ATLANTIC CITY ELECTRIC COMPANY
(DBA CONTECTIV POWER DELIVERY)

GOVERNOR'S DEFERRED BALANCE TASK FORCE
DATA REQUESTS
DATED AUGUST 8, 2002

Question 1

Request

Did your company take a position on EDECA, and specifically on the issues relating to deferred balances, before the Act was passed?

Response

The focus throughout the legislative proceeding was in support of balancing the overall financial integrity and obligations of the Company and the provision of safe, adequate and reliable service with the multiple of objectives of the legislation. Conectiv filed significant testimony before various legislative committees addressing concerns with various components of the legislation, including stranded cost, sustainable rate reductions, non-utility generation contracts, societal benefit programs and deferred accounting treatment. We can provide copies of these testimonies to the Task Force if desired.

ATLANTIC CITY ELECTRIC COMPANY
(DBA CONTECTIV POWER DELIVERY)

GOVERNOR'S DEFERRED BALANCE TASK FORCE
DATA REQUESTS
DATED AUGUST 8, 2002

Question 2

Request

When EDECA was passed, did your company anticipate accruing significant deferred balances? Why or why not? If this assessment changed please describe when and why.

Response

The Company has always expected that it would have a substantive deferred balance at the end of the four-year Transition Period by virtue of the fact that EDECA forced reductions in rates and increases in costs such as the required "Societal Benefits" costs. The difference, essentially, created a deferral with the State of New Jersey's promise of future recovery. However, the ultimate level of those deferred costs was difficult to predict at any point in time due to many different factors and unknowns. The wholesale energy and capacity markets are influenced by numerous factors and the prices quoted in these markets change constantly. The number of customers who switch to alternative electric suppliers is dependent on the number of suppliers in the marketplace and the pricing and other terms of offers being made by those suppliers. Conditions over the past couple of years in the wholesale markets were such that suppliers have been canceling their contracts with customers and returning those customers to basic generation service. Because of those same market conditions, customers are finding it hard to obtain offers that provide any savings from suppliers and they are more likely to stay on basic generation service for the immediate future. The addition of new capacity to the PJM market should have a positive impact on the wholesale prices in the future, however the timing of those new additions has been difficult to predict. The overall condition of the service territory economy and the addition of new businesses and residences in the service territory play a large role in the amount of electricity needed to be supplied by all suppliers including Atlantic for basic generation service. With all of these moving pieces, it has been impossible to develop a specific accurate forecast of the deferred balance at the end of the Transition Period.

ATLANTIC CITY ELECTRIC COMPANY
(DBA CONTECTIV POWER DELIVERY)

GOVERNOR'S DEFERRED BALANCE TASK FORCE
DATA REQUESTS
DATED AUGUST 8, 2002

Question 3

Request

Please provide, in a matrix, the positive/negative of purchase power Costs (i.e., deferred costs) for each month since deregulation commenced up to the present time.

Response

Attached is a copy of Schedule HAC-1, which provides the actual monthly deferral balances since the beginning of the Transition Period (August 1999) through June 2002. The deferred balances presented on Schedule HAC-1, have been calculated in accordance with the New Jersey Board of Public Utilities Final Decision and Order In the Matter of Atlantic City Electric Company – Rate Unbundling, Stranded Cost and Restructuring Filings, BPU Docket Nos. EO97070455, EO97070456 and EO97070457 ("Final Order). Purchased power capacity and energy costs associated with procuring Basic Generation Service ("BGS") supply is captured through the BGS component of the deferral calculation. The calculations of the BGS deferral balances, to date, are summarized on the attached Schedule HAC-4. The above-market non-utility generation purchase power contracts are captured through the Net Non-Utility Generation Charge ("NNC") component of the deferral calculation. The calculations of the NNC deferral balances, to date, are summarized on the attached Schedule HAC-5. The above referenced schedules were filed as part of the direct testimony of Mr. Herb Chalk, as part of the Company's August 1, 2002 Petition to recover its deferred balances.

"HAC SCHEDULE 1.xls"   "HAC SCHEDULE 4.xls"   "HAC SCHEDULE 5.xls"

ATLANTIC CITY ELECTRIC COMPANY
(DBA CONTECTIV POWER DELIVERY)

GOVERNOR'S DEFERRED BALANCE TASK FORCE
DATA REQUESTS
DATED AUGUST 8, 2002

Request

Why deferred balances were accrued:

a. To what degree did the provisions of EDECA contribute to the accumulation of deferred balances? Would any specific changes in EDECA have decreased the scope of the deferred balance problem?

b. To what degree was utility management responsible for the accumulation of deferred balances?

c. How did unanticipated external factors (e.g., changes in the electricity market) contribute to deferred balances?

d. Why do utilities have such vastly different deferred balances, even on a per customer basis?

Response

The Company's Deferred Balance is the direct result of EDECA. The Deferred Balance, resulted from the Company's costs of serving customers being higher than the level of costs that could be recovered in rates, during the Transition Period, due to the rate reductions and price caps set by EDECA and the Board's Final Order implementing that Act. EDECA contained a provision for the use of deferred accounting as a means to balance the legislative mandates of providing customers with substantial rate reductions during the Transition Period (August 1, 1999 through July 31, 2003), while ensuring that those reductions did not impair the Company's financial integrity or its ability to provide safe, adequate and proper service.

The rate caps mandated under EDECA limited the Company's ability to recover costs an on-going basis with a promise to pay later, e.g. the deferral. Absent the rate reductions and rate caps, there would essentially be no energy-related deferral except for timing differences in establishing the current energy price. The intent of EDECA was to promote competition while at the same time balancing the financial integrity of the state's electric utilities. Changes in EDECA that would have reduced the magnitude of the deferral could have included eliminating the rate reductions and eliminating the "Societal Benefits" costs among other things.

b. The Company has worked diligently throughout the Transition Period to mitigate costs by conducting RFPs to procure BGS supplies, participating in PJM markets in order to procure BGS supplies on a short-term basis, participating in the statewide BGS Auction, and buying out or buying down its NUG contracts.

c. Much of the Deferred Balance is driven by costs that are outside of the Company's direct control such as the wholesale price for BGS supply, the market prices of fuel at the to-be-divested generation facilities, and the costs associated with the Company's Non-Utility Generation ("NUG") contracts.

d. We cannot speculate on the underlying reasons for the other electric utilities deferred balances. However, each electric utility's specific financial obligations and business situations were and are different and were addressed and considered in each utility's Stipulation of Settlement and Final Order. Although the overall energy market conditions were generally similar for each of the State's electric utilities, Atlantic's ultimate deferred balance will be the result of specific actions and service territory and market conditions particular to Atlantic as discussed in response to questions 2 and 5.

ATLANTIC CITY ELECTRIC COMPANY
(DBA CONTECTIV POWER DELIVERY)

GOVERNOR'S DEFERRED BALANCE TASK FORCE
DATA REQUESTS
DATED AUGUST 8, 2002

Request

Prudency Review/Mitigation:

a. Explain the process your company utilized for purchasing power in wholesale markets. Specially, please describe:

    the sources of power purchase
    ii. the methods by which prices were bid and/or negotiated
    iii. the types of agreements entered into (e.g., short- or long- term contracts, hedge agreements, etc.)
    iv identify the sources of the power by quantity and price

b. Describe all efforts to mitigate or reduce your purchased power costs and deferred balances, particularly at periods of peak demand, and including but not limited to the following mitigation techniques:

    i. negotiating and/or bidding techniques
    ii. the search for alternative supply sources
    iii. attempts at demand side management, particularly at period of peak demand
    iv. attempts to renegotiate non-utility generation contracts that were above market rates

c. What new or expanded efforts will your company undertake in Year 4 of deregulation (August 1, 2002 - July 31, 2003) to mitigate the accumulation of deferred balances?"

Response

a. - b. We have attached a copies of the direct testimony of Mr. Jerry A. Elliott and Mr. Charles Morgan, which were filed as part of the Company's August 1, 2002 Petition to recover its deferred balances. Mr. Elliott describes the activities undertaken by Atlantic in order to procure supplies for Basic Generation Service (BGS) for the Transition Period. Mr. Morgan provides a brief history of the Company's restructuring proceeding, some major points contained in the Board's Final Order and how the Company has complied with that Order.

"JERRY ELLIOTT TESTIMONY.DOC"

"CFM Defferral Testimony.doc"

ATLANTIC CITY ELECTRIC COMPANY
(DBA CONTECTIV POWER DELIVERY)

GOVERNOR'S DEFERRED BALANCE TASK FORCE
DATA REQUESTS
DATED AUGUST 8, 2002

The Company has worked throughout the Transition Period to mitigate the deferred balance although much of the Deferred Balance is driven by costs that are outside of the direct control of the Company such as the wholesale price for BGS supply, the market prices of fuel at the to-be divested generating facilities and the costs associated with the Company's Non-Utility

Generation (NUG) contracts. The Company will continue to work throughout the Transition Period to mitigate these costs through the procurement of BGS supply through the auction process, as described in Mr. Elliott's testimony provided above, participating in PJM markets in order to procure BGS supplies on a short term basis and attempting to buy out or buy down our NUG contracts. Other costs that are or will be included for recovery are those costs for societal benefit programs such as the Universal Service Fund program and the Comprehensive Resource Analysis programs and consumer education expenditures that were mandated by the Act and Final Order. The Company has no control over the ultimate level of funding for these programs however, the Company does make every effort to ensure that these expenditures are made in a prudent and efficient manner.

ATLANTIC CITY ELECTRIC COMPANY
(DBA CONTECTIV POWER DELIVERY)

GOVERNOR'S DEFERRED BALANCE TASK FORCE
DATA REQUESTS
DATED AUGUST 8, 2002

Question 6

Request

Are there specific remedies that your company supports to address the issue of deferred balances? Does your company support the securitization of deferred balances as allowed for by S-869?

Response

The Company supports the full and timely recovery of the deferred costs that have accumulated over the Transition Period. In order to mitigate the rate impact to customers, the Company proposed in its August 1, 2002 filing to recovery these costs over an extended period of four years. In addition, the Company has supported the securitization of the deferred balances as allowed for by S-869 as a means to further mitigate the impact of customer rate increases in August 2003. Attached is a copy of correspondence that was sent by Conectiv to various legislators on May 15, 2002 in support of S-869. Also attached is an additional letter to legislators, dated August 2, 2002, describing the August 1, 2002 rate filing and once again indicating our support for S-869.

"NJ Deferrals -S869.doc"

"legislator_Deferral Filing.doc"

ATLANTIC CITY ELECTRIC COMPANY
(DBA CONTECTIV POWER DELIVERY)

GOVERNOR'S DEFERRED BALANCE TASK FORCE
DATA REQUESTS
DATED AUGUST 8, 2002

Question 7

Request

Does your company have a position on the process by which deferred balances should be investigated and heard by the Board of Public Utilities?

Response

The Company believes that the deferred balances should be reviewed as expeditiously as possible in order to allow for the recovery of these expenditures to begin immediately at the end of the Transition Period, August 1, 2003. In its August 1, 2002 filing the Company proposed that the Deferred Balance be recovered over a four-year period. This is consistent with the Stipulation of Settlement in the Restructuring Proceeding and also provides symmetry between the period over which the Deferred Balance was accumulated and the period over which it is to be recovered. It is important the Company be provided full and timely recovery of the Deferred Balance in order to maintain its financial integrity to be consistent with expectations of the financial community based upon EDECA and related Board Orders.