



STATE OF DELAWARE

**PUBLIC SERVICE COMMISSION**

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October 24, 2016

**MEMORANDUM**

TO: Members of the Commission

FROM: Joseph DeLosa, Public Utilities Analyst <sup>JD</sup>

SUBJECT: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY TO ESTABLISH A UTILITY FACILITY RELOCATION CHARGE (“UFRC”) RATE TO RECOVER COSTS ASSOCIATED WITH THE RELOCATION OF GAS UTILITY FACILITIES PURSUANT TO 26 DEL. C. §315 (FILED MAY 29, 2015) - PSC DOCKET NO. 15-1011

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**Background:**

On July 9, 2001, the General Assembly and the Governor enacted 26 *Del. C.* § 315, which permits natural gas utilities to impose a rate for a “Utility Facility Relocation Charge” (“UFRC Rate”) during the period between base rate case proceedings. This UFRC Rate allows the utility to promptly begin to recover depreciation expenses and a return on capital invested in Eligible Utility Facility Relocations<sup>1</sup> recently put into service. The UFRC Rate is intended to allow Delmarva Power & Light Company (“Company”) to recover a portion of the cost of relocation of existing facilities necessitated by Department of Transportation or other government agency projects until such time as the Company can recover their investment in a base rate case.

Eligible Utility Facility Relocations (“Eligible Relocation”) “means new, used and useful utility plant or facilities of an electric or natural gas utility that:

1. Do not include that portion of any plant or facilities used to increase capacity of or connect to the transmission or distribution system to serve new or additional load;

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<sup>1</sup> See 26 *Del. C.* §315 (a) (1)

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2. Are in service; and
3. Were not included in the utility's rate base in its most recent general rate case; and which
4. Relocate, as required or necessitated by Department of Transportation or other government agency projects, without reimbursement existing facilities, including but not limited to, mains, lines, and services, whether underground or aerial."<sup>2</sup>

Commission Order No. 8138, dated April 17, 2012, approved the final UFRC Rate regulations.<sup>3</sup> The Company then filed a general rate case, Docket No. 12-546, on December 7, 2012. This docket concluded with Order No. 8465, dated October 22, 2013, which in part approved tariff revisions that added a billing line item to recover these Eligible Relocation costs in a UFRC Rate known as "Rider UFRC".<sup>4</sup>

### **Application:**

The Company filed this application on May 29, 2015 to establish the UFRC Rate for recovery of a portion of capital improvements costs associated with gas facility relocations/retirements for projects necessitated by the Department of Transportation or other government agencies. In this instant docket, the Company has applied for a UFRC Rate of 1.74%, with an effective date of July 1, 2015. This was based on a semi-annual investment cost recovery of \$417,335.92 and an associated semi-annual depreciation expense of \$139,059.26. By following the calculations as established in the final UFRC Rate regulations,<sup>5</sup> the Company calculated a semi-annual revenue requirement of \$556,395.45.

This was the Company's first UFRC Rate filing.<sup>6</sup> The Company sought to recover a UFRC Rate, calculated in accordance with 26 Del. Admin. C. §1009-3, for Eligible Relocations during the time period of January 1, 2013 through March 31, 2015. In its memo of June 9, 2015, Staff noted that this rate of 1.74% was recovering Eligible Relocations for the preceding 27 months. In Order No. 8755 dated June 16, 2015, the Commission allowed the 1.74% UFRC Rate, including Eligible Relocations for 27 months, to go into effect on July 1, 2015, subject to annual reconciliation, audit, and final approval.<sup>7</sup>

### **Findings:**

On April 21, 2016, Staff commenced the annual reconciliation and audit of the Company's UFRC Rate filing in the instant docket. Staff's finding from that annual audit and reconciliation are below:

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<sup>2</sup> 26 Del. C. §315 (a)

<sup>3</sup> 26 Del. Admin. C. §1009

<sup>4</sup> DP&L Gas Tariff Leaf No. 81-83.

<sup>5</sup> 26 Del. Admin. C. 1009 Forms 1-5

<sup>6</sup> Delmarva's May 29 UFRC Application Exhibit "C"

<sup>7</sup> Order No. 8755 at 2-3 (July 16, 2015)

- Staff reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the UFRC Rate component. No discrepancies were found.
- During the effective time period, the Company collected \$480,648 in UFRC Rate revenues, resulting in an under-collection of \$75,748 of the semi-annual revenue requirement
- Staff audited the Rate Base components of the UFRC Rate calculations to ensure they met the statutory requirements of Eligible Relocations. Plant additions were traced by project name and to queries run against the Company's SAP billing data systems. No discrepancies were found.
- Staff examined the Depreciation Expense and Rate of Return used in the calculation of the UFRC Rate, and determined that these rates utilized by the Company were the most recently Commission-approved values.

Pursuant to Order No. 8912 (July 12, 2016), the Commission allowed a UFRC Rate of 2.13% to go into effect during the period July 1, 2016 through July 15, 2016 since the Company's interim base rates went into effect on July 16th. The Company is not allowed to collect on rate base that is in both the UFRC and the interim base rates as Order No. 8912 further noted "the statutory language of UFRC Rates and Distribution System Improvement Charge ("DSIC") rates are similar," and the Commission utilizes the similarity between those two rates as justification for resetting UFRC/DSIC rates "to zero at the time its interim rates from the pending rate case are allowed to go into effect."<sup>8</sup> Therefore on July 16, 2016, the Company's prior rate of 1.88% was reset to zero. However Order No. 8912 provided for the continued recovery of the rate of 0.25% during the subsequent period July 16, 2016 through December 31, 2016, subject to annual reconciliation, audit, and final approval.

As discussed during the Commission meeting on June 28, 2016, the DSIC rate precedent in this regard has found that DSIC rates are reset to zero upon implementation of interim rates, *regardless* of outstanding under-recovered revenue. This precedent applies to the UFRC, therefore the under-recovered amount of \$73,738.95 that was included in the rate of 0.25% will be disallowed in the next annual audit and reconciliation.

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<sup>8</sup> *Id.* at 2-3

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**Recommendation:**

Based on the annual audit and reconciliation which began on April 21, 2016 and further evaluation of DSIC rate precedent, Staff recommends that the Commission approve the UFRC Rate of 1.74%, as collected during the period July 1, 2015 through December 31, 2015, and including revenue under recovery for this rate collected through July 15, 2016 as final.

Staff recommends that the under-recovered amount of \$73,738.95 be disallowed in the next annual audit and reconciliation since this was included in rate base that was in the test year of the pending rate case.

Staff recommends that the Commission formally close Docket No. 15-1011.