BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR A CHANGE IN NATURAL GAS BASE RATES AND MISCELLANEOUS TARIFF CHANGES (FILED DECEMBER 7, 2012)	)))))	PSC DOCKET NO. 12-546

DIRECT TESTIMONY OF

MALIKA DAVIS

ON BEHALF OF COMMISSION STAFF

JUNE 3, 2013

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I. Introduction and Purpose of Testimony

Q. Please state your name, business address, and current occupation.

A. My name is Malika Davis. My business address is 861 Silver Lake Boulevard, Suite 100, Dover, Delaware 19904. I am a Public Utility Analyst II for the Delaware Public Service Commission ("PSC" or "Commission"). I have been employed as a Public Utility Analyst since joining the Commission in March 2010.

Q. What are your job responsibilities as a public utility analyst?

A. I am responsible for the certification of Delaware electric suppliers, the monitoring of Delmarva Power & Light's ("Delmarva" or the "Company") quarterly reports related to customer service and operational issues, and the monitoring of Delmarva's quarterly rate of return reports. I also monitor Delmarva's monthly reports for the gas cost rate recovery schedules and quarterly hedging reports. In addition, I am part of the team that works with the Company regarding issues related to customer education initiatives involving advanced metering infrastructure and dynamic pricing, and recently I served as the case manager in Delmarva's Environmental Surcharge Rider cases.

Q. What is your professional experience and educational background?

A. I have a Bachelor of Science in Marketing and Business Administration and a Master of Business Administration from Delaware State University. Prior to my employment with the PSC, I was employed as a Management Analyst I with the Delaware Division of Motor Vehicles (DMV). My duties included monitoring the Commercial Driver Licensing Program for compliance with State and Federal laws and regulations, training driver license examiners, issuance staff, and driver improvement staff, interacting with other State and Federal agencies, representing the DMV at administrative hearings, applying for Federal grants and maintaining compliance with Federal requirements for grant reporting. Before accepting the position with the DMV, I was employed as a Labor Market Analyst with the Delaware Department of Labor in the Office of Occupational Labor Market Information, where I was assigned to work on the Occupational Employment Statistics program. Before my position with the Department of Labor, I was employed at Delaware State University where I held several positions including Records Office Assistant/Secretary, Acting Lead Student Services Generalist, Adjunct Instructor, and Career and Academic Advisor for the College of Business.

Q. What is the purpose of your testimony?

A. I was assigned as the Case Manager for Delmarva's Application for a Change in Natural Gas Base Rates and Miscellaneous Tariff Changes (the "Application") filed on December 7, 2012. My testimony will summarize the recommendations of Staff's other witnesses, address the Company's proposed Utility Facility Relocation Charge, and provide some background on the Qualified Fuel Cell Provider Project.

Q. Please identify the other witnesses that are providing direct testimony on behalf of Staff in this proceeding.

A. Mr. David E. Peterson of Chesapeake Regulatory Consultants will address the overall revenue requirement deficiency.

Mr. Brian Kalcic of Excel Consulting will discuss the Company's proposed Cost of Service and Rate Design issues.

Mr. David C. Parcell of Technical Associates, Inc. is presenting testimony in the areas of Capital Structure, Cost of Capital, Cost of Equity and Rate of Return.

Mr. Michael McGarry of Blue Ridge Consulting Services, Inc. will provide testimony on the Company's proposed Main Extension Policy.

Mr. Gary Cohen of GBC Consulting will address issues related to the Company's natural gas Advanced Metering Infrastructure ("AMI") deployment.

II. Background of the Application

A. Summary and Review of the Application

Q. Please summarize the Application.

A. On December 7, 2012, Delmarva filed an Application for an increase its natural gas base rates and miscellaneous tariff changes. The new rates are designed to produce an annual increase of approximately $12,174,435 or 7.87% above existing revenues. The test year in the Application is the twelve months ended June 30, 2012 and the test period is the twelve months ended December 31, 2012. The Company is seeking an overall rate of return of 7.51% and a return on equity of 10.25%. The Application requested that the full proposed increase become effective February 5, 2013. In the event the Commission decided to suspend the full proposed increase, the Company requested to put into effect an interim increase of $2.5 million on February 5, 2013.

The Company is also requesting approval to implement a Utility Facility Relocation Charge ("UFRC") and changes to its current Main Extension Policy.

Q. Did the Commission approve the Company's request to put into effect an interim rate increase?

A. Yes. On January 8, 2013, the Commission signed Order No. 8271 suspending the full rate increase and permitting the Company to implement interim rates intended to produce an annual increase of $2.5 million in intrastate operating revenues, effective February 5, 2013, with proration and subject to refund.

Below is an illustration of proposed rate increase by class of service:

Service Classification	Proposed Increase ($000)			
	Full Proposed Increase		Interim Increase	
	$	%	$	%
RES/RGH	$ 7,782	8.10	$1,633	1.70
GG+GVFT	$ 2,869	6.07	$ 632	1.34
MVG+MVFT	$ 329	5.71	$ 121	2.09
LVG+LVFT	$ 785	18.08	$ 111	2.56
Gas Lighting	$ 0.14	5.29	$ 0.03	1.11
LVG-QFCP	$ 409	N/A	$ 3	N/A
Total	$12,174	7.87%	$2,500	1.63%

Q. How would the full proposed increase to the base rates impact Delmarva's residential customers?

A. An average residential space customer using 120 CCF during a winter month would experience an increase of $8.67 or 6.1%, in their total bill.

Q. Please explain your review of the Application.

A. I reviewed the Company's Application, including testimonies and schedules; prior Delmarva base rate dockets, Commission Orders, and the Company's quarterly and annual financial data filed with the Commission.

In addition to information obtained through formal and informal discovery, I attended meetings with various Company personnel involved with this case. I also participated in a field audit with other members of Commission Staff and Witness Cohen.

Q. Briefly describe the field audit.

A. On April 18, 25, and 26, 2013 Staff conducted a field audit at the offices of Delmarva. Staff's main objective was to perform a review to determine the accuracy of the Company's test year and test period actual books and records. Another objective was to perform a detailed review of selected corporate information for the purposes of determining whether any major or unusual activities had taken place. Certain Operations and Maintenance Expense accounts were analyzed. Staff's review included examination of the general ledger transactions and vendor invoices.

The Company provided an overview of both the corporate structure of Pepco Holdings, Inc., as well as an overview of Delmarva's Natural Gas Division. The Company also provided additional information and explanation for some of the adjustments in the Application. Information about the Bloom Energy – Qualified Fuel Cell Provider Project from start-up to its current stage of development was also discussed.

Q. Do you recommend the exclusion of any expenses claimed by Delmarva based on the field audit?

A. No. The documents reviewed by Staff support the numbers contained in the Application. All of the invoices reviewed appeared to be related to Delmarva's Natural Gas Division.

B. Summary of Supplemental Testimony

Q. Was any supplemental testimony filed by the Company?

A. Yes. On March 11, 2013, the Company filed supplemental testimony to provide an update to reflect twelve months of actual data for the test period ending December 31, 2012.

Q. Please summarize the changes in the Company's supplemental testimony.

A. The supplemental testimony showed a revenue requirement increase of $13,005,000 from $12,174,435 in the Application and provided for an increase in the overall rate of return of 7.53% from 7.51%. The capital structure changed slightly, consisting of 50.78% long-term debt and 49.22% of common equity capital.

Q. Is the Company seeking a change in the revenue requirement based on the supplemental testimony?

A. No. Witness Ziminisky states in his supplemental testimony that the Company's revenue requirement is limited to the $12,174,435 requested in the Application.

III. Staff's Recommendations

A. Staff Proposed Revenue Deficiency, Capital Structure, Return on Equity and Overall Rate of Return, Rate Base and Net Operating Income

Q. What is Staff's recommended revenue requirement for this proceeding?

A. Staff Witness Peterson is recommending a revenue increase of $3,583,681 in this proceeding, as shown on his Schedule 1. The primary differences in the Company and Staff's positions can be attributed to Staff's recommended return on equity, which reduces the Company's overall rate of return, and use of an average test period rate base. Adjustments to plant in service, construction work in progress, cash working capital, and deferred income taxes were also contributing factors to the overall difference in the Company and Staff's recommended revenue requirements in this proceeding.

Q. What capital structure, return on equity and overall rate of return is Staff proposing?

A. Staff Witness Parcell is proposing an overall rate of return of 7.15% based on a return on equity of 9.475% (the mid-point in his recommended range of 9.20% to 9.75%). This recommendation utilizes Delmarva's December 31, 2012 capital structure and a cost of debt of 4.91%. Staff Witness Parcell's recommendations are further addressed in his direct testimony.

Q. What pro forma levels of rate base and net operating income is Staff recommending?

A. As found on Staff Witness Peterson's Schedule 2, page 1, Staff's pro forma rate base is $229,754,235. Staff Witness Peterson's pro forma net operating income of $14,307,070 is shown on Schedule 3.

Q. How would Staff's proposed increase in base rates impact Delmarva's residential customers?

A. An average residential space customer using 120 CCF during a winter month would experience an increase of $2.57 or 1.8%, in their total bill. This would be $0.46 or 1.8% over the interim rates currently in effect.

B. Utility Facility Relocation Charge

Q. Please summarize the Company's proposal pertaining to the UFRC.

A. The Company is proposing to implement a Rider UFRC in order to recover costs related to relocation of the Company's delivery facilities as required to accommodate projects sponsored by the Delaware Department of Transportation or other state agencies. Delmarva is proposing to set the UFRC at 0.00% at this time and has provided tariff sheets describing the purpose and applicability of the rider.

Q. Is the Company's proposal consistent with Commission regulations?

A. Yes. The tariff changes provided appear to be consistent with 26 Del. C. §315 and *26 Del. Admin C.* §1009. There is a typo on Leaf No. 81 and on Leaf No. 83 which the Company has stated will be corrected in a future filing.

C. Qualified Fuel Cell Provider Project

Q. Please provide some background on the Qualified Fuel Cell Provider Project?

A. On July 7, 2011, the Governor of the State of Delaware signed into law Amendments (the "Amendments") to the Renewable Energy Portfolio Standards Act (the "REPSA") that added Delaware-manufactured fuel cells to the REPSA and allowed energy output from such fuel cells to be considered a resource eligible to fulfill a portion of a Delaware Public Service Commission-regulated electric company's renewable energy credit requirements under REPSA.

The Amendments created a regulatory framework whereby the Commission-regulated electric company, Delmarva, and the Qualified Fuel Cell Provider ("QFCP") will jointly submit tariffs that enable and obligate Delmarva, as the agent for collection and disbursement, to collect from its customers a non-bypassable charge ("QFCP-RC Charge") for costs incurred for incremental site preparation, filing, administrative and other costs incurred by the QFCP.

On August 19, 2011, in PSC Docket No. 11-362, Delmarva filed an application for approval of a new electric tariff for Service Classification QFCP-RC and a new gas tariff for Service Classification LVG-QFCP-RC ("Gas Tariff") pursuant to the Amendments. On October 18, 2011, the Commission issued Order No. 8062 which approved this tariff filing. On December 1, 2011, the Commission signed Order No. 8079, which, among other things, adopted Order No. 8062.

Q. What costs did the rates in the Gas Tariff recover?

A. The rates in Gas Tariff were set to recover the cost of gas equipment additions that were necessary to connect the QFCP to Delmarva's gas transmission system, and any incremental operation and maintenance expenses associated with the operation of the fuel cell facility according to the Company's application in PSC Docket No. 11-362.

Q. How did the Company propose to recover the common costs shared by all gas customers in PSC Docket No. 11-362?

A. Delmarva proposed to include the costs for customers served under the QFCP Service Classification in its cost of service and rate design proposal in its next base rate case.

Q. Did the Company comply with its application?

A. Yes. This is the Company's first natural gas base rate case filed since that Docket and Delmarva has included a QFCP rate. Staff Witness Kalcic addresses the Company's cost of service and rate design proposals for the QFCP in his testimony.

Q. Does this conclude your testimony?

A. Yes it does.