty-three page verbatim transcript and ten (10) exhibits.

30. I have considered all of the record evidence and, based thereon, I submit for the Commission's consideration these findings and recommendations.

31. **Company's Direct Testimony.** With its Initial Application, Delmarva submitted the pre-filed testimony of five witnesses.[7] At the

[7]The Company pre-filed the testimonies of W. Thomas Bacon, Jr. (Exs. 2 and 3), Amir F. Mohseni (Exs. 4 and 5), C. Ronald McGinnis, Jr. (Ex.6), and Charles L. Driggs (Ex.7).

evidentiary hearing, Company witness W. Thomas Bacon, Jr., Service Company Director for PHI, adopted the pre-filed testimonies of Company witnesses Amir F. Mohseni (Exs. 4 (initial direct), 5 (supplemental direct)), C. Ronald McGinnis, Jr. (Ex.6), and Charles L. Driggs (Ex.7).

32. Mr. Bacon provided the overview for Delmarva's case and summarized the proposals and rationale for those proposals. (Ex. 6.) Mr. Bacon set forth the proposed GCR increases to the commodity components of rates and the proposed increases to the GCR demand components of rates, explaining that the overall effect of the proposals was that customers served under Service Classifications RG, GG, and GL would experience an increase of about 10.7% in their total gas bill amount for a customer with a monthly average winter usage of 120 ccf, with overall rate effects varying depending on usage. Customers served in the GG or non-electing MVG service classifications would generally experience increases from between 6.6% to 14.1% with the effects on their overall rates varying depending on usage characteristics and, for all LVG customers, the increase in their total bill would range from 8.6% to 9.3%, also depending on usage characteristics. Customers in the LVG and electing MVG pay an estimated monthly system WACCOG commodity charge, which changes with market demands, as well as the GCR demand charge. (Ex.6.)

33. In addition, Mr. Bacon summarized the methodologies used: (1) to develop the GCR factors and the credits associated with certain shared margin revenues; (2) to perform the reconciliations and true-ups, which compare and take into account for recovery in this case the differences between costs and revenues estimated in the prior years' GCR proceeding with actual costs and revenues incurred; (3) to

calculate the non-firm surcharge; (4) to audit the GCR and margin sharing for the 2003 calendar year; (5) for prior period adjustments; and (6) ratemaking treatment of the Enron Settlement.

34. Further, Mr. Bacon described various accounting adjustments that were made in the preparation of the filing and addressed the impact of certain cost factors and adjustments from the prior GCR proceeding and other ongoing proceedings involving gas matters.

35. Mr. Bacon described certain tariff revisions designed to conform the charges and other language in the tariff to the proposed filing and to clarify certain true-up procedures employed by the Company.

36. Mr. Bacon further provided testimony on the following items: (1) Delmarva's actual and estimated interstate pipeline transportation and storage rates; (2) forecasted natural gas commodity prices; (3) the integration of forecasts of gas demand, supply, and cost; (4) the Company's capacity release and off-system sales activity; (5) an update of the Natural Gas Hedging program; (6) the impact of the Enron Corporation ("Enron") bankruptcy; and (7) upstream capacity relative to firm sales. (Ex. 2.)

37. Mr. Bacon further explained the methodology and development of the sales estimates for the GCR period (November 2003 - October 2004), which are used in establishing the GCR factors, including a reconciliation of firm gas expenses and revenues for the twelve months ended July 31, 2004. He described the various assumptions and data used in developing these sales estimates. (Ex. 4.)

38. Mr. Bacon also explained in detail the calculations and methodology used to develop the GCR factors. (Ex. 4.)

39. Company Witness Gary B. Cohen described the Company's promotion of its budget billing program. (Ex. 8.) At the evidentiary hearing, Mr. Cohen described the Company's pilot program in which it has targeted approximately 10,000 customers in New Castle County with a direct mailing encouraging them to enlist in the program. (Tr. 108.) The program allows customers to enroll through the Internet, by calling the Company to enroll, and by mailing a return envelope included in the direct mail solicitation. (*Id.*)

40. The pilot program used a sample size of 10,000 as a subset of the Company's 117,000 gas customers, some of whom were gas-only customers and some of whom were gas and electric customers. The customers in the sample live in Claymont and the City of New Newark. These areas have customers representing a broad income spectrum. The customers are offered a budget-billing program based on twelve months of historical data. (Tr. 111.) Based on usage, customers' budget billing amounts would be adjusted on a going forward basis if there is a twenty-five percent change in the amount of gas used. (*Id.*)

41. **Company's Supplemental Direct Testimony.** With its Supplemental Application, Delmarva submitted the pre-filed testimony of two witnesses, W. Thomas Bacon, Jr., and Amir F. Mohseni.[8] At the evidentiary hearing, Company witness W. Thomas Bacon, Jr., adopted the pre-filed testimony of Company witnesses Amir F. Mohseni (Ex. 5 (supplemental direct)).

42. The supplemental testimony of W. Thomas Bacon, Jr., focused on the substantial increase in heating oil, propane, and natural gas.

[8]The Company pre-filed the testimonies of W. Thomas Bacon, Jr. (Exs. 2 and 3), Amir F. Mohseni (Exs. 4 and 5), C. Ronald McGinnis, Jr. (Ex.6), and Charles L. Driggs (Ex.7).

. . . (footnote continued to next page.)

(Ex. 3.) Mr. Bacon noted that the wholesale gas commodity cost forecast was established based upon the September 17, 2004 NYMEX closing gas prices and the EIA's August 9 and September 9, 2004 wholesale price forecasts and PIRA's August 25th wholesale price forecast. However, for its Supplemental Application, the Company chose to use only the most recent EIA wholesale gas forecast because of the risk of continued high and volatile wholesale natural gas prices during the winter months. (Ex. 3 at 4.)

43. Mr. Bacon noted that since the wholesale gas commodity cost was established on September 17, 2004, the natural gas future's price has increased from approximately $6.13 to a high of approximately $7.30 per MMBtu. (Ex. 3 at 4.)

44. Further, Mr. Bacon related other factors that caused commodity gas prices to rise dramatically since September 2004. Hurricane Ivan disrupted oil and gas production in the Gulf of Mexico, record high crude oil prices, record high prices for distillate and residual oil which compete with natural gas, a lack of incremental gas production capacity that can be used to quickly meet unexpected demand, and a colder than normal winter sparking increased demand. (Ex. 3 at 5.)

45. Mr. Bacon explained that after updating the gas costs and actual revenue information through October 2004, and as a result of updating the expected commodity cost of gas over the Application Period in this case, the Company expected to under-recover costs of $7.9 million, or 6.4%, if the gas cost rate that became effective on November 1, 2004 remains in place. (Ex. 5 at 2.) The updated

projected firm gas costs for the period November 2004 through October 2005 are $122.6 million, which is an increase of $8.0 million or 7.0% from the levels projected in the Initial Application. (Ex. 5 at 3.)

46. The overall effect of the proposed increase, taken in combination with the November 1, 2004 increase, on a residential space heating customer using 120 ccf in a winter month (as compared to the GCR in effect during November 1, 2003 through October 30, 2004) would be an increase of $20.19, or 15.5%, or from $130.23 to $150.42. (Ex. 5 at 5.)

47. **Division of the Public Advocate's Direct Testimony**. The Division of the Public Advocate ("DPA") submitted the pre-filed testimony of Andrea C. Crane, Vice President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation and regulatory policy. (Ex. 9.)

48. After reviewing the Company's filing and the underlying data regarding the financial assumptions and projections as well as the gas costs prices, Ms. Crane developed several recommendations. Ms. Crane recommended that the Company's gas cost rates proposed in the Initial Application and the Supplemental Application should be approved subject to a true-up in the Company's next GCR filing based on actual gas procurement costs and recovery revenues, for the period November 1, 2004 through December 29, 2004 and the period December 29, 2004 through October 31, 2005. (Ex. 9 at 5-6; Tr. 114.)

49. Ms. Crane found that the Company's hedging decisions over the past twelve months were reasonable. (*Id.*) Further, the Company's changes to its Quarterly Gas Hedging Reports have generally addressed the concerns raised by DPA in the Company's last GCR proceeding, PSC Docket No. 03-378F. However, Ms. Crane recommended that the Company's

Quarterly Gas Hedging Reports should continue to include a list of definitions for the convenience of all readers. (Ex. 9 at 6.)

50. Ms. Crane noted that in the future the Company should use the NYMEX future prices to forecast prospective natural gas costs. *Id.* Ms. Crane explained that the NYMEX is a “purely objective measure” based solely on market conditions. (Tr. 118.) On the other hand, the PIRA and the EIA are the conclusions of consultants who have reviewed market data and are expressing their subjective forecasts about how they believe prices, supply, and demand will look in the future. (Tr. 118.) The Company agreed with Ms. Crane’s recommendation regarding the use of the NYMEX to forecast futures prices. (Tr. 115.) However, both parties reserved the right to recommend different indices in the future as may be appropriate. (*Id.*)

51. At the evidentiary hearing, Ms. Crane suggested that perhaps in the future the Company should use two days of NYMEX prices in developing its gas cost rate calculations in order to reduce any volatility that may occur. (Tr. 121.)

52. Ms. Crane determined that the Company’s active hedging program significantly sheltered it from day-to-day volatility. (Tr. 120.) The program has a three-year time horizon; therefore, while the NYMEX will fluctuate, the Company is not as subject to daily price fluctuations as other companies that do not have such an aggressive hedging program. (*Id.*)

53. Ms. Crane recommended that the Company’s gas costs should reflect an adjustment relating to the Enron bankruptcy of no more than $1.1 million. (Ex. 9 at 6, 22.) The Company initially proposed an adjustment relating to Enron bankruptcy of approximately $1.4 million of which $996,334 represented increased gas costs, $267,980 related to

carrying costs, and $101,243 were legal costs. After negotiations with Staff and DPA, the Company agreed to eliminate all of the legal costs and a large portion of the carrying cost from its claim. (Ex. 9 at 22.) As a result of these adjustments, gas costs would be increased by $1,092,255, rather than the Company's proposal of $1,365,557. (*Id.*)

54. Although, as stated above, Ms. Crane took exception to some of the components of the methodology used by the Company to project its gas costs, she concluded that the Company's proposed increases in its Initial Application and its Supplemental Application should be approved subject to true-up in the next GCR filing based upon actual gas procurement costs and recovery revenues for the twelve months ending October 31, 2005. (Ex. 9 at 26.)

55. **Staff's Direct Testimony**. Staff submitted the testimony of Funmi Jegede, Public Utilities Analyst. (Ex. 10.) Ms. Jegede detailed her review of Delmarva's application. She recommended that the Commission approve the changes sought by the Company in its Initial Application and its Supplemental Application to modify its current GCR factors. (Ex. 10.)

56. Ms. Jegede noted that the Company's projected under-collection continuously has exceeded the six percent level allowed by the Commission pursuant to Delmarva Power & Light Tariff Section XX, No.5 – Gas. (Ex. 10 at 4-5.) Ms. Jegede observed that the Company charges interest on its collection charges, and the current Federal Energy Regulatory Commission ("FERC") rate is 4.22% per annum. (Ex. 10 at 4.) A large under-collection balance will continually accrue more interest charges which will detrimentally affect ratepayers. (*Id.*)

57. Ms. Jegede testified that she agreed with the Company's method in reconciling the actual and estimated WACCOG true-up of commodity costs associated with the services for the LVG and electing MVG customer classes. (Ex. 10 at 6.) She noted that the cumulative monthly actual WACCOG exceeds the estimates for the twelve-month period ended June 2004 by approximately $290,005 or 5.66%. Since the variance exceeds five percent, or $250,000, a credit in the amount of $0.36113 per Mcf is applied to those customers. (Ex. 10 at 7.)

58. Ms. Jegede noted with approval the Company's agreement to adjust its claims for carrying costs and legal fees associated with the Enron bankruptcy. (Ex. 10 at 8.)

59. Ms. Jegede testified that the Company, as required by PSC Docket No. 96-218F, provided Staff with a report of its annual GCR audit that includes a review of its billing and regulatory accounting records for sales, gas cost revenue, and margin sharing. In addition, as agreed by the parties in the last GCR filing, the Company modified its quarterly hedging program and improved on its budget billing participation. (Ex. 10 at 11.)

60. Ms. Jegede commended Company witness, Tom Bacon, on the content and presentation of the hedging report for the fourth quarter of 2004. She noted that the parties meet informally to discuss issues regarding the hedging program and have agreed to continue discussions on how to improve the report and the process. (Ex. 10 at 13.)

61. Staff concluded that the Company's proposed increases in the GCR provided in its Initial Application and its Supplemental Application were reasonable and should be approved. (Ex. 10 at 16.)

V. DISCUSSION

62. The Commission has jurisdiction in this matter pursuant to 26 *Del. C.* § 303(b).

63. In this case, neither Staff nor the DPA object to the proposed GCR factors, reconciliation and true-ups, or to the proposed tariff modifications. The DPA did raise certain concerns, however, regarding the Company's use of the NYMEX indices and forecasts by the EIA and PIRA, the Gas Hedging Program, and the impact of the Enron bankruptcy. Staff echoed many of the concerns cited by the DPA. As discussed below, the Company answered each of Staff's and DPA's concerns.

64. Regarding the Gas Hedging Program, the Company has addressed the content and presentation of its report, which Staff noted with approval.

65. The DPA also commended the Company's aggressive hedging program which helps it to weather volatility in the markets to the benefit of Delaware's ratepayers. (Ex. 9.)

66. In response to DPA's concerns about the use of subjective market data, the Company has agreed to use the NYMEX forecasts for projections in its next GCR case.

67. Regarding the Enron bankruptcy, the Company agreed to remove its claims for carrying costs and legal expenses, thereby allowing the parties to reach a consensus on the amount of $1.09 million to be recovered under this GCR proceeding.

68. Staff and the DPA agree that the Company's proposed GCR rates, proposed reconciliation and true-ups are just and reasonable. For these reasons, I find that the approval of the Company's proposed

gas cost rate factors as set forth in its Initial Application and its Supplemental Application is in the public interest and represents a fair and reasonable resolution of this matter, and I, therefore, recommend that the Commission adopt and approve it.

VI. RECOMMENDATIONS

69. In summary, and for the reasons discussed above, I propose and recommend to the Commission the following:

A. That the Commission adopt as just, reasonable and in the public interest the Company's proposed rates and tariff changes (made effective on a temporary basis on November 1, 2004 and on December 29, 2004) with meter readings on and after November 1, 2004 and December 29, 2004 until October 31, 2005 as shown below:

	Proposed on 10/01/04 (Effective on temporary basis 11/01/04)		Proposed on 11/29/04 (Effective on temporary basis 12/29/04)	
Rate Schedules	GCR Demand Charge	GCR Commodity Charge	GCR Demand Charge Charge	GCR Commodity Charge
RG, GG and GL	N/A	80.696¢/ccf	N/A	85.917¢/ccf
Non-electing MVG	$8.44/Mcf of Billing MDQ	$6.9909/Mcf	$8.36/Mcf of Billing MDQ	$7.5278/Mcf
Electing MVG & LVG	$8.44/Mcf of Billing MDQ	Varies	$8.36/Mcf of Billing MDQ	Varies
Standby Service	$8.44/Mcf of Standby MDQ	N/A	$8.36/Mcf of Standby MDQ	N/A

A proposed Order, which will implement the foregoing recommendations, is attached hereto.

Respectfully submitted,

/s/ Ruth Ann Price
Ruth Ann Price
Hearing Examiner

Dated: July 15, 2005