

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF)
DELMARVA POWER & LIGHT COMPANY FOR A)
CHANGE IN THE GAS ENVIRONMENTAL) PSC DOCKET NO. 06-283
SURCHARGE RIDER RATE)
(FILED AUGUST 31, 2006))

ORDER NO. 7145

AND NOW, to-wit, this 20th day of March, A.D., 2007;

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 having received and reviewed the Proposed Settlement Agreement of the parties which disposes of all of the outstanding issues raised by Delmarva Power & Light Company's Application filed on August 31, 2006; and

WHEREAS, the Commission finds that the proposed increase in the Environmental Surcharge Rider Rate as provided in the applicable tariff sheets of Delmarva Power & Light Company is just and reasonable and that its adoption 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 March 13, 2007 Findings and Recommendations of the Hearing Examiner, appended to the original hereof as Attachment "A."

2. That the Commission approves the parties' proposed Settlement Agreement appended to the original hereof as Attachment "B."

3. That, the Commission approves Delmarva Power & Light Company's proposed rates and tariff changes, which reflect an increase in the environmental surcharge rider rate, as follows:

<u>Rate Schedules</u>	<u>Present Charge</u>	<u>Proposed Charge</u>
RG and GG	\$0.00138/Ccf	\$0.00238/Ccf
MVG & LVG	\$0.01377/Mcf	\$0.02380/Mcf
GVTF	\$0.00138/Ccf	\$0.00238/Ccf
MVFT, LVFT	\$0.01377/Mcf	\$0.02380/Mcf

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

BY ORDER OF THE COMMISSION:

/s/ Arnetta McRae
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Dallas Winslow
Commissioner

PSC Docket No. 06-283, Order No. 7145 Cont'd.

/s/ Jeffrey J. Clark
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: March 13, 2007

RUTH ANN PRICE
HEARING EXAMINER

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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 Order No. 7038, dated October 3, 2006, 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 A. IORII, ESQUIRE.

On behalf of the Division of the Public Advocate ("DPA"):

G. ARTHUR PADMORE, PUBLIC ADVOCATE.

II. DELMARVA'S APPLICATION TO ADJUST THE ENVIRONMENTAL SURCHARGE RIDER RATE

1. On August 31, 2006, Delmarva filed its annual application, as required by PSC Order No. 6372 (Feb. 24, 2004), to reset the surcharge effective on November 1 of each year. Delmarva requested to change

its Environmental Surcharge Rider Rate ("ESR" or "Environmental Surcharge Rate") from \$0.00138 per Ccf to \$0.00238 per Ccf for all firm delivery service customers effective November 1, 2006 and with such revised factors to continue in effect until October 31, 2007, subject to refund.

2. In PSC Order No. 7038 (Oct. 3, 2006), the Commission allowed Delmarva's instant proposed ESR to become effective on a temporary basis, subject to refund. In addition, the Commission designated the undersigned Hearing Examiner to conduct public evidentiary hearings as needed and to report to the Commission her proposed findings and recommendations based on the evidence presented.

3. On October 12 and 13, 2006, the Company published notice of its application in the legal classified section of The News Journal newspaper. The notice included information on how to intervene in the proceeding and announced the date of November 6, 2006 by which all petitions to intervene must be filed.

4. On October 6, 2006, the DPA filed a timely notice of intervention. No other party petitioned for intervention.

5. On November 7, 2006, the Company announced, through publication in The News Journal, that public comment hearings would be held on November 29, 2006 at the Carvel State Office Building in Wilmington.

6. According to the Company's application, under the proposed rates, the average residential heating customer using 120 Ccf of gas a month during the winter heating season would experience an increase of

\$0.12 or an increase of less than 0.1 percent since the last ESR filing.

7. A duly noticed¹ public comment hearing was conducted in the evening of November 29, 2006 in Wilmington, Delaware. The public comment session was held jointly for this docket and for Delmarva's Gas Cost Rate ("GCR") case, PSC Docket No. 06-285, and its base rate case, PSC Docket No. 06-284.² No members of the public attended the public comment session for any of the cases.

8. A duly noticed evidentiary hearing was held on February 21, 2007, in Wilmington. No members of the public attended the evidentiary hearing. The record, as developed at the hearing, consists of a 35-page verbatim transcript and five exhibits.

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

III. SUMMARY OF THE EVIDENCE

A. Company's Direct Testimony.

10. Delmarva submitted the pre-filed testimony of one witness Leonard Beck, Senior Regulatory Affairs Analyst. Mr. Beck provided

¹The affidavits of publication October 12-13, 2006 and November 7, 2006 from *The News Journal* newspaper are included in the record as Exhibit 1. Exhibits will be cited as "Ex.____" and references to the public comment session transcript and the hearing transcript will be cited as "Tr.____."

²On August 31, 2006, Delmarva filed an application for a decrease in its Gas Cost Rate ("GCR"). The GCR case is captioned In the Matter of the Application of Delmarva Power & Light Company for Approval of Modifications to its Gas Cost Rates, PSC Docket No. 06-285F. In August 2006, the Company also filed an application to increase its base rates by a total revenue amount of \$14.57 million or 6.62%. Delmarva's base rate case is denominated as In the Matter of the Application of Delmarva Power & Light Company for A Change in Natural Gas Base Rates, PSC Docket No. 06-284.

the overview for Delmarva's case and summarized the proposals and rationale for those proposals. Ex. 2. Mr. Beck explained that by Order No. 6889 (April 25, 2006), the Commission approved the environmental surcharge rate that placed into effect the current rate of \$0.00138 per Ccf for the RG, GG and GVFT rate classifications and \$0.01377 for the MVG, LVG, MVFT and LVFT rate classifications. As stated by Mr. Beck, the purpose of the environmental surcharge rate is to allow the Company to recover certain expenses associated with remediation of its Manufactured Gas Plant sites. Ex. 2 at 3.

11. In the instant application, filed on August 31, 2006, the Company seeks to increase the ESR from \$0.00138 per Ccf to \$0.00238 per Ccf based upon its need to recover the amount of \$798,811.76 in expenses incurred during the Environmental Cost Year ("ECY") of June 1, 2005 through May 31, 2006. Ex. 2 at 7, 13-14. The Company has not requested any rate design changes in this case. Further, the Company calculated the proposed increase using the same methodology approved by the Commission in Order No. 6401 (April 20, 2004) regarding PSC Docket No. 04-53 for implementation of the initial ESR. Approval of the instant Company request would mean that ratepayers using 120 Ccfs per month during the winter heating season would experience an increase from \$189.62 to \$189.74 in their bills or \$0.12, which is less than a one percent (1%) increase. Ex. 2 at 16.

12. Remediation Sites. Mr. Beck testified that there is one manufactured gas plant site in Wilmington that DNREC divided into three designations - Wilmington Coal Gas Site - North, Wilmington Coal Gas Site - South, and the Wilmington Public Works Yard. There is also

a site located in New Castle.³ Ex. 2 at 6. The Company's application for recovery of \$798,811.76 in remediation costs in its instant application is related to the collective Wilmington site. Ex. 2 at 13.

13. The Wilmington Coal Gas Site-North incurred \$172,004.65 in expenses for consulting and DNREC oversight for implementation of Phase I (excavation) and implementation planning. *Id.* The Public Works Yard had expenditures of \$623,155.92 incurred for site remediation including consultant services and DNREC oversight. *Id.* Expenses of \$3,651.19 are attributable to the Wilmington Coal Gas Site - South for environmental consulting and DNREC oversight. *Id.* at 13 and Schedule LJB-1.

14. In the Company's testimony supporting its application filed for the ECY June 1, 2004 through May 31, 2005, the Company anticipated completion of remediation work for the Wilmington Coal Gas Site - North by February 2007. Ex. 2 at 13. As anticipated, the Company sold the site to the Delaware Department of Transportation ("DelDot") for relocation of roadways in the area.⁴ Ex. 2 at 14. Therefore, of

³The applicable tariff, Delmarva Power & Light, P.S.C. Del. No. 5-Gas, Tariff Leaf No. 79, Section A, Sixth Revision, Revised August 10, 2004, effective on and after April 20, 2004, provides for recovery of expenses associated with the Wilmington site alone. Therefore, assuming that the Company had incurred remediation expenses for the New Castle site (which it has not claimed in this application) there is no currently approved tariff that permits the Company to recover those expenses through a surcharge.

⁴In an answer to an in-hearing data request, the Company provided an explanation of the circumstances surrounding the sale of the Wilmington Coal Gas Site-North. Ex. 5 at Company's Answer to Question No. 2. The Company stated that because of the sale, it received from DelDot certain indemnifications and DelDot's assumption of future environmental liability. The Company noted that since DelDot anticipated changing the site from a commercial use to a public use remediation costs to the Company would have dramatically increased to an estimated \$5 million to \$20 million. The sale

the requested \$798,811.76, the amount of \$172,004.65 represents the final out-of-pocket remediation expenditures for this site.⁵

15. Mr. Beck noted that the Company estimates the impact of the sale under condemnation of the Wilmington Coal Gas Site - North effectively reduced the Company's future anticipated out-of-pocket remediation cost by a minimum of \$1.8 million. Ex. 2 at 15. For natural gas customers, the benefits of the sale also included receiving indemnifications and covenants from the purchaser that significantly reduce the Company's exposure to additional expenditures for environmental contamination at this site. *Id.* The Company opines that the sale of this site will benefit natural gas customers because the current public use of this property and the adjacent property requires a different remediation strategy that could have cost customers substantially more in remediation costs. Ex. 2 at 15.

16. Mr. Beck reported that the remediation work planned for the Public Works Yard for the ECY applicable to this application was completed. Mr. Beck stated that the majority of the manufactured gas plant remediation work for the Public Works Yard is complete. Ex. 2 at. 14.

17. For the prior application (for the ECY June 1, 2004 through May 31, 2005), DNREC requested an additional evaluation of the Wilmington Coal Gas Site - South. Mr. Beck explained that DNREC had

of the property to DelDot terminated the Company's future liability for remediation expenses.

⁵The Company testified that the proceeds of the sale were raised in the base rate case entitled, In the Matter of the Application of Delmarva Power & Light Company for a Change in Natural Gas Base Rates, PSC Docket No. 06-284. The parties to this case have entered a proposed settlement.

completed its review of the site and determined that it is contaminated and must be remediated. Ex. 2 at. 14. During the ECY applicable to the instant application, DNREC continued with testing and evaluating the site. However, the final plans for remediation of the site are not complete. *Id.* Although the Company realized that DNREC could order additional remediation work to be performed, it nevertheless anticipates that by the end of the ECY May 31, 2009 remediation of the Wilmington Coal Gas Site - South will be complete at a projected cost of \$1,542,000.

18. The Company estimated the cost of future expenditures for remediation of the collective Wilmington Manufactured Gas Plant site would be in the range of \$1,110,000. Ex. 2 at 15.

B. The DPA.

19. The DPA participated in the audit of the Company's books and reviewed the schedules attached to the direct prefiled testimony of Company witness Leonard J. Beck. Tr. 22-23. DPA objected to, as did the Commission's Staff, the claimed expense of \$10,000 for purported paving costs at the Wilmington Public Works Yard site. Tr. 37. As will be more fully explained in the following section entitled, "The Proposed Settlement," the Company, Staff and DPA have reached a settlement of the disputed expense. DPA did not dispute any of the Company's requested increases for any of the rate classifications. Tr. 37. Therefore, since all of the issues were resolved prior to the filing date for submission of its testimony, DPA did not file direct testimony in this case.

20. DPA did participate in the evidentiary hearing in this case. Finding them just and reasonable, the DPA agreed with the Company's proposed requests for ESR increases in all of its rate classifications. Tr. 38. Further, DPA stated that it had actively participated in the proposed settlement discussions relating to the claimed expense of \$10,000 for paving costs at the Wilmington Public Works Yard site and it agreed with the proposed method of handling the expense. Tr. 37-38.

C. Staff's Testimony.

21. The Delaware Public Service Commission's Staff submitted the testimony of one witness, David N. Bloom, a Public Utilities Analyst, to provide Staff's position regarding the proposed increase to the ESR. Ex. 4 (Bloom).

22. Mr. Bloom reported that he conducted a thorough audit of the Company's application and schedules filed in this matter with other supporting documents that were made available to Staff. Tr. 41; 48 and Ex. 4 at 3. Mr. Bloom also conducted an audit of the Company's books relating to remediation of the collective Wilmington Coal Gas Sites. *Id.* Further, Mr. Bloom testified that he reviewed the schedules attached to Mr. Beck's pre-filed testimony (Ex.3 at Schedules LJB-1 through LJB-5) and conducted an audit of the Company's books at its offices in Wilmington. *Id.*

23. Mr. Bloom stated that he reviewed all of the documents for the remediation of the Wilmington Coal Gas Sites (North, South and the Public Works Yard) for the environmental cost year ending May 31, 2006. Ex. 4 at 4. Mr. Bloom reported that he found only one

discrepancy for an entry in the amount of \$10,000 to DNREC. Tr. 41-42; 45. Mr. Bloom explained that DNREC had instructed the Company to make various investigations and evaluations of and to take remedial actions (removal of the impacted materials and installation of a cap) to Operable Unit #2 at the Public Works Yard. However, by the date (April 3, 2006) DNREC notified the Company of the proposed remedies, the Company had already completed them, except for capping the non-paved areas. Ex. 4 at 4. The Company found that it was unnecessary to pave these areas at the time because they will be dug-up again for another construction project. The Company and DNREC have agreed that the Company will donate the \$10,000 in paving costs for this area to the DNREC's Hazardous Substance Clean-Up Act Fund to be used for paving after all of the construction at the site is completed. Ex. 4 at 5.

24. Staff disagrees with the Company's application, which requests that the amount of \$10,000 be included in the remediation expenses for this application's ECY. Ex. 4 at 5. Mr. Bloom elucidated that the Company booked the \$10,000 as a liability, but did not issue a check for payment of paving costs. Consequently, as of the end of the environmental cost year, there was no invoice to which to trace the \$10,000 "liability." Tr. 41. Mr. Bloom asserted that to allow this amount to be includable as an expense contravenes the purpose of the environmental surcharge rider as stated in the applicable tariff that provides that to be eligible for recovery costs "must be actually incurred, incremental 'out-of-pocket' remediation related expenses" Tr. 47; see Delmarva Power & Light, P.S.C.

Del. No. 5-Gas, Tariff Leaf No. 79; Section A, Sixth Revision, Revised August 10, 2004, effective on and after April 20, 2004.

25. Mr. Bloom contends that the parties' proposed mechanism, as more fully described below, for capturing the amount of any over- or under-recovery of the ESR will not result in a detriment to ratepayers. Tr. 42-43; Ex. 4 at 5. However, Mr. Bloom recommended that this issue be carefully examined in the Company's next application (ECY June 1, 2006 through May 31, 2007; corresponding to recovery period November 1, 2007 through June 31, 2008) for adjustment of the ESR. *Id.*

D. The Proposed Settlement.

26. At the evidentiary hearing, Staff, DPA and the Company submitted a Proposed Settlement that purports to resolve all of the outstanding issues in this matter. See Ex. 3, a copy of The Settlement Agreement is attached hereto as "Attachment B." The parties agreed to recommend approval of the rate proposals contained in the Company's application. In addition, the parties have devised a method to resolve the accounting entry representing \$10,000 to be spent at some future period for repaving of the Operable Unit #2 at the Wilmington Public Works Yard. Ex. 2 at Schedule LJB-1; Ex. 4 at 4-5. The disputed amount is currently reflected in the Company's Schedule of Environmental Expenses Incurred during the ECY June 1, 2005 through May 31, 2006. Ex. 2 at Schedule LJB-1. On January 4, 2007, the Company notified Staff and DPA that it had "reversed" the entry for the next ECY June 1, 2006 - May 31, 2007. Ex. 4 at Exhibit DNB-5. Therefore, if the Company spends the amount of \$10,000 before May 31,

2007, the expenditure will be included in the Company's application for ECY June 1, 2006 - May 31, 2007 under DNREC expenses. Ex. 4 at Exhibit DNB-5. However, if the amount is not spent, the Company will not claim the item. Ex. 4 at 5 and Ex. 4 at Exhibit DNB-5.

V. DISCUSSION

27. The Commission has jurisdiction over this matter. 26 Del. C. §201(a). The evidentiary record supports the conclusion that the Proposed Settlement Agreement results in just and reasonable rates and should be approved by the Commission. For the reasons discussed below, I concur and recommend to the Commission its approval and adoption of the Proposed Settlement Agreement.

28. As noted above, the evidentiary hearing was conducted on February 21, 2007, at which time each of the parties presented a witness who testified as to his reasons for supporting the Proposed Settlement Agreement.

A. Uncontested Matters That Require Commission Action

29. Pursuant to the Proposed Settlement Agreement, the Company, DPA, and Staff agree that the ESR should be increased from the current rate of \$0.00138 per Ccf to the rate of \$0.00238 for the RG, GG and GVFT rate classifications and from \$0.01377 to \$0.02380 for the MVG, LVG, MVFT and LVFT rate classifications.

30. With the Commission's approval of the Company's request to recover \$798,811.76 in this filing, the Company will have requested (and received) permission to recover the total amount of \$2,335,139.72⁶

⁶Since the ESR was established, the Commission has approved (or may approve with this filing) for recovery by Delmarva the following amounts for remediation expenses at the Wilmington subdivided sites:

for expenses associated with clean-up of the Wilmington site since the Company made its initial request in PSC Docket No. 04-52.

31. The Company, Staff and the DPA have reviewed the expenses in the accounts related to the Wilmington Coal Gas Site - North, Wilmington Coal Gas Site - South and the Public Works Yard and, except for the amount of \$10,000 relating to certain paving costs for the Wilmington Public Works Yard, the parties agree that the expenses are reasonable and appropriate costs associated with the remediation of the Manufactured Gas Plant site in Wilmington.

32. Moreover, I find that the average residential heating customer using 120 Ccf of gas a month during the winter heating season would experience an increase of \$0.12 or an increase of less than 0.10% in their natural gas bill due to this increase.

33. Accordingly, I recommend that the Commission approve the Company's application for an increase in the Environmental Surcharge Rider Rate as stated in its Application and accompanying proposed tariffs as well as in the Proposed Settlement Agreement.

B. Claimed Expense for Paving Costs- No Commission Action Required

34. I note that for this Application alone, the Company, DPA and Staff agree that the Company's claimed expense of \$10,000 for paving costs at the Operable Unit #2 located at the Public Works Yard are not in dispute at this time. As stated in the Proposed Settlement

Docket 04-53	-	\$522,988	for ECY 1997	to 5/31/03
Docket 04-484	-	\$ 55,751	for ECY 6/1/03	to 5/31/04
Docket 05-356	-	\$957,588.96	for ECY 6/1/04	to 5/31/05
Docket 06-283	-	\$798,811.76	for ECY 6/1/05	to 5/31/06
Total	-	\$2,335,139.72	amount for remediation expenses	

Agreement, the parties have agreed upon a mechanism for handling the claimed expense in the next ECY for June 1, 2006 through May 31, 2007.

35. The parties agree to review this issue in the Company's next application to adjust the ESR for the cost year June 1, 2006 through May 31, 2007. The parties further agree that if the claimed amount was spent during the cost year, the Company may claim the amount of \$10,000 as a properly includable expense. On the other hand, if the Company cannot demonstrate this expenditure was spent for a remediation related activity that was actually incurred during the applicable year then it must be removed from the Company's claimed expenses.

36. I further recommend that the Commission approve the treatment suggested by the Parties in their Proposed Settlement Agreement for the \$10,000 in paving expense for the Wilmington Public Works Yard, Operable Unit #2.

VI. RECOMMENDATION

37. In summary, and for the reasons discussed above, I find that Delmarva Power & Light, the DPA and Staff have presented sufficient evidence to support the justness and reasonableness of the Proposed Settlement Agreement and accordingly, I recommend that the Commission adopt this report and recommendation and approve the Proposed Settlement Agreement.

38. As stated in the Company's application, I recommend to the Commission that it approve as just and reasonable the Company's proposed Environmental Surcharge Rider Rates as follows:

a. For the RG and GG classifications from \$0.00138 per Ccf to \$0.00238 per Ccf;

b. For the MVG and LVG classifications from \$0.01377 per Mcf to \$0.02380 per Mcf;

c. For the GVFT classification from \$0.00138 per Ccf to \$0.00238 per Ccf; and

d. For the MVFT and LVFT classifications from \$0.01377 per Mcf to \$0.02380 per Mcf.

39. A form of Order implementing the foregoing recommendations is included for the Commission's consideration.

Respectfully submitted,

/s/ Ruth Ann Price
Ruth Ann Price
Hearing Examiner

Dated: March 13, 2007

ATTACHMENT "B"

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)	
DELMARVA POWER & LIGHT COMPANY FOR A)	Docket No.
CHANGE IN THE GAS ENVIRONMENTAL)	06-283
SURCHARGE RIDER RATE)	
(Filed on August 31, 2006))	

SETTLEMENT

On this day, February 20, 2007, Delmarva Power & Light Company (“Delmarva”), 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 August 31, 2006, Delmarva filed an application (the "Application") with the Delaware Public Service Commission (the “Commission”) for Approval to Change its Gas Environmental Surcharge Rider (ESR) Rate pursuant to 25 Del. C. §§ 201, 301, 304 and other applicable authorities, including Order No. 6401 in Docket No. 04-53 entered April 20, 2004, to be effective for service rendered on and after November 1, 2006.

On October 17, 2006, in Order No. 7038, the Commission allowed the new proposed ESR rate to become effective on a temporary basis, subject to refund, effective with meter readings on and after November 1, 2006. The Commission’s Order also assigned the matter to Hearing Examiner Ruth Ann Price for further proceedings.

Pursuant to Order No. 7038, 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 February 21, 2007 for an evidentiary hearing.

A public comment session was conducted and presided over by Hearing Examiner Price on November 29, 2006. No members of the public attended.

Staff and DPA performed an audit on November 16, 2006. Staff filed responsive testimony. Due to the fact that there were no issues upon which the parties disagreed, Delmarva did not file rebuttal testimony.

II. SUMMARY OF THE APPLICATION

Delmarva's Application requested permission to change its current Environmental Surcharge Rider rate from a positive surcharge of \$0.00138 per ccf to a positive surcharge of \$0.00238 per ccf for all firm delivery service customers.

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. The August 31, 2006 Application filing of the ESR included an entry in the Schedule of Environmental Expenses incurred during the Environmental Cost Year (June 1, 2005 through May 31, 2006) for \$10,000 for the Vendor, Delaware Department of Natural Resources and Environmental Control (“DNREC”). Delmarva has reversed this entry. In the 2007-2008 ESR, the reversal will be reflected on the Schedule of Environmental Expenses incurred during the Environmental Cost Year (June 1, 2006 through May 31, 2007) on the first row as an "adjustment from prior period" under the "DNREC" column - Schedule 1. Should that \$10,000 liability be paid before May 31, 2007, it will be included on the same schedule under DNREC in the appropriate date row.

C. 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 and is in the public interest.

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

/s/ Michael Sheehy
Delaware Public Service
Commission Staff

By: /s/ Todd L. Goodman
Print Name

By: /s/ Michael Sheehy
Print Name

Date: 2/21/07

Date: 02-20-07

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

By: /s/ G. Arthur Padmore
Print Name

Date: 2/20/07