

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

IN THE MATTER OF THE APPLICATION OF)
 DELMARVA POWER & LIGHT COMPANY)
 FOR APPROVAL OF MODIFICATIONS) PSC DOCKET NO. 10-295F
 TO ITS GAS COST RATES)
 (FILED AUGUST 31, 2010))

ORDER NO. 7848

AND NOW, this 4th day of October, 2010:

1. On August 31, 2010, pursuant to 26 Del. C. §§304 and 306, Delmarva Power & Light Company ("Delmarva" or "the Company") filed with the Delaware Public Service Commission (the "Commission") an application (the "Application") regarding the annual establishment of its gas cost rates ("GCR") for Gas Cost Year ("GCY") 2010-2011. According to the Application, pursuant to the formula for establishing the GCR in Delmarva's natural gas tariff, the GCR would increase this year as follows:

Rate Schedules	Current	Proposed	Change from Current
RG, GG, GL	93.959¢/ccf	103.738¢/ccf	9.779¢/ccf
LVG and MVG Demand	\$9.5152/Mcf of MDQ	\$12.0266/MCF of MDQ	\$2.5114/MCF of MDQ
Non-Electing MVG Commodity	\$7.9076/Mcf	\$8.5507/Mcf	\$0.6431/Mcf
LVG and Electing MVG Commodity	Varies Monthly	Varies Monthly	N/A

Under the tariff formula for establishing GCR rates, a residential space heating customer using 120 ccf in a winter month would experience an increase of \$11.74, or 6.9%, in his total bill. Commercial and industrial customers would experience increases ranging from 3.9% to 8.2%.

2. Section 303(b) of the Public Utilities Act of 1974 contains a procedure whereby public utilities submit annual applications to adjust the level of fuel costs included in rates. That section further provides that the fuel costs are reconciled from year to year so that the utility recovers only the amount spent on fuel and no more. The Company's tariff contains a similar provision and a formula for reconciling over- or under-recoveries of gas costs from a preceding year.

3. According to Delmarva, the reason for the increase in this case is to reconcile the forecasted \$24.5 million underrecovery of gas costs from GCY 2009-2010, comprised of the following components:

- Beginning balance variance of \$3.9 million;
- Demand revenue shortfall of \$1.1 million;
- Commodity revenue shortfall of \$6.1 million;
- Demand cost variance of \$500,000;
- Commodity cost variance of \$9 million; and
- Demand revenue credit variance of \$3.9 million.

4. In its Application for the upcoming 2010 to 2011 GCR year, however, Delmarva does not request to recover the entire underrecovery in one year as set forth in the tariff. Instead, for the purpose of mitigating the burden upon its natural gas customers during the current economy, Delmarva has proposed to recover this shortfall over two years. Under Delmarva's proposal (the "mitigation mechanism"), the gas cost rates for GCY 2010-2011 would be as follows:

Rate Schedules	Current	Proposed	Change from Current
RG, GG, GL	93.959¢/ccf	94.042¢/ccf	0.083¢/ccf
LVG and MVG	\$9.5152/Mcf of	\$12.0266/MCF	\$2.5114/MCF of MDQ

Demand	MDQ	of MDQ	
Non-Electing MVG Commodity	\$7.9076/Mcf	\$7.5811/Mcf	(\$0.3265)/Mcf
LVG and Electing MVG Commodity	Varies Monthly	Varies Monthly	N/A

Under the proposed mitigation mechanism, residential space heating customers using 120 ccf in a winter month would experience an increase of \$0.10, or 0.1%, in their total bill, rather than an increase of \$11.74, or 6.9% that would occur under the tariff formula. GG customers would experience either no change or an approximate 0.1% increase in their total bills. Non-electing MVG customers would experience a change in their total monthly bills ranging from a 0.1% increase to a 2.3% decrease, depending on load and usage characteristics.

5. In addition, the Application requests approval of the Company's proposal to reconcile and true-up actual versus estimated monthly Commodity Cost Rate assignments for sales under the LVG and "electing" MVG Service Classifications.

6. On September 21, 2010, the Company filed a letter application requesting a waiver of its tariff provisions regarding annual reconciliation of over- or under-recoveries of gas costs in order to implement its proposed mitigation mechanism (the "Waiver Application"). In the Waiver Application, the Company explained the reasons for the variances and shortfalls, many of which had to do with lower-than-forecast sales as a result of the depressed economy, warmer than expected weather, costs that were higher than forecast, and hedges made under the previous hedging program (not the one approved

in Docket No. 09-385F that is currently being implemented). (See Waiver Application and 2-3).

7. The Commission has determined, pursuant to 26 *Del. C.* §§304 and 306, that the mitigation mechanism should be permitted to become effective for usage on and after November 1, 2010, with proration and subject to refund, pending the Commission's further review and final decision;

NOW, THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE VOTE OF NOT FEWER THAN THREE COMMISSIONERS:

1. That pursuant to 26 *Del. C.* §§303(b), §§304 and 306, the following proposed changes to Delmarva Power & Light Company's GCR rates, and the accompanying proposed tariff revisions set forth in the Application, are permitted to become effective for natural gas usage on or after November 1, 2010, with proration and subject to refund pending the Commission's final decision:

Rate Schedules	Current	Proposed	Change from Current
RG, GG, GL	93.959¢/ccf	94.042¢/ccf	0.083¢/ccf
LVG and MVG Demand	\$9.5152/Mcf of MDQ	\$12.0266/MCF of MDQ	\$2.5114/MCF of MDQ
Non-Electing MVG Commodity	\$7.9076/Mcf	\$7.5811/Mcf	(\$0.3265)/Mcf
LVG and Electing MVG Commodity	Varies Monthly	Varies Monthly	N/A

2. That Delmarva Power & Light Company's request for a waiver of its tariff provision is GRANTED.

3. That Ruth Ann Price is designated as the Hearing Examiner for this docket pursuant to 26 *Del. C.* §502 and 29 *Del. C.* ch. 101. Hearing Examiner Price shall schedule and conduct such public evidentiary hearings as may be necessary or appropriate to develop a

full and complete record concerning this matter, and shall thereafter report to the Commission her proposed findings and recommendations based on the evidence presented. Pursuant to 26 *Del. C.* §102A and Rule 21 of the Rules of Practice and Procedure, Hearing Examiner Price is delegated the authority to grant or deny petitions to intervene and to determine the content, form, and manner of any further notice in this matter. The deadline for petitions to intervene shall be **November 4, 2010**. Petitions received after that date will not be considered.

4. That Delmarva Power & Light Company shall give public notice of the filing of this application with the proposed rate changes and this action by the Commission, by publishing notice in the form attached hereto as Exhibit "A" in two-column format, outlined in black, in the legal classified section of The News Journal newspaper on **Wednesday, October 13 and Thursday, October 14, 2010**. Delmarva Power & Light Company shall submit proof of such publication as soon as possible, but no later than the commencement of the evidentiary hearings concerning this matter.

5. That Delmarva Power & Light Company is hereby placed on notice that it will be charged the costs incurred in connection with this proceeding under the provisions of 26 *Del. C.* §114(b)(1).

6. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Dallas Winslow
Commissioner

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Alisa Carrow Bentley
Secretary

E X H I B I T "A"

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

IN THE MATTER OF THE APPLICATION OF)
DELMARVA POWER & LIGHT COMPANY)
FOR APPROVAL OF MODIFICATIONS) PSC DOCKET NO. 10-295F
TO ITS GAS COST RATES)
(FILED AUGUST 31, 2010))

P U B L I C N O T I C E

**TO: ALL NATURAL GAS CUSTOMERS OF DELMARVA POWER &
LIGHT COMPANY AND OTHER INTERESTED PERSONS**

Pursuant to 26 Del. C. §§304 and 306, Delmarva Power & Light Company ("Delmarva" or "the Company"), has filed an application (the "Application") with the Delaware Public Service Commission ("the Commission") seeking to increase its gas cost rates for Gas Cost Year ("GCY") 2010-2011 as follows.

Proposed GCR Rates

Rate Schedules	Current	Proposed	Change from Current
RG, GG, GL	93.959¢/ccf	94.042¢/ccf	0.083¢/ccf
LVG and MVG Demand	\$9.5152/Mcf of MDQ	\$12.0266/MCF of MDQ	\$2.5114/MCF of MDQ
Non-Electing MVG Commodity	\$7.9076/Mcf	\$7.5811/Mcf	(\$0.3265)/Mcf
LVG and Electing MVG Commodity	Varies Monthly	Varies Monthly	N/A

Under the proposed rates, residential space heating customers using 120 ccf in a winter month would experience an increase of \$0.10, or 0.1%, in their total bill. GG customers would experience either no change or an approximate 0.1% increase in their total bills. Non-electing MVG customers would experience a change in their total

monthly bills ranging from a 0.1% increase to a 2.3% decrease, depending on load and usage characteristics. The rates as proposed by Delmarva involve a two year amortization (or spreading) of a forecasted \$24.5 million underrecovery of gas costs from GCY 2009-2010.

Section 303(b) of the Public Utilities Act of 1974 contains a procedure whereby public utilities submit annual applications to adjust the level of fuel costs included in rates. That section further provides that the fuel costs are reconciled from year to year so that the utility recovers only the amount spent on fuel and no more. The Company's tariff contains a similar provision and a formula for reconciling over- or under-recoveries of gas costs from a preceding year. If Delmarva's request to spread the recovery over a two year period is not approved, the standard one-year recovery would apply. Standard recovery would result in rates as follows.

Standard Gas Cost Recovery ("GCR") Rates

Rate Schedules	Current	Proposed	Change from Current
RG, GG, GL	93.959¢/ccf	103.738¢/ccf	9.779¢/ccf
LVG and MVG Demand	\$9.5152/Mcf of MDQ	\$12.0266/MCF of MDQ	\$2.5114/MCF of MDQ
Non-Electing MVG Commodity	\$7.9076/Mcf	\$8.5507/Mcf	\$0.6431/Mcf
LVG and Electing MVG Commodity	Varies Monthly	Varies Monthly	N/A

Under the standard rates, a residential space heating customer using 120 ccf in a winter month would experience an increase of \$11.74, or 6.9%, in his total bill. Commercial and industrial customers would experience increases ranging from 3.9% to 8.2%.

In addition, the Application requests approval of the Company's proposal to reconcile and true-up actual versus estimated monthly Commodity Cost Rate assignments for sales under the LVG and "electing" MVG Service Classifications.

On September 21, 2010, the Company filed a letter application requesting the Commission to waive Delmarva's tariff provisions requiring annual reconciliation of gas cost over- or under-recoveries, in order for it to place the two-year cost spreading mitigation mechanism into effect on November 1, 2010, with proration and subject to refund, pending the Commission's investigation and determination.

The Commission has determined that it will waive the provision of the Company's tariff requiring annual reconciliation of gas cost over- or under-recoveries for this docket and that it will permit the Company's proposed two-year spreading mitigation mechanism to become effective on November 1, 2010, with proration and subject to refund, and pending the completion of evidentiary hearings and any other further proceedings that may be deemed necessary. A Hearing Examiner of the Commission will conduct an evidentiary hearing, to be scheduled at a later date, concerning this application. The Commission's final decision will be based on the evidence presented at such hearing.

Any person, group or entity desiring to participate formally as a party in this docket, with the right to submit evidence and to be represented by counsel, must petition the Commission for and be granted leave to intervene in the proceedings in accordance with Rule 21 of the Commission's Rules of Practice and Procedure. To be timely,

all such petitions must be filed with the Commission at 861 Silver Lake Boulevard, Cannon Building, Suite 100, Dover, Delaware 19904 (Attn: PSC Dkt. No. 10-295F) on or before **November 4, 2010**. Petitions received thereafter will not be considered.

Copies of the Company's application and its testimony and schedules are available for public inspection during normal business hours at the Commission's Dover office at the address set out above. The materials may also be reviewed by appointment at the offices of the Division of the Public Advocate, Fourth Floor, Carvel State Office Building, 820 North French Street, Wilmington, Delaware. Please call (302) 577-5077 to schedule an appointment.

Any individual with a disability desiring to participate in these proceedings or to review the filings should contact the Commission to discuss any aids or services that might be needed. The Commission Staff can also provide more information about this matter. The Commission's toll-free telephone number within Delaware is 1-800-282-8574. The Commission may be reached at (302) 736-7500 (including text telephone communications). Inquiries may be sent to the Commission by Internet e-mail addressed to "courtney.stewart@state.de.us."