DELMARVA POWER & LIGHT COMPANY
TESTIMONY OF J. MACK WATHEN
BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION
CONCERNING AN INCREASE IN GAS BASE RATES
DOCKET NO. 10-_____

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1. Q: Please state your name, position and business address.

A: My name is J. Mack Wathen. I am Vice President, Regulatory Affairs for Pepco Holdings, Inc., (PHI) located at P.O. Box 9239, Newark, DE 19714. I am testifying on behalf of Delmarva Power & Light Company (Delmarva or the Company).

2. Q: What are your responsibilities in your role as Vice President, Regulatory Affairs?

A: I am responsible for regulatory matters for PHI, and its three regulated utility subsidiaries, Delmarva Power & Light Company, Potomac Electric Power Company, and Atlantic City Electric Company. In this capacity, I am responsible for regulation related to the Company's electric and natural gas business before the Delaware Public Service Commission (the Commission) and electric business before the Maryland Public Service Commission, the New Jersey Board of Public Utilities, the Public Service Commission of the District of Columbia and the Federal Energy Regulatory Commission. I participate in PHI's analysis of regulatory issues and the development of positions on those issues.

3. Q: What is your educational and professional background and experience?

A: I hold a B.S. degree in Business Administration and Economics from Georgetown College (1977) and a Masters degree in Management from the University of New Mexico (1987). I have been working in the utility industry for over 33 years. I began my career with the Public Utility Commission of Ohio, 1977 – 1980, leaving there as a Senior Staff Economist. I was then with Public Service Company of New Mexico from 1980 – 1993, where I served in a variety of positions including Director of Rates and Regulation, Director of Regulation and Market Communications and Director of Regulatory Policy.

I joined Delmarva in 1993 as Manager of Pricing and have since served as Manager, Regulated Pricing and Services; General Manager, Pricing and Regulation, Director of Regulatory Affairs, and in October 2002 I was named Vice President, Planning, Finance and Regulation for Conectiv Power Delivery. In 2004, I was named Vice President, Regulatory Affairs for PHI. I have testified numerous times on a wide range of topics in New Jersey, Maryland, Delaware, Ohio, New Mexico, Virginia and at the Federal Energy Regulatory Commission.

Currently, I teach a graduate level Electricity Policy and Planning course at the University of Delaware. I serve on the Advisory Board of the New Mexico State University Center for Public Utilities. I am a member of the Edison Electric Institute's (EEI) Customer and Energy Services Executive Advisory Committee, and past chairman of the EEI Economic Regulation and Competition Committee. I am also a member of the American Gas Association's Regulation and Strategic Planning Committee. I have given numerous speeches and presentations on a wide range of utility and regulatory topics throughout the United States and in Canada.

4. Q: <u>Please provide a summary of your testimony</u>.

A: I am the policy witness and I will provide support for the Company's Application for an increase in gas distribution rates and the reasons for the

Company's requested increase. I will provide an overview of the Company's filing and I will briefly summarize the testimony of other Company Witnesses supporting the Application.

The Company's Base Rate Increase Request

5. Q: <u>Please provide an overview of the Company's base rate increase request and other key proposals</u>.

A: At current rates, Delmarva's return on equity (ROE) is 5.32%, which is far short of the 10.25% level approved by the Commission in Docket No. 06-284 in Order No. 7152 dated March 20, 2007, and even further below the current 11.00% return on equity capital supported by Company Witness Hanley. The 11.00% ROE assumes that revenue decoupling will be implemented in this proceeding**.**

Based on the test period ending June 30, 2010, adjusted for known and measurable changes, the Company requires an $11.915 million increase in gas distribution rates to cover its cost of service. For a residential customer with a usage pattern at or near that of the class average usage pattern, the average monthly bill impact is estimated to be $6.99 or 8.1% of their total annual bill.

The proposed increase is based on six months of actual data and six months of forecasted data ending June 30, 2010, adjusted for known and measurable changes. This test period, with the adjustments proposed, represents a reasonable basis for establishing the Company's revenue requirements. With the adjustments presented in this filing, this test period provides a matching of revenues, expenses and rate base consistent with Commission regulations and represents a reasonable basis for establishing the Company's revenue requirements for the rate effective period.

Company Witness VonSteuben provides additional information related to the support of the test period selection.

The Company is proposing a rate mitigation measure related to pension, other post-employment benefits (OPEB) and uncollectible expenses that will, if approved, have the effect of mitigating the potential volatility related to these expenses and of reducing the revenue requirement in this case by approximately $156,000.

The Company is also seeking the authority to recover over 15 years the incremental costs of planning, design and development associated with the Company's Advanced Metering Infrastructure-related Initiative (AMI) and will continue to defer the expenses and investment related to full deployment of AMI until base rates in this proceeding are established. Company Witness Potts provides additional testimony on the Company's AMI initiative and Company Witness Ziminsky discusses the proposed ratemaking treatment of these costs in his testimony. Through June 2010, the Company's estimated costs include $989,000 of deferred costs and $1.238 million of plant-related costs, on a Delaware Gas jurisdictional basis, related to developing the infrastructure to support the AMI initiative. As discussed by Company Witnesses Potts and Ziminsky, full deployment of AMI is planned to be completed prior to February 2011, which is the start of the rate effective period for this proceeding.

The Company has proposed to establish a form of revenue decoupling through a distribution rate structure which provides a level of stability to distribution revenues and reduces or eliminates the relationship between distribution revenue and energy consumption, as explained by Company Witness Janocha.

The Company is also seeking to implement a new Tariff Rider, Rider UFRC (Utility Facility Relocation Charge) which is intended to provide a mechanism 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, as allowed under Section 315 of Title 26 of the Delaware Code. Company Witness Janocha provides additional information about this Tariff Rider.

6. Q: <u>When did the Company last file for a gas base rate increase</u>?

A: The Company last requested an increase in gas base rates in 2006 in Docket No. 06-284. The Commission issued Order No. 7152 on March 20, 2007, which approved a Settlement Agreement reached by the parties involved in the case. The Settlement Agreement provided for an annual gas base rate increase of $9 million, or approximately 3.9% of total gas revenues, based on an overall rate of return of 7.73% and a return on equity of 10.25%. The test period in that proceeding was the twelve months ended March 2006.

7. Q: <u>Why is the Company requesting this gas base rate increase</u>?

A: As previously noted, Delmarva is currently earning considerably below its authorized rate of return. In fact, Delmarva's adjusted rate of return, based on the analysis presented by Company Witness VonSteuben, is 5.33%, which reflects a return on equity of only 5.32%. This 5.32% is far below the 10.25% ROE that the Commission authorized in the Company's last gas base rate case.

Since the Company's last gas base rate case in 2006, the Company has continued to undertake initiatives to improve its gas reliability and to expand and improve its customer service functions to better serve its customers. Delmarva has invested approximately $70 million in its gas distribution system over the past three years. Operating expenses have increased from $25.2 million to $33.7 million, or 33.8%, since the Company's last base rate filing.

Delmarva's rates for distribution service must reflect the current costs of providing service, including known and measurable costs that will occur during the rate-effective period, in order to continue to meet its obligation of providing safe and reliable gas service to it customers. As I discuss below, this increase is also necessary to maintain the Company's financial integrity, particularly in challenging economic times such as those we recently experienced, in order for the Company to have access to the capital for investments needed for maintaining system reliability and developing its AMI technology.

8. Q: <u>What is the Company's current cost of equity capital</u>?

A: As Company Witness Hanley supports in his testimony, the current cost of equity capital is 11.00%. Without the approval of the decoupling rate design, the Company's proposed ROE would increase to 11.25% and the Company's revenue requirement would increase by approximately $515,000. This cost of equity is the minimum necessary for the Company to attract capital on reasonable terms in the current capital markets, which, as I discuss below, are constrained.

9. Q: <u>Is the Company offering a ratemaking proposal in this proceeding to mitigate the Company's proposed rate increase?</u>

A: Yes. To mitigate the needed rate increase, the Company proposes to reflect in rates a three-year average of certain costs as an alternative to the actual level of those costs that the Company is currently incurring. These costs, which are volatile and largely outside of management control, include pension expense, OPEB, and uncollectible expense. Under the proposal, the Company would recover a three-year rolling average of these costs through a pension, OPEB and uncollectible expense mitigation rate mechanism, referenced as a Volatility Mitigation Rider (Rider VM), and would be permitted to defer for future rate treatment the difference between that average and the currently incurred amounts. Company Witness VonSteuben estimates that implementation of this proposal would reduce the Company's revenue requirement request by $156,000.

Secondly, as Company Witness VonSteuben explains in detail, the Company is proposing an adjustment to remove from the revenue requirement the test year level of expenses associated with executive incentive compensation. The Company has excluded these executive incentives in its cost of service despite the fact that these "compensation at risk" payments are important to ensure the competitiveness of the Company's executive compensation. In addition, the executive compensation incentives are based, in part, on components that are designed to ensure that the Company continues to provide safe, reliable, and affordable service.

10. Q: Regarding other significant costs, please explain how the Company's ratemaking proposal for the Rider VM mechanism is consistent with the pension expense deferral request that was filed prior to this rate increase application.

A: Upon approval of the Company's proposal to implement a Rider VM mechanism using a three-year rolling average, all of these costs would be removed from inclusion in the Company's base rates and henceforth be recovered via the Rider VM rate calculation. Any deferred pension expense balance existing at the time this new rate mechanism is implemented could be incorporated in the new rate calculation.

11. Q: <u>What was the magnitude of Delmarva's pension expense in 2009 and why is regulatory treatment in this proceeding justified</u>?

A: Using the Company's outside actuaries' final 2009 valuation, the gas distribution-related Delaware portion of O&M pension expense that was recorded in Delmarva's financial records was $3.912 million - an increase of $4.090 million expense over the $(177,000) pension income which is reflected as a reduction to customer's current rates. The increase is a direct result of the recent adverse economic conditions which, by all objective indicators, have resulted in the most severe economic downturn since the Great Depression. These extraordinary economic circumstances clearly were not of the Company's making and are not something over which Delmarva has any control.

This matter was first raised in Docket No. 09-182, "In the Matter of the Petition of Delmarva Power & Light Company for Authorization to Defer Certain Charges to the Company's Financial Statements Resulting from the Impact of Recent Economic Developments on Pension Costs". A separate proceeding was requested to establish a regulatory asset associated with this significant difference in expense experienced by the Company compared to the amount embedded in rates. In Order No. 7727 dated January 7, 2010, the Commission Ordered that this regulatory asset consideration pertaining to Gas Distribution customers was directed to be addressed as part of this filing.

12. Q: <u>Is Delmarva seeking regulatory recovery of this item in this proceeding</u>?

A: Yes**.** As Company Witness Ziminsky details in his testimony, the Company is seeking that the $4.090 million difference between the 2009 actual expense and the amount currently built into rates be amortized using a five-year period with the unamortized amount included in rate base.

<u>The Company's Need to Maintain Its Financial Health</u>

13. Q: <u>What are the Company's financing requirements</u>?

A: Delmarva has and will continue to have a need to access capital to meet its obligations to customers in these volatile capital markets. In the past, Delmarva's largest capital needs, like those of other utilities, would have been associated with maintaining, replacing and upgrading equipment that makes up the basic gas transmission and distribution (T&D) system. As discussed in Company Witness Phillips' testimony, the capital program is significant and increasing.

For Delmarva to have access to the capital necessary for investments in both its basic gas T&D infrastructure as well as in new technologies, the Company must maintain its financial integrity, as reflected in its earned rate of return on equity, its credit ratings and its other key financial metrics. Financial integrity has always been important to utilities, and the importance of investment grade credit ratings was demonstrated in the recent crisis in world credit markets. Sources of capital traditionally available to Delmarva became more costly, more difficult to access, and at certain times unavailable at any price. The rate increase that Delmarva seeks in this case, together with other supportive measures discussed below, are crucial to providing the Company the level of financial integrity necessary for access to needed capital on reasonable terms, in any type of capital market conditions.

14. Q: <u>Why was the Company able to access the credit market during the recent financial crisis</u>?

A: The Company was able to obtain these financings at acceptable costs in these difficult times only because of its Investment Grade ratings. Maintaining or improving the Company's rating is essential for Delmarva to have continued access to the capital markets. Such access is in the best interest of our customers and is essential for the Company to continue to provide safe and reliable service to our customers. Unlike many businesses, Delmarva does not have the luxury of timing its capital expenditures based on market conditions. The Company must make investments regardless of the economic climate in order to maintain a safe and reliable distribution system. In addition, Delmarva must attract capital irrespective of the daunting challenges the Company faces in the capital markets today.

15. Q: <u>Please discuss the Company's need to maintain its financial health</u>.

A: Like other utilities, Delmarva continues to face rising costs to meet the needs of its customers and fulfill its public service obligations. As discussed in the testimony of other company witnesses, these rising costs include higher O&M expenses, such as workforce-related costs; more uncollectibles; higher capital expenditures to ensure the continued reliability of the distribution infrastructure; and investments in AMI technology.

As a result of these rising costs, the Company's revenues are falling far short of the level necessary to cover its costs, earn a reasonable rate of return, and preserve a strong Investment Grade credit rating.

16. Q: <u>Please elaborate on the Company's ability to raise capital</u>.

A: The U.S. and global financial sectors are still experiencing some systematic and structural weaknesses. While conditions have improved in recent months, the capital markets have functioned very erratically since September 2008. In fact, as of June 15, 2010 PHI's stock was trading at approximately 86% of book value. The short-term debt market remains constrained; and banks were, and to this day still are, reluctant to extend credit as easily and as inexpensively as they had in recent years.

This means that even Investment Grade companies, such as Delmarva, experienced difficulties securing financing on reasonable terms during the height of the crisis. Access to the capital markets over the past year has continued to be inconsistent.

17. Q: <u>Please discuss the Company's debt ratings by major rating agencies</u>.

A: Delmarva's short term credit ratings are A2/P2 from S&P and Moody's. The Company's senior, secured long-term debt ratings are A- and A3 from S&P and Moody's, respectively. These senior, secured long-term debt ratings are in the lower half of the Investment Grade rating scale. The highest long-term Investment Grade debt rating awarded by the rating agencies is triple A and the lowest is BBB-/Baa3.

18. Q: <u>Does the State regulatory environment affect PHI's credit ratings</u>?

A: Yes, it is a very important factor. In fact, in Standard & Poor's publications entitled "Assessing U.S. Regulatory Environments," dated November 7, 2008 and updated on March 12, 2010, and "Business and Financial Risks in the Investor-Owned Utility Industry," dated November 26, 2008 and updated on May 27, 2009, S&P indicated that the regulatory climate is perhaps the most important factor it analyzes when evaluating investor-owned utilities. It noted that regulatory risk will continue to be evaluated based on the environments in which companies operate, as well as other factors, including ratemaking practices and procedures, cash flow support and stability, political insulation, operating performance, credit metrics, and particularly cash flow metrics.

19. Q: <u>Please discuss Standard & Poor's assessment of regulatory risk</u>.

A: The S&P credit committee uses its "assessments" as the starting point for evaluation of a utility's regulatory risk. Its goal is to ascertain, purely from a credit perspective, the "posture of a jurisdiction's policymakers" on issues that are relevant to utilities' creditors. Essentially, it is evaluating financial stability factors, such as rate design and rate treatment of large capital expenditures; ratemaking factors, such as cost recovery, ratemaking timeliness and non-traditional ratemaking practices; and regulatory/political factors, such as the degree of political interference in the regulatory process, the independence of the Commissioners, and the selection process for Commissioners. S&P's evaluation of regulatory risk include:

i. Consistency and predictability of decisions;

ii. Support for recovery of fuel (gas in our case) and investment costs;

iii. History of timely and consistent rate treatment, permitting satisfactory profit margins and timely return on investments; and

iv. Support for cash return on investments.

For a regulatory process to be considered supportive of credit quality, it must limit uncertainty in the recovery of utility's investments. It must also eliminate, or at least reduce, regulatory lag, especially when the utility engages in a sizeable capital expenditure program.

20. Q: <u>What are the views of Delaware regulation in the financial community</u>?

A: The reviews are mixed. The previously mentioned S&P report has five categories of regulatory risk - from "Most Credit Supportive" to "Least Credit Supportive," with intermediate categories of "More Credit Supportive," "Credit Supportive," and "Less Credit Supportive." Currently, there are no U.S. jurisdictions that S&P considers to be in the top category of "Most Credit Supportive." Delaware was viewed by S&P in the lowest category of "Least Credit Supportive." The low category for Delaware negatively impacts Delmarva's overall credit ratings.

In Regulatory Research Associates (RRA) annual ranking of state utility regulation, it rated Delaware regulation as Average/1. This is the highest of the "Average" category and Delaware's Average/1 rating is higher than the ratings in PHI's other jurisdictions.

Based on my experience, I believe that recent regulatory practices of the Delaware Commission support the higher, RRA Rating. For example, Delaware approved supportive regulatory treatment for AMI investments, and has moved forward in an approach to revenue decoupling.

21. Q: <u>What steps could the Commission take to improve Delaware's perceived level of support for purposes of the rating agencies</u>?

A: The Commission can send a positive signal by expressing its commitment to strong Investment Grade credit ratings for the utilities under its jurisdiction, and back-up this commitment by explicitly taking credit quality issues into consideration in its rate case decisions. Furthermore, it would be important for the Commission to issue a timely rate case decision that includes, among other things, an adequate ROE based on current risks and market conditions.

Moreover, the rating agencies are very focused on consistency in ratemaking as a major issue in rating both the Commission and the Company. The rating agencies view changes in ratemaking policy to satisfy political pressures as a very negative credit event. Following credit supportive precedents will provide the Company the opportunity to actually earn its authorized rate of return during the rate effective period.

Commission actions which are more credit supportive would provide the Company with the opportunity to maintain, and even to improve, the Company's financial rating so that Delmarva will continue to have access to the capital markets on reasonable terms to the benefit of our customers.

As discussed below, Delmarva still requires large amounts of capital to operate and maintain reliable service to our customers.

The Company's Cost Containment and Other Rate Mitigation Measures

22. Q: Has PHI instituted cost containment measures?

A: Yes. In recent years PHI has implemented several programs to contain costs and these measures continue to benefit Delmarva's customers by minimizing the costs the Company needs to recoup in its rates.

In particular:

- PHI eliminated subsidized retiree medical benefits for employees hired after January 1, 2005 for management and LU 1900;
- Also effective January 1, 2005, PHI implemented major medical plan design changes for all eligible retirees – current and future – that eliminated the medical indemnity plan and increased deductibles, hospital co-pays, physician co-pays, and out-of-pocket maximums, which substantially increased the retiree's share of the costs for retiree benefits;
- PHI implemented caps that limit its retiree medical costs. Anyone retiring on or after January 1, 2005, is now subject to annual retiree medical caps. If the average annual cost per participant of all those enrolled in the medical plans (PPO or HMO) exceeds the cap, additional contributions will be required from all participants (retirees and their dependents) in the following year;
- Between 2005 and 2007, PHI more than doubled the contribution that active employees and retirees must make to their medical benefits; that contribution more than tripled by the end of 2007;
- In 2009 and 2010, PHI re-bid medical plans and increased co-pays and deductibles; and
- PHI significantly reduced pension benefits for employees hired after January 1, 2005.

These and other Human Resource cost containment and reduction efforts are explained in more detail in Company Witness Jenkins' testimony.

Outside the area of employee benefits, the Company replaced its preferred stock with debt. This was done because rating agencies changed their treatment of traditional preferred stock and began treating it as debt, rather than as a form of equity. Since preferred stock dividends are not deductible for income tax purposes, preferred stock has effectively become expensive debt, thus rendering it a very inefficient form of financing.

23. Q: Has PHI undertaken cost saving measures since the financial crisis?

A: Yes. As the crisis unfolded, senior management devoted considerable attention to proactively dealing with this crisis. One early decision PHI made was to impose restrictions on staffing levels for all of its utility operating companies, including Delmarva, and those restrictions continue today. However, the Company must continue to fill critical vacancies in order to continue to provide safe and reliable service.

In addition, PHI decided to eliminate the 2009 merit increases, excluding promotions, for its executives and other non-union management employees for all of its utility operating companies, including Delmarva. That had the effect of reducing base wage levels and costs on a going-forward basis.

24. Q: You mentioned earlier that the Company is proposing strategies to lessen the impact of the proposed rate increase and mitigate the volatility of certain expenses which are largely out of the Company's control. Please comment.

A: The Company has identified three costs that, if recovered on an average basis, rather than using known and certain 2009 amounts, would mitigate the volatility related to pension, OPEB and uncollectible expenses. While the 2009 level of these costs is included in Company Witness VonSteuben's revenue requirement analysis, the Company recommends that the Commission consider allowing the Company to recover a three-year average of these costs through a Rider VM mechanism. The difference between the amount recovered through the Rider VM mechanism and the expense actually recorded on the books would be reflected as a regulatory asset, or liability, and treated as a recoverable cost of service, or credit, in the Company's next distribution base rate proceeding. Adopting this approach would produce a net reduction in revenue requirements in this case of approximately $156,000. Company Witness Ziminsky provides more detail on this proposal.

<u>Overview of the Supporting Testimony</u>

25. Q: <u>Please describe the testimony that will be presented in support of this Application</u>.

A: There are ten other Company Witnesses presenting testimony in support of the Company's Application as follows:

- Mr. Frank Hanley, Principal and Director of AUS Consultants, will provide testimony on the appropriate rate of return and the cost of equity for the Company. Based on Company Witness Hanley's analysis, the Company is requesting a rate of return on rate base of 8.10%, including a rate of return on equity of 11.00%. Company Witness Hanley also discusses the Company's capital structure.
- Mr. W. Michael VonSteuben, Manager, Revenue Requirements and Regulatory Accounting, will present the Company's results, including rate base, operating revenue and operating expenses. He will also discuss the

development of the proposed revenue requirement, the test year selection and proposed ratemaking adjustments and ratemaking treatments that differ from the Commission's last gas base rate decision for the Company.

- Mr. Ernest L. Jenkins, Vice President, People Strategy and Human Resources, will provide testimony on the Company's compensation and benefits programs.
- Mr. Philip L. Phillips, Jr., Manager Gas Operations and Planning, will testify as to the Company's gas construction program and AMI investments.
- Mr. George W. Potts, Vice President, Business Transformation, will provide testimony on the Company's AMI investments and strategic plan.
- Mr. Timothy J. White, Manager, Policy Coordination, will discuss the Company's cash working capital requirement and lead/lag study.
- Ms. Kathleen A. White, Assistant Controller, will describe Delmarva's accounting policies and procedures, the books and records of the Company, and Service Company costs.
- Mr. Joseph F. Janocha, Manager of Rate Economics for Delmarva Power & Light Company and Atlantic City Electric Company, will discuss the Company's rate design and how the proposed rate increase impacts customer classes. Company Witness Janocha also sponsors the Company's tariff rates and proposed tariff changes.
- Mr. Elliott P. Tanos, Manager, Cost Allocation, will discuss the Company's Cost of Service study.

- Mr. Jay C. Ziminsky, Manager, Revenue Requirements, will discuss the Company's Rider VM, AMI ratemaking as well as other selected revenue requirement adjustments.

26. Q: <u>Does the Company plan to place an interim increase of $2.5 million into effect as permitted under 26. Del. C. § 306 (c)?</u>

A: Yes. If the Commission chooses to suspend the proposed rate changes for the full suspension period, the Company plans to place in effect, on August 31, 2010, subject to refund, an interim annual increase of approximately $2.5 million. Modified Tariff Leafs reflecting the interim increase is supported by Company Witness Janocha and are included in this Application. With the proposed interim base rate increase, on August 31, 2010, a typical residential customer using an average of 120 CCF in a winter month would see a bill increase of $2.06, from $167.25 to $169.31.

27. Q: <u>Would you please summarize the key points of your testimony</u>?

A: In order for Delmarva to continue to provide safe and reliable gas service, and to continue the positive initiatives and investments discussed previously in my testimony, it is critically important that the financial integrity of Delmarva be maintained during these tumultuous financial and economic times. It is in the public interest and beneficial to our customers to have a financially-sound utility, especially in current markets when credit is limited, more expensive and most readily available to companies with better credit ratings.

Delmarva is taking the requisite steps internally, financially and otherwise, to ensure a healthy company. Delmarva has taken many actions internally to manage its costs, and the Company has likewise taken advantage of opportunities available to it in the credit and equity markets.

Delmarva was able to raise debt to preserve the Company's liquidity largely because of the Company's Investment Grade ratings. The Company remains committed to meeting its obligations to serve our customers in a safe and reliable manner and to invest in AMI technology. However, the rate increase the Company is asking the Commission to authorize in this case is necessary for Delmarva to continue to maintain its financial position. Because of the heightened focus on credit quality in today's capital market climate, a downgrading of the Company's credit ratings would cost the Company and its customers more, in terms of higher capital costs in the long run and may jeopardize the Company's ability to provide safe and reliable gas service.

The Commission can also balance the interests of customers and the Company by adopting the alternatives I have discussed to base recovery of costs associated with pension, OPEB and uncollectible expenses on a three-year rolling average, recovered through a Rider VM mechanism. In addition, the Commission should allow recovery of the reliability-related capital costs expected to be incurred through October 2010 in the rate base for purposes of determining revenue requirements as discussed by Company Witness VonSteuben and allow recovery of incremental AMI-related costs, as discussed by Company Witness Ziminsky.

Delmarva recognizes the financial hardship that many of our customers are experiencing and has implemented several cost reduction policies and made certain ratemaking proposals to mitigate the proposed rate increase.

Reliable gas service is essential - our customers expect no less - and the Company intends to deliver no less. To accomplish this requires substantial investments to maintain the reliability of our system and to implement AMI technologies.

28. Q: <u>Does this conclude your testimony</u>?

A: Yes, it does.