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, 2005)	) PSC DOCKET NO. 05-312F

ORDER NO. 6956

AND NOW, this 11th day of July, 2006;

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.

IT IS ORDERED:

1. That, by and in accordance with the affirmative vote of a majority of the Commissioners, the Commission hereby adopts the June 2, 2006 Findings and Recommendations of the Hearing Examiner, appended to the original hereof as "Attachment A".

2. That the Commission approves Delmarva Power & Light Company's proposed rates and tariff changes (made effective on a temporary basis on October 11, 2005) with meter readings on and after November 1, 2005 until October 31, 2006 as shown below:

Rate Schedules	GCR Demand Charge	GCR Commodity Charge
RG, GG and GL	N/A	118.384¢/ccf
Non-electing MVG	$6.20/Mcf of Billing MDQ	$11.0279/Mcf Billing MDQ
Electing MVG & LVG	$6.20/Mcf of Billing MDQ	Varies
Standby Service	$6.20/Mcf of Standby MDQ	N/A

3. That the Commission approves Delmarva Power & Light Company's proposed: (a) reconciliation and true-up (as corrected and revised) of actual versus estimated Weighted Average Commodity Cost of Gas ("WACCOG") assignments for sales under the Flexibly Priced Sales service to restate fuel revenue and shared margin revenue credits; (b) reconciliation and true-up (as corrected and revised) of 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 (c) revision of the surcharge applied to non-firm services to collect a portion of interstate pipeline charges.

4. That the Commission approves the Proposed Settlement of the Parties, appended to the original hereof as Attachment B, as just and reasonable providing that:

(a) Delmarva Power & Light Company will use the NYMEX natural gas futures as the primary tool in establishing its proposed gas cost rate each year;

(b) Delmarva Power & Light Company will use the NYMEX gas futures prices based upon a single day’s close or an average of two or more days of closing prices selected from actual gas futures closing prices observed between July 20 and August 20 each year;

(c) Delmarva Power & Light Company will use a consistent gas futures forecasting methodology from year-to-year unless, in its good faith business judgment, the Delmarva Power & Light Company believes that market indicators suggest that a different methodology is likely to provide a more accurate gas cost rate forecast;

(d) Delmarva Power & Light Company’s billing synchronization methodology employed in this application is approved for purposes of this docket only;

(e) prior to the filing of Delmarva Power & Light Company’s GCR application for the 2006-2007 year, Delmarva Power & Light Company, the Commission’s Staff, and the Division of the Public Advocate will meet to discuss and attempt to resolve the methodology to be used by Delmarva Power & Light Company to synchronize billing each year for the month of November;

(f) Delmarva Power & Light Company will not use the billing synchronization method used in this application in its GCR for 2006-2007 unless the Commission Staff and the Division of the Public

Advocate unanimously agree that it is appropriate;

(g) in the event that the Commission Staff and the Division of the Public Advocate do not agree that Delmarva Power & Light Company's billing synchronization method used in this application is appropriate, Delmarva Power & Light Company will use the methodology used in its applications for the years prior to 2005-2006; and

(h) should Delmarva Power & Light Company propose to use the billing synchronization method used in this application or any other method that has not been agreed to by the Commission Staff or the Division of the Public Advocate, Delmarva Power & Light Company will submit testimony with its application that supports and explains the basis for its proposed use of its proposed synchronization method.

5. 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

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Dallas Winslow
Commissioner

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Karen J. Nickerson
Secretary

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

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF	)	
DELMARVA POWER & LIGHT COMPANY FOR	)	PSC DOCKET NO. 05-312F
APPROVAL OF MODIFICATIONS TO ITS GAS	)	
COST RATES (FILED AUGUST 31, 2005)	)	

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

DATED: June 2, 2006

RUTH ANN PRICE
HEARING EXAMINER

TABLE OF CONTENTS

		PAGE
I.	APPEARANCES	1
II.	BACKGROUND	2
	A. The Application	2
	B. Public Comment Session	4
III.	SUMMARY OF THE EVIDENCE	7
	A. The Proposed Settlement	7
	B. Summary of Testimony	9
IV.	DISCUSSION	17
V.	RECOMMENDATIONS	19

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, 2005)	**)))))**	**PSC DOCKET NO. 05-312F**

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*. 101, by Commission Order No. 6737, dated October 11, 2005, reports to the Commission as follows:

I. APPEARANCES

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

TODD 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. The APPLICATION

1. On October 3, 2005, Delmarva filed an application ("the application") with the Delaware Public Service Commission (the "Commission") to increase its Gas Cost Rate ("GCR") factors, effective on and after November 1, 2005, with proration, and with such revised factors to continue in effect until October 31, 2006.[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	85.917¢/ccf	N/A	118.384¢/ccf
Non-electing MVG	$8.36/Mcf of Billing MDQ	$7.5278/Mcf	$6.20/Mcf of Billing MDQ	$11.0279/Mcf
Electing MVG & LVG	$8.36/Mcf of Billing MDQ	Varies	$6.20/Mcf of Billing MDQ	Varies
Standby Service	$8.36/Mcf of Standby MDQ	N/A	$6.20/Mcf of Standby MDQ	N/A

[1] On August 29, 2005, Delmarva filed a letter requesting a waiver of its statutorily-mandated (pursuant to 26 *Del. C.* §304) filing date of August 31, 2005 and requesting a two-week extension to file its GCR application. Delmarva noted that Hurricane Katrina had passed through the Gulf of Mexico the previous weekend shutting down all oil and gas production. As a result, natural gas and oil markets were trading considerably higher, causing Delmarva to revise its wholesale gas commodity cost forecast for the GCR. Rather than file a supplemental application, Delmarva's request would allow the market to react to the effect of the hurricane on production. Delmarva would have the information it needed to revise its wholesale gas commodity cost forecast for its 2005-2006 application.

By PSC Order No. 6711 (Sept. 6, 2005), the Commission found that Delmarva had shown good cause in requesting a waiver of the statutory filing deadline. The Commission granted Delmarva's request for an extension to file its GCR case for the period November 1, 2005 through October 31, 2006 to on or before October 3, 2006.

2. In addition, the application requests approval of the Company's proposals to: (a) reconcile and true-up (as corrected and revised) actual versus estimated Weighted Average Commodity Cost of Gas ("WACCOG") assignments for sales under the Flexibly Priced Sales service to restate fuel revenue and shared margin revenue credits; (b) reconcile and true-up (as corrected and revised) 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 (c) to revise the surcharge applied to non-firm services to collect a portion of interstate pipeline charges.

3. The impact on customers would mean that those served under service classifications RG, GG and GL would experience an approximate thirty-eight per cent increase (37.8%). Residential space heating customers using 120 Ccf per month in the winter would experience an increase of $38.96 or 25.9% per month in their total bill. Commercial and industrial customers using "GG" and non-electing "MVG" service classifications would experiences increases in the range of 16.7% to 29.6% and 29.2% to 38.7%, respectively, in monthly billings depending on applicable service classification and load/consumption characteristics.

4. On October 11, 2005, pursuant to PSC Order No. 6737, 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, 2005, with proration. In addition, the Commission designated the undersigned hearing examiner to conduct public

evidentiary hearings and to report to the Commission her proposed findings and recommendations based on the evidence presented.

5. Notice of the application, including information on how to intervene in the proceeding, was published on October 19, 2005 in *The News Journal* and *The Delaware State News* newspapers. 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.

7. On November 30, 2005, notice of a public comment hearing was published in *The News Journal* and *The Delaware State News* newspapers. The notice announced that a public comment hearing would be held on January 19, 2006 in Wilmington. Further, the notice stated that a formal evidentiary hearing would be held on April 27, 2006 for the Company and all intervenors.

B. <u>Public Comment Session</u>

8. A duly noticed public comment hearing was conducted on the evening of January 19, 2006 from approximately 7:05 p.m. until 9:00 p.m. at the Carvel State Office Building in Wilmington, Delaware. In addition to publication of the notice in *The News Journal* and *The 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").

9. Representatives from the Commission Staff, the DPA, and the Company appeared at the hearing.

10. While approximately fifteen (15) members of the public attended the public comment session, held jointly for this docket and for Delmarva's Environmental Surcharge Rider Rate ("ESR") case, PSC Docket No. 05-356[2], only ten (10) asked to speak at the session. Representatives from the Commission's Staff, the Division of the Public Advocate, and the Company appeared at the joint hearing.[3]

11. At the beginning of the public comment session, the Company gave a brief presentation. The Company was represented by its counsel, Todd Goodman, Esquire, and Charles Dickerson, Delmarva's Vice President, Gas Delivery. Tr. 33-42.

12. At the outset, Mr. Dickerson explained the nature of the GCR. Mr. Dickerson stated that the GCR is the commodity portion of the bill on which Delmarva does not make a profit. Tr. 36. He informed the attendees that Delmarva makes a profit from the delivery price of the service it provides, the distribution portion. *Id*. Between August 2004, when Hurricane Ivan caused gas prices to spike, and the advent of Hurricane Katrina in September 2005, there were no events to cause the price of natural gas to increase. Mr. Dickerson explained that in August 2004 gas sold for approximately $5.00 per 100 Ccf and it had risen to about $7.00 or $8.00 per 100 Ccf before Hurricane Katrina. Even before Hurricane Katrina, the price of natural gas was increasing because of increased demand by consumers. Tr. 38. When

---

[2]On October 3, 2005, Delmarva filed an application for an increase in its Environmental Surcharge Rider Rate ("ESR"). The ESR case is captioned In the Matter of the Application of Delmarva Power & Light Company For A Change in the Gas Environmental Surcharge Rider Rate (filed September 30, 2005), PSC Docket No. 05-356.

[3]The transcript of the January 19, 2006 ESR and GCR public comment session consists of 84 total pages and will be cited as "Tr. at ___."

Hurricane Katrina struck the Gulf of Mexico, the price of gas rose dramatically. Between the time Hurricane Katrina devastated the Gulf and the time Hurricane Rita struck there was not enough time for the price of natural gas to decrease. *Id.* Mr. Dickerson explained that in August 2004 gas sold for approximately $5.00 per 100 Ccf and it had risen to about $7.00 or $8.00 per 100 Ccf before Hurricane Katrina. Between the time Hurricane Katrina devastated the Gulf and the time Hurricane Rita struck there was not enough time for the price of natural gas to decrease. *Id.* These factors have combined to cause a sharp increase in the price of natural gas.

13. Mr. Dickerson stated that recognizing the sharp increase in natural gas Delmarva had begun certain initiatives to assist customers with their heating bills: (1) Delmarva is meeting with groups to explain the impacts causing the rise in natural gas, (2) the Company is donating money to a number of charities and working with social service agencies to help people with their bills, (3) Delmarva is giving out brochures and kits explaining ways to conserve energy usage and insulate homes that will mitigate the rising gas prices and (4) consumers can use Delmarva's budget billing program to normalize billing fluctuations from month to month. Tr. 39-40.

14. The comments of the participants who chose to speak at the public comment session can be categorized into three main topic areas:

(a) There is not enough assistance for people, such as the elderly and low income people, to pay the increased rates charged by Delmarva; Tr. 50, 53, 56-59,61,63, 66-68, 74—75,82-83,84-86,104, 109-110;

(b) Delmarva's shareholders should be required to shoulder more of the price increase; Tr. 58; and

(c) The Commission appears to "rubber stamp" the requested increase when it allows the increase to go into effect before the public comment session and the evidentiary hearing are held. Tr. 64.

III. SUMMARY OF THE EVIDENCE

15. On April 27, 2006, an evidentiary hearing was held at the Carvel State Office Building in Wilmington. The record, as developed at the hearing, consists of a 62-page verbatim transcript and 9 exhibits.

A. The Proposed Settlement.

16. At the outset of the evidentiary hearing, the parties presented a Proposed Settlement[4], consisting of seven pages. Ex. 7[5]. Delmarva's counsel, Todd Goodman, Esquire, explained that Staff and DPA had two primary issues regarding the application for the 2005-2006 GCR that the parties addressed in the Proposed Settlement: (1) use of the NYMEX natural gas futures prices for purposes of forecasting and (2) synchronizing new GCR rates that take effect annually on November 1 with actual customer billings so for the month of November the amount recovered from customers reflects half the month billed under the prior GCR rates and half the month billed under the new GCR rates.

17. **NYMEX Futures**. The Proposed Settlement provides that for purposes of forecasting the GCR, Delmarva will use the NYMEX natural gas futures index as the *primary tool* for determining the gas prices for its annual application. Delmarva will forecast gas prices using a single day's close or an average of two or more days of closing prices

[4]The Proposed Settlement was entered into evidence at the evidentiary hearing as Exhibit No. 7. It will be attached to this report as "Appendix A."

from the period July 20 through August 20 of each year. Ex. 7 at 3. By employing this method, a reviewer of Delmarva’s application can compare the application filed from year to year on a consistent basis. However, under the Proposed Settlement, Delmarva reserves the right to use a different methodology if, in its good faith business judgment, market indicators suggest that a more accurate GCR forecast will be obtained using a different index, such as the EIA or PIRA. Ex. 7 at 4.

18. **Billing Synchronization**. For the first time, in its application for 2005-2006, Delmarva attempted to synchronize the proposed GCR rates that became effective November 1, 2005 with actual customer billings for the month of November. Mr. Goodman stated that Delmarva did not include testimony on this issue in its application. Further, the Company failed to disclose this fact to either Commission Staff or DPA when the application was filed. However, in reviewing the application, both Staff and DPA discovered the issue, and Delmarva provided discovery responses explaining its position. Tr. 117. Neither Staff nor DPA believed they had sufficient information concerning the operation of Delmarva’s billing system to reach a conclusion concerning whether the synchronization method Delmarva used was reasonable or in the public interest. Accordingly, the Proposed Settlement expresses the parties’ agreement regarding handling this matter in future GCR proceedings: (1) the synchronization method used by Delmarva will not be challenged during this proceeding for the 2005-2006 GCR, (2) the parties will meet to discuss the use of Delmarva’s synchronization method before the Company files its 2006-2007 GCR rates; and (3) if all the parties cannot agree on the use of

[5] Exhibits will be cited as “Ex. ___.”

a synchronization methodology for the 2006-2007 GCR, Delmarva will not use the synchronization methodology in its forecast for the 2006-2007 GCR, but instead, the Company will use the methodology employed in previous years. Further, Delmarva agrees that if it proposes to change its synchronization method for any year following 2005-2006, it will provide testimony supporting its rationale with its application.

19. **Delmarva's Proposed Rates**. In the Proposed Settlement, the parties also agreed to recommend Delmarva's proposed rates to the hearing examiner and to the Commission, subject to the agreements reached regarding the use of the NYMEX futures forecast and billing synchronization.

B. Summary of Testimony.

20. At the evidentiary hearing, the parties presented their witnesses who summarized their testimonies and adopted their prefiled testimonies for the record. I have considered all of the record evidence and, based thereon, I submit for the Commission's consideration these findings and recommendations.

21. **Company's Direct Testimony.** With its application, Delmarva submitted the pre-filed testimony of five witnesses. At the evidentiary hearing, C. Ronald McGinnis, Jr., Technical Consultant, Regulatory Affairs Department for PHI Service Company and William T. Bacon, Director -- Regulatory & Natural Gas Planning for PHI Service Company appeared to give live testimony. C. Ronald McGinnis, Jr., adopted as his own the prefiled testimonies of Charles R. Dickerson (Ex. 3), Charles L. Driggs (Ex. 4) and Gary B. Cohen (Ex. 5). However, for purposes of clarity, I have referred to the prefiled testimonies by their original authors.

22. Company witness Charles R. Dickerson, Vice President of Gas Delivery, provided background concerning Delmarva's policy on the strategy to mitigate the impact on customers from rising wholesale natural gas prices, its communication plan and, among other things, its plan to deal with the projected capacity deficiency. Ex. 3.

23. Company witness Charles L. Driggs, Manager of Gas Operations & Planning submitted prefiled testimony to support the Company's revisions to its GCR and the development of Delmarva's gas sales and transportation volume forecast. Ex. 4. Mr. Driggs' testimony also addressed the lost and unaccounted for gas percentage utilized in the calculation of the proposed GCR. Mr. Driggs forecasted a small decrease in GCR affected sales of 0.4% for the 2005-2006 GCR based upon the continued loss of large customer firm sales. Ex. 4 at 3.

24. Mr. Driggs noted that because the Company's prior forecast witness, Timothy J. Devitt, resigned from Delmarva in May 2005, the Company employed a simplified analysis in developing the small customer forecast. Ex. 4 at 4. Mr. Devitt performed his forecast using a proprietary econometric analysis package. The three-part approach used in the forecast for this GCR relied on recent growth patterns as predictors of short-term growth (the most recent twelve months' experience) for small commercial and industrial customer growth patterns. In past years, Mr. Devitt used the econometric factors examined in multivariate regressions to determine relationships between customer growth and economic activity. The second step in the forecast examines weather-adjusted historical usage per customer for each class by month based upon actual sales, actual customers and heating degree-day statistics. The third step in

determining the forecast multiplies projected customers per month by usage per customer to predict expected sales per month. Ex. 4 at 5.

25. Delmarva prefiled the testimony of Gary B. Cohen, Manager, Delaware & Virginia Regulatory Affairs for the purpose of explaining the Company's promotion of its budget billing program in an effort to assist customers in dealing with the effects of rising gas and electric costs. Ex. 5. Mr. Cohen described the budget billing pilot program that targeted 10,000 customers in Claymont and Newark. The study demonstrated that with only one bill insert advertising the program to the target group the number of customers participating in the program increased by approximately 31%. Ex. 5 at 4. In order to increase customer awareness and education regarding methods of dealing with high heating bills, the Company participates in the Consumer Energy Education Group ("CEEG")[6] to formulate a comprehensive communications plan to educate customers, promote conservation, assist customers in paying gas and electric bills and to promote the budget billing program. Ex. 5 at 8-9.

26. Company witness C. Ronald McGinnis, Jr., Technical Consultant, Regulatory Affairs Department for PHI Service Company[7] provided testimony regarding development of the proposed GCR and its impact on the various customer classes, reconciliation of actual versus estimated weighted average commodity cost of gas ("WACCOG")

---

[6] The CEEG is the successor working group to Delmarva's Consumer Education Working Group ("CEWG"). The CEWG was formed in compliance with 26 *Del. C.* §1014(C) which, as a part of the Electric Utility Restructuring Act, 26 *Del. C.* §§1001-1019, as amended, required the Commission to establish a group by June 1, 1999 to educate the public about electric retail competition. CEWG was active from 1999 to 2003. The working group was reestablished in 2005 and named, "CEEG."

[7] PHI Service Company is a subsidiary of Pepco Holdings, the parent company of Delmarva Power & Light.

assigned to LVG and MVG customers; reconciliation of actual versus estimated WACCOG of gas assigned to Flexibly Priced Service Customers, the audit of GCR and margin sharing for the 2004 calendar year and prior adjustments contained in the actual data used to develop the deferred fuel balance as of July 31, 2005. Ex. 2.

27. Mr. McGinnis presented a chart, which I have duplicated below, demonstrating the impact on each rate class for proposed GCR.

Rate Schedules	Present GCR Commodity Charge	Proposed GCR Commodity Charge	Change
RG, GG and GL	85.917¢/ccf	118.384¢/ccf	32.467¢/ccf
Non-electing MVG	$7.5278/Mcf of Billing MDQ	$11.0279/Mcf Billing MDQ	$3.5001/Mcf
Electing MVG & LVG	Varies	Varies	N/A
LVG and MVG	$8.36/Mcf of MDQ	$6.20/Mcf of MDQ	($2.16) Mcf of MDQ

Ex. 2 at 3. This chart shows that not only residential customers but also non-electing MVG customers will experience a significant rate increase.

28. Mr. McGinnis' prefiled testimony noted that the Company projects an under-recovery balance of $6,167,918 based upon ten months of historical data and two months of updated estimates. Ex. 2 at 5.

29. Further, Mr. McGinnis 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 proceedings with actual costs and revenues incurred; and (3) to

calculate the non-firm surcharge. Mr. McGinnis also described various accounting adjustments that were made in the preparation of the filing and addressed the then applicable status of the prior GCR proceeding and other ongoing proceedings involving gas matters.

30. Mr. McGinnis concluded by observing that gas costs included in the proposed GCR represent approximately 75% of the total bill amount for residential customers. Commercial and industrial customers' bills would increase 16.7% to 38.7% in the commodity portion of their bills. Ex.2 at 13.

31. Company witness W. Thomas Bacon, Jr., Director -- Regulatory & Natural Gas Planning for PHI Service Company, 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) an update of the Natural Gas Hedging program; (4) firm natural gas purchase requirements; (5) the Company's capacity release and off-system sales activity; (6) the proposed transportation balancing fee; and (7) update on planned capacity additions. (Ex. 6.)

32. Regarding the available natural gas supply, Mr. Bacon testified that the Company has 169.230 Mcf of peak or design day supply to meet firm sales customer needs, but based upon projected requirements there will be a shortfall of 10,374 Mcf. The additional demand is occasioned by the return to operation of a large industrial assembly plant and increased projected customer additions. Ex. 6 at 4. This shortfall will be met by either increased output from the Company's LNG facility or purchase of gas under a short-term arrangement.

33. Mr. Bacon stated that the under-recovery of $6.2 million is largely due to higher commodity costs because of an increased need for

supply and the disruption in production caused by Hurricanes Katrina and Rita. Ex. 6 at 6. To reflect the impact of the hurricanes on gas prices, the Company deviated from its past practice to use the NYMEX gas futures price at the close of business on August 18, 2005. Rather, for this 2005-2006 application, the Company based its gas futures price on the NYMEX gas futures price at the close of business on September 26, 2005 for the months of October and November 2005 and a blended wholesale gas price forecast for December 2005 to October 2006. Ex. 6 at 6-7. The blended gas forecast was based on NYMEX gas futures and the PIRA and EIA wholesale gas forecasts. Ex. 6 at. 8.

34. Mr. Bacon reported that for the 12-months ended June 2005, the Company hedged approximately 79% of its projected purchase requirements at an average cost of $6.19/MMBtu (million British thermal units). This successful hedging strategy permitted the Company to lower its gas commodity costs by approximately $4.1 million. For the four month period ending October 2005, the Company hedged approximately 92% of its overall projected purchase requirements at an average cost of $6.27/MMBtu, thereby allowing the Company to lower its commodity cost approximately $10.3 million below the NYMEX gas futures contract last day settle prices. Ex. 6 at 12-13. For the 2005-2006 GCR year, the Company has approximately 50% of its overall requirements hedged at an average price of $8.04/MMBtu.

35. Mr. Bacon explained that the Company has proposed an increase in its transportation balancing fee from $0.04 per Mcf to $0.22 per Mcf for all transportation customers. The balancing fee is assessed on each customer’s daily imbalance volume, which is “the difference between what is delivered each day on behalf of the transportation customer and what the customer actually uses.” Ex. 6

at 16. The current balancing fee was established in PSC Docket No. 94-55 when the Company's firm supply deliverability exceeded firm supply demand. Since this is no longer the case, Delmarva believes that all transportation customers should pay for the fixed costs of upstream storage and transportation services. Ex.6 at 7.

36. **DPA's Direct Testimony.** DPA submitted the prefiled testimony of one witness, Andrea C. Crane, Vice President of Columbia Group, Inc. Ms. Crane recommended that the Company's proposed GCR rates, approved by the Commission on a temporary basis, should be made permanent for the period November 1, 2005 through October 31, 2006, subject to true-up in the next GCR filing.

37. Ms. Crane recommended that the Company return to its use of the NYMEX futures prices to estimate its natural gas prices for the GCR period. As stated in Mr. Bacon's testimony for Delmarva, the Company used a blended forecast for December 2005 to October 2006. The blended portion of the rate was based upon the average of wholesale price forecasts for EIA and PIRA indices as published on August 30, 2005 and September 7, 2005 and the NYMEX futures price on September 26, 2005. Ex. 8 at 11; *see also* Ex. 6 at 7. Ms. Crane's recommendation is based upon her observation that the NYMEX prices are objective, independent and market-based forecasts. NYMEX prices reflect the future expectations of actual buyers and sellers. Secondly, for the supply that is not hedged, the NYMEX prices are the benchmark for gas purchased in the month-ahead or daily markets. Ex. 8 at 13. The EIA and PIRA are subjective and theoretical forecasts that have not been tested in the marketplace.

38. Ms. Crane objected to Delmarva's proration adjustment for one-half of the revenue for November 2005. The Company made this

adjustment, resulting in an additional cost of $1,575,863, because one half of the month reflects the prior GCR and one-half of the month reflects the new GCR that is placed in effect on a temporary basis. Ex.8 at 15; *see also* Ex. 2 at Schedule CRM-1, page 2 of 8, fn.(3). Ms. Crane opined that this adjustment was not necessary because, among other things, the Company had an ability to collect these rates by prorating bills that span more than one GCR period. However, the Proposed Settlement sets forth a plan for the parties to investigate this issue before the 2006-2007 GCR application is filed.

39. Further, Ms. Crane did not have any significant objections to Delmarva's hedging program. In fact, she stated that she believed that the program was "working well" and that "the impact on ratepayers would have been much more severe in the absence of DPL's hedging program." Ex. 8 at 18-19.

40. **Staff's Direct Testimony**. Commission Staff submitted the testimony of Funmi Jegede, Public Utilities Analyst. (Ex. 8.) Ms. Jegede detailed her review of Delmarva's application. She recommended that the Commission approve the changes sought by the Company to modify its current GCR factors. Ms. Jegede reviewed the Company's gas demand and supply plan and found it appropriate.

41. Ms. Jegede noted that Commission Staff has no objection to the method used by Delmarva to reconcile the actual and estimated WACCOG true-up for commodity costs for the LVG and electing MVG customers. Further, Staff does not disagree with the Company's reconciliation of the flexibly priced WACCOGs. Ex. 9 at 7.

42. Ms. Jegede stated that she supported the Company's proposal to increase the transportation balancing fee. Ex. 9 at 8. Commission Staff found that the Company made an adjustment to its firm gas

balancing purchased gas costs in November 2005 in the amount of $3 million. This adjustment was necessary because an error had been made in the October report’s balancing adjustment. Ex. 9 at 10. Staff did not request that the Company adjust its GCR because of the error because the adjustment will be carried over to the cumulative monthly GCR over/under collection balance. Ex. 9 at 10. The net effect of the error would reduce the monthly proposed GCR by 1.3 cents, which can easily be trued-up in the ongoing over/under collection balance.

IV. DISCUSSION

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

44. In this case, neither Staff nor the DPA object to the proposed GCR factors, reconciliation and true-ups, non-firm surcharge or to the proposed tariff (non-rate) modifications. DPA raised an important concern regarding the reconciliation method of the proposed GCR rate on November 2005 revenue resulting in an additional cost of $1,575,863. The parties have agreed to a mechanism for exploring and resolving this issue prior to the Company’s next GCR filing. As discussed below, the Company answered each of DPA’s and Staff’s concerns in the Proposed Settlement.

45. Regarding the use of the NYMEX gas futures, the concern raised by DPA is critical to establishing the most accurate forecast for gas prices for the GCR. The Proposed Settlement establishes that in future cases, the NYMEX will be used as the primary tool for forecasting rates for the GCR; however, the Company may use other forecasting indices, such as the EIA and PIRA, if it believes that circumstances warrant the use of additional forecasting methods. Should other forecasting indicia be employed for forecasting the GCR,

the Company will present testimony and support its rationale for using these indices. The use of the NYMEX gas futures prices as the primary index upon which to base the various classifications of the GCR in effect creates a rebuttable presumption that a GCR based on NYMEX gas futures is reasonable. However, even though the Proposed Settlement requires that Delmarva forecast the GCR based on a single day's close or an average of two or more days of closing prices selected between July 20 and August 20 of each year, in light of the havoc that the recent hurricane season has wrought on gas prices, there is considerable room to argue that closing prices on these dates may not yield the most accurate GCR forecast. Our recent experience with the weather has amply demonstrated that the dates agreed to by the parties may be too early in the season on which to determine a reliable forecast. However, the Proposed Settlement does not foreclose Delmarva from raising this issue in future cases if the Company believes that these dates will not provide an accurate basis upon which to derive the GCR.

46. Regarding the Gas Hedging Program, all the parties acknowledge that the program has been successful during this past year. The Company stated that it had hedges in place for the GCR year of November 2005 to October 2006 that exceeded its expectations for the period. These hedges significantly lowered its commodity cost by some $10.3 million below the NYMEX gas futures contract price.

47. Regarding the increase in the Company's transportation balancing fee from $0.04 per Mcf to $0.22 per Mcf, all parties supported the price increase as appropriate at this time.

48. As seen in the testimony and in the attached Proposed Settlement, Staff and DPA agree that the Company's proposed GCR rates,

proposed reconciliation and true-ups (as corrected), proposed non-firm surcharge, and the proposed tariff (non-rate) modifications are just and reasonable. In addition, as discussed above, the Proposed Settlement answers all of DPA's and Staff's concerns regarding use of the NYMEX gas futures price index and the methodology to be used by the parties to resolve the November billing synchronization issue. For these reasons, I find that the approval of the Proposed Settlement 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.

V. RECOMMENDATIONS

49. 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 October 11, 2005 with meter readings on and after November 1, 2005 until October 31, 2006 as shown below:

Rate Schedules	GCR Demand Charge	GCR Commodity Charge
RG, GG and GL	N/A	118.384¢/ccf
Non-electing MVG	$6.20/Mcf of	$11.0279/Mcf Billing MDQ
Electing MVG & LVG	$6.20/Mcf of Billing MDQ	Varies
Standby Service	$6.20/Mcf of Standby MDQ	N/A

B. That the Commission approve as just and reasonable the Company's proposed (a) reconciliation and true-up (as corrected and revised) of actual versus estimated Weighted Average Commodity Cost of Gas ("WACCOG") assignments for sales under the Flexibly Priced Sales service to restate fuel revenue and shared margin revenue credits; (b) reconciliation and true-up (as corrected and revised) of 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 (c) to revise the surcharge applied to non-firm services to collect a portion of interstate pipeline charges.

C. That the Commission approve the Proposed Settlement of the Parties as just and reasonable providing that (1) Delmarva will use the NYMEX natural gas futures as the primary tool in establishing its proposed gas cost rate each year; (2) Delmarva will use the NYMEX gas futures prices based upon a single day's close or an average of two or more days of closing prices selected from actual gas futures closing prices observed between July 20 and August 20 each year; (3) Delmarva will use a consistent gas futures forecasting methodology from year-to-year unless, in its good faith business judgment, the Company believes that market indicators suggest that a different methodology is likely to provide a more accurate gas cost rate forecast; (4) Delmarva's billing synchronization methodology employed in this application is approved for purposes of this docket only; (5) prior to filing Delmarva's GCR application for the 2006-2007 year, the Company, Commission Staff and DPA will meet to discuss and attempt to resolve the methodology to be used by Delmarva to synchronize billing each year for the month of November; (6) Delmarva will not use the billing synchronization method used in this application in its GCR for 2006-2007 unless Commission Staff and DPA unanimously agree that it is appropriate; (7) in the event that Commission Staff and DPA do not agree that Delmarva's billing synchronization method used in this application is appropriate, Delmarva will use the methodology used in its applications for the years prior to 2005-2006; (8) however, should Delmarva propose to use the billing synchronization method used in this application or any other method that has not been agreed to by Commission Staff or DPA, the Company will submit testimony with its application that supports and explains the basis for its proposed use of its proposed synchronization method.

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

Respectfully submitted,

/s/ Ruth Ann Price
Ruth Ann Price
Hearing Examiner

Dated: June 2, 2006

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

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	**)**	**PSC Docket No. 05-312F**
TO ITS GAS COST RATES	**)**	
(Filed October 3, 2005)	**)**	

PROPOSED SETTLEMENT

On this day, April 27, 2006, Delmarva Power & Light Company ("Delmarva" or the "Company"), the Delaware Public Service Commission Staff (the "Staff"), and the Division of the Public Advocate ("DPA"), all of whom together are the "Parties" or "Settling Parties," hereby propose a complete settlement of all issues that were or could have been raised in this proceeding as follows.

I. INTRODUCTION AND PROCEDURAL BACKGROUND

On October 3, 2005, Delmarva filed an application (the "Initial Application") with the Delaware Public Service Commission (the "Commission") to modify its Gas Cost Rate ("GCR") factors, effective on and after November 1, 2005, with proration, and with such revised factors to continue in effect until October 31, 2006. Delmarva also requested approval: a) to reconcile and true-up actual versus estimated Weighted Average Commodity Cost of Gas ("WACCOG") assignments for sales under the Flexibly Priced Sales service to restate fuel revenue and shared margin revenue credits; b) to 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 c) to revise the surcharge applied to non-firm services to collect a portion of interstate pipeline charges.

On October 11, 2005, in Order No. 6737, 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, 2005, with proration. The Commission's Order also assigned the matter to Hearing Examiner Ruth Ann Price, Esquire for further proceedings.

Pursuant to Order No. 6737, notice of the application, including information on how to intervene in the proceeding, was published. In addition, Delmarva provided notice to multiple agencies throughout its natural gas service territory. The Settling Parties request that the public notices be admitted into evidence as Exhibit 1.

The Division of the Public Advocate made a timely intervention in the proceeding. No other party intervened.

After discussion among the Parties and with the approval of the Hearing Examiner a procedural schedule was adopted. The procedural schedule established April 27, 2006 for an evidentiary hearing.

A public comment session was conducted and presided over by Hearing Examiner Price on January 19, 2006.

The DPA and Staff filed responsive testimony on or before February 21, 2006.

II. SUMMARY OF THE APPLICATION

Delmarva's Application proposed modifications to 2005-2006 GCR year components applicable to firm sales customers, compared with the Gas Cost Rate factors in effect for the 2004-2005 GCR year as shown below:

Rate Schedules	Present GCR Demand Charge	Present GCR Commodity Charge	Proposed GCR Demand Charge	Proposed GCR Commodity Charge
RG, GG and GL	N/A	85.917¢/ccf	N/A	118.384¢/ccf
Non-electing MVG	$8.36/Mcf of	$7.5278/Mcf of Billing MDQ	$6.20/Mcf Billing MDQ	$11.0279/Mcf
Electing MVG and LVG	$8.36/Mcf of Billing MDQ	Varies	$6.20/Mcf of Billing MDQ	Varies
Standby Service	$8.36/Mcf of Standby MDQ	N/A	$6.20/Mcf of Standby MDQ	N/A

III. SETTLEMENT PROVISIONS

A. The parties agree that, subject to the commitments and agreements set forth in paragraphs B and C below, approval of Delmarva's Application, as filed, should be recommended by the Hearing Examiner and subsequently approved by the Commission.

B. USE OF NYMEX AS A PRIMARY TOOL FOR ESTABLISHING THE GCR FORECAST:

The parties agree that in its annual Gas Cost Rate ("GCR") application, Delmarva should seek to propose forecasted rates at levels that minimize the need for interim rate adjustments. The parties agree that Delmarva will rely upon NYMEX natural gas futures prices as a primary tool in establishing its proposed GCR each year. Delmarva agrees to use NYMEX gas futures prices based upon a single day's close or an average of two or more days of closing prices selected from actual gas futures closing prices observed between July 20 and August 20 each year.

Delmarva agrees to use a consistent methodology from year-to-year, unless, in the exercise of its good faith business judgment, it believes market indicators suggest a different methodology is likely to provide a more accurate GCR forecast. When market indicators dictate, Delmarva will maintain its ability to exercise its business judgment to use a different forecasting methodology.

B. SYNCHRONIZING FORECASTS OF NOVEMBER GAS REVENUE WITH THE METHOD CUSTOMERS ARE ACTUALLY BILLED AND REVENUE IS RECORDED:

DPA has concerns about the use of this synchronization methodology, which was used by Delmarva for the first time in this Application. Staff does not believe that the issue has been sufficiently considered to be resolved in this proceeding. The parties agree that DPA's and Staff's acceptance of this synchronization methodology for this docket does not constitute any agreement or any precedent that this methodology is acceptable in future GCR proceedings. The parties agree to meet to discuss the potential use of this synchronization methodology in future GCR proceedings. If the parties cannot reach a unanimous agreement on the use of this synchronization methodology prior to the Company filing its GCR rates for the 2006-2007 GCR year, then Delmarva will not use this synchronization methodology in its forecast for the 2006-2007 GCR year and will, instead, use the methodology utilized in previous years. The parties further agree that should Delmarva propose to utilize this, or any different, synchronization methodology in the GCR proceeding for the 2007- 2008 GCR year, it will provide full testimony with its application for the 2006-2007 GCR year that explains the basis for its proposed use of this synchronization methodology in the 2007-2008 GCR year, and may request that the Commission issue an order as to whether Delmarva may utilize this synchronization methodology in the GCR forecast. To the extent that Delmarva proposes to change synchronization methodologies in any GCR year subsequent to 2007-2008, it will provide full testimony with its application for the relevant GCR application that explains the basis for its proposed use of such synchronization methodology. The parties' agreement on this issue does not waive any rights that they may have with respect to this issue in future GCR proceedings.

D. ADDITIONAL PROVISIONS:

1. The provisions of this settlement are not severable.

2. This Settlement represents a compromise for the purposes of settlement and shall not be regarded as a precedent with respect to any ratemaking or any other principle in any future case. No Party to this settlement necessarily agrees or disagrees with the treatment of any particular item, any procedure followed, or the resolution of any particular issue in agreeing to this settlement other than as specified herein, except that the Parties agree that the resolution of the issues herein taken as a whole results in just and reasonable rates.

3. To the extent opinions or views were expressed or issues were raised in the pre-filed testimony that are not specifically addressed in the Settlement, no findings, recommendations, or positions with respect to such opinions, views or issues should be implied or inferred.

IN WITNESS WHEREOF, intending to bind themselves and their successors and assigns, the undersigned parties have caused this Proposed Settlement to be signed by their duly-authorized representatives.

/s/ Todd L. Goodman_____________
Delmarva Power & Light
Company

By: /s/ Todd L. Goodman__________
Print Name

Date:_4/25/06_

/s/ Connie S. McDowell___________
Delaware Public Service
Commission Staff

By:_/s/ Connie S. McDowell_______
Print Name

Date:_4/25/06__

/s/ G. Arthur Padmore_____________
Division of the Public Advocate

By:_/s/ G. Arthur Padmore_________
Print Name

Date:_4/25/2006

APPENDIX A

RATES AND CHARGES

Effective with meter readings on and after November 1, 2005, with proration:

Service Classifications	GCR Demand Charge	GCR Commodity Charge
RG, GG, and GL	N/A	118.384¢/ccf
Non-Electing MVG	$6.20/Mcf of Billing MDQ	$11.0279/Mcf
Electing MVG and LVG	$6.20/Mcf of Billing MDQ	Varies
Standby Service	$6.20/Mcf of Billing MDQ	N/A
Non-Firm Surcharge Credit	N/A	N/A