

Staff Report on Delmarva Power & Light's Dynamic Pricing Proposal

DE PSC Docket No. 09-311 (Filed March 23, 2011)

September 7, 2011

Executive Summary

On March 23, 2011, Delmarva Power & Light (“DPL” or the “Company”) filed an application (the “Application”) seeking Commission approval of its proposed Dynamic Pricing “Rider DP” and a proposed timeline for implementing dynamic pricing for all customers served under Standard Offer Service (“SOS”) rates. The Company, Staff, and the Public Advocate (“DPA”) held two publicly-noticed workshops to discuss the Application,¹ and also participated in informal teleconferences on material contained in the Application.

Overall, Staff supports DPL’s request to implement the dynamic pricing “Rider DP” for the 7,000 Field Acceptance Test (“FAT”) customers.² However, in order to fully support DPL’s proposed implementation of dynamic pricing, Staff believes the following are necessary:

- (1) There should be a “stop and review” period before full implementation for the entire DPL service territory. Staff’s support of dynamic pricing for the 7,000 FAT customers does not imply approval for full implementation.
- (2) The Company should submit monthly reports/status updates to Staff and DPA which will include but not be limited to:
 - a. PJM capacity revenues;
 - b. PJM energy market payments resulting from demand response (“DR”) being called;
 - c. Any penalties assessed against the Company for not responding;
 - d. Ongoing balance of monies paid out to customers versus monies collected from PJM; and
 - e. Effect of customer migration and changes in customer baselines on dynamic pricing.
- (3) Regarding the amount of DR bid into PJM markets to raise revenue for customer credits: Customers and shareholders should share the risk of over- or under-bidding in the PJM markets. If DPL over-bids and the expected demand response is not realized it faces penalties from PJM. If DPL under-bids it may not have sufficient revenues from the PJM markets to pay the ratepayers that reduced their usage during critical peak periods. Using a risk sharing mechanism should result in a more thoughtful analysis by DPL of how much to bid into the PJM DR markets.
- (4) Further discussions during the stop and review period will be required on opt-in and opt-out offers to customers.
- (5) Pre-paid metering must be considered in order to fully optimize AMI capabilities.

¹ No retail providers participated in either of the two discovery workshops held in May and June 2011.

² The FAT customers are the 7,000 residential customers who participated in the Advanced Metering Infrastructure (“AMI”) Field Acceptance Test (FAT) in June 2009 through November 2009. Direct Testimony of Karen R. Lefkowitz. (2011. March, 23). DE PSC Docket 09-311, p. 9.

Background

On August 4, 2009, the Commission issued Order No. 7620 which opened PSC Docket No. 09-311 to “further investigate the potential benefits to ratepayers of dynamic pricing and other options that may become available with the diffusion of AMI.”³ Order 7620 also set dates and times for workshops to discuss the benefits to ratepayers of dynamic pricing and the possible methods for implementing it. The workshops, which were held on September 10 and October 15, 2009, discussed impact, design, and implementation of dynamic pricing; potential paths forward; examples of dynamic pricing and residential customer bill impacts; information on customer baseline calculations; and information on marketing and customer education.⁴ All interested parties were welcome to attend the workshops.

This workshop process concluded with a consensus report⁵ filed with the Commission on November 30, 2009. The report contained an overview of the two workshops and described the various parties’ concerns as well as forward looking issues. The concepts discussed during the two workshops formed the basis of the Company’s current Application filed on March 22, 2011.

Procedural History of Delmarva Power & Light’s Dynamic Pricing Filing

On March 22, 2011, DPL filed the Application with the Commission seeking approval of its proposed dynamic pricing “Rider DP” and its proposed timeline for implementing dynamic pricing.⁶ Public notice of the docket was published in various newspapers in New Castle, Kent, and Sussex counties in April. The public notice established May 3, 2011 as the deadline to file an intervention petition. There were no timely interventions in this docket.

The three participants in this docket - the Company, Staff, and the DPA - held two discovery workshops on May 25, 2011 and June 6, 2011 to discuss the filing. Interveners from the original 09-311 filing (dated August 4, 2009) were also invited to attend this workshop; however no previous interveners attended either workshop. Staff found the lack of participation by third party suppliers surprising, especially considering the extent of new usage data that will be available through the AMI meters currently being installed. This new data could create the possibility of new, innovative pricing tariffs that retail providers could offer.

On August 1, 2011, Mr. John Nichols submitted a petition for late intervention in this proceeding. On August 4, 2011, the Hearing Examiner denied Mr. Nichols’ petition, stating:

³ Order 7620. (August 4, 2009). Delaware Public Service Commission. Retrieved August 17, 2011, from <http://depssc.delaware.gov/orders/7620.pdf>

⁴ Consensus Report on Delaware Dynamic Pricing Workshop Meetings. (November 30, 2009).

⁵ The report was filed by DPL, Staff, DPA, Retail Energy Supply Association, Delaware Energy Users Group and Constellation Energy.

⁶ Stockbridge, G. (March 23, 2011). Testimony filed in Delmarva Power & Light’s application, DE PSC Docket 09-311, pg. 3. Retrieved August 17, 2011, from <http://depssc.delaware.gov/electric/09311%20DynamicAppTestimony.pdf>

“The parties have done a considerable amount of work in dissecting, deliberating, and investigating the Company’s proposal in this docket. Therefore, it would be unfair to them to allow an intervention at this late stage of the proceeding.”⁷

The participants also met on August 2, 2011 to discuss the path forward for this filing. During this meeting Staff presented the Company with five requests, which are outlined below. If the Company complies with these five requests, Staff is willing to support the Company moving ahead with dynamic pricing for the 7,000 FAT customers and to continue the dialogue about proceeding with implementing dynamic pricing for the remaining customer base.

Proposed Rider DP

The Company’s proposed “Rider DP” is a critical peak rebate (“CPR”) proposal. Rider DP will modify the SOS generation portion of a customer’s bill by specifying a CPR as the default pricing structure. Under the CPR price structure, customers can earn credits on their bill by reducing their electricity consumption below their pre-established Customer Base Line (“CBL”). One of the benefits of using a CPR versus a critical peak price is that there is no penalty if the customer’s usage is above the CBL. Said another way, customers will not be harmed by a CPR pricing structure if they cannot or choose not to respond and reduce their usage.

Proposed Phase-In Timeline

DPL proposes to implement dynamic pricing for the 7,000 residential customers who participated in the Advanced Metering Infrastructure (AMI) Field Acceptance Test (FAT) which occurred June 2009 through November of 2009. These 7,000 FAT customers will be defaulted to Rider DP in the summer of 2012. The remaining residential customers will be moved to Rider DP in 2013. An estimated 800 small and 200 medium non-residential FAT customers will be placed under Rider DP in 2013. In 2014, the remaining small and medium Delmarva non-residential customers will be defaulted to Rider DP.

Staff Review

Workshops were held on May 25, 2011 and June 6, 2011 to discuss the Company’s filing. Representatives from the Company, Staff, and the DPA were present. Interveners from the original workshops in 2009 were also invited to participate. During the workshops the participants discussed Company-specific issues such as implementation, the proposed timeline, and consumer education. The participants also discussed PJM issues such as bidding consumer response as DR into PJM wholesale markets, the amount on Megawatts (MWs) that the Company would bid, the timing of bidding the MWs, levels of capacity payments, and potential penalties that could be assessed against the Company in the event the bid-in DR does not respond (i.e., not enough consumers respond and reduce usage when they are called upon).

Staff’s Requirements for Full Support of DPL’s Dynamic Pricing Application

After reviewing the Application, participating in workshops, and holding informal discovery conferences, Staff believes the Company should move forward to implement Rider DP for the 7,000 FAT

⁷ Letter dated August 4, 2011 from Hearing Price to John Nichols.

customers. However, in order for Staff to fully support DPL's proposed implementation of dynamic pricing for all customers the following are necessary.

- (1) There should be a “stop and review” period before full implementation for the entire DPL service territory. Staff’s support of dynamic pricing for the 7,000 FAT customers does not imply approval for full implementation.**

Rider DP represents the Company's first dynamic pricing tariff in PHI's service territory that is not a pilot program. While the Company has information from the PowerCentsDC pilot, it does not have experience with Delaware consumers on a non-experimental or non-pilot basis. In light of that, Staff believes the Commission should be hesitant to approve a full roll-out to all customers without complete knowledge of how the 7,000 FAT customers respond. Staff believes that there should be continuing updates and/or workshops so it and the DPA can learn from the 7,000 FAT customers' experiences under Rider DP. Then, and only then, should full implementation for the rest of DPL's customers be considered.

- (2) The Company should submit monthly reports/status updates to Staff and DPA which will include but not be limited to:**
- a. PJM capacity revenues;**
 - b. PJM energy market payments resulting from DR being called;**
 - c. Any penalties assessed against the Company for not responding;**
 - d. Ongoing balance of monies paid out to customers versus monies collected from PJM;**
and
 - e. Effect of customer migration and changes in customer baselines on dynamic pricing.**

Staff believes that it is critical to the success of the program to have an iterative dialogue and information exchange between all participants (Company, Staff, and the DPA) during the implementation of Rider DP for the 7,000 FAT customers. Such dialogue and information exchange will give all participants a better understanding of Delaware-specific customer response levels, capacity payments to the Company, customer migration numbers, and changes in customer baselines, as well as any over- or under-funding of Rider DP which could result from PJM revenues that differ from Company estimates or customer responses that differ from Company estimates. In addition, the participants should keep abreast of any changes to PJM wholesale market rules, FERC Orders, and PJM filings that might alter or potentially impact the Company's participation in PJM energy and/or capacity markets.

- (3) There should be some type of risk-sharing mechanism in place for any potential PJM penalties for non-performance. Staff suggests an 80/20 risk sharing mechanism for PJM penalties, where the Company would be responsible for shouldering 80% of the penalty and ratepayers would be responsible for the remaining 20%.**

Regarding the amount of DR bid into PJM markets to raise revenue for customer credits, Staff believes it would be appropriate for customers and shareholders to share the risk of over- or under-bidding in the PJM markets. If DPL over-bids and the expected demand response is not realized, it faces penalties from PJM. These penalties, which are outlined in PJM Manual 18: PJM Capacity Market, can be quite significant⁸ If DPL under-bids it may not have sufficient revenues from the PJM markets to pay

⁸ PJM Manual 18: PJM Capacity Market. Section 9: Settlements, Deficiencies and Penalty Charges. Retrieved August 24, 2011 from <http://www.pjm.com/~media/documents/manuals/m18.ashx>

the ratepayers that reduced their usage during critical peak periods. A risk sharing mechanism should result in a more thoughtful analysis by DPL of how much to bid into PJM's Base Residual Auction (BRA) and Incremental Auctions.

(4) Further discussions during the stop and review period will be required on opt-in and opt-out offers to customers.

Staff believes the issue of customers opting-in and opting-out of Rider DP requires more thorough examination in light of the response of the 7,000 FAT Customers. The participants can only guess what customer response will be when presented with a program in which they are automatically enrolled. The participants should further discuss whether Rider DP should be an opt-in or opt-out program after they assess the experience of the 7,000 FAT customers in order to avoid any public backlash.

(5) Pre-paid metering must be considered in order to fully optimize AMI capabilities.

The availability of pre-paid metering will allow a customer that might otherwise have its electricity disconnected because of an inability to pay to keep its electricity service going forward on a pre-paid basis while the customer works out a payment program for any arrearage. Pre-paid metering could also be offered to customers on a voluntary basis who would want to better control their electricity costs. Additionally, having pre-paid metering would assist the Company in better managing its high level of uncollectible customer account expenses.

Conclusion

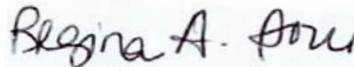
Staff's requirements provide a more deliberate path forward for the Company's proposed Rider DP. Dynamic pricing is new to Delaware customers and has generally only been available to customers in other jurisdictions on a pilot basis. Additionally, there is no guarantee that Delaware customers' response will be similar to the responses seen in other jurisdictions under pilot programs. Furthermore, FERC orders and constantly changing PJM rules and procedures add more levels of complexity. Staff believes the Company should implement Rider DP for the 7,000 FAT customers, but should provide the participants in this docket with updates and share information through informal workshops before asking the Commission to make any decision regarding a full roll-out of Rider DP for DPL's remaining residential, commercial, and industrial customers.

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

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|---------------------------------------------|------------------------------|
| IN THE MATTER OF THE INVESTIGATION) | |
| BY THE PUBLIC SERVICE COMMISSION) | |
| INTO THE IMPLEMENTATION OF) | PSC DOCKET NO. 09-311 |
| DYNAMIC PRICING BY DELMARVA) | |
| POWER & LIGHT COMPANY) | |
| (Opened August 4, 2009; Reopened) | |
| March 23, 2011) | |

CERTIFICATE OF SERVICE

I hereby certify that on September 9, 2011, I caused the attached **STAFF REPORT ON DELMARVA POWER & LIGHT'S DYNAMIC PRICING PROPOSAL** to be served on the persons identified on the attached service list in the manner indicated thereon.



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Dated: September 9, 2011

Service List
PSC Docket No. 09-311
(Revised 09/09/2011)

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