DELMARVA POWER & LIGHT COMPANY

BEFORE THE
DELAWARE PUBLIC SERVICE COMMISSION
REBUTTAL TESTIMONY OF MARLENE C. SANTACECILIA
DOCKET NO. 13-115

Q1. Please state your name and position.

A1. My name is Marlene C. Santacecilia. I am a Regulatory Affairs Lead in the Rate Economics Department of Pepco Holdings Inc. (PHI). I am testifying on behalf of Delmarva Power & Light Company (Delmarva or the Company).

Q2. What is the purpose of your Rebuttal Testimony?

A2. The Purpose of my Rebuttal Testimony is to discuss:

1. Delaware Public Service Commission Staff (Staff) Witness Pavlovic's assertions regarding the Company's proposed revenue requirement distribution and his comments that qualify his recommended adoption of the Company's proposed rate structure.
2. Division of the Public Advocate (DPA) Witness Dismukes' assertions regarding the Company's revenue allocation method and rate design method.
3. Delaware Energy Users Group (DEUG) Witness Phillips assertions regarding treatment of the power factor credit as it relates to General Service Transmission (GS-T) rate classification.
4. Staff Witness Peterson's assertions regarding the Year-End Customer Adjustment.
5. The effect of Company Witness Ziminsky's Rebuttal Testimony support of a reduced revenue requirement on the filed tariffs.

Q3. Please address Staff Witness Pavlovic's proposed revenue requirement distribution or allocation.

A3. Staff Witness Pavlovic states, at page 18, of his Direct Testimony that the constrained two-step bandwidth approach proposed by the Company for its filed revenue requirement distribution is "conceptually appropriate and consistent with the principles of cost causation and gradualism." However, his recommendation is to maintain the current revenue distribution and therefore maintain the interclass subsidization of the current rate structure. His primary reason for dismissing the Company's filed distribution rates are "flaws" he identifies in the Cost of Service Study (COSS.) These "flaws" will be addressed in the Rebuttal Testimony of Company Witness Tanos.

On page 14 of Staff Witness Pavlovic's Direct Testimony, he states that there is no theoretical economic requirement that all classes produce the same rate of return, and cites that "in unregulated companies, individual products and lines of business do not produce exactly the same return" and "it is in the distribution of the revenue requirement that the Commission implements policy decisions." I would merely point out that the Company is regulated and, as such, rightly bases its "prices" on costs appropriately assigned and/or allocated to the rate classifications that incurred them. His status quo recommendation serves to continue the current imbalances between class rates of return without quantifying whether the current imbalances reflect Commission policy.

Q4. Please comment on Staff Witness Pavlovic's contention that rate structure should be premised on value of service.

A4. Although Staff Witness Pavlovic ultimately recommends adoption of the Company's filed rate design, he does so as a "transitional step" for the implementation of a "customer/demand" rate structure that will incorporate "value" to the ratepayer as part of the consideration for rate design. While providing value is of paramount importance, the Company continues to believe that customers are best served when they are paying the costs associated with the safe and reliable delivery of electricity to them. That is, paying rates that are premised on the cost of service. As stated in Bonbright's Principles of Public Utility Rates at page 119, "public utility services belong in the class of economic products...that can typically best be sold on the general principle of service at cost rather than at prices designed ... to accomplish some specific objective."

Q5. Does DPA Witness Dismukes accept the Company's revenue allocation method?

A5. While DPA Witness Dimukes accepts the two step revenue allocation approach, he does suggest a slight modification. His proposal, of not giving any overearning class a decrease in the first step, will serve to maintain a greater portion of the subsidization those rate classes currently provide to other under-earning rate classes than the Company proposal. His proposal respects the Company's rate design goal of moving every rate class to a rate of return equal to the system return but in a much more gradual manner.

Q6. Please discuss DPA Witness Dismukes suggested modifications to rate design.

A6. DPA Witness Dismukes work papers (DED-13) apply a cap of 115% to the customer charge. The Company recognizes the importance of gradualism in developing rate modifications. However, a customer charge increase of between 20%

and 40% better serves the ultimate goal of designing a rate that appropriately reflects customer costs. While recommending the Company's proposed rate structure be accepted, Staff Witness Pavlovic reinforces the Company's philosophy by stating that the "increases to the customer charge component of the rates effectively constitute a transitional step towards a customer/demand rate structure." (Pavlovic at page 23.)

Additionally, DPA Witness Dismukes suggests that Medium General Service Secondary (MGS-S), the one remaining commercial class that has both an energy charge and a demand charge, the demand/energy component costs be allocated equally to the demand and energy portion of the rates. By allocating all of the non-customer charge related increase into the demand charge, the Company is attempting to move the rate structure toward a customer/demand rate design more appropriate for distribution base rates. Additionally, this rate structure is recommended by Staff Witness Pavlovic on pages 21 and 22 of his Direct Testimony.

Q7. Please discuss DEUG Witness Phillips suggestions regarding revenue allocation and the rate design for the General Service Transmission (GS-T) class.

A7. DEUG Witness Phillips suggests an alternative allocation based on the premise that the GS-T rate class increase should be capped at one half the system average increase. In order to justify this cap he recommends the removal of any power factor credit for the GS-T class for purposes of calculating their rate of return. Traditionally power factor has not been handled in this way. All customers served under service classifications Large General Service-Secondary (LGS), General Service-Primary (GS-P) and GS-T are encouraged to keep their power factor above 90% by receiving a credit to do so. Additionally they are all charged for their

behavior should their power factor fall below 90%. Any modification of the treatment of the power factor credit (or charge) should be applied uniformly. In this case the removal serves to shift revenue requirement from the LGS, GS-P and GS-T into the remaining rate classes.

Q8. Do you agree with Staff Witness Peterson's statement regarding Year-end Customer Revenue Adjustment?

A8. Staff Witness Peterson suggests that the Year-end Customer Revenue Adjustment should be reversed. He did not question the method for calculating the adjustment. Company Witness Ziminsky discusses the Company's reasoning for continuing to support this adjustment.

Q9. Have you adjusted the Company's proposed tariffs to reflect Company Witness Ziminsky's rebuttal revenue requirement?

A9. No. Company Witness Ziminsky's rebuttal testimony supports a reduction in revenue requirement of $3.1 million from the Company's original application, testimony and exhibits. Although this reduction would decrease the level of rates, I continue to support a rate structure that reflects the guidelines outlined in my direct testimony. Ultimately, upon Commission approval, revised rate design and compliance tariffs would be filed that incorporate the approved revenue requirement.

Q10. Does this conclude your Rebuttal Testimony?

A10. Yes, it does.