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August 9, 2018

To: The Chairman and Members of the Commission

From: Pamela Knotts, Regulatory Policy Administrator

Subject: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY TO REVISE THE RATE FOR THE UTILITY RELOCATION CHARGE TO RECOVER COSTS INCURRED IN CONNECTION WITH THE RELOCATION OF ELECTRIC UTILITY FACILITIES (FILED MAY 26, 2016)- PSC DOCKET NO. 16-0671

Background

On July 9, 2001, the General Assembly and the Governor enacted 26 *Del. C.* §315, which permits natural gas utilities to impose a rate for a "Utility Facility Relocation Charge" ("UFRC Rate") during the period between base rate case proceedings. This UFRC Rate allows the utility to promptly begin to recover depreciation expenses and a return on capital invested in Eligible Utility Facility Relocations[1] recently put into service. The UFRC Rate is intended to allow Delmarva Power & Light Company ("Company") to recover a portion of the cost of relocation of existing facilities necessitated by Department of Transportation ("DelDot") or other government agency projects until such time as the Company can recover their investment in a base rate case.

By Order No. 8138, dated April 17, 2012, the Commission approved the final UFRC Rate regulations.[2] The Company then filed a general rate case, Docket No. 12-546, on December 7, 2012. This docket concluded with Order No. 8465, dated October 22, 2013, which in part approved tariff revisions that added a billing line item to recover these Eligible Relocation costs in a UFRC Rate known as "Rider UFRC".[3]

[1] See 26 *Del. C.* §315 (a) (1)
[2] 26 Del. Admin. C. §1009
[3] DP&L Gas Tariff Leaf No. 81-83.

Application:

On May 26, 2016, Delmarva Power & Light Company (Delmarva" or the "Company") filed an application (the "Application") seeking approval, pursuant to 26 *Del. C.* §315 and 26 *Del. Admin C.* §1009, to revise the rate for the UFRC to recover certain costs related to the relocation of electric facilities as required by DelDot or other governmental agency projects; this was filed as Docket No. 16-0671.

The Application requested an increase of 0.05% to the UFRC rate of 0.36%, with an effective date of July 1, 2016. The increase was based on net utility additions for the period of November 1, 2015 through April 30, 2016, in the amount of $611,232.72, a semi-annual revenue requirement of $ 47,783.21, and semi-annual projected distribution revenues of $103,811,157. On July 12, 2016, in Order No. 8911, the Commission determined that in order for the Application to comply with the provisions of 26 *Del. C.* §§314 and 315 and 26 *Del. Admin C.* §1009, the requested revised rate of 0.41% would be effective only for the period of July 1, 2016 through July 15, 2016. Once the interim electric base rates[4] associated with the base rate case filed by Delmarva in Docket No. 16-0649 is implemented on July 16, 2016, the original rate of 0.36% must be reset to zero and only the prospective rate of 0.05% may be collected, subject to an annual reconciliation and audit ("Audit") and final approval.

On May 31, 2017, Staff began the Audit process with Delmarva to discuss and compile documentation necessary to examine the UFRC components and calculations. The Audit concentrated on various components of the UFRC including regulatory compliance, calculations, source data, revenues, retirements, and billing. The Audit for calendar year 2016 was the second annual reconciliation and audit completed by Staff since the filing of the first electric UFRC in Docket No. 15-1603 and the first Audit in which Delmarva was able to provide actual revenues from January 1, 2016 through December 31, 2016.

Findings for PSC Docket No. 16-0671

Staff requested copies of letters from DelDot requiring the relocation of electric facilities for all of the projects listed on Form 4, Schedule 2 entitled Projects Placed in Service and/or Retired. Delmarva submitted a letter for each project. In post-audit discovery, Staff requested the project start and end dates and an explanation for any delays that prevented the projects from being completed within the window requested by DelDot.

Staff reviewed additions traced by project and account to the work orders in Delmarva's SAP software, and then to the general ledger. Staff also reviewed contractor invoices, consumption reports, retirement schedules, reimbursement documents and calculations for consistency. Staff did not find any manifest errors in the calculations.

During the Audit, Staff requested all native sheets and data used to complete the filing for a selection of projects, including one project which was reimbursable by DelDot. Delmarva

[4] Order No. 8900 dated June 7, 2016

submitted this documentation in a format that allowed Staff to tie-back the components of the Application to source data extracted from Delmarva's SAP software and Delmarva's accounting system. In comparing the source documents for the projects, Staff observed inconsistencies in how and when the projects' components are posted to the general ledger and subsequently extracted to be used in the UFRC filings. Delmarva has represented in an email[5] to Staff that they have corrected this accounting issue.

Finally, Staff reviewed several customer bills and the revenues collected for the period of July 1, 2016 - July 15, 2016 and July 16, 2016 through December 31, 2016. Delmarva provided source data from its accounting system to verify the revenues collected. Delmarva collected a total of $112,179.71 in electric UFRC revenues for the respective period.

During the DPA's consultant's review of income tax changes, in January 2018, it was discovered there was a mathematical error[6] in the way the UFRC surcharges were calculated. Delmarva was then made aware of this error and since this docket was still open, Delmarva recalculated the UFRC revenue requirements. In July 2018, Delmarva sent Staff their worksheets and determined the revised revenue requirement should be $71,156.24. Staff has reviewed those worksheets and did not find any manifest errors.

Recommendation:

Based on the annual audit and subsequent post-audit recalculation of the revenue requirement Staff recommends the Commission approve the UFRC rate of 0.39% as collected during the period of July 1, 2016 through July 15, 2016 and the UFRC rate of 0.04% as collected during the period of July 16, 2016 – December 31, 2016 with a total revenue requirement of $71,156.24. This resulted in a total over-collection of $41,023.47 of which $34,745.90 has been refunded in Docket No. 17-0401. There is still an over-collection of $6,277.57 that is due to the ratepayers. Since this amount is *de minimis* for a rate refund, Staff is recommending that it be taken out of the calculation of the 2017 revenue requirements in the annual audit for 2017 which is in progress. Staff therefore recommends the Commission close Docket No. 16-0671.

[5] Email from Pamela Long at Pepco Holdings dated 10-19-2017

[6] The statute requires only the equity portion of capital investments to be grossed up to a pretax basis in order to reflect the income tax expenses associated with the allowable return. The practice had been to gross up both the debt and equity portion of the capital investments.