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 TO IT'S GAS COST RATES (FILED AUGUST 29, 2014)	)))))	PSC DOCKET NO. 14-0295F

ORDER NO. 8767

AND NOW, this 4th day of August, 2015;

WHEREAS, the Delaware Public Service Commission (the "Commission") has received and considered the Findings and Recommendations of the Hearing Examiner, which is attached hereto as "**Attachment A**," issued in the above-captioned docket, which was submitted after duly-noticed public evidentiary hearings; and

WHEREAS, the Hearing Examiner recommends that the Commission approve the Proposed Settlement (submitted into evidence as Exhibit 10 at the April 8, 2015 Evidentiary Hearing), which is endorsed by all the parties, and which is attached hereto as "**Attachment B**;" and

WHEREAS, having reviewed the record evidence in this case and the Hearing Examiner's Report as well as the Proposed Settlement Agreement; and having been notified that the parties in this case have waived any right to file exceptions to the Report; and,

WHEREAS, the Commission finds that the proposed rates and tariff changes are just and reasonable and that adoption of the Proposed Settlement Agreement is in the public interest;

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

1. The Commission hereby adopts the July 16, 2015 Findings and Recommendations of the Hearing Examiner, attached hereto as "**Attachment A.**"

2. The Commission approves the Proposed Settlement Agreement and the proposed rates therein, attached hereto as "**Attachment B**."

3. The rates approved herein, which went into effect on November 1, 2014 subject to proration and refund, will become effective on a final basis with usage on or after the date of this Order.

4. 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:

/s/ Dallas Winslow
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Harold B. Gray
Commissioner

/s/ Mike Karia
Commissioner

/s/ K. F. Drexler
Commissioner

ATTEST:

/s/ Donna Nickerson
Secretary

ATTACHMENT "A"

FINDINGS AND RECOMMENDATION OF
THE HEARING EXAMINER

"Attachment 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. 14-295F
TO ITS GAS COST RATES	)	
(FILED AUGUST 29, 2014)	)	

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

DATED: July 16, 2015

R. CAMPBELL HAY
HEARING EXAMINER

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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 TO ITS GAS COST RATES (FILED AUGUST 28, 2013)	)))))	PSC DOCKET NO. 14-295F

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

R. Campbell Hay, duly appointed Hearing Examiner in this Docket pursuant to 26 Del. C. §502 and 29 Del. C. ch. 101 and by Commission Order No. 8491 dated December 5, 2013, reports to the Commission as follows:

I. APPEARANCES

On behalf of the Applicant, Delmarva Power & Light Company ("Delmarva" or "the Company"):

By: PAMELA J. SCOTT, ESQUIRE, ASSISTANT GENERAL COUNSEL

ROBERT W. BRIELMAIER, MANAGER OF GAS OPERATIONS
JAMES B. JACOBY, MANAGER, GAS SUPPLY
SUSAN A. DEVITO, MANAGER OF REGULATORY COMPLIANCE PRICING, PHI Service Company

On behalf of the Public Service Commission Staff ("Staff"):

By: JAMES McC. GEDDES, ESQUIRE, ASHBY & GEDDES
MALIKA DAVIS, PUBLIC UTILITIES ANALYST

On behalf of the Division of the Public Advocate ("DPA"):
By: REGINA A. IORII, ESQUIRE, DEPUTY ATTORNEY GENERAL,
DAVID L. BONAR, PUBLIC ADVOCATE
ANDREA B. MAUCHER, PUBLIC UTILITIES ANALYST

II. BACKGROUND

A. DELMARVA'S 2013-2014 GCR APPLICATION

1. On August 29, 2014, Delmarva Power & Light Company ("Delmarva" or the "Company") filed with the Commission the above-captioned application seeking approval to modify its current Gas Cost Rates ("GCR") for the period November 1, 2014 through October 31, 2015, as follows:

Proposed Gas Cost Rates

Rate Schedules	Current	Proposed	Change from Current
RG, GG, GL	62.106¢/ccf	53.563¢/ccf	(8.543)¢/ccf
LVG and MVG Demand	$11.9198/Mcf of MDQ	$9.8132/Mcf of MDQ	($2.1066)/Mcf
Non-Electing MVG Commodity	$4.2536/Mcf	$3.5695/Mcf	($0.6841)/Mcf
LVG and Electing MVG Commodity	Varies Monthly	Varies Monthly	N/A

(Exh. 2A, p.5)[1]

2. Under the proposed rates, RG, RSH, and GL customers will experience a 13.8% decrease in the level of the GCR. Residential space heating customers using 120 CCF in a winter month would experience a decrease of $10.25 or 7.4% in their total bill. GG, MVG, and LVG customers will experience a decrease on their winter bills from 3.5% to 12.8%, depending on load and usage characteristics. (*Id.*)

3. Delmarva also requests revision of the balancing charge rate applicable to Gas Transportation Customers. (*Id.*)

4. By Order No. 8646 dated September 30, 2014, the Commission permitted proposed rates to become effective with

[1] Exhibits entered into the evidentiary record will be cited herein as "Exh. __". References to the transcript for the evidentiary hearing will be cited as "Tr. __ at pg. __." Schedules from the parties' filings will be cited as "Sch. __ description."

usage on and after November 1, 2014, with proration, subject to modification and refund after an evidentiary hearing.

B. THE PUBLIC COMMENT SESSION

5. On November 3, 2014, I conducted a duly noticed public comment session at 7:00 p.m. in the Auditorium of the Carvel State Office Building located at 820 North French Street in Wilmington, Delaware. Notice of the public comment session was published in The News Journal newspaper on October 7 and 14, 2014, in accordance with PSC Order No. 8646. No members of the public attended. In addition, the Commission received no written comments relating to the Company's Application.

III. SUMMARY OF EVIDENCE - THE PARTIES' TESTIMONY

6. The testimonies of Mr. Robert W. Brielmaier, Mr. James B. Jacoby, and Ms. Susan DeVito, from Delmarva were included in the Application filed on August 29, 2014. On January 22, 2015, Staff submitted Direct Testimony from Public Utility Analyst Malika Davis. In addition, Staff filed direct testimony from Consultant Jerome D. Mierzwa of Exeter Associates, Inc. on behalf of Staff and the DPA. Their testimonies are summarized in the following section.

A. DELMARVA

7. **Robert W. Brielmaier.** Delmarva's Manager of Gas Operations, Robert W. Brielmaier, testified as to the overall development of Delmarva's gas sales, transportation, sendout volume forecasts, and the lost and unaccounted for (LAUF) gas percentage

applicable to Delmarva's firm bundled sales and transportation customers utilized in the calculation of the proposed GCR (Exh. 3 at 2)

8. Mr. Brielmaier stated that Delmarva forecasted Firm Bundled Sales of 12,035,925 Mcf and Firm Transportation volume of 6,190,234 Mcf for a total Firm Throughput of 18,226,159 Mcf. (*Id.*)

9. Mr. Brielmaier testified that a comparison of the current forecasted results with the forecast filed in last year's GCR, PSC Docket No. 13-349F, shows that forecasted Firm Bundled Sales decreased by 2.7%, Firm Transportation decreased by 2.8% and Firm Throughput decreased 2.7%. The decrease in firm bundled sales forecast was primarily attributable to a 3.1% decrease in Residential Space Heating sales and a 22.4% decrease in Medium Volume sales. (Id. at p.3)

10. Mr. Brielmaier stated that compared to last year's GCR forecast, the forecasts were: RES (+2.6%), GVFT (+13.9%), MVFT (+10.8%). He went on to list the customer class forecasts that showed a decrease. They are: RSH (-3.1%), GG (-0.7%), LVFT (-9.2%) and MVIT (-2.2%), and LVIT (-33.6). (*Id.* at 3)

11. Mr. Brielmaier also explained that Delmarva used the same forecasting methodology used in prior GCR filings and the same 30-year average weather normalization approved in PSC Order No. 6327 in PSC Docket No. 03-127. (*Id.* at 4)

12. Mr. Brielmaier testified that the Company had revised the LAUF from 2.8% to 2.5% based upon calculating LAUF for 12 month, 24 month and 36 month periods ending June 30, 2014. (*Id.* at 5)

13. Mr. Brielmaier provided an update on the status of the investigation of LAUF associated with serving a large volume gas transportation customer ("LG Customer") which was part of the Settlement Agreement in PSC Docket No. 12-419F. He advised that a consultant was retained to assess the situation and has determined that the source of the LAUF is the failure of a flow computer measuring the LG Customer's flows to properly accumulate and store data. Delmarva and the LG customer are currently working to implement the remedy to the problem. (Exh. 2B at 5-6)

14. Mr. Brielmaier discussed Delmarva's Annual Customer Communications Plan in which Delmarva proposes to inform customers about the GCR and ways to use energy more efficiently. The Communications Plan includes various forms of communications and customer education, such as website messaging, customer newsletter messaging, community speakers bureau meetings, on-line home energy audit tools ("My Account") and employee education programs. The Plan also includes a timetable for meeting with various interest groups who serve the needs of people who are most affected by the cost of energy. (*Id.* at 7)

15. Mr. Brielmaier also discussed the status of the Budget Billing Plan. As of June 30, 2014, Delmarva had 126,412 gas customers, of which 13,841 (approximately 11%) were enrolled in the Budget Billing Program. The Budget Billing Plan includes a series of activities; such as bill inserts, e-mails to customers, and articles in Delmarva's newsletters; designed to raise customers' awareness of the Program. He testified that Delmarva also supports and sponsors

such programs as the Good Neighbor Energy Fund and offers flexible payment arrangements to help customers better manage payment requirements. (*Id.* at 7-8)

16. **James B. Jacoby.** Delmarva's Manager of Gas Supply, James Jacoby, presented Delmarva's development of the total estimated gas supply costs for the 2014-15 GCR period from November 1, 2014 through October 31, 2015, consisting of all gas commodity costs, interstate pipeline transportation demand costs, storage demand and capacity costs, storage withdrawal/injection costs, variable transportation commodity costs, fuel costs, and an estimate of capacity release and off-system sales revenue credits. Mr. Jacoby also discussed Delmarva's natural gas hedge plan. (Exh. 4, p.2)

17. Mr. Jacoby testified that Delmarva will begin the 2014-15 GCR period with 183,485 Mcf of peak design day supply deliverability available to meet firm sales customer requirements. Mr. Jacoby stated that there are no capacity additions or subtractions planned during the current GCR period. (*Id.* at 3)

18. Mr. Jacoby identified the major differences between the 2014-2015 GCR period projected transportation and storage demand costs versus the prior GCR period's projections. He noted that Delmarva expected its fixed costs to decrease by $1,626,559 (5.5%) due to decreased Pipeline Capacity & Supply costs totaling $1,248,848 which were further decreased by Storage and Seasonal Services Costs of $369,321 and Supplemental Peaking Services of $8,390. (*Id.* at 3)

19. Mr. Jacoby testified that the decrease in Pipeline Capacity and Supply Charges was due primarily to the Transco Base Rate Case

Settlement, which provided for significant refunds and decreased rates for Transco Services. (Id.)

20. Mr. Jacoby testified that the aforementioned decrease was partially offset by an increase in Columbia FTS Service. Also, there was a decrease in Storage and Seasonal Services costs attributable to lower Transco Storage Service costs, partially offset by higher Columbia SST Storage costs. (*Id.* at 4)

21. Mr. Jacoby described the development of the system's gas requirements forecast. He testified that firm sendout is based upon (a) a monthly forecast of firm billed sales, (b) company use, (c) a 2.5% factor for LAUF, and (d) a cycle billing effect. Non-firm sendout is assumed to be zero based on Delmarva's recent experience with no sales under its Flexibly Priced City Gate Sales Service ("FPS"). (*Id.*)

22. Mr. Jacoby testified as to Delmarva's development of its projected demand, supply and price forecasts. He explained that Delmarva's gas procurement process takes into account reliability of supply, operational considerations, contract obligations, and economics. According to Mr. Jacoby, Delmarva used the NYMEX gas futures closing prices on August 12, 2014, as its spot (wholesale) natural gas price. Mr. Jacoby testified that these closing prices were reasonable and that Delmarva did not believe a different methodology would provide a more accurate GCR forecast. This methodology is also consistent with Commission Order No. 6956, dated July 11, 2006. (*Id.* at 5)

23. Mr. Jacoby identified the major components of Delmarva's $41,840,977 projected natural gas commodity costs for the 2014-2015 GCR period as: (1) natural gas expected to be withdrawn from storage; (2) gas that is currently hedged for the 2014-2015 determination period; and (3) spot gas purchases. He testified that Delmarva intends to hedge a portion of its purchases in accordance with the approved Natural Gas Hedging Program. (*Id.* at 5-6)

24. Mr. Jacoby compared the projected 2014-2015 commodity costs to the 2013-2014 forecasted commodity costs. Delmarva projected its 2014-2015 GCR period wholesale gas commodity costs to be $4,211,085 lower than the 2013-2014 GCR period costs. Mr. Jacoby explained that the storage withdrawal costs are expected to be $740,076 higher than the last GCR filing because of higher natural gas market prices during injection months (April through October); the hedged purchase costs are $499,422 lower mainly due to lower hedge volumes being somewhat offset by higher unit gas costs; and the spot purchases are expected to occur at an average price of $4.23 per Mcf which is higher than the $3.81 per Mcf forecast in last year's GCR filing. (*Id.* at 7-8)

25. Mr. Jacoby described how Delmarva projected storage withdrawal costs by taking the actual inventory cost of August 5, 2014, and projecting the volume and total cost of gas expected to be injected between August 1, 2014, and October 31, 2014. The total cost of injected gas into Delmarva's storage facilities includes all transportation commodity and storage charges in addition to the underlying market cost of natural gas at the time of injection. (*Id.* at 8)

26. Mr. Jacoby outlined the guidelines of the Company's natural gas hedging program as approved by the Commission in Order No. 7658 dated October 6, 2009. The program requires Delmarva to hedge fifty percent (50%) of its projected monthly gas requirements on a non-discriminatory basis over a twelve (12) month period. Hedges are entered into on a pro-rata basis (1/12th each month) over the 12 months preceding the month in which the physical gas is delivered to customers. Delmarva created a method to track the quantity of hedges it needs to execute by month in order to comply with the foregoing guidelines. This tracking mechanism is shared and discussed with Staff and the DPA on a quarterly basis. At this time, Delmarva proposes no changes to its Natural Gas Hedging Program. (*Id.* at 8-9)

27. Mr. Jacoby next testified that the objective of the Gas Hedging Program is to reduce gas commodity price volatility while limiting the firm sales customers' exposure to increases in the market price of natural gas. To ensure reliability, Delmarva secures the needed pipeline and storage services to serve its core customers' firm requirements with long-term contracts. (*Id.* at 9)

28. Mr. Jacoby stated that in order to reduce fixed pipeline and storage costs, Delmarva enters into off-system sales and capacity release transactions to obtain at least market value for the interstate pipeline transportation capacity it has under long-term contract that it does not need to serve firm sales customers. Delmarva estimates it will earn approximately $2,952,999 from off-system sales and capacity releases in the 2014-2015 GCR period. In addition, Mr. Jacoby stated that Delmarva expects to continue to

capitalize on spread differentials between supply sources and the market area to earn off-system sales margins and expects to achieve value from releasing pipeline capacity on a monthly and seasonal basis, while continually evaluating its transportation and storage portfolios in an effort to reduce costs while maintaining reliability. (*Id.* at 9-10)

29. In comparing Delmarva's firm supply deliverability with the forecasted design-day customer demand, Mr. Jacoby noted that Delmarva's firm supply deliverability for the 2014-2015 GCR period is 183,485 Mcf which is 5.6% higher than the projected design-day requirement of 173,776 Mcf. He testified that Delmarva expects its design-day reserve to change over the next three (3) years based on its strategic planning. (*Id.* at 10)

30. Mr. Jacoby explained that Delmarva continually reviews its array of pipeline and storage services for possible capacity reductions or changes in its composition of its portfolio and has not entered into any new Asset Management Agreements as part of its portfolio. (*Id.* at 11)

31. **Susan A. DeVito.** Susan A. DeVito, Manager of Regulatory Pricing for PHI, testified regarding: (1) the development of the GCR based on the Gas Service Tariff; (2) the audit of the 2013-2014 GCR year; (3) the Balancing Charge rate applicable to Gas Transportation Customers; and (4) the status of compliance with the provisions of the Settlement Agreement in PSC Docket No. 13-349F, Commission Order No. 8578. (Exh. 5 at 3)

32. Ms. DeVito explained that Delmarva derived the estimated firm gas expenses for the period November 2014 through October 2015 by: First, crediting the gas cost associated with Company use against the total estimated gas commodity costs. Next, the revenues from Transition Charges from customers who switched from Firm Sales to Transportation Service, No-Notice Swing Charges, and Balancing Charges were credited against estimated demand expenses at 100% of their value. Margins related to Interruptible Transportation are shared with customers on an 80%/20% basis, with 80% returned to firm customers through revenue credits and 20% retained by Delmarva. Margins from Capacity Release and Off-System Sales are credited to the GCR at 100% until a total credit of $3.0 million is reached for the 12-month period ending every June. Once the $3.0 million threshold is met, the margins are shared at 80% to the GCR and 20% to Delmarva(*Id.* at 5; Sch. JBJ-3)

33. Ms. DeVito explained that margins associated with Interruptible Gas Transportation Customers are also shared on an 80%/20% basis with 80% credited to firm and full requirements customers through development of the Demand Factor for the GCR. These margins include customer charges and delivery charges increased by those customers. (*Id.*)

34. Ms. DeVito discussed the projected over-recovered gas costs position of $967,272 (exclusive of interest) expected at October 31, 2014. This over-recovery was based on nine months of historical data and three months of updated estimates. (*Id.* at 5-6)

35. Ms. DeVito testified that the Company calculated interest on the over-recovered gas costs in accordance with Leaf No. 36 of Delmarva's Gas Service Tariff. The overall interest added to the over-recovered gas cost balance is $12,889. (*Id.* at 6 and Sch. SAD-7)

36. Ms. DeVito described the derivation of the proposed Commodity Cost Rate ("CCR") factors for the 2014-2015 GCR application period. Delmarva will typically allocate total estimated firm commodity costs between Annual CCR (RG, GG, GL and Non-Electing MVG customers) and Monthly CCR (LVG and Electing MVG) customers. This method sets monthly commodity revenues equal to expenses for Monthly CCR customers. All remaining estimated firm commodity expenses are assigned to the Annual CCR customers. Since there were no projected Monthly CCR customers for this GCR application period, there was no allocation between Monthly and Annual CCR customers. (*Id.* at 6-7 and Sch. SAD-1)

37. Ms. DeVito described the derivation of the proposed Demand Cost Rate factors for 2014-2015 GCR period. Demand-related costs are allocated and recovered through two separate and distinct mechanisms in accordance with past practice. First, Delmarva allocates firm gas demand charges, which involves calculating average and excess daily loads. All remaining firm demand expenses are allocated based on excess loads, which are calculated by subtracting the average daily loads, by class, from the design day loads. The ratio of each class's excess load to the system total is then multiplied by the demand costs which remain unallocated after the development of expenses based on average loads. The addition of the average and excess load

allocations result in the firm demand costs, which are collected from the volumetric (RG, GG and GL) and Demand Metered (MVG and LVG) classes. (*Id.* at 7-8) Firm gas demand expenses not allocated to the non-volumetric Demand Cost Rate (DCR) customers are used for calculating the volumetric DCR factor. (*Id.* at 8 and Sch. SAD-1)

38. Ms. DeVito explained that a true-up of demand related cost differences was applied to all sales customers. This true-up was achieved by comparing the estimated monthly demand costs to the actual demand costs for the period of August 2013 through July 2014. The total true-up (variance plus interest) of $2,458,275 was allocated among the volumetric and non-volumetric customers in the development of the volumetric and non-volumetric DCR factor calculations. (*Id.* at 8-9 and Sch. SAD-4)

39. Ms. DeVito reviewed Schedules SAD-8 through SAD-10. Schedule SAD-8 detailed actual and estimated monthly sales for 12 months ended October 31 in 2013, 2014 and 2015. Schedule SAD-9 compared the actual and estimated gas costs and regulatory credits for the 12 months ended October 31, 2013, 2014 and 2015. Schedule SAD-10 provided the actual recovery results for the 12 month reconciliation period ended July 31, 2014. (*Id.* at 9)

40. Ms. DeVito stated that Delmarva's Internal Auditing Department is in the process of completing the GCR audit for the year ended 2013, which includes the review of a sampling of customer billing and both regulatory and accounting records concerning sales, gas costs and gas cost revenue. The final audit report concerning the

year ended 2013 was completed and filed with the Commission in October 2014. (*Id.*)

41. Ms. DeVito also discussed the proposed change to the Gas Transportation Balancing Charge. The proposed balancing charge that went into effect on November 1, 2014 was $0.3388, (*Id.* at 9-10 and Sch. SAD-11)

42. Ms. DeVito identified the components of the GCR as Commodity Related Items, Demand Related Items, and the Over Recovered Balance. The Commodity component is primarily composed of the cost of natural gas as quoted by the NYMEX on August 12, 2014. The Demand component is the per-unit cost of Delmarva's transportation and storage assets. Transportation assets are needed to deliver natural gas to Delmarva's citygate for customer consumption and storage assets are necessary for reliability. The Over-Recovered balance is carried over from the prior GCR period (*Id.* at 11)

43. Gas costs included in the proposed GCR represent approximately 49.8% of the total bill under the proposed GCR. (*Id.*)

44. Ms. DeVito also provided an update on the status of compliance with the terms of the Settlement Agreement approved in PSC Docket No. 13-349F, per Order No. 8578. She addressed the Company's agreement to continue to execute its Natural Gas Hedging Program, the status of the resolution of the LAUF issues, and Delmarva's commitment to improve the GCR process. In that regard, Delmarva met with Staff on April 8, 2014 and provided Staff with some options to consider for improving the GCR process. Staff agreed that the Company should continue to use the same methodology for the GCR as has been used in

the past, but that Delmarva and Staff should evaluate the effect of any process improvements during the 2014-2015 GCR year. (*Id.* at 12) Ms. Devito also testified that the Company is currently engaged in developing its proposal for rate design changes for balancing fees associated with the GCR with a filing to be made October 2014. (*Id.*)

45. Ms. DeVito also discussed the tariff revisions proposed by Delmarva in its application, those being 56th Revised Leaf No. 37, 8th Revised Leaf No. 37a, 52nd Revised Leaf No. 38, and 28th Revised Leaf No. 39. (*Id.* at 12-13)

B. STAFF'S TESTIMONY.

46. **Malika Davis.** Ms. Davis testified that she offered the following recommendations in this proceeding: (1) that the Commission should approve, as final, the GCR rates approved on a temporary basis in PSC Order No. 8646; (2) that the Company should continue with its actions to mitigate increases in fixed costs with regard to pipeline charges, storage services and peaking sources; and (3) that the Company is complying with the Settlement Agreement in PSC Docket No. 13-349F. (Exh. 7 at 2-3)

47. Ms. Davis provided a summary of the Company's GCR Application, stating that the Application showed a projected under-recovery balance of $6,951,829 with a deferred fuel balance of $967,272 or 1.3% for the period ending October 31, 2014. The rates effective November 1, 2014, were based on a projected sales data and gas costs for the 12 month period ending November 1, 2014, through October 31, 2015. (*Id.* at 4)

48. Ms. Davis further discussed the Company's changes to the current GCR which included revisions to the GCR demand and commodity charge applicable to Service Classification MVG and LVG, and revisions of the volumetrically applied GCR factors applicable to Service Classifications RG, GG, GL and non-electing MVG, effective on November 1, 2014 with proration. Additionally, Delmarva proposed to reconcile and true-up actual versus estimated Commodity Cost Rate assignments for LVG and electing MVG Customers. (*Id.*)

49. Ms. Davis testified that she reviewed the Company's Application, including testimonies and exhibits, prior GCR dockets, orders and quarterly hedge reports as well as the Company's natural gas demand supply plan and strategic gas supply plan. Ms. Davis further testified that Jerome D. Mierzwa, was retained by the Commission to assist Staff and the DPA in reviewing the filing. (*Id.* at 5)

50. Ms. Davis testified that prior to the filing of the Application, she performed a monthly audit of the Company's gas costs. (*Id.* at 6)

51. Ms. Davis also provided a summary of the provisions of the Settlement Agreement reached in the previous year's GCR, PSC Docket No. 13-349F, pursuant to Order No. 8578, dated June 8, 2014. First, the parties agreed that Delmarva would implement the rates proposed in the filing. Second, the parties agreed that Delmarva would continue to execute its Gas Hedging Program in accordance with the settlement approved in PSC Docket No. 08-266F and continue to hold quarterly meetings to discuss and review the program. Third, the parties agreed

that as Delmarva continues to investigate the LAUF issue with the LG Customer, Delmarva would provide the parties with monthly written updates regarding the on-going investigation. Fourth, the parties agreed to work together to investigate a framework for future GCR filings that would improve the CR process. Fifth, the deadline for Delmarva to submit a regulatory filing regarding proposed changes to the balancing fees associated with its GCR was extended to February 2, 2015 from October 1, 2014. (Id. at 7-8)

52. Ms. Davis reviewed the projected sales forecast for the November 2014 through October 2015 GCR period and indicated that the Company used the same methodology as in PSC Docket No. 13-349F. (*Id.* at 9)

53. Ms. Davis testified that the Comparison of Gas Expense and Recovery report submitted in December 2014 showed an under-recovery balance of $432,125 or 0.6% for the period ending October 31, 2014. According to Ms. Davis, the under-recovery balance has steadily declined from the period ending October 31, 2011. (*Id.* at 10)

54. **Jerome D. Mierzwa, Principal and Vice President of Exeter Associates, Inc.** Mr. Mierzwa was retained by Staff and the DPA to review the Company's GCR Application and to evaluate the reasonableness of Delmarva's gas procurement practices and policies on behalf of Staff and the DPA. He testified that he offered the following findings and recommendations in this proceeding. First, Delmarva's termination of its Firm Transportation Peaking Service contract with Transcontinental Gas Pipeline effective May 31, 2014 reduced the design peak day supply deliverability available to meet

firm sales customer requirements of 183,485 Mcf. Based on the most recent daily demands of firm sales customers, Mr. Mierzwa concluded that this level of capacity appeared to be reasonable. Second, Mr. Mierzwa recommended that Delmarva's separate allocation of demand costs to RG/GG customers and to MVG customers be eliminated, as the historic basis for the differentiation no longer exists.[2] As a result, Delmarva's demand cost allocation methodology unfairly burdens RG and GG customers with the costs associated maintaining a capacity reserve margin. Finally, he recommended that the Balancing Fee be assessed on all transportation customer throughput rather than excess volumes as Delmarva is currently doing. (Exh. 8 at 3-4)

55. Mr. Mierzwa determined that Delmarva's capacity entitlements and reserve margin were reasonable. (*Id.* at 7)

56. Mr. Mierzwa testified that because Delmarva's current approach to the allocation of demand charges is unreasonable (as explained *supra*, para. 54) the use of the average and excess method should be eliminated, and the same demand charge be assessed to both Volumetric and MVG customers. Mr. Mierzwa further recommended that the change not be implemented until Delmarva's next GCR proceeding because of the limited impact it would have on a prospective basis and to eliminate the need for retroactive rate adjustments and refunds. (*Id.* at 11)

57. Mr. Mierzwa reviewed the manner in which Delmarva calculates its Balancing Fees, by assessing it on a daily basis on the

[2] Mr. Mierzwa reasoned that the historic basis for this approach was to recognize that MVG customers operated at a higher load factor and that the demand costs Delmarva incurred to serve MVG customers differed from those incurred to serve RG and GG customers.

imbalance between the consumption of a transportation customer and the deliveries to Delmarva on behalf of that customer. He testified that the Balancing Fees should be assessed upon the billing determinants upon which it was designed, that is, total throughput. (*Id.* at 12-13)

IV. THE EVIDENTIARY HEARING

58. On April 8, 2015, I conducted a duly-noticed evidentiary hearing in the Third Floor Conference Room at the Carvel State Office Building in Wilmington. At this hearing Delmarva, Staff and DPA jointly submitted a proposed settlement agreement (the "Settlement Agreement"), and each proffered a witness to testify as to why the settlement is just and reasonable and in the public interest. Each witness was subject to cross-examination. Delmarva, Staff and the DPA also stipulated to the admission of ten (10) exhibits into evidence. At the conclusion of the hearing, I closed the evidentiary record, consisting of ten (10) exhibits and thirty-four (34) pages of hearing transcript.

59. Robert W. Brielmaier verified that the pre-filed testimony he submitted with Delmarva's Application (Exhs. 2B and 3) were correct at the time of the Hearing. In addition, Mr. Brielmaier adopted the pre-filed testimonies of James B. Jacoby and Susan A. Devito as his own for purposes of the Hearing. (Tr., pp. 21-22)

60. Mr. Brielmaier summarized the terms of the Settlement Agreement. Mr. Brielmaier testified as to why the Settlement Agreement was just and reasonable and in the public interest. Mr. Brielmaier stated that the Company's filing proposed a reduction of

13.8% in the GCR rates for residential customers and a reduction of between 3.5% and 12% for commercial customers. He testified that the Company agreed to continue to hold quarterly meetings to discuss the Gas Hedging Program. Mr. Brielmaier also testified that a report regarding the technical investigation involving the LAUF issue, which was a carryover from the Settlement Agreement in PSC Docket No. 12-419F, Order No. 8397 dated June 18, 2013,[3] was forthcoming. He noted that any true-up due to the results of the investigation would be included in the next GCR filing. (*Id.* at 21-24)

61. Mr. Brielmaier testified that he believes that the Settlement provides for just and reasonable rates for GCR customers because it results in a rate reduction, the Settlement avoids the cost of litigation, and resolves all of the issues raised throughout the proceeding. (*Id.* at 24-25)

62. Public Utilities Analyst Andrea B. Maucher testified on behalf of the DPA. Ms. Maucher testified that she had reviewed the pre-filed testimony of Mr. Mierzwa. She testified that she had no changes or corrections to his testimony, and that she adopted his testimony as her own for purposes of the Hearing. (*Id.* at 32)

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[3]The provisions of Paragraph 13 of the Settlement Agreement approved by Order No. 8397, in PSC Docket No. 12-419F provides as follows: **Lost and Unaccounted for Gas (LAUF):** The Parties agree to the proposed increase in the LAUF factor to be applied to GCR customers from 2% to 3%. The parties further agree to approve the reduction in the Deferred Fuel Balance initially by $2 million for the LAUF costs associated with serving a large volume gas transportation customer ("LG Customer") which were improperly charged to GCR customers. As Delmarva continues to investigate the LAUF issue involving the LG Customer, Delmarva will provide the Parties with regular updates at least every two months regarding the on-going investigation. Once the actual LAUF costs are finally determined, the Deferred Fuel Balance will be trued-up with interest in the immediately subsequent GCR filing. Within thirty days after the actual LAUF costs are finally determined, the Company will file a report with the Commission which identifies the definitive findings of its investigation and the actual LAUF costs. The report must also address whether the GCR customers were improperly assessed LAUF costs during the period when the LG Customer's facilities were owned by Conectiv Delmarva Generation, LLC. The Parties agree that regardless of the results of the negotiations between Delmarva and the LG Customer, and subject to applicable law and tariff provisions, GCR customers will not be responsible for any of the LAUF costs associated with serving the LG Customer, whether such costs were incurred before or after the time when the LG Customer's facilities were owned by Conectiv Delmarva Generation, LLC.

63. Ms. Maucher testified that she agreed with Mr. Brielmaier's testimony regarding the Settlement and had nothing to add to his description. Ms. Maucher also testified that, in her belief, the Settlement results in just and reasonable rates for residential and small commercial customers and is in the public interest. (*Id.* at 30)

64. Public Utilities Analyst Malika Davis testified on behalf of Staff. Ms. Davis stated that her pre-filed testimony remains correct and had no additions or changes to her testimony. (*Id.* at 33)

65. Ms. Davis testified that the GCR rates and the Settlement are just and reasonable and that the rates were calculated correctly and in accordance with the Company's tariffs. (*Id.* at 34)

V. PROPOSED SETTLEMENT AGREEMENT

66. On April 8, 2015, Delmarva, Staff and the DPA (the "Parties") presented me with the fully-executed Settlement Agreement (Exh. 10) resolving the issues in this docket. The parties agreed to the following:

- The proposed GCR rates should be approved;
- Delmarva will continue to execute its Gas Hedging Program in accordance with the Settlement approved in PSC Docket No. 08-266F, and will continue to hold quarterly hedge meetings to review and discuss the hedging program, and upon consensus, make any potential modifications to the hedging program mechanics;
- The investigation of the LAUF costs associated with serving a large volume gas customer, which was identified in Docket No. 12-419F, has been completed. Delmarva is finalizing its report of the results of the technical investigation and expects to submit the

report to Staff and the DPA no later than April 30, 2015;[4]

- As a result of the findings in the report, the deferred fuel balance will be trued-up, with interest, in the 2015-2016 GCR filing;

- If, as a result of the true-up for the deferred fuel balance, there is a net under-collection of the Company's gas cost by more than 6% or a net over-collection by more than 4 1/2% during the Application period, the Company will not be required to make an application to the Commission for a change in the GCR for the balance of the Application period.

- The Parties will work together to investigate a framework for future GCR filings that would improve the GCR process, including but not necessarily limited to, modifications to existing tariff provisions that will minimize unrecovered costs carried into subsequent GCR filings; and

- With the filing of the GCR Application for 2015-2016 Delmarva will eliminate the separate allocation of demand costs to RG, GG, and MVG customers.

(Exh. 10 at 3-4)

VI. DISCUSSION AND RECOMMENDATIONS

67. Pursuant to the Commission's instructions, I hereby submit for consideration these proposed Findings and Recommendations and proposed Order.

68. After having reviewed the entire record, I conclude that the Settlement Agreement is in the public interest, results in just and reasonable rates, and should be approved.

69. First, 26 Del. C. §512(a) provides that "[i]nsofar as practicable, the Commission shall encourage the resolution of matters brought before it through stipulations and settlements." This

[4]The Report was filed with the PSC on April 30, 2015 in Docket No. 12-419F, the docket in which the LAUF issue was first raised.

Settlement Agreement falls within the legislative intent of the statute.

70. Second, I note that each of the Settlement's signatories represents a different constituency and comes to the case with different interests. Delmarva's interest is in recovering all of its actual gas costs as 26 Del. C. §303(b) permits. Staff is required to balance the utility's and ratepayers' interests. 29 Del. C. §8716(d)(2) charges the DPA with advocating the lowest reasonable rates for consumers consistent with maintaining adequate utility service and an equitable distribution of rates among all the utility's customer classes. Despite these disparate interests and responsibilities, the parties have reached agreement. This, in my view, is a significant factor weighing in favor of approving the Settlement Agreement.

71. Third, the witnesses for both Staff and the DPA testified that they had reviewed Delmarva's forecasts, methodologies and calculations of the proposed GCR rates and found them to be in compliance with previous Commission Orders, as well as reasonable and accurate. Therefore, the proposed GCR rates were not challenged.

72. Fourth, the Company will continue to meet with Staff and the DPA on a quarterly basis to discuss its hedging program, pipeline capacity and storage purchases, LAUF and other issues affecting the GCR. The Company has also agreed to provide Staff and the DPA with monthly reports on the status of the resolution of the LAUF costs associated with serving the LG Customer, which was first raised in PSC Docket No. 12-419F. Furthermore, the Company has agreed to submit a

filing in which it will propose changes to the manner in which it calculates its Balancing Fees.

73. Fifth, the Settlement Agreement is in the public interest because it avoids the cost of unnecessary rebuttal testimony and a litigated evidentiary hearing.

74. For the foregoing reasons, I have determined that the Settlement Agreement, attached as Exhibit "1", results in just and reasonable rates and is in the public interest, and recommend that it be approved by the Commission. I attach a proposed Commission Order implementing my recommendations as Exhibit "2".

Respectfully submitted,

R. Campbell Hay
Hearing Examiner

ATTACHMENT "B"

PROPOSED SETTLEMENT AGREEMENT FOR PSC DOCKET NO. 14-295F

"Attachment B"

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 TO ITS GAS COST RATES (FILED AUGUST 29, 2014)	))))	PSC DOCKET NO. 14-0295F

PROPOSED SETTLEMENT

Delmarva Power & Light Company ("Delmarva" or the "Company"), the Delaware Public Service Commission Staff ("Staff"), and the Division of the Public Advocate ("DPA"), individually each a "Party," and collectively, the "Parties," hereby propose a complete settlement of all issues in this proceeding as follows.

I. INTRODUCTION AND PROCEDURAL BACKGROUND

1. On August 29, 2014, Delmarva filed an application (the "Application") with the Delaware Public Service Commission (the "Commission") to modify its Gas Cost Rate ("GCR") factors, effective on and after November 1, 2014, with proration, and with such revised factors to continue in effect until October 31, 2015. The Application also seeks approval of the Company's proposal to reconcile and true-up actual versus estimated weighted average Commodity Cost of gas assignments for sales under the Large Volume Gas service classification ("LVG") and for so-called "electing" customers taking service under the Medium Volume Gas service classification ("MVG"), and a revision of the demand charge applicable to non-electing MVG or LVG and Standby Classification.

2. In its Application, Delmarva proposed the following rate adjustments:

	Prior Demand Charge	Prior Commodity Charge	Proposed Demand Charge	Proposed Commodity Charge
RG, GG, and GL	N/A	$0.62106/Ccf	N/A	$0.53563/Ccf
Non-electing MVG	$11.9198/Mcf Billing MDQ	$4.2536/Mcf	$9.8132/MCF Billing MDQ	$3.5695/Mcf
Electing MVG and LVG	$11.9198/Mcf Billing MDQ	Varies	$9.8132/MCF Billing MDQ	Varies
Standby Service	$11.9198/Mcf Standby MDQ	N/A	$9.8132/Mcf Standby MDQ	N/A

3. The rates proposed in the Application, if approved, would result in a GCR decrease of 13.8% for RG, RSH, and GL customers. Residential space heating customers using 120 Ccfs in a winter month would experience decreases of $10.25 or 7.4% in their total bill. Customers served on Service Classifications GG, MVG and LVG would experience decreases of between 3.5% and 12.8% on their winter bills.

4. On September 30 2014, the Commission issued Order No. 8646, allowing the GCR factors to become effective with usage on and after November 1, 2014, with proration, on a temporary basis subject to refund, pending evidentiary hearings and a final decision by the Commission.

5. During the course of this proceeding, the Parties conducted written discovery in the form of both informal and formal data requests.

6. Additionally, throughout the year, as well as during the proceeding, the Parties met on several occasions to discuss various issues, including hedging, natural gas markets,

capacity, and other issues related to the acquisition of natural gas supply for Delmarva's natural gas customers. The Parties intend to continue these meetings on a regular basis.

7. The Parties have conferred and have agreed to enter into this Proposed Settlement on the terms and conditions contained herein because they believe that resolving the matter by stipulation will serve the interest of the public, while meeting the statutory requirement that rates be both just and reasonable. Subject to the recommendation of the Hearing Examiner, the Parties agree that the terms and conditions of this Proposed Settlement will be presented to the Commission for the Commission's approval.

II. SETTLEMENT PROVISIONS

8. **GCR Rates**: The Parties agree that the proposed GCR rates filed by Delmarva in its Application should be approved.

9. **Natural Gas Hedging Program**: The Parties agree that Delmarva will continue to execute its Gas Hedging Program in accordance with the Settlement approved in Docket No. 08-266F, and further agree to continue to hold quarterly hedge meetings to review and discuss the hedging program, and, upon consensus, make any potential modifications to the hedging program mechanics.

10. **Lost and Unaccounted for Gas (LAUF):** The investigation of the LAUF costs associated with serving a large volume gas customer, which was first identified by the Company as an issue in Docket No. 12-419F, has been completed. In accordance with the provisions of Paragraph 13 of the Settlement Agreement in Docket No. 12-419F approved by the Commission in Order No. 8397, dated June 18, 2013, the Company is finalizing its report of the results of the technical investigation as to the cause of the LAUF, including a determination of the actual LAUF costs (the "Report"). The Company expects to submit the Report to Staff and DPA no

later than April 30, 2015. As a result of its findings as detailed in the Report, the Deferred Fuel Balance will be trued–up with interest in the 2015-2016 Gas Cost Rate filing. If, as a result of the true-up of the Deferred Fuel Balance to address the LAUF costs, there is a net under-collection of the Company's gas cost by more than 6% or a net over-collection by more than 4 ½% during the Application Period, the Parties agree that the Company will not be required to make application to the Commission for a change in the GCR to fix a new GCR for the balance of the Application Period.

11. **Improving the GCR Process:** The Parties agree to work together to investigate a framework for future GCR filings that would improve the GCR process, including but not necessarily limited to modifications to existing tariff provisions that will minimize unrecovered costs carried into subsequent GCR filings.

12. **Demand Cost Allocation:** The Company agrees that with the filing of the Gas Cost Rate Application for 2015-2016 it will eliminate the separate allocation of demand costs to RG, GG and MVG customers.

III. ADDITIONAL PROVISIONS

13. This Proposed Settlement is the product of extensive negotiation, and reflects a mutual balancing of various issues and positions of the Parties. It is therefore a condition of the Proposed Settlement that the Commission approves it in its entirety without modification or condition. If this Proposed Settlement is not approved in its entirety, this Agreement shall become null and void.

14. This Proposed Settlement represents a compromise for the purposes of settlement and shall not set a precedent and no Party shall be prohibited from arguing a different policy or position before the Commission in any future proceeding. This includes, but is not limited to,

those issues raised by the Parties relating to the calculation of the GCR or any other issues addressed in either the Application or in this Agreement. To the extent opinions or views were expressed or issues were raised in the pre-filed testimony that are not specifically addressed in this Proposed Settlement, no findings, recommendation or positions with respect to such opinions, views or issues should be implied or inferred. The purpose of this Proposed Settlement is to provide just and reasonable rates for the customers of Delmarva, and the Parties believe that this Proposed Settlement accomplishes this goal. In addition, the Parties believe that the Proposed Settlement is in the public interest because, among other things, it avoids the additional cost of litigation.

15. The terms of this Proposed Settlement will become effective upon the Commission's issuance of a final order approving it and all of its terms and conditions without modification. This Proposed Settlement will remain in effect until changed by an order of the Commission. The Commission retains jurisdiction over this Agreement and all statutory procedures and remedies otherwise available to the Parties to ensure that rates are just and reasonable, while providing a fair rate of return, including without limitation 26 *Del. C.* §§ 304, 309-311.

16. This Proposed Settlement Agreement may be executed in counterparts by any of the signatories hereto and transmission of an original signature by facsimile or email shall constitute valid execution of this Agreement, provided that the original signature of each Party is delivered to the Commission's offices before its consideration of this Agreement. Copies of this Proposed Settlement Agreement executed in counterpart shall constitute one agreement. Each signatory executing this Proposed Settlement Agreement Warrants and represents that he or she

has been duly authorized and empowered to execute this Proposed Settlement Agreement on behalf of the respective Party.

[SIGNATURE PAGE TO FOLLOW]

EXELON CORPORATION

By: _____
Darryl M. Bradford
Senior Vice President & General Counsel

PEPCO HOLDINGS, INC. and
DELMARVA POWER & LIGHT COMPANY

By: _____
Kevin C. Fitzgerald
Executive Vice President & General Counsel
Pepco Holdings, Inc.

STAFF OF THE DELAWARE PUBLIC
SERVICE COMMISSION

By: _____
Robert Howatt
Executive Director

DELAWARE DIVISION OF THE PUBLIC
ADVOCATE

By: _____
David L. Bonar
Public Advocate

DELAWARE DEPARTMENT OF NATURAL
RESOURCES and ENVIRONMENTAL
CONTROL

By: _____
David Small
Secretary

IN WITNESS WHEREOF, intending to bind themselves and their successors and assigns, the undersigned Parties have caused this Proposed Settlement to be signed by their duly-authorized representatives.

DELAWARE PUBLIC SERVICE COMMISSION STAFF

By: _____ Date: 4/7/15

DELMARVA POWER & LIGHT COMPANY

By: _____ Date: 4/8/15

DIVISION OF THE PUBLIC ADVOCATE

By: _____ Date: _____

View Service List

Docket Details

Docket#: 14-0295F

Docket Caption: In The Matter Of the application of Delmarva Power and Light Company for approval of modifications to its gas cost rates (file August 29, 2014)

ServiceList

Last	First	Company	address	City	Stat	Zip	Email	Phone	RoleNam	Confidential Document	Highly Confidential Document Access
Hay	Campbell	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg,	Dover	DE	199	Campbell.Hay@state.de.us	302-739-7551	Hearing Examiner	YES	YES
Nickerson	Donna	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg,	Dover	DE	199	Donna.Nickerson@state.de.us	302-736-7528	Commission Secretary	YES	NO
Davis	Malika	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg,	Dover	DE	199	Malika.Davis@state.de.us	(302) 736-7521	Case Manager	YES	YES
Geddes, Esq.	James	Delaware Public Service	500 Delaware Avenue, Ste	Wilmington	DE	198	jamesgeddes@mac.com	(302) 438-9500	Deputy Attorney	YES	YES
Howatt	Robert	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg,	Dover	DE	199	Robert.Howatt@state.de.us	302-736-7516	Executive Director	YES	YES
McDowell	Connie	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg,	Dover	DE	199	Connie.McDowell@state.de.us	302-736-7535	RPA 1	YES	YES
Mierzwa	Jerome	Delaware Public Service Commission	10480 Little Patuxent Parkway, Suite 300	Columbia	MD	210	jmierzwa@exeterassociates.com	410-992-7500	PSC Consultant	YES	NO
Scott	Pamela	Delmarva	500 North Wakefield	Newark	DE	197	pjscott@pepcoholdings.com	302-429-3143	Attorney	YES	NO
Bonar	David	Division Of The Public	29 South State Street	Dover	DE	199	David.Bonar@state.de.us	307-577-5078	DPA Public Advocate	YES	NO
Iorii	Regina	Division Of The Public	820 N. French Street, 4th	Wilmington	DE	198	regina.iorii@state.de.us	302-577-8159		YES	NO
Maucher	Andrea	Division Of The Public	29 South State Street	Dover	DE	199	andrea.maucher@state.de.us	302-241-2545		YES	NO
Price	Ruth Ann	Division Of The Public	820 N. French Street, 4th	Wilmington	DE	198	ruth.price@state.de.us	302-577-5076		YES	NO
Brielmaier	Robert	Delmarva	P.O. Box 231	Wilmington	DE	198	bob.brielmaier@pepcoholdings.c	302-429-3885	Regulatory Contact	YES	NO
DeVito	Susan	Delmarva	PO Box 9239	Newark	DE	197	Susan.Devito@pepcoholdings.co	302-454-4294		YES	NO
Jacoby	James	Delmarva	P.O. Box 231	Wilmington	DE	198	jim.jacoby@pepcoholdings.com	302-429-3148		YES	NO
McGinnis	Ron	Delmarva	PO Box 9239	Newark	DE	197	ron.mcginnis@pepcoholdings.co	302-454-4840		YES	NO