

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

**IN THE MATTER OF THE APPLICATION OF)
DELMARVA POWER & LIGHT COMPANY FOR A)
CHANGE IN NATURAL GAS BASE RATES) Docket No. 10- _____
(Filed July 2, 2010))**

**DELMARVA POWER & LIGHT COMPANY'S
APPLICATION FOR A CHANGE IN NATURAL GAS BASE RATES**

Delmarva Power & Light Company (Delmarva, Company or Applicant) hereby files this application (Application) with the Public Service Commission of the State of Delaware (the Commission) seeking a change in natural gas base rates pursuant to 26 Del. C. §§ 201, 301, 304, 306, 1500 and other applicable authorities. In support of this Application, Delmarva submits the following:

Applicant

1. Delmarva is a Delaware corporation with its principal offices located at 800 King Street, P.O. Box 231, Wilmington, Delaware 19899. Delmarva is a wholly owned subsidiary of Conectiv, a Delaware corporation, which is in turn a wholly owned subsidiary of Pepco Holdings, Inc. (PHI), a Delaware corporation. In addition to various non-utility corporations, Conectiv also owns Atlantic City Electric Company, a New Jersey corporation and New Jersey electric utility. PHI owns various non-utility corporations and also owns Potomac Electric Power Company, a District of Columbia and Virginia corporation that provides regulated electric utility services to the District of Columbia and Maryland.

Communications

2. All communications and notices with respect to this proceeding should be made

to:

| | |
|---|---|
| <p>Heather G. Hall W. Michael VonSteuben Pamela E. Long Delmarva Power Regulatory Affairs 401 Eagle Run Road Newark, DE 19702 (Private Mail Service) Or P.O. Box 9239 Newark, DE 19714-9239 (U.S. Mail)</p> <p>e-mail addresses: heather.hall@pepcoholdings.com mike.vonsteuben@pepcoholdings.com pam.long@pepcoholdings.com</p> | <p>Todd L. Goodman Delmarva Power 800 King Street, 5th Fl Wilmington, DE 19801</p> <p>Counsel for Delmarva Power</p> <p>e-mail address: todd.goodman@pepcoholdings.com</p> |
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Summary of Application

3. By this Application, Delmarva is requesting the Commission to grant or approve:

- an increase in gas delivery base rates in the amount of approximately \$11.9M or 6.3% on total revenues,
- a Utility Facility Relocation Charge (UFRC),
- a Volatility Mitigation Rider (Rider VM),
- a Return on Equity (ROE) of 11.00% with Commission approval of Modified Fixed Variable Rate Design (MFV) as addressed in Docket No. 09-277T, or 11.25% if the Commission does not approve the MFV;¹ and,
- an interim gas base rate increase of \$2.5 million effective on August 31, 2010.

¹ Note: Delmarva's revenue requirement would increase by approximately \$515,000 if the MFV is denied.

The following provides a description of each of the items listed above.

Proposed Rate Change

Rate Requests

4. Delmarva is requesting approval of a proposed increase of \$11,915,381 in its natural gas base rates (as fully detailed in the testimony of J. Mack Wathen and Schedule D of the minimum filing requirements, attachment hereto). As set forth in this Application, the Company is requesting a Return on Equity of 11.00%, which results in an overall rate of return of 8.10%. The Company's requested ROE is based on implementation of the requested MFV. Company Witness Hanley concludes that, if implemented, the MFV would have the effect of lowering somewhat the Company's risk profile. Without the implementation of the MFV, the Company's proposed ROE increases to 11.25%, and the Company's revenue requirement would increase by approximately \$515,000. Included in the Company's revenue request are changes in tariff rates associated with a seasonal reconnection fee to discourage customers from disconnecting gas service during the summer months by sending a price signal for this option which is more reflective of the costs associated with serving these customers even during periods that they are disconnected. This is discussed by Company Witness Janocha; a Rider VM to mitigate the impact of the volatility associated with annual expense levels associated with the pension and other post employment benefits, as well as uncollectible expenses; and a utility facility relocation charge (UFRC) as set forth in 26 Del. C. §315. Revised tariff leafs setting forth the proposed changes are attached to this Application as Appendix A. Delmarva requests the Commission to permit the proposed changes in gas base rates and the proposed

miscellaneous tariff fees to become effective for service rendered on and after August 31, 2010, with proration.²

Interim Rate Relief

5. In the event the Commission exercises its discretion to suspend the proposed increase in gas base rates for a period not greater than seven months, Delmarva intends to place in effect, subject to refund, natural gas base rates designed to produce an annual increase in test period revenue of approximately \$2.5 million effective August 31, 2010, pursuant to 26 Del. C. § 306(c). The Company proposes to recover the \$2.5 million interim increase as set forth in the tariff leafs included in Appendix B. The Company respectfully requests that the Commission waive the requirements of 26 Del. C. § 306(b) that a bond be filed with sureties. Delmarva's long-standing history within the State and its commitment herein to abide with a Commission refund order is sufficient to protect the rights of interested parties to any refunds that may be ordered with regard to the interim rates to be placed in effect on August 31, 2010.

Proposed Tariffs and Impact of Proposed Changes

6. The full proposed revenue increase is \$11,915,381 or approximately 6.3% on total revenues and is based on 6 month actual data and 6 months forecasted data for a test period beginning on July 1, 2009 and ending June 30, 2010. The Company's proposed revenue requirement is predicated on an allowed return on common equity of 11.00%, assuming implementation of MFV.

In addition, Delmarva requests a waiver of one section of the Commission's minimum filing requirements for base rate increases. Part V - Net Operating Income, Paragraph C (14) - Operating Expenses requires information to be filed relating to certain affiliate transactions. The Company requests a waiver of this provision because the information was previously submitted

² See Section 306.

to the Commission in compliance with Order No. 5469 in Docket No. 99-582. Pursuant to that Order, the Commission was provided with the year 2008 report and the year 2009 report will be filed pursuant to that Order during the time that this proceeding is under consideration.

7. For a residential customer with a usage pattern at or near that of the class average, the average monthly bill impact is estimated to be \$6.99 or 8.1% of their total annual bill.

8. The rates proposed in the attached tariff leafs bring the firm service class rates of return closer to the Company's overall rate of return.

9. The requested increase to base rates for various service rate classes is as follows:

| Service Classification | Proposed Increase (\$000) | | | |
|------------------------|---------------------------|-------------|------------------|--------------|
| | Full Proposed Increase | | Interim Increase | |
| | \$ | % | \$ | % |
| RG | \$ 7,804 | 6.54 | \$ 1,605 | 1.35 |
| GG+GVFT | \$ 3,041 | 5.24 | \$ 635 | 1.09 |
| MVG+MVFT | \$ 439 | 6.53 | \$ 127 | 1.91 |
| LVG+LVFT | \$ 632 | 13.44 | \$ 132 | 2.81 |
| Gas Lighting | \$ - | -0.31 | \$ - | 0.80 |
| Total | \$ 11,915 | 6.3% | \$ 2,500 | 1.32% |

10. The actual effects of the full proposed rates on a particular customer may be different from the percentage increases set forth above because not all rate elements are being adjusted proportionally. In general, proposed increases for the monthly customer charges are somewhat higher on a percentage basis than the per ccf or per Mcf charges and it is the averages that are set forth in the table above.

11. The rates set forth in Appendix A will become effective for service rendered on and after August 31, 2010, unless their operation is suspended by the Commission. In the alternative, the rates contained in Appendix B, reflecting an interim \$2.5 million increase, will be placed into effect subject to refund on that day. The interim rates were developed using the

existing rate structure of each rate class and using the interim base revenue increase of \$2,500,000 to achieve an equal percentage increase to total delivery revenue of 3.78% for each rate class as supported by Witness Janocha's direct testimony. For interim rates, the Company is not proposing any changes to the existing rate "structures". The Company is only proposing price "level" changes using the existing rate structures of each rate class. The Company proposes to increase each base rate component including the monthly Customer Charge within each rate class by each rate class base rate percent increase, excluding fuel revenue. Please refer to the Rate Design workpapers include in Company Witness Janocha's testimony for interim target revenue increases for each rate class, the billing determinants for the weather normalized test year, the interim rates and the interim revenues for each rate class.

12. As noted, this Application includes proposed modifications to certain tariff leafs as more fully described in the attached testimony of Delmarva's witnesses submitted concurrently herewith, including:

- a. a seasonal reconnection fee to discourage customers from disconnecting gas service during the summer months by sending a price signal for this option which is more reflective of the costs associated with serving these customers even during periods that they are disconnected. as set forth in the testimony of Witness Janocha;
- b. a volatility mitigation rider (Rider VM) to mitigate the impact of the volatility associated with annual expense levels associated with the pension and other post employment benefits, as well as uncollectible expenses, as set forth in the testimony of Company Witnesses VonSteuben and Janocha; and

- c. a utility facility relocation charge (UFRC) as set forth in 26 *Del. C.* §315 and as described in the testimony of witness Janocha.

Description of the Application

Natural Gas Base Rate Change

13. The Company last sought a natural gas base rate change in 2006. The costs of providing safe and reliable natural gas service have increased sharply since then. Excluding environmental costs which are recovered in the ESR, operating expenses have increased from \$25.2 million to \$33.7 million, or 33.8%, since Delmarva's last base rate filing. Sales have decreased sharply since that period as well.

14. The current level of rates must be increased to reflect the current level of costs that Delmarva is incurring to provide service to its gas customers. Delmarva is obligated to provide safe and reliable service to its customers, and it needs to fully recover the costs required to do so in a timely manner.

Return on Equity

15. The last authorized ROE of 10.25%, which was determined as part of an overall settlement, is not an accurate reflection of the true cost of equity capital to Delmarva. Since the last case, financial conditions have changed so that an 11.00% ROE is now representative of the current capital markets, if the MFV is implemented. If the MFV is not implemented, an ROE of 11.25% would be representative of the current capital markets.

Modified Fixed Variable Rate Design

16. As set forth above, in the currently ongoing Docket No. 09-277T, Delmarva is proposing the Modified Fixed Variable Rate Design, which is a form of revenue decoupling.

The MFV is designed to break the link between the amount of a customer's delivery rate and the customer's consumption of natural gas. The MFV will enable recovery of the Commission test year revenue requirement in the rate effective period. The MFV would remove the disincentive for conservation endemic in the current volumetric-based rate structure and would align the Company, its customers and the State with regard to reduction in energy usage and emissions. Accordingly, the MFV is designed to provide benefits to Delmarva, its customers, the environment, and the general public.

17. Pursuant to 26 *Del. C.* § 1500(b)(8), Delmarva must have in effect by December 2010 a decoupled rate design that provides for an appropriate, cost-based level of revenue recovery which will remove disincentives to investment in demand response programs and conservation and improved efficiency of energy use. The MFV constitutes such a rate design as required by 26 *Del. C.* § 1500(b)(8).

Witnesses

18. The proposed increased revenue requirement and proposed rates described in this Application are supported by the direct testimony and schedules of the following witnesses for the Company, each of which is contained in Books 2 and 3 and made a part hereof:

- i. J. Mack Wathen – Policy and Case Overview
- ii. Frank J. Hanley - Cost of Capital
- iii. W. Michael VonSteuben - Revenue Requirement
- iv. Ernest L. Jenkins – Compensation and Benefits
- v. Philip L. Phillips – Gas Business Overview
- vi. George W. Potts – AMI Investment
- vii. Timothy J. White - Cash Working Capital

- viii. Kathleen A. White – Accounting and Books and Records
- ix. Joseph F. Janocha - Rate Design
- x. Elliott P. Tanos - Cost of Service
- xi. Jay C. Ziminsky – Revenue Requirement

Notice

19. Notice of the proposed changes will be given through bill inserts, as well as through notices published in The News Journal and the Delaware State News. A proposed form of public notice is attached to this Application.

WHEREFORE, Delmarva respectfully requests that the Commission:

- A. authorize the proposed changes as filed by Delmarva;
- B. issue an order permitting the interim rates as requested herein to go into effect on August 31, 2010, subject to refund;
- C. waive notice, filing and bonding with sureties requirements; and,
- D. order that a notice of hearing be published.

Respectfully submitted,

By: _____

Todd L. Goodman
Delmarva Power
800 King Street, 5th Fl
Wilmington, DE 19801

Counsel for Delmarva Power

July 2, 2010

STATE OF DELAWARE)
) SS.
COUNTY OF NEW CASTLE)

On this day June 30, 2010, personally came before me, the subscriber, a Notary Public in and for the state and county aforesaid J. Mack Wathen, Vice President, an officer of Delmarva Power & Light Company, a corporation existing under the laws of the State of Delaware, party to this Application, known to me personally to be such, and acknowledged this Application to be his act and deed and the act and deed of such corporation, that the signature of such Vice President is in his own proper handwriting, and that the facts set forth in this Application are true and correct to the best of his knowledge and belief.

J. Mack Wathen
Vice President

SWORN TO AND SUBSCRIBED before me this June 30, 2010.

Notary Public

My Commission expires: _____

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DELMARVA POWER & LIGHT COMPANY FOR A)
CHANGE IN GAS BASE RATES) Docket No. 10- ____
(Filed July 2, 2010))**

PUBLIC NOTICE OF FILING

TO: ALL GAS CUSTOMERS OF DELMARVA POWER & LIGHT COMPANY

On July 2, 2010, Delmarva Power & Light Company filed an Application with the Delaware Public Service Commission (“Commission”). The Application requested a change in gas base rates that has an aggregate effect of increasing annual revenues by \$11,915,381 or 6.3% as follows:

| Service Classification | Proposed Increase (\$000) | | | |
|----------------------------|---------------------------|-------------|------------------|--------------|
| | Full Proposed Increase | | Interim Increase | |
| | \$ | % | \$ | % |
| RG | \$ 7,804 | 6.54 | \$ 1,605 | 1.35 |
| GG+GVFT | \$ 3,041 | 5.24 | \$ 635 | 1.09 |
| MVG+MVFT | \$ 439 | 6.53 | \$ 127 | 1.91 |
| LVG+LVFT | \$ 632 | 13.44 | \$ 132 | 2.81 |
| <u>Gas Lighting</u> | \$ - | -0.31 | \$ - | 0.80 |
| Total | \$ 11,915 | 6.3% | \$ 2,500 | 1.32% |

The Commission [**has suspended the proposed rates for seven months and**] will consider the request for proposed gas base rate changes and other modifications to become effective as of August 31, 2010, subject to refund after evidentiary hearings and further proceedings to be presided over by a Commission Hearing Examiner. [**Delmarva has provided notice that as a result of the Commission's suspension of the proposed rates for seven months, it will exercise its statutory right to put into effect an interim increase of \$2.5 million effective August 31, 2010, which will be subject to further review and potential refund.**]

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 bill.

Any person or group wishing to participate formally as a party in this docket (PSC Docket No. 10-____), with the right to submit evidence and to be represented by counsel must, in accordance with Rule 11, petition the Commission for and be granted leave to intervene in the proceedings in this docket by the Hearing Examiner.

To be timely, all such petitions must be filed with the Delaware Public Service Commission at 861 Silver Lake Boulevard, Suite 100, Cannon Building, Dover, Delaware 19904 on or before _____, 2010. Petitions received thereafter will not be considered except for good cause shown.

The Hearing Examiner will consider the Application, including any settlement that might be reached by the parties to the proceeding, in hearings to be held at the times and locations to be determined by the Hearing Examiner.

Copies of the Application, testimony and attachments will be available for public inspection at the Commission's Dover office at the above address, or, by appointment, in the Division of the Public Advocate located on the 4th Floor, Carvel State Office Building, 820 North French Street, Wilmington. Please call for an appointment at (302) 577-5077.

Individuals with disabilities who wish to participate in these proceedings or to review these filings may contact the Commission to discuss any auxiliary aids or services needed to facilitate such review or participation. Such contact may be in person, by writing, telephonically, by use of the Telecommunications Relay Service, or otherwise. The Commission Staff is available for questions concerning this Application and other documents. The Commission's toll-free telephone number within Delaware is 1-800-282-8574. The Commission can also be reached at (302) 739-4333 and that number should also be used for Text Telephone ("TT") calls. Inquiries can also be sent to the Commission by Internet e-mail to _____@state.de.us."

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(Filed July 2, 2010))**

ORDER NO. _____

AND NOW, to-wit, this ____ day of July, 2010, Delmarva Power & Light Company having, on July 2, 2010, filed the above-captioned Application with the Commission seeking approval a change in natural gas base rates;

AND, the Commission having determined, pursuant to 26 Del. C. §§ 303, 304, 306 that the proposed rates should be permitted to become effective for usage on and after August 31, 2010, with proration, and subject to refund pending evidentiary hearings and further review by the Commission; now therefore,

IT IS ORDERED:

1. That pursuant to 26 Del. C. §§ 301, 304 and 306, the application made by Delmarva on July 2, 2010, for modifications to its Natural Gas Rates be suspended and made effective as of August 31, 2010, with proration, subject to refund and evidentiary hearings to be held at a later date.

2. That _____ is designated as Hearing Examiner for this docket pursuant to the terms and provisions of 26 Del. C. § 502 and 29 Del. C. ch. 101 to schedule and conduct such public evidentiary hearings as may be necessary to develop a full and complete record concerning this matter, and to report to the Commission proposed findings and recommendations based on the evidence presented.

3. That Delmarva shall give public notice of the filing of this application and of the Commission action thereon by publishing notice in the form attached hereto as Addendum to Exhibit "B" in two-column format, outlined in black in the legal classified sections of The News Journal and the Delaware State News on _____, 2010, with proof of such publication to be provided to the Commission as soon as possible, but no later than the commencement of the evidentiary hearings concerning this matter.

4. That the waivers requested by Delmarva including that of a surety bonding requirement with respect to a rate increase are granted, subject to: a) the execution and delivery of a bond without sureties in substantially the form of such bond attached to the Application; and b) Delmarva's commitment to provide information upon request that would otherwise be included as part of the Minimum Filing Requirements.

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

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

BY ORDER OF THE COMMISSION:

CHAIR

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER