DELMARVA POWER & LIGHT COMPANY
TESTIMONY OF JOSEPH F. JANOCHA
BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION
CONCERNING THE APPLICATION FOR APPROVAL OF A MODIFIED FIXED VARIABLE RATE DESIGN FOR NATURAL GAS RATES
DOCKET NO. 09-

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1. Q: <u>Please state your name and position, and business address.</u>

A: My name is Joseph F. Janocha. I am a Regulatory Affairs Manager in the Rates and Technical Services Section of Pepco Holdings Inc. ("PHI"). I am testifying on behalf of Delmarva Power & Light Company ("Delmarva", or "the Company".

2. Q: <u>What is your educational and professional background?</u>

A: I have a Bachelor of Engineering degree with a concentration in Mechanical Engineering from Stevens Institute of Technology (Hoboken, New Jersey). I am a Registered Professional Engineer in the State of New Jersey and the Commonwealth of Pennsylvania.

3. Q: <u>Please describe and summarize your employment experience in the utility industry.</u>

A: I began my career with Philadelphia Electric Company ("PECO") in 1982 as an engineer in the Mechanical Engineering Division. From 1982 through 1992, I held various positions in PECO's Mechanical Engineering, Nuclear Quality Assurance, and Nuclear Engineering Divisions. I joined Atlantic City Electric Company ("ACE") in 1992 as a Senior Engineer in the Joint Generation Department. In 1998, I joined the Regulatory Affairs group as a Coordinator, responsible for the design and administration of electric rates for the Company. I assumed my current position in March 2005. In this capacity, I am responsible for the development and administration of unbundled rates for ACE and Delmarva Power & Light Company.

4. Q: <u>Have you filed testimony in any other proceedings?</u>

A: Yes. I have previously presented and/or filed testimony as a witness before the Delaware Public Service Commission (referred to herein as the "Commission" or "PSC"), the Maryland Public Service Commission, the New Jersey Board of Public Utilities and the State Corporation Commission of Virginia.

5. Q: <u>What is the purpose of your testimony?</u>

A: The purpose of my testimony is to introduce a decoupling mechanism to the Company's natural gas delivery rate structure which is intended to better levelize and stabilize recovery of delivery-related costs from all customer classes over the course of each year. The major objective of this approach is to eliminate the relationship between Delmarva's delivery revenue and the level of customer gas consumption.

6. Q: <u>What is the basis for filing for a modified rate design at this time?</u>

A: In Order No. 7420 in PSC Regulation Docket No. 59, the Commission approved the potential adoption of a modified fixed variable rate design for electric and gas distribution utilities within the context of a rate case proceeding. However, the Order further provided the Commission with the flexibility to address rate design changes outside of a base rate case "if the situation is warranted".

7. Q. Is the modified fixed variable rate design considered a form of decoupling?

A: Yes, in that the purpose of decoupling is to separate (or "decouple") the amount of a utility's revenues from the amount of its sales. Under the current rate design, the more natural gas or electricity customers use, the more revenue the Company realizes on the delivery portion of the bill. At the same time, the customer will also pay significantly more for the supply/commodity portion of the bill. While a volumetric charge is clearly the appropriate mechanism for recovery of supply and commodity-related costs, it is not necessarily appropriate for delivery service, the costs of which are essentially fixed. The modified fixed variable rate design breaks that link between a customer's energy consumption and the Company's delivery-related revenues. Additionally, with the delivery-related rate design proposed by the Company, disincentives related to the promotion of conservation and demand response programs are removed, better aligning the interests of customers, utilities, the environment, and the State of Delaware in the areas of energy conservation and emissions reduction.

8. Q: What current situation warrants the filing of the rate design change at this time?

A: The state of Delaware is embarking on several initiatives such as the launching of a state wide Sustainable Energy Utility and the establishment of a statewide Energy Efficiency Resource Standards (EERS) through a working-group approach to hit aggressive goals set by the Governor. The Company will play a large roll in the roll out of these initiatives as well as the roll out of the company's own programs designed to promote more efficient use energy by our customers. Because decoupling helps to align the interests of the company with those of the state regarding these types of programs, now is a critical time to put decoupling in place. In addition, we believe the implementation of decoupling will be looked upon favorably as Delaware competes to obtain Federal stimulus funds. Therefore, for all these reasons, the Company is filing at this time within the parameters established by PSC Order No. 7420.

9. Q: <u>Please explain what the Company is seeking through this Application.</u>

A: The Company is seeking approval of the mechanics of the proposed rate design, which are described further in my testimony. The Company, however, is not asking for approval of the specific rates proposed in this Application. The Company anticipates that the rate design itself will be reviewed in this Application, and it is envisioned that actual rates would be effective only after a proceeding designed to implement rates.

10. Q: <u>Please describe the proposed changes to the gas delivery rate design.</u>

A: The basic concept involves modifying the gas delivery rate design for Residential Gas Sales (Service Classification RG), General Gas Sales Service (Service Classification GG) and General Volume Firm Transportation (Service Classification GVFT) to a two-part rate structure, consisting of a customer related charge and a demand-related charge. In order to illustrate the development of the new rate design, this filing includes a rate design structure which yields rates which are revenue neutral, on an overall and individual rate class basis, when compared to revenue requirements approved by the Commission in its Order No. 7152 in Docket No.06-284. A summary of the approved revenue requirements is provided in Schedule JFJ-1.

Because the Company is only seeking approval of the details of the rate design mechanism and not the actual rates, the new rate structure has been developed in this filing using test year data from Docket No. 06-284. This allows development of comparative analyses to the current rate structure to be performed on an appropriately equivalent level.

Under the proposed approach, the level of costs to be recovered through the customer charge and demand charge, respectively, would be based completely on the results of the cost of service study functional allocations. The details of the proposed cost recovery levels for the customer and demand charges by service classification are provided in Schedule JFJ-2.

Service classifications MVG, LVG, MVFT, and LVFT, which consist of the large industrial and commercial users, currently have a customer and demand structure and the lighting service classification GL currently has a fixed monthly charges. The new rate design approach is not being proposed for these service classifications at this time. However, the Company may consider modifications to the rate design for these service classifications in future proceedings.

11. Q: <u>Please explain the mechanism proposed for developing a demand factor for Service Classifications RG, GG and GVFT.</u>

A: A new billing determinant will be developed and referred to as the Design Day Contribution ("DDC") Factor. The DDC Factor is designed to align customers delivery rates with the underlying costs associated with overall design of the delivery infrastructure. The DDC is intended to provide a measure of an individual's contribution to the Design Day usage. The Design Day reflects the Company's investment in gas mains, distribution lines, valves and other supporting equipment.

On aggregate, a DDC Factor will also be developed for each service classification. The DDC Factor will be based on customer sales activity for the prior January and February billing months, as well as sales from the previous August. A detailed development of the DDC is provided in Schedule JFJ-3.

The DDC will also be developed for each customer premise using information available in the Company's Customer Information System and the same calculation method delineated in Schedule JFJ-3. The final step in the process is to reconcile the sum total of the individually developed customers DDC factors with the aggregate DDC. A customer moving into a new premise will be assigned the class average DDC.

The DDC charge will be developed as an annual rate. Workpapers detailing the development of the proposed new rate design are provided in Schedule JFJ-4. For Service Classification RG, in an effort to continue to provide customers with a seasonal pricing signal, the charge will be recovered on a monthly basis with increased weighting to the winter months. The detailed recovery weighting is provided on page 1 of Schedule JFJ-4. For Service Classifications GG and GVFT, the charge will be recovered equally in each month.

12. Q: <u>Have you performed any billing comparisons?</u>

A: Yes. Based upon rates that are currently in effect, a frequency distribution of the bill impact of the proposed rate design on Service Classification RG is provided in Schedule JFJ-5. The results of this analysis show that 77% of residential customers would experience average overall monthly bill impacts of between -5% and 5%. Additionally, 89% of customers would experience a bill impact of between -10% and 10%.

Historically, there is a large difference between the level of winter heating season gas bills and bills during non-heating seasons. The rate design proposed does tend to a have a levelizing effect on monthly bills throughout the course of the year. To some extent, this is offset by the proposed seasonal weighting factors. However, monthly bills will be more level throughout the course of the year than under the current rate design.

This levelization effect can result in a potentially misleading message if the current bill impact representation, which focuses on only typical winter usage, is maintained. For a typical residential customer, while the total of the monthly bills during the winter heating season would actually decrease, the total of the non-heating bills would increase. Therefore, focusing on the overall annual impact is most appropriate. In general, with this rate design, some customers will see a modest increase in the annual amount they are billed, while others will see a modest decrease in the annual amount they are billed. This rate design is revenue neutral for the Company.

13. Q: <u>For residential customers who fit into the category of having an increase of more than 10%, please address their bill impact.</u>

A: While the percentage impact is a typical measure of the change in bill levels, it is also important to consider the impact in terms of absolute dollars. First, the analysis summarized in Schedule JFJ-5 shows that the average monthly bill impact for the most adversely impacted residential customers is a modest increase of $5.45. As always, the Company will retain our customer friendly policies and will work with customers on a case by case basis if they are adversely impacted by this rate redesign.

14. Q: <u>Are you proposing any tariff changes in this Application?</u>

A: No, because the Company is seeking approval of the rate design mechanism and not the rates themselves, tariffs with updated rates are not included in this Application.

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

A: Yes, it does.

Delmarva Power & Light Company - Delaware **Schedule JFJ-1**

DDC Based Gas Delivery Rates

Approved Gas Delivery Revenue per DE PSC Case 06-284

Service Classification	Approved Delivery Revenue	Test Year Number of Customers
Residential	$ 43,533,327	1,318,177
GG + GVFT	$ 16,567,364	110,186

Delmarva Power & Light Company - Delaware
DDC Based Gas Delivery Rates
Development of Revenue Classification
Per Cost of Service Study Filed in DE PSC Case 06-284

Schedule JFJ-2

	TOTAL COMPANY (1)	RESIDENTIAL (2)	RESIDENTIAL HEATING (3)	RESIDENTIAL + RESIDENTIAL HEATING (4)	GENERAL SERVICE (5)	MEDIUM VOLUME GENERAL (6)	LARGE VOLUME GENERAL (7)	LIGHTING (8)
1 **Summary Analysis of COSS Results**								
2 Demand Rev Req ($)	$ 31,512,690	$ 328,422	$ 17,198,816	$ 17,527,238	$ 8,711,552	$ 2,379,195	$ 2,894,268	$ 436
3 Commodity Rev Req ($)	$ 3,848,600	$ 54,819	$ 2,259,846	$ 2,314,665	$ 1,158,081	$ 229,593	$ 146,194	$ 67
4 Customer Rev Req ($)	$ 23,063,672	$ 1,795,767	$ 16,282,708	$ 18,078,476	$ 4,477,781	$ 344,435	$ 161,938	$ 1,043
5 Total Base Rev Req ($)	$ 58,424,962	$ 2,179,009	$ 35,741,370	$ 37,920,379	$ 14,347,414	$ 2,953,223	$ 3,202,400	$ 1,546
6								
7 Demand Rev Req (%)		15.07%	48.12%	46.22%	60.72%	80.56%	90.38%	28.22%
8 Commodity Rev Req (%)		2.52%	6.32%	6.10%	8.07%	7.77%	4.57%	4.31%
9 Customer Rev Req (%)		82.41%	45.56%	47.67%	31.21%	11.66%	5.06%	67.46%

Delmarva Power & Light Company - Delaware
DDC Based Gas Delivery Rates
Development of Aggregate Design Day Contribution Factor

Schedule JFJ-3

		Residential	GG
1	Sales Jan - Feb 2009 (MCF)	2,651,035	1,648,961
2	Customers Jan-Feb 2009	110,804	9,538
3	August 2008 Monthly Sales (MCF)	133,602	117,880
4	August Average Daily Usage (MCF) = Line 3/31	4,310	3,803
5	Customers - August 2008	109,225	9,364
6	Non-Heating Usage (MCF) = Line 4 / Line 5 x (31 + 28) x Line 2	257,965	228,546
7	Heating Usage (MCF) = Line 1 - Line 6	2,393,070	1,420,415
8	Heating Degree Days	1,589	1,589
9	Heating Usage per Degree Day per Customer (=Line 7/ Line 8 / Line 2)	0.01359	0.09372
10	Design Degree Days	65	65
11	Peak Day Heating Usage = Line 2 x Line 9 x Line 10	97,891	58,104
12	Peak Day Non Heating Usage = Line 6 / (31+ 28)	4,372	3,874
13	Design Day Contribution (MCF) = Line 11 + Line 12	102,264	61,977
14	Design Day Contribution per Customer (MCF) =Line 13 / Line 2	0.92293	6.49795

Delmarva Power & Light Company - Delaware
DDC Based Gas Delivery Rates
Residential Gas Service Rate Design

Total	$	43,533,327
Customer	$	20,754,439
Demand	$	22,778,888

	Existing Rate Design			Proposed Rate Design		
Rate Element	**Billing Determinants**	**Existing Rate**	**Existing Revenue**	**Billing Determinants**	**Recommended Rate**	**Recommended Revenue**
Customer Charge ($ per month)	1,318,177	$ 9.56	$ 12,601,772	1,318,177	$ 15.74	$ 20,754,439
First 50 CCF Commodity Rate	40,539,430	$ 0.42101	$ 17,067,505			
Winter Over 50 CCF Commodity Rate	41,037,324	$ 0.33784	$ 13,864,050			
Design Day Contribution Rate ($ per CCF of DDC per Year)				1,022,637	$ 22.27465	$ 22,778,892
Total			$ 43,533,327			$ 43,533,331

Proposed DDC Recovery Schedule

January	16.0%
February	16.0%
March	16.0%
April	2.9%
May	2.9%
June	2.9%
July	2.9%
August	2.9%
September	2.9%
October	2.9%
November	16.0%
December	16.0%

Delmarva Power & Light Company - Delaware
DDC Based Gas Delivery Rates
General Gas Service Rate Design

Total	$	16,567,364
Customer	$	5,170,620
Demand	$	11,396,744

Rate Element	Existing Rate Design: Billing Determinants	Existing Rate Design: Existing Rate	Existing Rate Design: Existing Revenue	Proposed Rate Design: Billing Determinants	Proposed Rate Design: Recommended Rate	Proposed Rate Design: Recommended Revenue
Customer Charge ($ per month)						
GG	110,067	$27.31	$ 3,005,930	110,067	46.63	$ 5,132,346
GVFT	119	$302.31	$ 35,975	119	$ 321.63	$ 38,274
						$ 5,170,620
First 750 CCF Commodity Rate	20,840,431	$ 0.34975	$ 7,288,941			
Over 750 CCF Commodity Rate	23,871,842	$ 0.26125	$ 6,236,519			
Design Day Contribution Rate ($ per CCF of DDC per Month)				619,775	$ 1.53238	$ 11,396,765
Total			$ 16,567,364			$ 16,567,385

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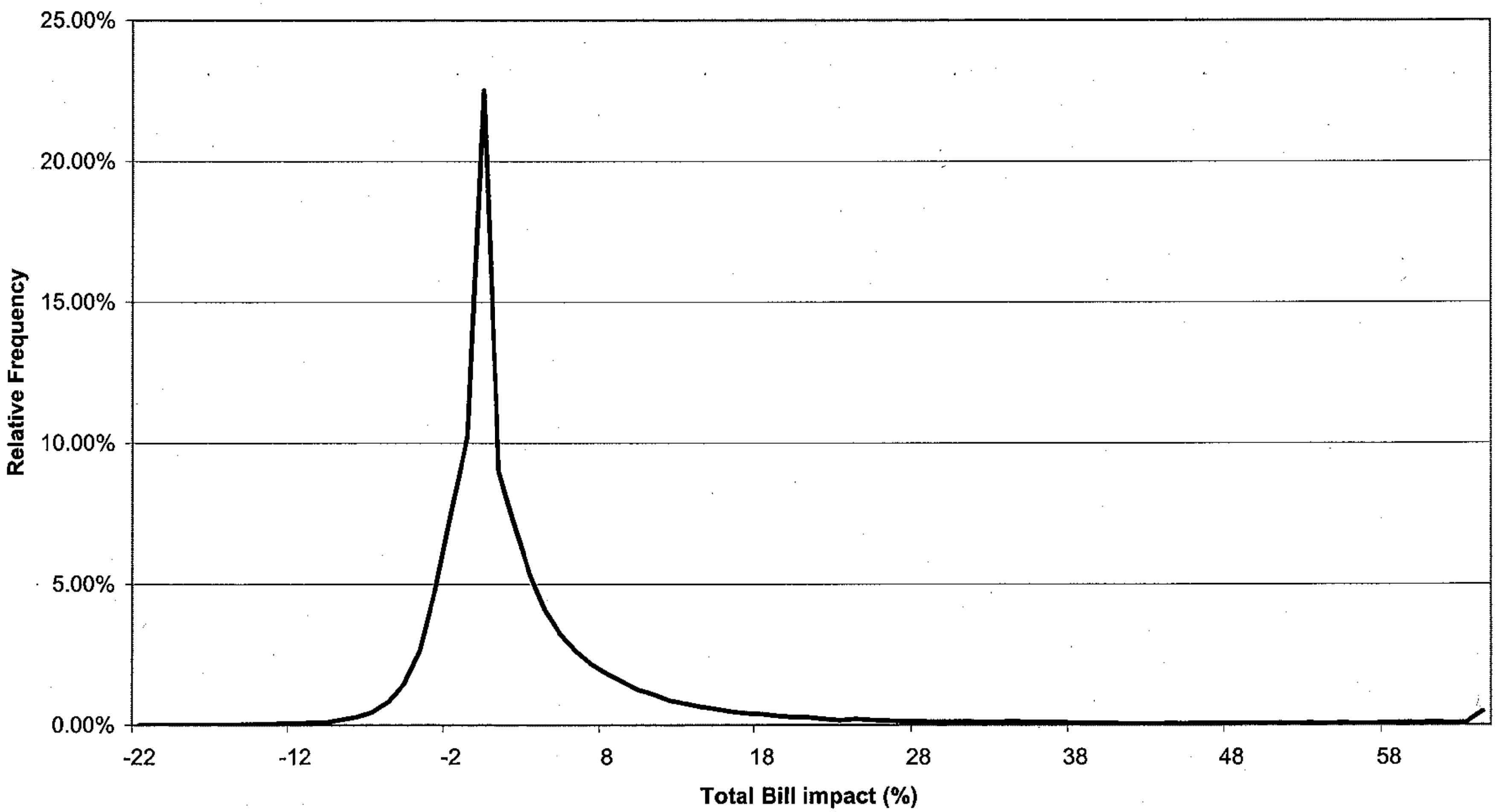
DPL Delaware - Gas Delivery Service
Residential Service Classification
Design Day Contribution (DDC) Based Delivery Rate Design
Bill Impact Distribution



Delmarva Power & Light - Delaware Gas
DDC Based Gas Delivery Rate Design
Residential Gas Bill Impact

Range of Increase/Decrease (%)	Relative Frequency (%)	Number of Customers	Avg Monthly Bill Impact		
<-10%	0.38%	423	$ (20.95)		
-6% to -10%	1.76%	1,944	$ (9.51)		
-5% to -6%	1.46%	1,612	$ (7.83)		
-4% to -5%	2.65%	2,921	$ (6.27)		
-3% to -4%	4.85%	5,341	$ (4.87)		
-2% to -3%	7.64%	8,420	$ (3.31)		
-1% to -2%	10.20%	11,234	$ (1.90)		
-1% to 0%	22.52%	24,814	$ (0.05)	77%	89%
0% to 1%	9.05%	9,968	$ 1.47		
1% to 2%	7.14%	7,864	$ 2.24		
2% to 3%	5.39%	5,942	$ 2.90		
3% to 4%	4.09%	4,507	$ 3.42		
4% to 5%	3.21%	3,536	$ 3.91		
5% to 6%	2.60%	2,870	$ 4.27		
6% to 7%	2.15%	2,374	$ 4.56		
7% to 8%	1.81%	1,994	$ 4.70		
8% to 9%	1.53%	1,681	$ 4.95		
9% to 10%	1.24%	1,368	$ 4.91		
>10%	10.31%	11,363	$ 5.45		