



A PHI Company

Gary R. Stockbridge
President

October 2, 2013

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The Honorable Dallas Winslow
Delaware Public Service Commission
Cannon Bldg, Suite 100
861 Silver Lake Blvd.
Dover, DE 19904

Re: Infrastructure, Planning and the Forward Looking Rate Plan

Dear Commissioner Winslow:

As part of our ongoing commitment to keep you informed, I wanted to share with you an important decision Delmarva Power has made regarding investment in our electric grid and a new way to look at rate making and reliability planning. On October 2nd, Delmarva Power filed with the Delaware Public Service Commission (DPSC) a proposal to implement a Forward Looking Rate Plan (FLRP) in Delaware.

Upgrading the electrical grid is a priority for us all. As the American Society of Civil Engineers explained in its 2011 "*Failure to Act*" Report, as the economy continues to move towards increasingly sophisticated information technology, digital controls and sensitive electronics, the need for electricity reliability becomes even greater. Failure to meet that increased reliability need will have a direct negative effect on the economy in the form of lost inventory, lost sales, spoiled product, and lost wages. The U.S. economy will end up with an average of 529,000 fewer jobs than it would otherwise have by 2020 and personal income in the U.S. will fall by a total of \$656 billion.¹ Delmarva Power is taking action by strengthening our grid against severe weather, upgrading our infrastructure to improve reliability and taking advantage of available technology to continue delivering on our commitment to provide efficient, safe and reliable electric service at a reasonable price.

Improving reliability while minimizing cost to customers is the primary objective of the FLRP. The FLRP will result in a collaborative effort between the DPSC and Delmarva Power on both the level of long term investments necessary to drive improvements and maintenance of Delaware's electrical infrastructure and the levels of improvement in reliability that will result. The highlights of the FLRP filing include:

- **Rate Certainty** – It provides customers with predictable and transparent distribution rates for a set four year period. The plan does not affect supply rates for the electricity.
- **Improved Reliability** - It proposes we improve our current reliability standard by at least 35% or more and backs it by customer refunds should we fail to meet the more rigorous standards.

¹ Failure to Act, The Economic Impact Of Current Investment Trends in Electricity Infrastructure, American Society of Civil Engineers, Economic Development Research Group, Inc. and La Capra Associates, 2011.

- **Company Impact** – It provides Delmarva Power the ability to earn our currently authorized return on our investments in the final two years of the plan while reducing our earnings below the authorized level in the first two years which eases the customer impact while the economy recovers.
- **Transparency and Oversight** – It would maintain all the existing DPSC oversight of our business while, proactively aligning future rates to future spending and reliability levels.
What Will It Cost Customers? – Rates would increase once each year, resulting in an average increase to the typical monthly residential customer bill of less than \$2.40 per month (or 1.75%).

Delmarva Power recognizes our responsibility to invest in our infrastructure while balancing the needs and concerns of the customer, the Company, the DPSC and the State of Delaware. Utilizing the FLRP as an alternative to the traditional rate setting process achieves this objective. Should you have questions or need additional information, please feel free to contact me or Joe Farley (463-1475).

Sincerely,

A handwritten signature in black ink, appearing to read "Gary" followed by a stylized, elongated flourish.

Gary R. Stockbridge