

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE PROVISION)
OF STANDARD OFFER SUPPLY TO)
RETAIL CONSUMERS IN THE SERVICE)
TERRITORY OF DELMARVA POWER &) PSC DOCKET NO. 04-391
LIGHT COMPANY AFTER MAY 1, 2006)
(OPENED OCTOBER 19, 2004))

ORDER NO. 8258

AND NOW, this 18th day of December, 2012:

WHEREAS, on April 3, 2012, pursuant to the Settlement Agreement in PSC Docket No. 09-9 dated October 30, 2009, Order No. 7162 (dated April 27, 2007), and Order No. 6746 (dated October 11, 2005) in Docket 04-391, Delmarva Power & Light Company ("Delmarva") filed with the Delaware Public Service Commission (the "Commission") revised electric tariffs reflecting new Standard Offer Service ("SOS") rates, its new Procurement Cost Adjustment (the "PCA"),¹ its new Reasonable Allowance for Retail Margin ("RARM"), and its Renewable Energy Portfolio Standard Charge ("RPS Charge") with an effective date of June 1, 2012, with proration (the "2012 SOS-PCA-RARM-RPS Filing"); and

WHEREAS, because the Commission Staff ("Staff") discovered a significant calculation error and because other corrections were needed, Delmarva filed amended electric tariffs on May 10, 2012 (the "Amended 2012 SOS-PCA-RARM-RPS Filing"); and

¹The PCA is a component of the "Full Requirements Cost" portion of both "fixed" and "hourly" priced SOS rates. It is designed to collect or return, over the subsequent rate year, any past period differences between the amounts billed to customers for fixed-price SOS ("FP-SOS") and Hourly Priced services ("HPS") and the amounts Delmarva actually paid to wholesale suppliers and PJM Interconnection to provide such full requirements for FP-SOS and HPS. The PCA is calculated by customer class and any differences are subject to an interest charge.

WHEREAS, Delmarva also filed work papers supporting the proposed electric tariff changes and bill impact information that showed a proposed monthly reduction of \$6.10² (or a decrease of 4.1%) for a "typical residential customer" using 1,000 kWh per month on an annual average basis; and

WHEREAS, the Commission previously approved a Settlement Agreement in PSC Docket No. 09-9 (the "RARM Settlement")³ which provides that where the change in the total RARM rate exceeds +/- 5.25%, Delmarva is required to submit a formal filing for the Commission's review; and

WHEREAS, according to the Amended 2012 SOS-PCA-RARM-RPS Filing and Delmarva's work papers, the total RARM rate for fixed price customers decreased by 14.69% from the RARM rate currently in effect; and

WHEREAS, Delmarva submitted a formal filing (including workpapers) supporting the results of the RARM factor on an actual and estimated basis for the RARM reporting year ending May 31, 2012; and

WHEREAS, in April 2006, the General Assembly revised certain SOS provisions in the Electric Utility Restructuring Act of 1999 (the "Act"), but carried forward the Request for Proposal ("RFP") process that the Commission had established in this docket for Delmarva to procure supply from the wholesale electric market for resale to its

² This does not include the Qualified Fuel Cell Provider Renewable Charge. ("QFCP-RC").

³ See PSC Order. No. 7703 (December 22, 2009).

SOS customers, which allows Delmarva to procure at least thirty percent of its overall SOS load;⁴ and

WHEREAS, after each of the first two SOS procurement years, the Commission made certain changes to the RFP process and to the framework for public disclosure of the results;⁵ and

WHEREAS, on October 7, 2008, pursuant to 26 *Del. C.* §1007(c)(1) and its continuing jurisdiction in this docket, the Commission issued Order No. 7461 which approved Delmarva's request to utilize a reverse auction process in its upcoming annual SOS procurement process;⁶ and

WHEREAS, in late 2011 and early 2012, Delmarva conducted its seventh annual SOS procurement, using the reverse auction, for supply contracts commencing on June 1, 2012;⁷ and

WHEREAS, on May 15, 2012, the Commission authorized the proposed tariff rates for the Amended 2012 SOS-PCA-RARM-RPS Filing to become

⁴See 26 *Del. C.* §1007(c)(1)a.

⁵See PSC Order Nos. 7053 (October 17, 2006) and 7284 (September 18, 2007).

⁶ The Commission established the original SOS procurement process in October 2005 (Order No. 6746) and modified it in August 2008 (Order No. 7432). The original RFP format was a simple sealed bid process in which bidders had one chance to submit bids for any or all of the blocks available without knowing other bids, the idea being that bidders would be forced to submit their best price. In contrast, the new reverse auction format relies upon the bidders' awareness of the actions of other bidders in an attempt to drive prices down. As designed, prior to the submission of bids, the Commission's consultant and World Energy set a starting price for each block. A separate auction is conducted for each available block. The auctions open simultaneously, and bidders may submit as many bids as they like on each block as long as each bid is below the starting price. Once bidders submit bids, they are able to view the current low bid price as it ticks down over the course of the auction. After 30 minutes, the first block closes and the lowest bid is declared the winner. Another block closes every 15 minutes thereafter, until the bid day is complete. After each block closes, all bidders participating in that auction are able to see the winning price.

⁷ The procurement was conducted in two "tranches" and secured three-year supply contracts for one-third of the residential SOS load and one-year contracts for 100% of the load for other "fixed price" types of service. Vantage Energy Consulting, along with Staff, observed and evaluated each tranche procurement.

effective on a temporary basis, subject to refund, on June 1, 2012 (see Order No. 8144); and

WHEREAS, Delmarva published notice of the Amended 2012 SOS-PCA-RARM-RPS Filing and the Commission-ordered deadline of July 16, 2012, to file comments or objections; and

WHEREAS, Staff has reviewed the Amended 2012 SOS-PCA-RARM-RPS Filing and determined that the proposed rates and tariff changes comply with previous Commission orders, comport with the bidding results reflected in "Vantage Energy Consulting's Final Report of the Technical Consultant on Delmarva's 2011-2012 Request for Proposals" dated March 6, 2012, and reflect the total supply costs for which Delmarva requested recovery; and

WHEREAS, Staff has reviewed Delmarva's work papers supporting the Amended 2012 SOS-PCA-RARM-RPS Filing and recommends that the Commission adopt the adjustments to the PCA and the RARM which are set forth in the attached **Exhibit A**; and

WHEREAS, Staff and Delmarva agree that adjustments to the RARM costs will be made in Delmarva's revised tariffs effective with usage on or after January 1, 2013, and adjustments to the PCA and further adjustments to the RARM to be added to the 2013 SOS-PCA-RARM-RPS filing; and

WHEREAS, there were no objections or comments with respect to the Amended 2012 SOS-PCA-RARM-RPS Filing; and

WHEREAS, per Order No. 8144 (May 15, 2012), Delmarva was required to file with the Commission, within 90 days of the conclusion of the refund period, a report that would detail a cost reconciliation of the

distribution credits from the Termination Payment (equal to \$2,001,202, including interest) received by Delmarva under the Bluewater Wind Power Purchase Agreement between Delmarva and Bluewater Wind Delaware, LLC. See Order No. 8144, ¶7; and

WHEREAS, on October 17, 2012, Delmarva filed such report with the Commission and detailed in the report the reconciliation of the Termination Payment credit; and

WHEREAS, in Order No. 8144, the Commission also ordered that Delmarva must incorporate into its 2013 RPS costs any over- or under-collected amounts regarding the Termination Payment. See Order No. 8144, ¶7; and

WHEREAS, Delmarva has agreed to recover in its 2013 RPS costs an over-refund of \$5,357 from the Termination Payment; and

WHEREAS, Staff has not identified any other substantive issues in Delmarva's determination of the SOS rates or recovery of the PCA, RARM, and RPS and therefore recommends approval of Delmarva's proposed tariff revisions as set forth in the Amended 2012 SOS-PCA-RARM-RPS Filing for the period June 1, 2012, through December 31, 2012; and

WHEREAS, Staff has examined the proposed tariff changes filed on December 5, 2012, and finds them to be consistent with the RARM corrections agreed upon and therefore recommends approval of such proposed tariff revisions to be effective January 1, 2013;

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

1. That the proposed rates and tariff changes proposed by Delmarva Power & Light Company ("Delmarva") in its Amended 2012 SOS-PCA-RARM-RPS Filing, including its Standard Offer Service offerings,

Procurement Cost Adjustment, Reasonable Allowance for a Retail Margin, and Renewable Energy Portfolio Standard factors, with an effective date of June 1, 2012, which rates were placed into effect on a temporary basis and subject to refund effective with service on and after June 1, 2012, are approved for the period ending December 31, 2012.

2. That the revised rates and tariff changes reflecting the RARM adjustments which Delmarva filed on December 5, 2012, effective with usage on or after January 1, 2013, are approved.

3. That Delmarva is directed to implement the adjustments to the PCA, the RARM, and the RPS identified in the attached Exhibit A in its 2013 SOS-PCA-RARM-RPS filing.

4. 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:

/s/ Dallas Winslow
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Jeffrey J. Clark
Commissioner

Commissioner

ATTEST:

/s/ Alisa Carrow Bentley
Secretary

EXHIBIT A

Staff identified the following SOS and PCA issues that should be corrected in the 2013 SOS-PCA-RARM-RPS filing. Delmarva Power & Light Company ("Delmarva") has agreed to true-up and correct these issues in the upcoming 2013 SOS-PCA-RARM-RPS filing:

1. Delmarva used the 2009 Revenue Conversion Factor ("RCF") to estimate tax expenses. The 2009 local tax rate (City of Wilmington) was 0.00137, which is 144% of the 2011 actual local tax rate of 0.00095. Therefore, the tax expenses were overstated by \$178,446.
2. The May 2012 wind energy cost was double counted, thus the estimated Procurement Cost was overstated by \$63,238 on Exhibit C-PCA.
3. On the worksheet labeled Procurement Cost Recovery Detail, Tab-Exp Jun 11, the true up amounts for GSP (\$0.73) and Hourly customers (\$3,829.31) were mistakenly assigned to LGS and GSP customers.
4. The RPS costs were not included to calculate the off peak energy rate for LGS and GS-P customers on the worksheet labeled 2012 SOS Rate IM Model and on Exhibit E: Billing Comparisons - Year 7. This does not result in any rate change but affects the rate impact and bill comparison.
5. Delmarva did not update the SOS capacity and the three-year forward average Capacity Price on Exhibit D-DPL 12-13 SOS Price Model.

Staff wants to establish an accurate and fair method to recover Delmarva's tax expenses. Thus, Staff and Delmarva have also agreed that if Delmarva can exclude tax expenses based on an actual RCF⁸ in future filings, no true-up is needed. However, if Delmarva has to use a previous RCF to estimate and accrue taxes, then a true-up is required. Thus, when the RCF decreases, this true-up will benefit ratepayers. When the RCF increases, a true-up will benefit Delmarva.

Staff also issued formal discovery requests and held workshops to determine the appropriate level of RARM costs to be recovered. As a result of Staff's review, the following issues were identified:

1. Interest on the Year 4 Under-Collections (\$13,976.00) detailed on Tab "A-2" did not conform to the Settlement Agreement in PSC Docket 09-9 and should be disallowed.

⁸ For example, RCF from the 12-months ending December 2012 for the next filing.

2. Year 5 Over-Collections (interest) in the amount of \$41,152.00 should be a negative amount or a reduction to costs, instead of a positive amount, or a cost, as was shown in Attachment A.
3. The Late Payment Revenue Adjustment (\$673,257.32), Attachment C-3, was included as an adjustment and also in the Annual Cost. Since this was a one-time reconciliation, the Late Payment Adjustment should not be included in the Annual Cost.
4. Per Delmarva, the Amortization of Year 1 Under-Recovered (\$224,558.37) is the balance of the Year 1 amortization costs that were not collected from March 2008 to May 2008, or three months of costs out of the total 60 months. These costs also appear in the Annual Costs (\$134,375.38 and \$90,182.99). Since this was a one-time reconciliation, the Amortization of Year 1 Under-Recovered should not be included in the Annual Costs.
5. The Year 6 Over-Recovered total amount filed should be adjusted by items 1 and 2 above as well as the actuals for March, April, and May of 2012 and then amortized, with interest, for a total of 12 months.

Regarding the SOS tax related billing error reflected in the RARM factor, Delmarva and Staff have agreed to the following per the Settlement Agreement in Docket No. 11-528 dated August 28, 2012:

- a. The total recovered amount is reduced to \$3,346,205 ("3.4 million") and will be collected over three SOS years beginning June 1, 2012, without carrying costs.
- b. On January 1, 2013, the SOS rates will be adjusted to reflect a collection of \$1,115,401.67 for the 2012-2013 SOS year. For the next two years, the remainder of the under-recovery will be \$1,115,401.67 per year. Each year there will be a true-up, with the total amount of the SOS under-recovery collected not to exceed \$3,346,205.

In order to have a more timely reconciliation using actual revenue/expense amounts, Delmarva and Staff have agreed that Delmarva will remove the costs for all of the agreed-upon RARM errors outlined above for the period January 1, 2013, to May 31, 2013. This will allow Delmarva to account for the actual amounts collected through December 31, 2012. These adjustments result in a reduction to the originally-filed RARM amount. Thus, Delmarva agrees that it will file the required true-ups in the 2013 SOS-PCA-RARM-RPS filing to be effective on June 1, 2013.

As a result of previous workshops, Staff and Delmarva have also agreed that the PCA and the RARM will be calculated based on the period between March 2012 and December 2012 for the upcoming 2013 SOS-PCA-RARM-RPS filing and thereafter between January and December for the later SOS-PCA-RARM-RPS filings.

Pursuant to Order No. 8144, on October 17, 2012, Delmarva filed with the Commission a report detailing the reconciliation of the Termination Payment credit (\$2,001,202) for the NRG-Bluewater Wind/DPL Offshore Wind PPA. Staff reviewed the report and did not find any manifest errors. The reconciliation report indicated that there was an over-refund of \$5,357. Thus, pursuant to Order No. 8144, the over-refund amount will be recovered through the 2013 RPS costs.