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Delmarva Power Electric Distribution Rate Decoupling Frequently-Asked Questions

What is decoupling?

Historically, the more energy customers used, the more money utilities made, making utilities depend heavily on ever-increasing usage. But times are changing and utilities are being asked to encourage customers to use less. Decoupling is a term describing a rate design that breaks the traditional link between sales volume and revenue. The proposed rate design in Delaware will enable Delmarva Power to recover a fixed amount to cover delivery costs, regardless of variations in electricity sales. This change allows the utility to actively partner with its customers and the state in promoting conservation and energy efficiency.

Will this affect the entire electric bill?

In Delaware, the proposal would apply only to Delmarva Power's distribution rates, which cover about 25 percent of a customer's monthly electric bill, the portion related to the poles-and-wires business which delivers power to customers' homes and businesses. The other 75 percent of the bill covering electricity supply would remain subject to volumetric charges. Supply charges, which cover the cost of generating electricity at the power plant, would continue to vary depending upon fuel costs and other market factors. This portion of the bill would continue to be affected by the amount of energy the customer uses each month. So customers still have a big incentive to use less if they want to make a big impact on their monthly bill.

What customers will be impacted by the change?

The new rate design is being proposed for most Delmarva Power Delaware electric customers, with the exception of a small number of the largest customers.

Why are you excluding your largest customers?

We are excluding a small segment of customers who have innovative energy-efficiency programs already in place and their current rate design takes that into account.

How will decoupling affect my bill?

The impact will vary from customer-to-customer. The majority of customers will see little impact, up or down. Customers who use little electricity throughout the year but a lot in the peak summer months could see an increase because in the past the rate structure did not allocate the full cost of providing service to these customers.

When will I see my bill change to this new rate design?

The proposal must be approved by the Delaware Public Service Commission. It would need to go into effect by the end of 2010.

Is this proposed rate structure fair?

Most of Delmarva Power's costs are fixed so this new rate structure increases the emphasis on the fixed monthly customer charge. All customers will pay the same customer charge. A second element will be based upon the customer's usage during periods of peak demand. Because the system is designed and built to meet the peak demand, this charge will fairly allocate costs to customers based upon the demands they place on the system.

What does this mean to me?

It means the delivery portion of your bill (about 25 percent of your total bill) will be fixed and will encompass two charges – a fixed customer charge and a fixed demand charge. That means the amount of energy you use during a given month will no longer determine what you pay for delivery charges. Under this new rate design, the customer charge will be flat and will be the same for all residential customers. Your demand charge likely will be different from your neighbor's. That's because the demand charge is based on your usage during peak periods. If you use electricity different than your neighbor, it's likely you will have a different demand charge. Your demand charge, like the customer charge, will be constant each month.

How will this impact customers and their monthly bills?

The impact on customers will vary but for most, the impact will be minimal. Under this proposal, the fixed customer charge would increase from \$7 to \$12 while the old variable charge would decrease from about \$20 to about \$14 for the average customer.

Does this guarantee Delmarva Power a profit?

No. It will flatten out Delmarva Power's revenue stream. A flatter revenue stream will lower the utility's risk. As a result, Delmarva Power will receive a lower rate of return and a downward impact on rates to the customer. The Delaware Public Service Commission will continue to review the company's rates, set an allowable rate of return and establish the amount of revenue Delmarva Power can collect from customers to cover its costs and earn a return. The utility will continue to have to operate within these limits to earn a return on its investment. The company's profit will continue to depend on its ability to manage its costs.

Why is Delmarva seeking this new rate design?

Under the current rate design, Delmarva financially benefits from increased sales so there is a disincentive for the utility to encourage lower energy usage. Decoupling removes that disincentive while also stabilizing delivery costs for customers. Moreover, Delmarva Power supports the national effort to make efficiency a significant part of the overall energy mix.

Who benefits from decoupling?

This new rate design is revenue-neutral to Delmarva Power. It should benefit customers

in the long run because the new rate design will result in a stronger partnership between Delmarva Power and its customers to reduce energy use. This should help to reduce the need for expensive new power plants, which helps keep energy prices down and helps to protect the environment.

Is this similar to Budget Billing?

Decoupling does stabilize those costs for customers, similar to Budget Billing. However, Budget Billing stabilizes the customer's entire bill – supply and delivery costs – by averaging out those costs over a 12-month period, then providing for a true-up to cover any over- or under-collection during that period. Through Budget Billing, customers can pay about as close as they're going to get to a fixed monthly energy bill. Would you like to enroll in Budget Billing? If so, call Delmarva Power at 800-375-7117.

Why does Delmarva Power want to help me save energy and money?

Delmarva Power recognizes the hardship rising energy prices have had on customers, particularly during these difficult economic times. Since the biggest portion of a customer's energy bill is the supply portion of the bill – the estimated 75 percent affected by supply costs -- greater energy efficiency and conservation will help to keep energy bills down. Reduced energy use benefits the environment and will help Delaware meet the stringent goals established by the state government.

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