

APPENDIX A

David C. Parcell Cost of Capital Testimonies

Year	Utility	Jurisdiction	Case or Docket No.	Client
1998	United Water of Delaware	Delaware	98-98	Staff
2001	Artesian Water Co	Delaware	00-649	Staff
2001	Chesapeake Utilities Corp	Delaware	01-307	Staff
2002	Tidewater Utilities Co	Delaware	02-28	Staff
2002	Artesian Water Co	Delaware	02-109	Staff
2003	Conectiv Power Delivery	Delaware	03-127	Staff
2005	Delmarva Power & Light Co	Delaware	05-304	Staff
2006	Tidewater Utilities	Delaware	06-145	Staff
2006	United Water Delaware	Delaware	06-174	Staff
2007	Delmarva Power & Light --	Delaware	06-284	Staff
2007	Chesapeake Utilities	Delaware	07-186	Staff
2008	Artesian Water	Delaware	08-96	Staff
2009	Artesian Water	Delaware	Regulation No. 51	Staff
2009	Tidewater Utilities	Delaware	09-29	Staff
2009	United Water Delaware	Delaware	09-60	Staff
2011	United Water of Delaware	Delaware	10-421	Staff
2011	Artesian Water	Delaware	11-207	Staff
2012	Delmarva Power & Light	Delaware	11-528	Staff
2013	Delmarva Power & Light (C	Delaware	12-546	Staff
2013	Delmarva Power & Light	Delaware	13-115	OPC

APPENDIX B

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE
VOLUME 3

IN RE: IN THE MATTER OF :
THE APPLICATION OF DELMARVA :
POWER & LIGHT COMPANY FOR AN:
INCREASE IN ELECTRIC BASE : PSC DOCKET NO. 11-528
RATES AND MISCELLANEOUS :
TARIFF CHANGES (FILED :
DECEMBER 2, 2011) :

Public Service Commission Hearing taken
pursuant to notice before Gloria M. D'Amore, Registered
Professional Reporter, in the Carvel State Office
Building, 820 North French Street, Auditorium,
Wilmington, Delaware, on Monday, April 2, 2012 beginning
at approximately 7:03 p.m., there being present:

APPEARANCES:

On behalf of the Public Service Commission:
DR. VINCENT O. IKWUAGWU, HEARING EXAMINER

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1 APPEARANCES CONTINUED:

2

On behalf of the Public Service Commission Staff:

3

JAMES Mc.C. GEDDES, ESQUIRE

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On behalf of the Public Service Commission Staff:

5

PATRICIA GANNON, PUBLIC UTILITIES ANALYST

MATTHEW HATTIGAN, OMBUDSMAN

6

7

On behalf of the Office of the Public Advocate:

8

MICHAEL SHEEHY, PUBLIC ADVOCATE

9

On behalf of Delmarva Power & Light Company:

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TODD L. GOODMAN, ESQUIRE

W. MICHAEL VONSTEUBEN

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GLENN MOORE

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1 HEARING EXAMINER IKWUAGWU: Good
2 evening. This Public Comment Session will now come to
3 order.

4 For your information, I have a sign-up
5 sheet on this side of the table. If you wish to make any
6 comments this evening, please approach and sign the
7 sign-up sheet and put your name on the sign-up sheet so
8 we can conduct this orderly.

9 For the record, I note that the time now
10 is 7:03 p.m. on Monday, April 2, 2012. My name is Dr.
11 Vincent Ikwuagwu. I'm the presiding hearing examiner
12 this evening for this Public Comment Session.

13 This is the Public Comment Session for
14 PSC Docket No. 11-528, which is captioned in the matter
15 of the application of Delmarva Power and Light Company
16 for an increase in electric base rates and miscellaneous
17 tariff changes.

18 On December 2, 2011, Delmarva Power and
19 Light filed an application with the Delaware Public
20 Service Commission seeking approval for an increase in
21 electric rate base for miscellaneous changes.

22 Delmarva's application seeks an increase
23 in annual operating revenue of \$31,760,741 dollars, or a
24 4.97 percent increase over existing rates.

1 At the receipt of the application, a
2 notice of commencement of investigation was published in
3 The Delaware State News and The News Journal
4 respectively.

5 The notice of commencement also provided
6 the dates, times and places for the three Public Comment
7 Sessions, April 2nd, 3rd and 4th.

8 Also, notice of the Public Comment
9 Sessions was published in The Delaware State News and The
10 News Journal on March 3rd and 13th, 2012 respectively.

11 The purpose of tonight's hearing is to
12 receive comments from the public concerning Delmarva's
13 rate proposal.

14 There is a court reporter here to take
15 statements by the participants. Since the court reporter
16 is not able to transcribe nonverbal gestures or
17 utterances, please make sure you speak clearly. Please
18 rephrase from hand gestures, head nodding and utterances.
19 Anyone wishing to speak should say their name clearly and
20 spell their first and last name.

21 At the conclusion of this case, I will
22 summarize the comments of tonight's speakers and the
23 letters that we have received from the public in my
24 report. And I will submit to the Commission my findings

1 of the facts and recommendations.

2 The deadline to receive other public
3 comments in writing is April 20, 2012.

4 Further, at the present time, an
5 evidentiary hearing is scheduled to begin in this matter
6 on April 30, 2012 at ten a.m. An evidentiary hearing
7 will be scheduled from day-to-day until all of the
8 testimony has been taken. You should seek the newspapers
9 or Commission website for further information for the
10 date, place and time for the evidentiary hearing.

11 At the evidentiary hearing, the parties
12 formerly introduce evidence into the record and present
13 their witnesses for cross examination. The evidentiary
14 hearing is also open to the public, but only those who
15 have properly intervened in this case will be allowed to
16 present testimony or cross examine the witnesses.

17 After the record of the evidentiary
18 hearing is concluded, the parties may file briefs. Then
19 after consideration of all of the evidence and exhibits,
20 I will issue a report and recommendation to the
21 Commission. Thereafter, the Commission will deliberate
22 in public the merits of my report and recommendations, as
23 well as the arguments of the parties.

24 In order to provide some information for

1 those who have not had an opportunity to read the filings
2 in this case, I have asked Delmarva to make a three- to
3 five-minute presentation after my initial opening.

4 The public will be allowed to provide
5 comments. For purpose of orderliness, you will have
6 three minutes to speak, if you are an individual. If you
7 are representing the public, you may have up to five
8 minutes to speak. We will not allow participants to
9 allot their time to another speaker. We want to give
10 everyone time to speak.

11 Everyone should understand that tonight
12 we are here to receive public comments. The meeting is
13 not a referendum. It is not a vote either for approval
14 or a demonstration.

15 In order to preserve and foster the
16 utmost respect where everyone feels welcome to express
17 their views, I will express that everyone demonstrate the
18 utmost respect and courtesy for each individual in this
19 room.

20 In this period, I ask that everyone
21 refrain from denigrating and offensive remarks. This is
22 not to say that different positions are not allowed.
23 However, I must stress the positive aspects of speaker's
24 positions. We welcome all speakers and their positions.

1 Everybody should remember they will have an opportunity
2 to file written comments with the Commission. And as
3 stated earlier, written comments on this will be allowed
4 up to April 20th.

5 I will now take appearances for the
6 parties.

7 MR. GOODMAN: Good evening, Your Honor.
8 Todd Goodman here for Delmarva Power.

9 MR. SHEEHY: Good evening, Your Honor.
10 Michael D. Sheehy, Public Advocate.

11 MR. GEDDES: Good evening, Your Honor.
12 James Geddes, Rate Counsel for the Commission.

13 MS. GANNON: Patricia Gannon, Public
14 Service Commission Staff.

15 MR. HATTIGAN: Matt Hattigan, Public
16 Service Commission Staff.

17 HEARING EXAMINER IKWUAGWU: Do we have
18 any other party that wishes to introduce themselves?
19 Okay. At this moment, I will ask Delmarva Power and
20 Light to give us a very brief summary of the application.

21 MR. GOODMAN: Your Honor, we are very
22 happy to do that. But if there are not any members of
23 the public here, I'm not even sure.

24 HEARING EXAMINER IKWUAGWU: There is one

1 or two persons.

2 MR. GOODMAN: Then we are more than
3 happy to do it.

4 The Hearing Examiner covered a few of
5 the issues that I was going to speak about.

6 I'm Todd Goodman with Delmarva Power.
7 And this is a rate case for -- what's very important --
8 it's called the distribution or delivery rate.

9 If you look at your typical Delmarva
10 Power bill, electric bill, there are two parts to it.
11 There is the supply portion, and there is the delivery or
12 distribution, or it's called delivery on your bill.
13 This, again, is for the delivery portion.

14 The supply portion is the actual
15 electricity and the electrons that are coming into your
16 home and running whatever it is that you are running off
17 electricity.

18 On a typical residential bill that runs
19 between 30 percent -- I'm sorry -- between -- I'm not
20 very good at math -- 70 percent or 75 percent of your
21 bill, that is the electricity or supply portion of your
22 bill. That is acquired from generation companies not
23 affiliated with Delmarva. We acquire that through Public
24 Service Commission presiding auction, the lowest bidder

1 and the company that provides that energy.

2 This is the distribution portion. This
3 is the distribution of your bill that is equipment,
4 investments, and people that belong to Delmarva, our
5 employees, our trucks, our poles, our wires, everything
6 that we need to send that supply that delivery to you.
7 And that's what this here is about.

8 As The Hearing Examiner stated early on,
9 what we're seeking is an increase in what's called total
10 revenues, increase in the money that comes in of
11 4.97 percent.

12 I think it's important -- we can talk
13 about all of these numbers and how many dollars it
14 actually is -- but for your typical residential customer,
15 that is a customer that uses about 1,000 kilowatts, their
16 average monthly bill, if you average them out over the
17 year, that means if the entire increase is permitted by
18 the Commission, it will be a bill impact of a hair under
19 five percent. Really, about a five percent increase on
20 the average customer's monthly bill.

21 That's really -- I don't want to take
22 the time -- this is the time for the public to make any
23 comments that it has about that the distribution rate.
24 And so, I will step down.

1 Thank you, Your Honor.

2 HEARING EXAMINER IKWUAGWU: Thank you.

3 I will also call on any other
4 intervening party that wishes to make any opening
5 statement. I know Staff is here and DPA is here. If you
6 wish to make any comments, you're welcome to at this
7 time.

8 MR. GEDDES: No statement.

9 HEARING EXAMINER IKWUAGWU: DPA.

10 MR. SHEEHY: I would like to make one
11 comment, Your Honor.

12 And that is to make sure that the record
13 is clear with respect to the numbers and the percentages.

14 Mr. Goodman was kind enough to provide
15 us with the numbers with respect to the total revenue
16 stream of the company. However, the revenue stream
17 applies to only the distribution portion of the bill, not
18 the supply portion of the bill. Therefore, the numbers
19 come closer to a 12 percent increase in revenue for the
20 portion that they are responsible for.

21 Thank you.

22 HEARING EXAMINER IKWUAGWU: Thank you.

23 If we have any member of the public that
24 wishes to speak, please approach the table here, put your

1 name on the sign-up sheet, and then give your name to the
2 court reporter so that she can get it down accurately.

3 MR. SINGER: I'm Victor Singer. I'm
4 speaking on behalf of an Ad Hoc Committee of the Civic
5 League of New Castle County.

6 I'm a New Castle County resident and
7 Delmarva Power customer for nearly a half century. I'm
8 here to comment on Delmarva's request for PSC approval of
9 recovering capital investment in reliability improvements
10 from ratepayers before the investment is made.

11 The relevant Delaware law is Chapter One
12 of Title 26 of the Delaware Code, the Public Utilities
13 Act of 1974. I was one of the co-authors of that Act,
14 which resulted from a year-and-a-half effort by a
15 committee appointed in September of 1972 by Governor
16 Peterson on my suggestion and continued by Governor
17 Tribbitt.

18 The committee defined the term "Rate
19 Base," at Sub-Section 3 under Section 102, to enable the
20 public utility to enjoy a reasonable rate of return
21 opportunity On Its Stockholders Investments, but Not on
22 ratepayer contributions in aid of construction or
23 advances against future revenue in aid of construction.
24 Contributions and advances against future revenue are Not

1 prohibited. Rather, the definition prescribes their
2 bookkeeping representations to achieve the purpose I just
3 stated.

4 It would have been easier for me, a
5 rocket scientist, now retired, to express the definition
6 symbolically as an algebraic equation. Instead, we, the
7 drafters, expressed the equation in words via
8 sub-sub-sections lettered "a" through "g," each with
9 either a plus or minus connotation. I was astonished
10 years later to learn for about a decade, the PSC had been
11 so troubled by the Plus sign for depreciation on
12 contributions and advances in aid of construction, that
13 they took the argument to the State Supreme Court. The
14 plus sign connotes deductions from negative increments of
15 rate base. Algebraically, minus a minus quantity is a
16 plus quantity. The Court made the right decision, albeit
17 for the wrong reason. That confusion prompted my
18 comments today.

19 Sub-sub-section "a" of the Rate Base
20 definition requires that for an element of capital plant
21 to be included in Rate Base, the element must be "used
22 and useful." It cannot be used and useful until it
23 exists. There's only one exception, via Section 302 of
24 26 Delaware Code, enacted by the General Assembly in 2001

1 on recommendation of the Water Supply Coordinating
2 Council, which I'm a member of. It enabled rate base
3 coverage of water utility investments in expanding
4 sources of supply to cover severe drought, after they
5 exist, but before the drought occurs, on a sufficient
6 demonstration that the expansions are necessary. Thus,
7 the exception applies to the "used," but not the "useful"
8 part of the definition.

9 It follows that the PSC can lawfully
10 authorize ratepayer contributions and/or advances against
11 future revenue in aid of construction for the capital
12 plant Delmarva seeks coverage for, it cannot allow rate
13 base coverage of such plant until it becomes used and
14 useful in the public service without legislative
15 authorization. PSC Commissioners are under oath to
16 uphold these existing law. They cannot change the law.
17 Only the General Assembly has that power.

18 Methodology for accounting for capital
19 plant that takes years to construct is an obvious need.
20 The Delaware PSC and many other utility regulators have
21 properly long recognized that a part of the original cost
22 to be booked as rate base when the capital plant becomes
23 used and useful is the cost of financing during
24 construction. The cost of carrying the investment until

1 it can be booked as rate base is terms AFUDC, Allowance
2 for Funds Used During Construction. The percentage rate
3 is established every year by the PSC for that year,
4 reflecting current money market realities. The actual
5 capital investment invested in capital plant, plus Simple
6 interest between the investment date and the date of
7 addition to rate base becomes the booked original cost of
8 the increment of rate base. That is recovered by the
9 utility as depreciation expense charged to the ratepayers
10 over the life of the investment.

11 That accounting technique has been in
12 use in Delaware for over 40 years that I am aware of and
13 much longer here and elsewhere before my own involvement.
14 It has worked well even in times like the Carter years
15 when the cost of money was much higher than it is today.
16 It follows today's minuscule interest rates. Delmarva
17 Power would be hard-pressed to show that they would be
18 damaged by continuation of the current practice.

19 The March 18th News Journal mentioned
20 Delmarva's desire to reduce Regulatory Lag, which
21 Delmarva's spokesman described as the situation where,
22 quote, "It takes more and more time for the company to
23 recover its investments under increasingly long rate
24 cases, close quote.

1 In 26 Delaware Code 304 and 306, the
2 Public Utilities Act of 1974, we enabled any utility to
3 put into effect a rate increase no larger than 15 percent
4 at the 60th day after filing a petition to increase its
5 rates under bond and subject to refund with interest if
6 the PSC eventually determines that a lesser increase is
7 appropriate. In Delaware, "Regulatory Lag" is no longer
8 than 60 days, and the PSC can make it shorter.

9 Delmarva Power's proposed surcharge for
10 capital plant for reliability improvements before it
11 becomes used and useful, must be regarded either as a
12 contribution or an advance against future revenues in aid
13 of construction.

14 Delmarva Power's request that its
15 proposed surcharge be dealt with other than in the rate
16 proceeding is inconsistent with existing Delaware law and
17 PSC's historic accounting practices, that require
18 contributions and advances to be dealt with in rate
19 proceedings.

20 I urge the PSC to give Delmarva Power a
21 firm "Thanks But No Thanks" response to its proposal.

22 Thank you.

23 HEARING EXAMINER IKWUAGWU: Do we have
24 any further comments from any members of the public?

1 Please remember to state your name and
2 spell your last name when you come up to speak.

3 In the absence of any other public
4 comments from any members of the public, as I said, we
5 still have some opening for comments to be sent to the
6 Commission and that expires April 20, 2012.

7 So, if anyone still wants to send public
8 comments through writing, please do so to the Commission.
9 In the absence of any other comments, I wish to declare
10 this session over.

11 Thank you.

12 (The Public Comment Session was
13 concluded at, approximately, 7:30 p.m.)

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C E R T I F I C A T E

STATE OF DELAWARE:
:
NEW CASTLE COUNTY:

I, Gloria M. D'Amore, a Registered Professional Reporter, within and for the County and State aforesaid, do hereby certify that the foregoing Public Service Commission Hearing, was taken before me, pursuant to notice, at the time and place indicated; that the statements of said parties was correctly recorded in machine shorthand by me and thereafter transcribed under my supervision with computer-aided transcription; that the Public Service Commission Hearing is a true record of the statements given by the parties; and that I am neither of counsel nor kin to any party in said action, nor interested in the outcome thereof.

WITNESS my hand and official seal this
2nd day of April A.D. 2012.

GLORIA M. D'AMORE
REGISTERED PROFESSIONAL REPORTER
CERTIFICATION NO. 119-PS