

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

IN THE MATTER OF THE APPLICATION OF )  
DELMARVA POWER & LIGHT COMPANY FOR )  
APPROVAL TO ISSUE \$165.5 MILLION OF ) PSC DOCKET NO. 09-166  
COLLATERAL FIRST MORTGAGE BONDS AND )  
UP TO \$350 MILLION OF DEBT SECURITIES )  
(FILED APRIL 22, 2009) )

**ORDER NO. 7572**

This 19<sup>th</sup> day of May, 2009, the Delaware Public Service Commission ("the Commission") determines and orders the following:

1. On April 22, 2009, Delmarva Power & Light Company ("Delmarva" or "the Company"), pursuant to 26 *Del. C.* § 215, filed an application (the "Application") with the Commission requesting approval to issue \$165.5 million of collateral first mortgage bonds and up to \$350 million of debt securities.

2. According to the Application, the Company previously issued three series of unsecured debt totaling \$165.5 million, whose indentures include a restrictive covenant requiring collateralization with first mortgage bonds if the ratio of secured debt to total capitalization exceeds certain thresholds, the most stringent of which is 20%. As of December 31, 2008, the Company's ratio of secured debt to total capitalization was 19.61%; thus, any issuance of first mortgage bonds as contemplated by the Application would cause all of the thresholds to be exceeded. The issuance of collateral bonds as security requires Commission approval even though the Company will not incur additional long-term debt, receive any proceeds on the collateral bonds or incur interest expense; the collateral bonds will

merely serve as security for debt already on the Company's balance sheet.

3. The second part of the Company's request seeks the issuance of up to \$350 million of debt securities to refinance up to \$151.84 million of existing debt securities and to finance up to \$198.16 million of short-term debt the Company anticipates incurring in connection with its 2009-2010 construction program. The \$151 million is comprised of:

- two series of tax-exempt bonds for \$31.24 million with a mandatory tender that requires the Company to repurchase those bonds from the bondholders by July 1, 2010. The Company plans to remarket the \$31.24 million bonds as tax-exempt or reissue as taxable bonds depending on how the financial market conditions are that time; and
- \$120.6 million of insured tax-exempt bonds that Delmarva repurchased with cash and short-term debt in its name in 2008. The repurchase was a result of unstable bond market conditions that caused its bond insurers' (MBIA, Inc. and Ambac Financial Group) credit ratings to drop below AAA. Delmarva intends to redeem those bonds and refund them with debt securities.

4. In 2009, Delmarva applied for a \$425 million loan from the Department of Energy ("DOE") which, if successfully obtained, the Company anticipates will be at a lower interest rate than any other form of financing. The Company states that the Federal Government requires evidence of Commission financing authority before it can grant the loan. The Company affirms that it would seek additional authorization from the Commission if the DOE grants it financing in excess of \$350 million. Delmarva anticipates financing part of its 2009-2013 Mid-Atlantic Power Pathway ("MAPP") construction with a

direct loan from the Federal Government or debt securities guaranteed by the Federal Government.

5. The Company has stated that, when granted the authority to issue these debt securities by the Commission, the actual type of debt securities issued (public or private, taxable or tax exempt, secured or unsecured, or through bank loans) will depend upon market conditions at the time of issuance.

6. 26 Del. C. § 215(d) authorizes the Commission to investigate and hold such hearings in this matter as it deems necessary and, thereafter, may grant the application in whole or in part with such modification and upon such terms and conditions as may be appropriate. Section 215(d) further requires the Commission to approve any issuance of bonds or other evidences of indebtedness for which approval is required under Section 215(a)(2) when the proposed issuances are to be made in accordance with law, for proper purposes, and are consistent with the public interest.

7. Section 215(d) further requires the Commission to grant, modify, refuse, or prescribe appropriate terms and conditions with respect to every such application within 30 days of its filing. In the absence of such action within 30 days, the issuance described in the application will be deemed to be approved.

8. Commission Staff has examined the proposed issuances and the schedules and exhibits thereto. Staff had some concerns about the Application, which have been resolved to its satisfaction. Thus, Staff has determined, pursuant to 26 Del. C. § 215(d), that the proposed issuances will be made in accordance with law, will be made

for a proper purpose, and will be consistent with the public interest. Accordingly, Staff has recommended that the Commission approve Delmarva's Application. Staff further recommends that the Commission direct Delmarva to file the Company's current loan agreement within 30 days of the closing of the issuance of any debt securities described in the Application.

**NOW, THEREFORE, BY A VOTE OF NOT FEWER THAN THREE COMMISSIONERS,  
IT IS HEREBY ORDERED:**

1. That, the Commission having independently reviewed this matter and having determined that public notice and hearing are not required, finds that the Application for approval of the issuance of collateral first mortgage bonds and debt securities, filed by Delmarva Power & Light Company with the Commission on April 22, 2009, will be made in accordance with law, will be made for a proper purpose, and will be consistent with the public interest. The Application is, therefore approved.

2. That nothing in this Order shall be construed as a guarantee, warranty, or representation by the State of Delaware or by any agency, commission, or department thereof with respect to the indebtedness of Delmarva Power & Light Company that may be issued or incurred under the Application herein approved.

3. That, Delmarva Power & Light Company shall file the current loan agreement for the Application within 30 days following the closing of the issuance of the debt securities described in the Application.

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

/s/ Jeffrey J. Clark  
Commissioner

ATTEST:

/s/ Karen J. Nickerson  
Secretary