

**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. 06-285F  
APPROVAL OF MODIFICATIONS TO ITS GAS )  
COST RATES (FILED AUGUST 31, 2006) )

**ORDER NO. 7219**

**AND NOW**, this 3<sup>rd</sup> day of July, 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 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 June 13, 2007 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 March 20, 2007) with meter readings on and after April 1, 2007 until October 31, 2007, as shown below and in the

Proposed Settlement Agreement which is appended to the original hereof as Attachment "B:"

<u>Rate Schedules</u>	<u>GCR Demand Charge</u>	<u>GCR Commodity Charge</u>
RG, GG and GL	N/A	102.357¢/ccf
Non-electing MVG	\$9.98/Mcf of Billing MDQ	\$8.8683/Mcf
Electing MVG & LVG	\$9.98/Mcf of Billing MDQ	Varies
Standby Service	\$9.98/Mcf of Standby MDQ	N/A

3. That the Commission approve as just, reasonable and in the public interest the Company's proposals to: a) 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; and, 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.

4. That Delmarva Power & Light Company shall file with the Commission, within thirty days of the date of this Order, a revised tariff reflecting the revised rates and tariff changes as contained herein.

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:

\_\_\_\_\_  
Chair

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

ATTEST:

\_\_\_\_\_  
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 APPROVAL OF MODIFICATIONS TO ) PSC DOCKET NO. 06-285F  
ITS GAS COST RATES )  
(FILED AUGUST 31, 2006) )

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

DATED: June 13, 2007

RUTH ANN PRICE  
HEARING EXAMINER

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IN THE MATTER OF THE APPLICATION            )  
OF DELMARVA POWER & LIGHT COMPANY        )  
FOR APPROVAL OF MODIFICATIONS TO         ) PSC DOCKET NO. 06-285F  
ITS GAS COST RATES (FILED AUGUST         )  
31, 2006)                                        )

**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. ch.* 101, by Commission Order No. 7039, dated October 3, 2006, and Order No. 7141, dated March 20, 2007, hereby 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: JAMES McC. GEDDES, ESQUIRE

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

G. ARTHUR PADMORE, PUBLIC ADVOCATE  
BO SHEN, PH.D, PUBLIC UTILITIES ANALYST

**II.    BACKGROUND**

**A.    THE APPLICATION**

1. On August 31, 2006, Delmarva filed its annual application ("the application") with the Delaware Public Service Commission (the "Commission") to adjust its Gas Cost Rate ("GCR") factors, effective on and after November 1, 2006, with proration, and with such revised factors to continue in effect until October 31, 2007. The proposed rates, as compared to the current, approved rates are as follows:

<u>Rate Schedules</u>	<u>Present</u>		<u>Proposed</u>	
	<u>GCR Demand Charge</u>	<u>GCR Commodity Charge</u>	<u>GCR Demand Charge</u>	<u>GCR Commodity Charge</u>
RG, GG and GL	N/A	118.384¢/ccf	N/A	106.972¢/ccf
Non-electing MVG	\$6.20/Mcf of Billing MDQ	\$11.0279/Mcf	\$9.98/Mcf of Billing MDQ	\$ 9.3298/Mcf
Electing MVG & LVG	\$6.20/Mcf of Billing MDQ	Varies	\$9.98/Mcf of Billing MDQ	Varies
Standby Service	\$6.20/Mcf of Standby MDQ	N/A	\$9.98/Mcf of Standby MDQ	N/A

2. In addition, the application requests approval of the Company's proposals to: a) 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; and b) 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.

3. The impact on customers would mean that those served under service classifications RG, GG and GL would experience approximately a 9.6% decrease in the level of the GCR. Residential space heating

customers using 120 Ccf per month in the winter would experience a decrease of \$13.69 or 7.2% per month in their total bill. Commercial and industrial customers using "GG" and non-electing "MVG" service classifications would experience increases in their winter bills in the ranges of 5.0% to 8.0% and 8.4% to 12.5%, respectively, in monthly billings depending on applicable service classification and load/consumption characteristics.

4. On October 3, 2006, pursuant to PSC Order No. 7039, 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, 2006, 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 12 and 13, 2006 in *The News Journal* newspaper. 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 7, 2006, the Company announced, through publication in *The News Journal* newspapers, that a public comment

hearing would be held on November 29, 2006 at the Carvel State Office Building in Wilmington. Further, the notice stated that a formal evidentiary hearing would be held on May 11, 2007 for the Company and all intervenors.

**B. PUBLIC COMMENT SESSION**

8. A duly noticed public comment hearing was conducted on the evening of November 29, 2006 from approximately 7:00 p.m. to 7:16 p.m. at the Carvel State Office Building in Wilmington, Delaware.<sup>1</sup> In addition to publication of the notice in *The News Journal* newspaper, 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. The hearing initially began at 7:00 p.m. I adjourned the hearing for approximately ten (10) minutes to allow members of the public to arrive. At 7:11 p.m., I again called to session to order and, finding that no members of the public had arrived, I adjourned the meeting at approximately 7:16 p.m.

**C. THE SUPPLEMENTAL APPLICATION**

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<sup>1</sup> The Public Comment Hearing held on November 29, 2006 was a jointly held session with the public comment sessions for PSC Docket No. 06-284, Delmarva's base rate case, entitled, In The Matter Of The Application Of Delmarva Power & Light Company For A Change In Natural Gas Base Rates, filed on August 31, 2006 and PSC Docket No. 06-283, Delmarva's environmental surcharge rider rate case, denominated as In The Matter Of The Application Of Delmarva Power & Light Company For A Change In The Gas Environmental Surcharge Rider Rate, filed on August 31, 2006. No members of the public attended the sessions for either of these cases.

10. On February 23, 2007, Delmarva filed a supplement to adjust its annual Gas Cost Rate ("GCR") factors, effective on and after April 1, 2007, with proration, and with such revised factors to continue in effect until October 31, 2007. The proposed rates, as compared to the current, approved rates are as follows:

<u>Rate Schedules</u>	<u>Initial Application filed on 8/31/2006</u>		<u>Supplemental Application filed on 2/23/2007</u>	
	<u>GCR Demand Charge</u>	<u>GCR Commodity Charge</u>	<u>GCR Demand Charge</u>	<u>GCR Commodity Charge</u>
RG, GG and GL	N/A	106.972¢/ccf	N/A	102.357¢/ccf
Non-electing MVG	\$9.98/Mcf of Billing MDQ	\$9.3298/Mcf	\$9.98/Mcf of Billing MDQ	\$8.8683/Mcf
Electing MVG & LVG	\$9.98/Mcf of Billing MDQ	Varies	\$9.98/Mcf of Billing MDQ	Varies
Standby Service	\$9.98/Mcf of Standby MDQ	N/A	\$9.98/Mcf of Standby MDQ	N/A

11. In its supplemental filing, the Company explained that its submission was to inform the Commission of a projected over-recovery, in excess of the deadband provided in the Gas Service Tariff, and to propose a GCR that more closely aligned collections with expenses. Ex. 10. The Company noted that the average firm purchased gas cost for the 2006-2007 GCR period was expected to be \$9.65/Mcf versus the \$10.34Mcf provided in the original filing on August 31, 2006. The difference in the purchased gas cost factors represents a decrease of \$0.69/Mcf, which Delmarva attributed to the decrease in gas commodity prices stemming from the unusually warmer weather than normal in the mid-Atlantic region combined with increases in flowing gas supplies. Ex. 10.

12. The Company further stated that without an adjustment to the proposed GCR, Delmarva projected an over-recovery of \$6.2 million, or 4.8% of projected firm purchased gas as costs for the November 2006 through October 2007 period. Ex. 10.

13. The impact on customers would mean that those served under service classifications RG, GG and GL would experience an approximate 9.6% decrease in the level of the GCR. Residential space heating customers using 120 Ccf per month in the winter heating months would experience a decrease of \$5.54 or 3.1% per month in their total bill. Commercial and industrial customers using "GG" and non-electing "MVG" service classifications would experience decreases in their winter bills in the range of 2.1% to 3.5% and 3.5 to 4.3%, respectively, in monthly billings depending on applicable service classification and load/consumption characteristics.

14. Pursuant to PSC Order No. 7141, on March 20, 2007, 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 April 1, 2007, with proration.

15. Notices of the supplemental application, including information on how to intervene in the proceeding, were published on March 23 and 24, 2007 in *The News Journal* newspaper. The notices also provided a deadline of April 18, 2007 by which the public could petition to intervene and submit comments concerning the Company's

proposal. The Commission Staff did not receive any comments from the public regarding the supplemental application.

### **III. SUMMARY OF THE EVIDENCE**

16. On May 11, 2007, a public comment session and an evidentiary hearing was held for Delmarva's supplemental application at the Carvel State Office Building in Wilmington. The record, as developed at the hearing, consists of a 62-page verbatim transcript and 12 exhibits. No members of the public attended either the public comment session or the evidentiary hearing.

#### **A. Summary of Testimony.**

17. At the evidentiary hearing, the parties presented their witnesses who summarized their testimonies and adopted their prefiled testimonies for the record.

18. **Company's Direct Testimony.** With its application, Delmarva submitted the pre-filed testimony of four witnesses. At the evidentiary hearing, C. Ronald McGinnis, Jr., Regulatory Team Lead, Regulatory Affairs Department for PHI Service Company and William T. Bacon, Director -- Regulatory & Natural Gas Planning for PHI Service Company and W. Thomas Bacon, Jr., Director-Gas Supply & Regulatory Planning, appeared to give live testimony. C. Ronald McGinnis, Jr., adopted as his own testimony (Ex. 3), the prefiled testimonies of Hallie M. Reese (Ex. 4) and Charles L. Driggs (Ex. 5). Mr. Bacon sponsored his own prefiled testimony (Ex.6).

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

<u>Rate Schedules</u>	<u>Present</u> GCR Commodity Charge	<u>Proposed</u> GCR Commodity Charge	<u>Change</u>
RG, GG and GL	118.384¢/ccf	106.972¢/ccf	(1.1412)¢/ccf
Non-electing MVG	\$11.0279/Mcf Billing MDQ	\$9.3298/Mcf Billing MDQ	(\$1.6981)Mcf
Electing MVG & LVG	Varies	Varies	N/A
LVG and MVG	\$6.20/Mcf of MDQ	\$9.98 Mcf MDQ	\$3.78/Mcf MDQ

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

20. Mr. McGinnis 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") assigned to LVG and MVG customers; reconciliation of actual versus estimated WACCOG of gas assigned to Flexibly Priced Service Customers and true up of fuel expense and margins, the audit of GCR and margin sharing for the 2005 calendar year, and prior adjustments contained in the actual data used to develop the deferred fuel balance as of July 31, 2006. Ex. 3.

21. Mr. McGinnis's prefiled testimony noted that the Company projects an under-recovery balance of \$4,298,300 based upon nine months of historical data and three months of updated estimates. Ex.

3 at 5. The amount is within the 6% deadband for a supplemental GCR filing of 6% under-recoveries.

22. Further, Mr. McGinnis summarized the methodologies used: (a) to develop the GCR factors and the credits associated with certain shared margin revenues; (b) 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 (c) 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.

23. Mr. McGinnis concluded by observing that gas costs included in the proposed GCR represent approximately 73% of the total bill amount for residential customers. The effect of the proposed decrease to the GCR on residential space heating customers using 120 Ccf per month in the winter months would be a decrease of \$13.69, or 7.2%. Consequently, customers using 120 Ccf would experience a reduction from \$189.61 per month to \$175.92 per month. Commercial and industrial customers' bills would decrease 5.0% to 12.5% in the commodity portion of their bills. Ex.3 at 12.

24. Company witness W. Thomas Bacon, Jr., Director - Gas Supply & Regulatory Planning for PHI Service Company, provided testimony on the following items: (a) Delmarva's actual and estimated interstate pipeline transportation and storage rates; (b) forecasted natural gas commodity prices; (c) an update of the Natural Gas Hedging program;

(d) firm natural gas purchase requirements; (e) the Company's capacity release and off-system sales activity; and (f) update on planned capacity additions. (Ex. 6.)

25. 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 4,117 Mcf. Mr. Bacon noted that this compares to an estimated design day shortfall of 10,374Mcf in last year's GCR filing or a change of 6,257 Mcf. Ex. 6 at 4. The year-to-year decrease is due to a large industrial customer switching to firm transportation service and projected decreases in customer additions. *Id.*

26. Mr. Bacon stated that the Company expected a gas under-recovery of \$4.3 million as of October 31, 2006. Ex. 6 at 8. This under-recovery is largely explained by over 2 Bcf of lower than budgeted sales and higher pipeline transportation and storage costs that were offset, in part, by lower commodity costs and higher demand credits. *Id.*

27. Mr. Bacon noted that in last year's GCR proceeding, the parties agreed to a settlement (approved by the Commission) which provided that for the purposes of future forecasting for the GCR, Delmarva would use the NYMEX natural gas futures index as the primary *tool* for determining the gas prices for its annual application. See PSC Order No. 6956 (July 11, 2006). Mr. Bacon explained that in the current GCR application (and supplemental application) the Company also used a blended rate, in contrast to the approved settlement,

because in its business judgment the exclusive use of the NYMEX futures prices for its 2005-2006 GCR would have produced an over-recovery sufficiently significant enough to justify the filing of an interim GCR rate decrease. For the 2005-2006 GCR, the actual last day settle prices, particularly in February 2006, were lower than the Company's forecast due primarily to a very mild winter and strong gas supply despite multiple hurricanes. Ex. 6 at 14.

28. **DPA's Direct Testimony.** The 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 as contained in its supplemental filing, approved by the Commission on a temporary basis pursuant to PSC Order No. 7141 (March 20, 2007), should be made permanent for the period November 1, 2006 through October 31, 2007, subject to true-up in the next GCR filing. Ex. 7 at 11.

29. Ms. Crane found that the 2006 results of the Company's hedging program was not good because ratepayers paid \$11.8 million more than they would have had the Company secured its gas supply through the NYMEX. Ex. 7 at 13. According to its fourth quarter hedging report for 2006, the Company reported that it hedged an average of 73% of its firm supply requirements for the twelve months ending December 31, 2006. Ex. 8 at 14. Nevertheless, Ms. Crane concluded that the Company's hedging decisions made in the past twelve months were not unreasonable. She noted that although the results obtained by the Company were not as favorable as they have been in previous years, the Company's actions in implementing its program were

generally reasonable. *Id.*

30. However, Ms. Crane found that the Company's forecasts for off-system sales margins and capacity release revenues appear to be low in comparison to historical results. Further, she determined that the off-system sales margins and capacity release revenues may not comply with the methodology for sharing prescribed by the PSC. Ex. 8 at 6-7.

31. Ms. Crane observed that the Company's original filing included capacity release revenues of \$2,067,400, off-system sales margins of \$655,300, and interruptible gas transportation credits of \$930,341. The Company's supplemental filing included total demand credits of \$3,835,508, including capacity release revenues of \$2,746,333 and off-system sales margins of \$808,980. Ex. 8 at 15. Pursuant to PSC Order No. 5813 (Oct. 2, 2001), one hundred percent (100%) of margins from capacity release, off-system sales and swaps are to be credited to ratepayers until a total credit of \$1.7 million is reached for the 12-month period ending every June. After the \$1.7 million limit is achieved, the margins are shared between the GCR and the Company (80% to the GCR and 20% to the Company) until the following July when the cycle begins again. See PSC Order No. 5813 (Oct. 2, 2001), Attachment "A," Proposed Settlement at ¶2. However, based upon historical data, Ms. Crane suggested that her review of the Company's filing and supporting schedules indicated that all margins are being shared on an 80%/20% basis. Ex. 7 at 17. Therefore, she recommended that the Company provide information on the actual level of capacity release revenues and off-system margins it had received

and that it should be required to demonstrate that it had complied with the approved sharing methodology. *Id.*

32. In her pre-filed testimony, Ms. Crane stated that the Company's estimated design day firm customer requirements are 173,347 Mcfs for the 2006-2007 GCR period while its firm design day supply is only 169,230 Mcfs, resulting in a shortfall of 4,117 Mcfs. In the past several years, the design day model used by the Company has produced forecasted deficits. This shortfall is currently projected to grow to 20,853 Mcfs by the 2011-2012 heating season. Ex. 7 at 17-18.

33. Ms. Crane noted that the Company is taking several steps to address its projected capacity shortfall. On December 13, 2006, Delmarva has executed a Precedent Agreement for 25,000 Dths/day of new firm transportation service relating to the Transco Sentinel Expansion Project. This project is expected to come on-line in November 2008. Ex. 7 at 21. In addition, the Company anticipated obtaining new firm transportation service from ESNG. *Id.* ESNG has proposed to develop, construct, and operate new pipeline facilities that would begin in Calvert County, Maryland, cross the Chesapeake Bay, and then interconnect with ESNG's existing facilities in Sussex County, Delaware. If this project is completed, DPL could begin receiving service from Dominion's Cove Point LNG facility in late 2010 or 2011. Ex. 7 at 21-22.

34. In any event, Delmarva has signed a Precedent Agreement with ESNG for 30,000 Dths/day of firm transportation capacity. Ex. 7 at 22. In addition, Delmarva has executed a Letter Agreement with ESNG

in which the Company agrees to pay up to \$2 million of pre-certification costs incurred by ESNG in the event that the ESNG project is not placed into service.

35. Based upon the Company's history, Ms. Crane determined that Delmarva would continue to meet its design day deficits over the next few years. Ms. Crane noted that the Company is exploring new supply options to address future design day deficits. She urged the Commission to continue to monitor Delmarva's design day deficit and to require Delmarva to report annually in its GCR filings on actions taken to ensure that it will be able to meet its design day requirements over the long-term. Ex. 7 at 23.

36. Ms. Crane recommended that the Commission review Delmarva's line loss factor in the future to determine if a change from the 2.5% used in this case is appropriate. Ex. 7 at 23. The 2.5% loss factor is the percentage loss factor the Company has used in the past several GCR filings. Ms. Crane noted that the actual rolling twelve-month average through June 2006 was 3.0%, while the thirty-six month average was 2.4%. Ms. Crane was confident that even if the loss factor of 2.5% used in this case was not precise, the costs resulting from the loss factor are trued-up annually which ensure that ratepayers will pay rates that reflect actual costs incurred by the Company in the GCR year. Ex. 7 at 24.

37. **Staff's Direct Testimony.** Commission Staff submitted the prefiled 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. Ex. 8 at 11-12.

38. Ms. Jegede noted that the proposed rates, made effective November 1, 2006 on a temporary basis, were based on projected sales data and gas costs for the twelve-month period November 1, 2006 through October 31, 2007. Ms. Jegede also reviewed the Company's proposals to reconcile and true-up actual with estimated monthly Weighted Average Commodity Costs of Gas ("WACCOG") for its Large Volume Gas service ("LVG") and electing Medium Volume Gas service ("MVG") customers. Staff reviewed the natural gas demand and supply plan for this application and the strategic gas supply plan for the 6-year period 2006 through 2007 through 2011 through 2012. Ex. 8 at 2.

39. Ms. Jegede opined that she reviewed the Company's supplemental application to further decrease its charges for services rendered on or after the effective date of April 1, 2007. She testified that the Company's revised gas costs projections were actually out of band when it made its supplemental filing using actual January 2007 recovery balances for the projected GCR period. However, using its actual February adjustments for this GCR period, the Company's projections fell within the allowable band (4½% and 6%). Ex. 8 at 4. In addition, Ms. Jegede reported that the Company's projected demand charges are higher than those of its prior GCR application. Ms. Jegede stated that the Company should take additional steps to reduce its fixed costs. *Id.*

40. Further, Ms. Jegede reported that the Company does not expect any major pipeline refunds in the applicable GCR period.

Staff also found that the Company's proposed rates proposed in this proceeding (in both its original and supplemental filings) were reasonable. Consequently, Staff recommends that the Commission approve Delmarva's request to modify its current GCR factors in this proceeding.

41. Staff observed that the Company submitted its strategic gas supply plan very late (in February 2007) in this proceeding. Staff therefore recommends that the Company file its strategic gas supply plan no later than thirty (30) days after it makes its GCR filing.

42. In her prefiled testimony, Ms. Jegede cautioned that the Company's projected design day supply plan shows significant shortages over the next six-year projected GCR determination periods (2006/2007 through 2011/2012). She recommended that the Company regularly update Staff on measures taken to reduce its design day shortages and not wait until it files its next GCR filing in August 2007.

43. Ms. Jegede noted that in its current GCR filing the Company used blended rates derived from the prices and forecasts provided in the NYMEX, PIRA and EIA indices. Staff noted that in the last GCR proceeding, the parties agreed that blended rates would not be used; rather, only NYMEX prices would be used. However, in light of the decrease in gas prices over the period of this filing, Ms. Jegede testified that she agreed with the use of the blended rates in this instance. Ms. Jegede noted that because of the Company's use of the blended rates in this filing, an average residential heating customer using 120 Ccf per month will experience a decrease of \$16.41

or 8.7% during the 2006-2007 winter heating season. Ex. 8 at 14, citing Schedule FJ-1.

44. Ms. Jegede further recommended that an expert review Delmarva's hedging program and supply plan in the next GCR filing. She cited the continued volatile condition of the energy markets and the effects of major hurricanes on natural gas facilities in recent years as the need for a comprehensive review of the hedging program and supply plan. Ex. 8 at 5.

45. The Company's external, independent audit report regarding Delmarva's customer billing and the determination for sharing of its margins for the GCR period October 1, 2005 through September 20, 2006 was submitted on April 4, 2007. Ms. Jegede maintained that Delmarva's filing on April 7 was very late. Therefore, she recommended that in the future the Company should submit its internal and external audit reports no later than November 30 of each year, approximately two months after the close of the GCR period. Ex. 8 at 5.

46. Ms. Jegede recommended that in its next GCR filing the Company should continue to provide Staff with updates of its budget billing program and the programs it undertook to educate or inform customers on ways to mitigate the effects of gas market fluctuations. Ex. 8 at 5.

#### **B. The Proposed Settlement.**

47. The parties reported that after several discussions and protracted negotiations a Proposed Settlement agreement had been

reached. The Proposed Settlement consists of 10 pages and is attached hereto as Attachment "B." Ex. 12.

48. **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. In addition, the parties agreed to recommend to the Hearing Examiner and to the Commission Delmarva's proposals to: a) 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; and b) 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.

#### **IV. DISCUSSION**

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

50. 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.

51. 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. 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.

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

**V. RECOMMENDATIONS**

53. 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 pursuant to PSC Order No. 7141 on March 20, 2007 with meter readings on and after April 1, 2007 until October 31, 2007 as shown below:

<u>Rate Schedules</u>	<u>GCR Demand Charge</u>	<u>GCR Commodity Charge</u>
RG, GG and GL	N/A	102.357¢/ccf
Non-electing MVG	\$9.98/Mcf of Billing MDQ	\$8.8683/Mcf
Electing MVG & LVG	\$9.98/Mcf of Billing MDQ	Varies
Standby Service	\$9.98/Mcf of Standby MDQ	N/A

B. That the Commission approve as just, reasonable, and in the public interest the Company's proposals to: a) 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; and

b) 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.

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

Respectfully submitted,

Dated: June 13, 2007

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Ruth Ann Price  
Hearing Examiner



On October 3, 2006, in Order No. 7039, the Commission allowed the new proposed GCR factors, reconciliation and true-ups, and the LVG and electing MVG surcharge credit to become effective on a temporary basis, subject to refund, effective with meter readings on and after November 1, 2006, with proration. The Commission's Order also assigned the matter to Hearing Examiner Ruth Ann Price, Esquire for further proceedings.

Pursuant to Order No. 7039, 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 DPA 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 May 11, 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.

On February 23, 2007, Delmarva filed a mid-proceeding application to lower its GCR Clause rates effective April 1, 2007, based on its revised projections of its gas fuel revenue and purchased gas costs. According to Delmarva, continued use of the GCR rates allowed to go into effect on November 1, 2006 would lead to the Delmarva becoming "out-of-band" (see P.S.C. Del. No. 5 – Gas, Section XX, Leaf 36), with a possible over-collection of \$6.2 million by the end of the application period. The Commission granted Delmarva's request to lower the GCR during this proceeding by Order No. 7141, thus allowing the lowered rates to become effective

on a temporary basis, subject to refund, effective with meter readings on and after April 1, 2007, with proration.

Both Staff and DPA served data requests upon Delmarva, which Delmarva responded to. The parties also engaged in the exchange of information on a more informal basis.

The DPA and Staff filed responsive testimony on or before April 13, 2007. Delmarva filed brief rebuttal testimony on April May 4, 2007.

II. SUMMARY OF THE APPLICATION

Delmarva’s combined Applications proposed modifications to 2006-2007 GCR year components applicable to firm sales customers, compared with the Gas Cost Rate factors in effect for the 2005-2006 GCR year as shown below:

<u>Rate Schedules</u>	<u>2005 - 2006</u>		<u>Proposed</u>	
	<u>GCR Demand Charge</u>	<u>GCR Commodity Charge</u>	<u>GCR Demand Charge</u>	<u>GCR Commodity Charge</u>
RG, GG and GL	N/A	118.384¢/ccf	N/A	102.357¢/ccf
Non-electing MVG	\$6.20/Mcf of Billing MDQ	\$11.0279/Mcf	\$9.98/Mcf of Billing MDQ	\$8.8683/Mcf
Electing MVG and	\$6.20/Mcf of Billing MDQ	Varies	\$9.98/Mcf of Billing MDQ	Varies
LVG	\$6.20/Mcf of Billing MDQ	Varies	\$9.98/Mcf of Billing MDQ	Varies
Standby Service	\$6.20/Mcf of Billing MDQ	N/A	\$9.98/Mcf of Billing MDQ	N/A

### III. SETTLEMENT PROVISIONS

A. The parties agree that approval of Delmarva's Application, as filed, should be recommended by the Hearing Examiner and subsequently approved by the Commission. The parties agree that the proposed GCR complies with the Tariff and its approval would be in the public interest.

#### B. ADDITIONAL PROVISIONS:

1. The provisions of this settlement are not severable.
2. This Settlement 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

/s/ Michael D. Sheehy  
Delaware Public Service  
Commission Staff

By: /s/ Todd L. Goodman  
Print Name

By: /s/ Michael D. Sheehy  
Print Name

Date: 5/11/07

Date: 05/10/07

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

By: /s/ G. Arthur Padmore  
Print Name

Date: 5/11/07

## APPENDIX A

### RATES AND CHARGES

Effective with meter readings on and after November 1, 2006, with proration:

<u>Service Classifications</u>	<u>GCR Demand Charge</u>	<u>GCR Commodity Charge</u>
RG, GG, and GL	N/A	106.972 ¢/ccf
Non-Electing MVG	\$9.98/Mcf of Billing MDQ	\$9.3298/Mcf
Electing MVG and LVG	\$9.98/Mcf of Billing MDQ	Varies
Standby Service	\$9.98/Mcf of Billing MDQ	N/A
Electing MVG and LVG Surcharge Credit	N/A	\$0.7199/Mcf

APPENDIX A

RATES AND CHARGES

Effective with meter readings on and after April 1, 2007, with proration:

<u>Service Classifications</u>	<u>GCR Demand Charge</u>	<u>GCR Commodity Charge</u>
RG, GG, and GL	N/A ¢/ccf	102.357 ¢/ccf
Non-Electing MVG	\$9.98/Mcf of Billing MDQ	\$8.8683/Mcf
Electing MVG and LVG	\$9.98/Mcf of Billing MDQ	Varies
Standby Service	\$9.98/Mcf of Billing MDQ	N/A
Electing MVG and LVG Surcharge Credit	N/A	\$0.7199/Mcf