

JOHN A. KOWALKO
STATE REPRESENTATIVE
Twenty - Fifth District



HOUSE OF REPRESENTATIVES
STATE OF DELAWARE
LEGISLATIVE HALL
DOVER, DELAWARE 19901

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Energy Committee
Meeting Minutes
May 5, 2010

Chairman Kowalko called the meeting to order at 4:05 p.m. Members present included Vice Chair Mulrooney, Representatives Q. Johnson, B. Short, Walls, Outten, and Thornburg. Representative Jaques was also present. For a list of guests present, please see attached.

After calling the meeting to order, Chairman Mitchell stated that this oversight hearing was called to enlighten the committee and the public to the situations that have made headlines recently, including decoupling requests, smart meters and rate increases due to a pension shortfall.

Chairman Kowalko introduced Bruce Burcat, Executive Director of the Public Service Commission. Mr. Burcat then introduced Janice Diller, Interim Director, and David Bonar.

Mr. Burcat stated that a decision has not been made on the rate case involving Delmarva, so the commission cannot discuss the matters of the case off the record. He also stated that there are some misconceptions. First, he assured the committee and the public that the PSC is acting in the public's interest, and that in fact no decision has yet been made. He also stated that all actions have been carried out in accordance with the laws passed by the legislature. In addition, the assertion that the ratepayers are being asked to recoup money to cover the pension fund and not the shareholders of Delmarva Power is not true.

He also went on to say that the statements made in the press release issued regarding a regulatory staffer quoted were absolutely untrue, because no one from the commission made said statements. Mr. Burcat also stated that he appreciated the opportunity to clear up misconceptions. It was also noted that much has been made about energy decoupling, and the untrue assumption that a person who uses less will be paying more.

Chairman Kowalko apologized for the exuberance of the press release, and stated he was trying to convey the frustration of many constituents. He said that this hearing is an opportunity for the public to understand the nuances of the issues and participate in process.

Mr. Burcat stated that the PSC tries to incorporate the public to the highest degree possible. The PSC allows written public comment for the record, and also tries to schedule meetings at convenient times for the public. He also mentioned that the discussion is usually very technical, and the PSC tries to balance how involved the public can be when dealing with such an involved and technical process.

Chairman Kowalko asked whether utilities have the right to apply for a rate increase if their revenue for operational and infrastructure expenses need to be increased. Mr. Burcat responded by stating what was described is the standard process for increases.

Chairman Kowalko asked if decoupling supersedes the need for Delmarva to come to the PSC and request an increase to maintain profits. Ms. Diller explained that decoupling guarantees revenue, not profits, for a utility. If a utility is over earning, the PSC has the right to reduce the rate. Chairman Kowalko then asked if under decoupling, the utility raises revenue higher than expected, if the rate payers get a refund. Ms. Diller responded by saying that the commission is in the process of deciding that.

Chairman Kowalko asked why decoupling is needed over the current rate mechanism. Mr. Burcat explained that decoupling is needed to encourage conservation on the supply side. Conservation limits the ability of a utility to lower costs, and he stated that the PSC is concerned that without decoupling and decrease in usage, the utility has a right to request a rate case to cover its costs, which is time consuming and expensive.

Chairman Kowalko asked about Washington Gas Energy Services entitled to apply for a decoupling mechanism. Mr. Burcat explained that they are unregulated and do not have a distribution cost. He further explained that the issues surrounding the Washington Gas Energy Services is related to the supply side of the Delmarva equation, and would not be looked at under decoupling. Decoupling only deals with the rate for distribution costs, which make up only 15-25% of a ratepayer's bill. Chairman Kowalko asked if distribution rates are formulated by usage, or if they are separate now. Mr. Burcat stated that they are coupled together. Chairman Kowalko asked if there is a competitor who is affecting the revenue stream that Delmarva Power could ask for rate increases, to which Mr. Burcat explained that Delmarva does not compete with Washington Gas.

Chairman Kowalko also stated that constituents are concerned that decoupling penalizes conservation by increasing rates. Ms. Diller explained that there are some important misconceptions about lower usage and rate increases. She explained that lower usage does not guarantee higher bills. She explained that the system in place is designed to accommodate the peak need, and the costs reflect maintaining this need during times of peak usage. The current formula takes into consideration how much and when energy is used to calculate the distribution rate. Someone who does not use much energy during these times of high usage would see a lower bill than someone who uses similar amount of energy during peak periods, because they are not contributing to the need to build out the energy system. Mr. Burcat pointed out that decoupling is not asking for more money, just a consistent stream.

Rep. Thornburg clarified that under decoupling, the distribution rate would be a flat rate that stays the same month to month to cover the lines coming in. If the user is energy efficient and conserves, he/she would see a decrease in usage, which makes up the largest percentage of the utility bill, and would save money in the long run. Ms. Diller confirmed this explanation. Mr. Burcat added that educating the public on the details and potential savings is the most difficult part of the process.

Chairman Kowalko then asked if the PSC approved any requests regarding the cost of smart metering installation. Mr. Burcat explained that it is a large expense for Delmarva, and a plan was developed a few years ago that allowed Delmarva to defer the costs associated with the transition to smart meters. Chairman Kowalko noted that Delmarva did not get a federal grant to cover some of the costs, and stated that he was concerned that Delmarva was insisting that the ratepayers pay for the new meters. He noted that with the smart meters, it is assumed that the ratepayer will have the ability to conserve, even though for some it may not be practical or feasible. He also stated that he was concerned that the biggest beneficiary of smart metering would be Delmarva, because they would have fewer meter readers, and much lower costs that would not be passed on to the ratepayers. Ms. Diller explained that when this proposal was being considered, Delmarva filed a business case that showed the costs and benefits. The operational savings were approximately 80% of the costs. She noted that the PSC found the direct benefits were so high that the commission will look at the operational benefits associated with the cost recovery would be passed to the ratepayers, and that Delmarva is aware of this aspect.

Chairman Kowalko then opened comment to the public. John Skrobot stated that he was upset by the newspaper article, and came to get the facts. In regards to decoupling, he asked how a flat distribution rate is fair, given that the cost to repair existing transmission lines is not equal everywhere. He equated the rate to the road taxes, which assumes the more gas you use, the more wear and tear you create to the existing roadways. Mr. Burcat explained that this analogy is not quite comparable; the distribution rate incorporates more than repairs to existing lines. Mr. Skrobot also stated that as a consumer, he bears the cost of upgrading to more efficient appliances, lights, etc., and asked why the ratepayers should be responsible for Delmarva doing the same. He also asked if revenue is down because energy consumption is down, why would consumers pay more for using less? Ms. Diller explained that much of the revenue decrease is due to the current state of the economy, and it is important to set up a lasting system. She also explained that the system has to be designed for peak usage, comparable to building a major highway; you design a road way to accommodate the period of largest usage, such as rush hour, not what the average usage is.

Jim Black of the Clean Air Council stated that in his experience with the PSC, he has found that it is a very open process, and the PSC does go to great lengths to listen to public comment. He compared the consumer energy savings generated by installing smart meters to driving the new Toyota Prius - just seeing the information changes behavior and increases energy efficiency. He explained that studies have shown that even technologies are not integrated with the smart metering, just seeing the real-time energy

usage saves a household about 10%. Currently, we do not see how much we are really using until much later, and it does not help make changes to energy consumption. Chairman Kowalko clarified that he does not object to the possibility of savings using smart meters, only whether or not these savings would still exist if the ratepayers foot the bill for the installation. Mr. Black estimates that the average person would save more than the installation would cost.

Mr. Flaherty stated that he was very confused by the April 17, 2010 News Journal article, particularly the section stating that lower-usage customers would be charged a higher fee. He stated that according to the article, different customers would pay specific fees, and he questioned how this could be termed a flat fee if it is not the same across the board. Mr. Burcat stated that he did not know where the numbers in the article came from, and that the PSC takes issue with the article in question. Ms. Diller commented that the generalization that all ratepayers' bills would go up cannot be made. Mr. Flaherty stated that he felt that a flat fee should be higher for those with higher usage. Mr. Burcat explained that the importance of usage during peak periods is what is in question in regards to the flat fee, not necessarily overall usage.

Branch Heller stated that he was a bit confused as well. He noted that Delmarva is asking for a rate increase to cover pension costs, but recently paid dividends to its shareholders. Mr. Burcat stated that this one of the issues in the current case, and he cannot speak to it while it is being discussed. Mr. Heller also had doubts that the PSC deliberations are truly open and that the people's interests are represented. Mr. Bonar stated that he takes exception to these statements, because all votes and audio and written transcripts are public record, and meetings are open, which is not the case in many other states. He also noted that sometimes the issues are too complicated for the general public to understand, but it is still all open.

Nancy Willing asked how a fixed rate or decoupling incentivizes the public. Ms. Diller explained that it encourages energy efficiency by using less. It also encourages using electricity at off-peak hours for a better rate, because usage during peak periods are the basis for the distribution rate. Mr. Bonar added that Delaware Electric Cooperative has a program called "beat the peak," and that the Delmarva proposal is similar to this program. Mr. Burcat also added that another benefit of decoupling is that a return on equity is reduced, which is a very complicated issue.

Perry Mitchell, who serves on the Ocean View town council, stated that he did not feel that ratepayers should be responsible for covering the costs of the pension loss. He also stated that if Delmarva was in the private sector, they would be expected to change the pension plan, not charge customers more money.

Kathleen Wieser asked what is considered to be the summer months, and that what the bill states as the summer months is not the same as what is posted on the website. She also noted that electricity prices increased 64.5% in 2006. Mr. Burcat explained that it is based on the regional temperature, and most days will fall in July and August. He also stated that the customer charge would stay the same, but that other rates would change.

Ms. Diller stated that they think there will be 60 peak days each summer, and customers will get a notice on one of those days, and if you reduce your usage, you will get a credit. Ms. Wieser also stated that there have been 13 increases since 2006, and asked how many more there will be. Mr. Burcat stated that the increases were out of Delmarva's control, because they came from the supply side, not the distribution side, and one of the increases was due to the federal government, so they can't accurately say what the future will hold.

Stephen Connors stated that he thinks Delmarva is making too large of a profit, because even if all the power to his home is off, he still is charged. Mr. Burcat responded by saying that everyone is charged a small, monthly customer charge, and that if anyone feels it is incorrect, they can complain to Delmarva or the PSC and they will help.

Chairman Kowalko thanked everyone for coming. He adjourned the meeting at 6:21 p.m.

Respectfully submitted by,

Katie Anderson