

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)
DELMARVA POWER & LIGHT COMPANY FOR)
APPROVAL TO MODIFY ITS STANDARD OFFER)
SERVICE SUPPLY RATE TO REFLECT A) PSC DOCKET NO. 07-364
REVISION TO THE REASONABLE ALLOWANCE)
FOR A RETAIL MARGIN ("RARM"),)
PURSUANT TO PSC DOCKET NO. 04-391)
(FILED DECEMBER 27, 2007))

ORDER NO. 7406

This 17th day of June, 2008, the Commission finds, determines and Orders the following:

1. In PSC Docket No. 04-391, this Commission approved a settlement agreement that would allow Delmarva Power & Light Company ("Delmarva Power" or "Company") to recover, in its Standard Offer Service ("SOS") supply rate, a "reasonable allowance for retail margin" ("RARM"), which includes recovery of the incremental expenses it incurs in providing SOS and \$2.75 million per year. (Order No. 6746 (Oct. 11, 2005) at 10.) On December 27, 2007, Delmarva Power filed an application seeking to true-up the RARM established in PSC Docket No. 04-391 to reflect the actual SOS costs it incurred from May 1, 2006 to May 31, 2007, as permitted under the Docket No. 04-391 settlement. According to Delmarva Power, the proposed increase to RARM, if approved, would increase residential SOS customer supply rates by less than 1 percent.

2. By PSC Order No. 7366 (Feb. 21, 2008), the Commission permitted Delmarva Power to increase its SOS rates to reflect the proposed new RARM, on a temporary basis and subject to refund, pending

further investigation. The Commission also directed Delmarva Power to publish notice of the proposed RARM in The News Journal and Delaware State News newspapers and to provide direct notice to the parties from Docket No. 04-391. The notice included a comment period ending on February 29, 2008, but Staff received no comments regarding the application.

3. By memoranda dated May 19 and May 21, 2008, Commission Staff reported that it had completed its review and analysis of the application, which included a field audit and five rounds of discovery. In addition to discovering certain minor errors in the cost data, Staff reported that its interpretation of the Docket No. 04-391 settlement agreement differed from Delmarva Power's interpretation regarding the allocation of the \$2.75 million component of the RARM between Fixed Price Service ("FPS") and Hourly Priced Service ("HPS") customers. Staff believes that the settlement provides that a \$175,000 per year allowance for HPS billing software costs would be added to a \$90,000 contribution from HPS customers (which is the HPS portion of the \$2.75 million component). Delmarva Power's RARM calculation, however, reflects the \$175,000 allowance as comprising the entire contribution by HPS. Based on its interpretation, Staff recommends increasing the proposed RARM for HPS by \$90,000 and decreasing the proposed RARM for FPS by \$90,000.

4. Based on its recommended adjustments, Staff calculated the RARM for Fixed Price SOS Customers to be \$0.002414 per kWh compared to the Company's proposed RARM of \$0.002441 per kWh, or \$0.000027 per kWh less than proposed by the Company. For the GS-P HPS customers, Staff

calculated the RARM to be \$0.03039 per kW above that which the Company proposes for customers with demand below a peak load of 600 kW, and to be \$240.62 per month greater for customers above 600 kW peak load capacity. For the GS-T customers, Staff calculated the RARM to be \$0.03039 per kWh above the Company's proposal for customers below 600 kW peak load and \$240.62 per month greater for GS-T customers above 600 kW peak.

5. Staff notes that for a residential customer using 1000 kWh per month, Staff's adjustments to the Fixed Price SOS RARM would amount to only \$0.32 per year. Therefore, Staff recommends that the Commission approve the Company's proposed rates for FPS SOS customers this year but that the Company then true-up next year's RARM proposal to account for Staff's recommended adjustments from this year.

6. Regarding the Hourly Priced SOS RARM, Staff recommends that effective 60 days from the date of this Order, the Company increase its RARM consistent with Staff's adjustments (after duly notifying its GS-T and GS-P HPS customers of the change). The amount of the under-collection that takes place during the imposition of the temporary rates (which was effective with the February 29, 2008 billing cycle) should be spread among the remaining billing months in this compliance year.

7. Staff reports that Delmarva Power has accepted Staff's recommendations.

Now, therefore, **IT IS ORDERED:**

1. That, for the reasons set forth in the body of this Order, the Commission hereby approves the Reasonable Allowance for Retail

Margin proposed by Delmarva Power & Light Company in its December 27, 2007 application for its Fixed Price Service, which is already in effect on a temporary basis, effective upon the date of this Order. As recommended by Staff and discussed above, Delmarva Power & Light Company should true-up its next RARM proposal for Fixed Priced Service to account for the difference from this compliance year between Staff's RARM calculation and Delmarva Power & Light Company's proposal.

2. That, for SOS Hourly Priced Service, the Commission hereby approves the Reasonable Allowance for Retail Margin proposed by Staff and directs Delmarva Power & Light Company to adjust its SOS Hourly Priced Service rate to reflect the recommendation from Staff discussed above, including the true-up to account for months already billed at the lower, temporary rate. The new rate shall be effective with the next billing cycle commencing after 60 days from the date of this Order.

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

BY ORDER OF THE COMMISSION:

/s/ Arnetta McRae
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

PSC Docket No. 07-364, Order No. 7406 Cont'd.

/s/ Dallas Winslow
Commissioner

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Karen J. Nickerson
Secretary