THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE INVESTIGATION OF THE PUBLIC SERVICE COMMISSION INTO REVENUE DECOUPLING MECHANISMS FOR POTENTIAL ADOPTION AND IMPLEMENTATION BY ELECTRIC AND NATURAL GAS UTILITIES SUBJECT TO THE JURISDICTION OF THE PUBLIC SERVICE COMMISSION (OPENED MARCH 20, 2007)	)	PSC REGULATION DOCKET NO. 59
IN THE MATTER OF THE FILING BY DELMARVA POWER & LIGHT COMPANY FOR A BLUEPRINT FOR THE FUTURE PLAN FOR DEMAND-SIDE MANAGEMENT, ADVANCED METERING, AND ENERGY EFFICIENCY (FILED MARCH 20, 2007)	)	PSC DOCKET NO. 07-28

ORDER NO. 7420

AND NOW, this 16th day of September, 2008;

WHEREAS, the Commission initiated Regulation Docket No. 59 to consider whether to implement a revenue decoupling mechanism for the electric and natural gas distribution utilities subject to its jurisdiction, consistent with the provisions of the settlement of Delmarva Power & Light Company's ("Delmarva") gas base rate case approved in Order No. 7152 (Mar. 20, 2007) in which it proposed a Bill Stabilization Adjustment ("BSA"). See PSC Order No. 7153 (Mar. 20, 2007). Simultaneously, the Commission opened Docket No. 07-28 to consider the "Blueprint For the Future Application and Plan" ("Blueprint"), submitted by Delmarva on February 6, 2007, that proposed, among other initiatives, demand-side management ("DSM"), advanced metering, and energy efficiency plans. See PSC Order No. 7154 (Mar. 20, 2007);

not preclude the potential use of surcharges in the future under appropriate conditions;

(2) The Commission approves the adoption of Staff's recommendations regarding the potential adoption of a modified fixed variable rate design[2] for Delaware distribution utilities in the context of a rate case proceeding; however, the Commission maintains the flexibility to address these rate design changes outside of a base rate case if the situation is warranted;

(3) The Commission approves the diffusion of the advanced metering technology into the electric and natural gas distribution system networks and the Commission permits Delmarva to establish a regulatory asset to cover recovery of and on the appropriate operating costs associated with the deployment of Advanced Metering Infrastructure and demand response equipment. The Commission, Staff, and other parties remain free to challenge the level or any other aspects of the asset's recovery in rates when Delmarva seeks recovery of the regulatory asset in base rates. For ratemaking purposes, the Commission may wish to consider an appropriately valued regulatory asset for advanced metering infrastructure investment consistent with the

[2]The term "modified fixed variable rate design" does not refer to the rate design adopted in FERC Order No. 636. Staff's modification on the fixed variable rate design creates particular classes of customers to avoid rate subsidization.

ability of participating utilities to recover their conservation expenses to savings achieved through the reduction in gas supply costs, principally related to interstate pipeline capacity. (Presentation of New Jersey Board of Public Utilities Commissioner Frederick F. Butler at 4). The parties agreed that the CIP would not be appropriate for Delaware because current pipeline capacity assets are well below "demand-day" delivery requirements. (Staff Apr. 1, 2008 Comments at 2-3.)

13. Staff also analyzed implementation of a straight fixed variable ("SFV") rate design utilized by the Federal Energy Regulatory Commission ("FERC") in regulating recovery of interstate pipeline costs. SFV rate design recovers fixed costs through fixed reservation or demand charges and the variable costs, if any, though a volumetric charge. Staff proposed a modified fixed variable method ("MFVM") that would stratify rate classes to mitigate the potential high cost impact on low-income customers resulting from the change in rate design. *Id.* at 5. Staff asserted that the MFVM moves toward a rate design that more appropriately aligns fixed costs with rates that comport to cost causation principles.[10] *Id.* Moreover, Staff observed that the MFVM sends a proper price signal regarding a customer's decision to engage in conservation and reduces customer cross-subsidization. *Id.* at 6.

[10]Staff cautioned that the proposed MFVM would not eliminate the following concerns: (1) approval of revenue decoupling before determining whether energy efficiency has been effective may be premature; and (2) revenue decoupling protects the utility from *all* sources of revenue erosion. (Staff Apr. 1, 2008 Comments at 6.)

14. With regard to disposition of Regulation Docket No. 59, Staff recommended that the Commission order a separate investigation considering implementation of the MFVM for each utility through a base rate case proceeding. *Id.* Staff further recommended that the Commission consider the following factors during such base rate case proceedings:

- Rate gradualism;
- Customer equity;
- Impact on the Company's risk profile;
- Over/under earnings protection; and
- Customer service and reliability protection.

Id. at 6-7. In light of the need to analyze the implications of implementing MFVM for each utility on a case-by-case basis during a rate case, Staff recommended closure of Regulation Docket No. 59. *Id.*

3. Delmarva's Position

15. In PSC Docket No. 06-284, Delmarva proposed the BSA in its gas base rate case in order to achieve conservation, load reduction, and address problems posed by the current volumetric distribution rate design. (DP&L Aug. 15, 2007 Comments at 4.) Delmarva argued that a revenue decoupling mechanism is integral to the DSM programs proposed in its Blueprint to promote energy efficiency by aligning Delmarva's interests with the needs of customers, or at least not working at cross purposes. *Id.* at 5. The BSA is a tracking mechanism that adjusts rates, on a quarterly basis, based on energy usage per customer. *Id.* at 7. Delmarva maintains that if average energy usage