
**IN THE MATTER OF ATLANTIC CITY
ELECTRIC COMPANY'S "BLUEPRINT
FOR THE FUTURE," ESTABLISHING
AN ADVANCED METERING
INFRASTRUCTURE PROGRAM,
DEMAND-SIDE MANAGEMENT
INITIATIVES, UTILITY-PROVIDED
DEMAND RESPONSE PROGRAMS AND
OTHER PROGRAMS, AND
REQUESTING BPU APPROVAL OF
COST RECOVERY MECHANISMS
RELATED THERETO**

**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

BPU Docket No. _____

VERIFIED PETITION

ATLANTIC CITY ELECTRIC COMPANY (hereinafter referred to as "Petitioner," "ACE" or the "Company"), a public utility corporation of the State of New Jersey (the "State"), respectfully requests that the Honorable Board of Public Utilities ("BPU" or the "Board") approve cost recovery mechanisms and implementation authorizations, as appropriate, related to the Company's "Blueprint for the Future" (referred to herein as the "Blueprint" or the "Plan"). In support thereof, Petitioner states as follows:

1. The Company is engaged in the purchase, transmission, distribution and sale of electric energy to residential, commercial and industrial customers. ACE's service territory comprises eight (8) counties located in southern New Jersey and includes approximately 540,000 customers.¹

2. In an effort to further the articulated goals of the New Jersey Energy Master Plan (herein, the "EMP") and assist the Board and the State in achieving their multi-faceted energy priorities, Petitioner, through its Blueprint, is prepared to institute a comprehensive complement

¹ ACE is part of the Pepco Holdings, Inc. ("PHI") family of companies. It is a wholly-owned subsidiary of Conectiv, a Delaware corporation, which is, in turn, a wholly-owned subsidiary of PHI, a Delaware corporation. PHI is an energy holding company engaged in regulated utility operations and sale of competitive energy products and services to residential and commercial customers. PHI companies deliver electricity and natural gas to more than 1.8 million customers in Delaware, the District of Columbia, Maryland, New Jersey and Virginia.

of demand response, advanced metering and energy efficiency programs for the Company's New Jersey customers. Each program and initiative is specifically set forth in the Blueprint attached as **Exhibit A** hereto. As proposed, the Blueprint will give Petitioner's New Jersey customers the tools, technology and information needed to reduce energy use and make more informed decisions about their energy use. It will also further the Company's ability to improve the operation and reliability of its electric distribution system.

3. Petitioner seeks the cost recovery authorizations requested herein to enable the Company to commit the necessary financial resources to make the Blueprint a reality for ACE's New Jersey customers. As described in summary fashion below, and in greater detail in **Exhibit A** (as supplemented and supported by **Exhibit B** and **Exhibit C** hereto), Petitioner is seeking authorization to:

(i) establish a separate Advanced Metering Infrastructure ("AMI") rate adjustment mechanism to recover the substantial costs associated with the installation of AMI and the associated meter data management system ("MDMS") that will enhance reliability and better serve Petitioner's customers;²

(ii) recover program costs for the Direct Load Control ("DLC") programs proposed in the Plan through the existing System Control Charge ("SCC") across all electric distribution customers;³ and

(iii) to implement utility-provided energy efficiency and conservation programs and to recover costs related to those proposed low income conservation programs, solar programs, large customer Internet-based platform and other demand-side management

² See **Exhibit A** at 60-61.

³ See **Exhibit A** at 61-62.

(“DSM”) initiatives outlined in the Blueprint through the existing Societal Benefits Charge (“SBC”).⁴

4. As stated in Paragraph 2 above, the Plan is designed to better enable customers to manage electricity usage through energy efficiency programs and offer an expanded opportunity to view and react to price signals in the market. With this enhanced customer access and interaction, it is expected that regional electricity wholesale capacity and energy prices will ultimately be reduced, particularly as a result of reduced peak demands.

A recent study prepared by The Brattle Group and commissioned by the Mid-Atlantic Distributed Resources Initiative (“MADRI”) and the PJM Interconnection, LLC, found that a modest reduction in electricity use during peak hours would reduce energy prices by \$57 million to \$182 million annually in the Mid-Atlantic Region.⁵ The study examined the effects of reducing electricity use by three percent during the highest use hours for five utility areas. It notes: “[m]ore widespread participation...and deeper curtailments would result in even greater price impacts....”⁶ Finally, it underscores the importance of demand response to New Jersey and provides further support for the authorizations requested by the Company in this filing.

This Petition respectfully requests Board authorization to implement or expand existing surcharges, as detailed herein, that will enable the future cost recovery of these initiatives, programs and proposals. Such authorization will enable ACE to implement these programs, as well as provide necessary assurances to the investment community that costs incurred in

⁴ See Exhibit A at 62.

⁵ See Exhibit C, “Quantifying Demand Response Benefits in PJM” (January 29, 2007) (herein, the “Brattle Report”).

⁶ See Exhibit C at 32.

developing and executing them will be fully recovered in a timely manner through appropriate mechanisms.

BLUEPRINT OVERVIEW AND SUMMARY

5. Petitioner's Blueprint involves a substantial investment in new technologies such as AMI, distribution automation, smart thermostats linked to the AMI system, and an improved communications network. Although the Company provides details on the components of the Plan in **Exhibit A**, a brief summary of Blueprint features and benefits is included below.

6. Energy Efficiency/Energy Management Features

Over the past several years, the rising cost of energy nationwide has affected all customers, who have only a limited ability to curtail their energy use and lower their energy costs. Despite this, the Company has provided customers with options to more efficiently manage their energy use. In 2006, for example, PHI and ACE launched the "Energy Know How Solutions" campaign. PHI invested over \$1 million to implement state-of-the-art energy auditing software. This investment enabled ACE customers to go on the Internet and view data about their monthly bills in order to better understand how they use energy and what changes might reduce their overall costs.

The Blueprint is the next step in responding to customer concerns by giving them more robust and sophisticated energy efficiency tools to manage electricity consumption and reduce costs for electricity through reduced consumption. The Company's Plan includes utility provision of energy efficiency, conservation and demand response programs designed to influence consumer behavior in energy use to reduce on-peak energy demands, thereby reducing total electricity costs for New Jersey customers. The data and communications capabilities inherent in the advanced metering proposal that the Company outlines in this filing will give

each customer a platform from which overall energy costs can be managed and controlled. ACE envisions that, in the future, the technology proposed herein will enable customers' appliances to receive and automatically react to real-time electricity prices. Some of these technologies will take time and need to be tested, but many are ready to be implemented immediately.

With the participation of the Board Staff, the Division of Rate Counsel ("Rate Counsel") and other interested stakeholders, the Company fully expects that a collaborative process will prove beneficial to the interests of all parties to assist Petitioner's customers to more thoughtfully and effectively manage their energy consumption and costs. The key components of this filing -- advanced metering, energy efficiency and demand response -- require key stakeholders to work collaboratively to identify best practices and achieve the best results for ACE customers.

A. Advanced Metering and Related Technology: Infrastructure

As stated in greater detail in **Exhibit A**, AMI will provide customers and the Company with more detailed and timely information on energy use. Petitioner proposes to replace 540,000 existing electric distribution meters with new computer-imbedded advanced meters by 2012. These advanced meters will allow the Company to collect and transmit customer information such as billing data, usage patterns, voltage levels and outage information, where the Company can process the data and use it to better serve customers. The AMI system can also be used to communicate directly with customers' thermostats and appliances and control the operation of this equipment based on energy prices. In the future, this same system will permit Petitioner to send information to customers, through a display in the customer's homes or to an Internet site, the price of electricity - either real time prices or day ahead pricing.

In addition to direct customer benefits, Petitioner anticipates service quality improvements from the AMI technology proposed herein, including the ability to remotely turn customers on or off (an advantage in areas with high turnover in occupancy), theft detection and -- as the Company will be able to monitor (as opposed to estimate) actual load -- more accurate service transformer and wire sizing. Customer restoration will be improved due to detailed information concerning the number and location of customers out-of-service being received from the advanced meters. Not only will this allow Petitioner to more quickly respond, but it will also help ACE pinpoint the location of the problem. Finally, there are added benefits to retail suppliers regarding access to immediate and detailed information regarding their customers' accounts. Petitioner estimates that the universal deployment of AMI to all New Jersey customers will cost approximately \$128 million, depending upon system capability and configuration.

To expedite the roll-out of this technology, Petitioner has proposed the creation of an ACE AMI Advisory Group. Petitioner will share with the ACE AMI Advisory Group a more detailed plan supporting implementation of AMI technology.

The AMI component of the Plan includes preliminary cost estimates for the installation of remotely controllable programmable thermostats for residential and small commercial customers. These "smart thermostats" will permit the Company to install state-of-the-art technology designed to reduce residential and small commercial customer air conditioning load during periods of high electricity demand. The smart thermostats will serve as an easy mechanism for customers to control overall annual electric cooling *and* gas or electric heating costs.

B. AMI Communication Technology and Network Upgrades

Currently, there are two customer information systems and a variety of meter inventory management systems within PHI. One new PHI-wide system -- MDMS (an allocated portion of which will be attributed to Petitioner's New Jersey customers) -- will allow Petitioner to more efficiently and effectively use the greatly increased information coming from the automated meter reading system and new automated field devices. Implementation of the AMI facet of the Plan will improve the Company's communications network to accommodate the increased flow of customer and distribution system data to and from ACE's operational centers. A fixed communications network provides the most robust and secure communications platform for AMI and Distribution Automation. This network would take information to ACE's substations; from there it would travel over a private fiber network to Petitioner's main offices. All of ACE's transmission substations are currently served by fiber and the Company has plans to install fiber to selected distribution substations as well. It is important to leverage this network across all of ACE's technology investments, as it will support all applications if they share a common communications network. The New Jersey allocated cost for MDMS is estimated to be \$2.8 million.

7. Demand-Side Management Initiatives

The Board's Office of Clean Energy ("OCE") has assumed primary responsibility for designing, implementing, administering and evaluating all publicly-funded electric-related energy efficiency and conservation programs since July 1, 2007, with the exception of the low income program known as "Comfort Partners." ACE has more than 15 years of experience in the provision of demand-side management programs to New Jersey customers and is prepared to

work closely with the Board to design and implement utility-provided energy efficiency and conservation programs that would augment or supplant OCE's programs.⁷ Petitioner respectfully submits that direct utility involvement in the design and management of these programs will be an essential part of the activities needed to meet the ambitious energy consumption reductions desired by New Jersey policymakers and expected in the final version of the EMP.

Although described in greater detail in **Exhibit A**, Petitioner's Plan supports the introduction of four new demand-side management programs: (a) a residential/small commercial remotely controllable smart thermostat program to permit the utility to reduce summer air conditioner load during peak periods;⁸ (b) a dynamic pricing program that would offer all Basic Generation Service ("BGS") customers a default or optional critical peak pricing or critical peak rebate rates; (c) an Internet-based demand response platform to support larger-size customer participation in the PJM demand response program; and (d) a Comprehensive Energy Saving Pilot ("CESP") Program that will seek to maximize individual customer electric grid-sourced electricity consumption through an integrated approach consisting of the installation of energy efficiency and conservation measures, installation of renewable on-site generation, installation of

⁷ Petitioner continues to operate a residential air conditioner/heat pump, water heater and electric motor control program known as the "Peak Savers Club." During the summer of 2007, more than 24,000 residential and small commercial New Jersey customers participated in this program, providing more than an estimated 17 MW of peak electricity demand reduction. From 2001 through 2006, ACE's total lifetime energy efficiency savings achieved by historic utility energy efficiency and conservation programs exceeded 300,000 MWh.

⁸ The DLC program proposed in the Blueprint is consistent with a proposal that was made by the Company in August 2007. On May 23, 2006, the Board issued an Order approving a settlement agreement regarding the future operation of existing New Jersey DLC programs. New Jersey utilities were directed to work with Board Staff and Rate Counsel to evaluate existing utility DLC programs and recommend the "future direction" of such programs. On June 7, 2007, in conformance with the May 2006 Order, ACE, Jersey Central Power & Light Company and Public Service Electric and Gas Company filed a proposal entitled "New Jersey Direct Load Control Program Proposal" to expand their existing DLC programs. That filing stated that each utility would submit its company-specific plan to the Board for consideration. On August 20, 2007, ACE filed its Company-specific plan in connection with BPU Docket No. EO06040297. Petitioner's filing provided program details for 2008 and stated that proposed program details for the period 2009 through 2012 would be presented at a later date. Hence, this filing. (See ACE, August 20, 2007 Filing at 3.) As of this date, the Board has not acted on Petitioner's August 20th DLC filing.

demand response enabling equipment, and, over time, integration of installed measures with a dynamic electricity pricing structure supported by AMI deployment. Preliminary utility-incurred projected pilot costs for the CESP Program are estimated to be \$5 million.

These programs, coupled with appropriate investments in technology, will provide the tools for all of Petitioner's electric distribution customers to manage their electricity costs, including reducing the cost of energy consumption. More detail, including cost estimates and cost benefit analyses, is provided in **Exhibit A**.

8. Petitioner has also proposed several low income programs that are intended to buttress ACE's continuing commitment to meet the needs of low income electricity customers.⁹

9. The Company's Plan also seeks to establish two programs that will result in the installation of 3.5 MW of additional photovoltaic distributed generation capacity over a five year period in New Jersey. These installations will help achieve the State's aggressive solar renewable portfolio standards goal. The installations are expected to provide additional generation capability during periods of high summer peak electricity demand, while simultaneously reducing power plant air emissions.

10. **Cost Recovery Mechanisms**

Petitioner's Blueprint is an aggressive, forward-thinking Plan that has been designed to provide real and substantial benefits to ACE's New Jersey customers and to assist the State in achieving its ambitious EMP goals. To implement the Plan and achieve its many benefits, ACE will be required to make significant capital and financial commitments. Such commitments require companies, regulators and other interested parties to implement innovative, yet appropriate, regulatory and cost recovery approaches.

⁹ See **Exhibit A** at 50-52.

11. To facilitate the timely cost recovery of prudently incurred AMI expenditures and provide adequate cash flow for the deployment of new technologies and innovative programs, Petitioner has proposed cost recovery mechanisms for each of the initiatives proposed herein. See Paragraph 3, *supra* and the “WHEREAS” paragraph, *infra*.

In one case, Petitioner has requested that the Board create a base rate adjustment mechanism -- or surcharge -- that would permit ACE to recover capital costs associated with AMI on a timely basis.¹⁰ In another -- Petitioner’s DLC program proposals -- ACE proposes to recover program costs through the existing SCC. Petitioner further requests that consideration be given to a cost recovery approach that removes electric distribution utility financial disincentives related to the promotion of DSM, energy efficiency and renewable programs and better aligns the financial interests of the Company and its shareholders with the interests of New Jersey consumers and policymakers. Mindful of the myriad, competing priorities in New Jersey’s energy and environmental landscape, Petitioner respectfully submits that this mechanism -- referred to as the “Bill Stabilization Adjustment” (“BSA”) -- is ripe for discussion with, and favorable consideration by, the Board.

12. Under PHI’s proposals in other jurisdictions, individual customer distribution charges are related to consumption, but overall distribution charges are adjusted at agreed-upon

¹⁰ A traditional utility cost recovery approach would involve the filing of an electric base rate case. This mechanism has the significant disadvantage of delaying a utility’s cost recovery for significant capital cost projects. Base rate cases can also have an adverse impact upon a utility’s cost of capital.

intervals so that utility earnings remain constant, regardless of total throughput.¹¹ Distribution rate decoupling is supported by the National Action Plan for Energy Efficiency Coalition, the Clinton Global Initiative, the Natural Resource Defense Council and MADRI.

13. Petitioner submits that the BSA is fiscally sound and consumer sensitive because, as designed, it stabilizes distribution revenue fluctuations resulting from unanticipated changes in usage and ensures that the utility only recovers the Board-approved level of distribution costs.

The BSA creates an adjustment to customers' bills that reflects differences between Board-approved delivery revenue levels and actual delivery revenues. This would be a financial benefit for the consumer who would pay only the amount determined by the Board as required to provide safe, adequate and reliable distribution service. It would be a benefit to the electric utility shareholders because the utility would maintain a stable revenue stream year-to-year consistent with the costs of providing safe, adequate and reliable service. An electric utility's costs for providing services are generally fixed, regardless of the volume of sales that the distribution company delivers to its customers. The BSA provides for a matching of revenues in quarterly periods with the corresponding amounts that the Board has approved as adequate compensation for providing service. Thus, the customer *and* the electric distribution utility's shareholders are better off when a stabilization mechanism is in place. A cost recovery methodology that severs the link between increased sales of electricity and increased profits

¹¹ PHI's Maryland distribution utilities, Potomac Electric Power Company ("Pepco") and Delmarva Power & Light Company ("Delmarva"), recently received approval of the Maryland Public Service Commission to decouple distribution rates from energy throughput. (Maryland Commission Order No. 81517, Formal Case No. 9092, issued on July 19, 2007 and Maryland Commission Order No. 81518, Formal Case No. 9093, issued on July 19, 2007.) Pepco has proposed a similar mechanism in its District of Columbia electric base distribution rate case. (District of Columbia Formal Case No. 1053.) Delmarva has recommended a similar proposal in Delaware. (Delaware PSC Docket No. 05-304.)

eliminates the potential for utilities to unenthusiastically promote demand-side resources or energy efficiency programs.¹²

14. In light of the above and the rationale reflected in the attached Plan, Petitioner respectfully requests that the Board establish a working group or other form of collaborative in order to explore instituting the BSA or similar proposal in New Jersey that separates electric distribution rates from energy throughput.

15. Communications and correspondence regarding this matter should be sent to Petitioner's counsel at the following address:

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with copies to the following representatives of the Company:

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¹² It is important to remember that a decoupling mechanism would only be applicable to the *distribution* portion of the customer's bill. Currently, the distribution portion accounts for approximately 18% of the average residential bill. The supply portion of the bill, which accounts for almost 60%, would not be subject to the mechanism.

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WHEREFORE, the Petitioner, **ATLANTIC CITY ELECTRIC COMPANY**, respectfully requests that the Honorable Board of Public Utilities, consistent with the analysis expressed in the Blueprint Plan attached hereto, issue an Order as follows:

- A. With respect to Petitioner's proposed deployment of AMI technology,
- 1) **establish** and adopt an AMI adjustment mechanism in the form of an AMI surcharge, which will permit ACE to recover capital costs associated with the installation of AMI on a timely basis and permit the Company to recover, on an accelerated basis, the cost of existing meters that are being retired; and
 - 2) **establish** an ACE AMI Advisory Group so that Board Staff and Rate Counsel can be kept apprised of the progress, status, components, development and implementation of Petitioner's AMI initiatives; and
- B. with respect to Petitioner's proposed DLC program, **approval** to recover program costs through the existing SCC, as outlined in the Plan, with adjustments on January 1st of each year through an annual reconciliation/cost recovery filing; and
- C. with respect to Petitioner's proposed low income initiatives, programs to install additional photovoltaic equipment on Company-owned and/or leased buildings and substations

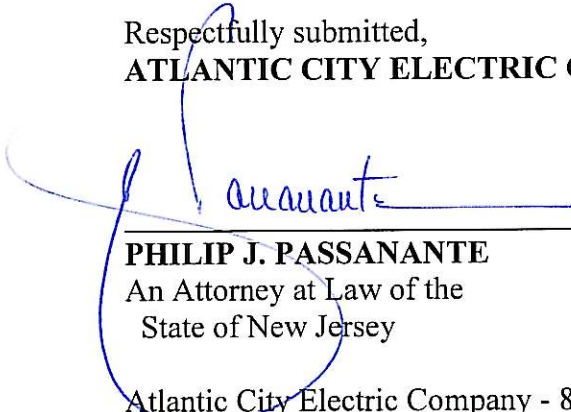
and qualified customer property, establishment of an Internet-based platform for load curtailments, and CESP Program, **approve** recovery of such costs through the existing SBC. The Company will reconcile applicable program costs on an annual basis.

D. Petitioner further requests that it be permitted to design, administer and manage utility-provided demand-side management programs that would augment or, with Board approval, supplant programs currently administered by the Board, through the OCE and the recovery of these program costs through the SBC.

E. Petitioner further, finally and respectfully requests that the Board establish a working group or other collaborative for the purpose of examining and implementing alternative approaches to traditional electric distribution cost recovery, which, like the BSA, preserve appropriate Board oversight over utility rates, but reduce the volatility in the distribution charge component of customers' bills.

Respectfully submitted,
ATLANTIC CITY ELECTRIC COMPANY

Dated: November 19, 2007



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