

**FINAL REPORT OF THE
TECHNICAL CONSULTANT ON
DELMARVA'S 2007-08
REQUEST FOR PROPOSALS
FOR FULL REQUIREMENTS WHOLESALE SUPPLY
TO DELAWARE'S STANDARD OFFER SERVICE CUSTOMERS**

PRESENTED TO

THE DELAWARE
PUBLIC SERVICE COMMISSION

BY

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March 11, 2008

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ONE

Delmarva's Press Release

TWO

PJM Monthly On-Peak Electricity Futures Prices

I. EXECUTIVE SUMMARY

On November 26, 2007 and January 28, 2008, Delmarva Power & Light Company (“Delmarva”) held two separate bid days in which they received and ranked bids for Standard Offer Service (SOS) for four different customer classes: (i) Residential and Small Commercial and Industrial (“Residential”), (ii) Medium General Service – Secondary (“MGS”), (iii) Large General Service – Secondary (“LGS”), and (iv) General Service – Primary (“GS”).

The SOS service is meant to serve all ratepayers who elect not to utilize a third-party supplier. In order to provide SOS service, Delmarva solicits bids through a process in which each bidder pledges to provide full requirements wholesale supply service for a percentage share of a customer class’s electricity need for a fixed price. Full requirements service includes all elements of wholesale electricity supply except network transmission – that is, it includes capacity, energy, ancillary services, renewable energy, and losses, etc. Bids are ranked strictly on the basis of price with the lowest-priced bids winning the right to supply the SOS service.

Boston Pacific Company, Inc. (“Boston Pacific”) served as the Technical Consultant to the Delaware Public Service Commission (“DE PSC” or “Commission”) and was charged with monitoring the implementation of Delaware’s Request for Proposals (“RFP”). The Technical Consultant is required to provide this Final Report with the purpose of (a) summarizing its findings, (b) documenting the record of the RFP, and (c) providing recommendations on how to improve the process in the future.¹ While there are many detailed requirements for the Technical Consultant, Boston Pacific was guided by the Commission’s single goal that, given prevailing market conditions, the RFP lead to the best deal possible for Delaware’s electric consumers while maintaining the integrity of the process.

A. Summary of Results

Following are answers to key questions concerning the results of the 2007-2008 RFP.

1. How much supply was procured in the RFP?

Delmarva sought and successfully contracted for six “blocks” of Residential need (300 MW or about 33 percent of peak SOS need for this class). Delmarva also sought and successfully contracted for six “blocks” of commercial supply, or about 277 MW, representing 100% of the peak SOS need for the MGS, LGS and GS classes. Each block represents a given percentage of full requirements service that the winning bidder must

¹ Pursuant to the Delaware Public Service Commission’s Order No. 7053 at pp. 27 to 28, the following information can be released 21 days after the Commission’s selection of the winning bidders for the final tranche: (1) aggregate information about bids received and winning bids; (2) the names of the winning bidders for each customer class; (3) the percentage of load won by each winning bidder (by name) for each customer class; and (4) retail rates for the upcoming contract period beginning June 1, 2008.

provide. Residential contracts are three years in duration while commercial contracts will be one year in duration.

2. What were the winning prices?

The average winning Load Weighted Average price for three years of Residential service was \$109.90/MWh, a fifteen percent increase from last year. On the commercial side, the average winning load-weighted bid price was \$101.53 for MGS customers, \$97.23 for LGS customers, and \$95.80 for GS customers. As shown in Table One below, these represent changes ranging from about a 1% decrease to a 9% increase over last year’s prices.

**TABLE ONE
LOAD-WEIGHTED AVERAGE
WINNING PRICES (\$/MWh)**

Product	2006-07 Winning Bids Load Weighted Average Price (\$/MWh)	2007-08 Winning Bids Load Weighted Average Price (\$/MWh)	Percent Change From 2006-07
RSCI 36-Month	95.78	109.90	15%
MGS 12-Month	92.90	101.53	9%
LGS 12-Month	98.00	97.23	-1%
GSP 12-Month	92.15	95.80	4%

3. Who were the winning bidders?

The solicitation produced two winning bidders. Constellation Energy Commodities Group and Hess Corporation won 39 and 61 percent of the available supply, respectively. While having only two winners may be concerning, as we explain below, the concern is mitigated to a degree by; a) the number and diversity of bidders, b) the competitiveness of bids offered, c) the nature of the SOS contracts, and d) the range of suppliers going forward.

4. What is the impact on rates?

Rates for Residential and Small Commercial customers will increase by a small amount, about 2 percent. To make sense of rate changes it is important to note three key issues. First, the comparison that drives the rate change is not a comparison with last year’s results but rather a comparison with the contracts that are being replaced. This year’s Residential contracts replace those from 2005-2006, when winning bid prices were only slightly lower. Second, to mitigate the rate impact, Delmarva only bids out a portion (about one-third) of its Residential supply during any given year. Third, while the SOS

RFP results determine a great deal of the final rate charged to customers, there are other charges included in rates that are not affected by the SOS RFP.

Commercial contracts are only one year in duration and the entire SOS supply is bid out in each year. Commercial customers will see rate increases of about 7% for MGS customers, 2% for GS customers and a rate decrease of about 1% for LGS customers. Table Two below shows rate impact by class.

**TABLE TWO
PERCENT CHANGE IN AVERAGE MONTHLY BILL**

Product	Percentage Change
RS	1.97%
SGS	1.85%
MGS	7.41%
LGS	-1.27%
GS-P	2.13%

B. Summary of Conclusions

As the Technical Consultant to the Commission Boston Pacific concludes that the 2007-2008 SOS RFP was a competitive process that resulted in fair results for the ratepayers of Delaware. We base our conclusions on two standards of review, one which looks at the level of competition in the RFP in terms of bidders and prices and one which examines the RFP process for conformance with Commission Orders and the RFP documents.

1. Competitive Standard of Review

When we speak of a “competitive” solicitation we tend to look at two general measures, (a) the level of bidder participation and (b) the price of bids received. Generally speaking, there exists a strong correlation between these two standards. The more participants a solicitation has, the more pressure is placed on them to offer a competitive price.

In terms of the level of participation, we found it to be satisfactory. The number of bidders who were eligible to bid, that is, who filled out detailed credit and certification forms, declined from previous years, from 14 to 12. However, the number of *actual* bidders remained the same as last year at eleven. The eleven different bidders included a wide range of power marketers and some of the most well-known electricity companies.

A metric of competitiveness that we like to examine is the “MW bid-to-solicited ratio.” This shows how many MW were bid for every one that was needed. A higher

number indicates more participation, which, as mentioned, is more likely to lead to a competitive winning price. On average Delmarva received 8.6 MW bid for every MW solicited overall and almost 9 MW bid for every MW solicited in the Residential category. This represents an increase from last year's ratio of 7.2, a positive trend.

Another area we like to examine is the number of winners. Typically, we like to see as wide a range of winning suppliers as possible. The chief benefits of a range of suppliers are (a) keeping a larger number of participants active in future RFPs and (b) sending an encouraging signal to potential new entrants that no one or two bidders have a monopoly on the market.

As mentioned above, there were only two winners in this RFP. While we might like to see more winners, there are several factors which mitigate our concern; (a) as two-thirds of the Residential load is being served by previous RFP winners the total number of residential suppliers for 2008-2009 is six, (b) the winners represent the best deal possible as all bidders offered a standard product and the winning bids were awarded based on price alone, (c) winning bidders have contracted to supply at the fixed price which they offered, so they cannot raise prices after the fact, (d) neither bidder is an affiliate of Delmarva, which removes the concern of affiliate abuse, and (e) all bids (including, obviously, the winners) were price-competitive based on a comparison to the output of our Benchmark model, which simulates a reasonable range of bids given current market conditions. While the small set of winners is permissible here, we caution that bidder participation levels should be closely watched in future RFPs, as good participation levels help ensure competitive offers.

Turning to the price of bids received, we found prices to be in line with market conditions. As mentioned, the average winning Load Weighted Average price for three years of Residential service was \$109.90/MWh. Unfortunately, this represents an increase from last year of about 15 percent. The rise in prices can be attributed chiefly to two factors: increases in energy costs, and increases in capacity costs. Energy costs, as reflected in the New York Mercantile Exchange (NYMEX) PJM monthly On-Peak forward market, have increased roughly 16 percent since last year's solicitation. This rise in electricity prices is driven chiefly by increases in the primary fuels used to generate electricity. While natural gas prices have increased modestly since last year, coal prices have risen approximately 47 percent and oil prices have risen about 43 percent.

Capacity costs have also increased dramatically in recent years due to the implementation of PJM's new Reliability Pricing Model (RPM). By our estimate, capacity costs have increased 75 percent since last year's solicitation and 267% since 2005. Currently, we estimate that capacity makes up about \$18/MWh of the full requirements price.

In order to confirm that bids were in line with market conditions Boston Pacific used its Benchmark model. The goal of the model is to utilize current market data to create a bid as a bidder might, valuing each component of the full requirements service. Because bidders can have different views with respect to components such as congestion

costs we allow key variables to be randomly distributed based on market data. This results in a range of potential bids. For each bid day, we ran the model with the most up-to-date data. In each case actual bids were in the same range as our price benchmark.

One other way to check that prices are in line with market conditions is to check on the results of other procurements in the PJM region. This is a difficult task due to the fact that each state has different disclosure restrictions. Nonetheless we can find one public point of comparison. New Jersey completed its SOS (there known as Basic Generation Service) Auction in early February. The weighted average price for three years of the Fixed-Price product (the New Jersey equivalent of Residential service) was about \$113/MWh.² These results are certainly in line with results from the RFP.

2. Process-based Standard of Review

The second standard of review that we employ is a “process-based” standard. Here we are looking to see if Delmarva conducted the RFP as directed in Commission Orders and envisioned in the RFP documents. We found that Delmarva to be successful in this regard, having conducted the solicitation in conformance with Commission Orders and the RFP. This is significant because conformance is the Commission’s primary standard of review for the RFP.

During the RFP process Boston Pacific monitored the RFP website, communications with bidders, bidder qualification, and the Pre-bid conference to make sure that all bidder questions were answered and all information was distributed accurately to all parties. We kept in constant contact with Delmarva to help resolve any issues that came up and updated the Commission with monthly briefings.

Additionally, Boston Pacific provided Commission Staff with a market assessment memo before each bid day. In each memo, we scanned current market data for signs of extraordinary events. We defined these as events which were temporary in nature, leading to higher prices. While we found that prices had increased in energy and capacity markets there was no data which led us to believe that these increases were temporary and could be avoided by postponing the RFP.

A key part of conformance involves observing proper security protocols. Based upon our on-site observations, we believe that Delmarva upheld high security standards for all bid days to prevent any “leaks” of bid information. Security standards included e-mail and other computer security, limiting persons in the bid rooms, and other measures. On bid days we monitored, on-site, all communication between Delmarva and the bidders. To do so, utility personnel with access to the bids on bid day were limited to those in the bid room. Most importantly, Boston Pacific was able to independently download and evaluate all bids and reach agreement with Delmarva on winners and winning prices.

² See results at <http://www.nj.gov/bpu/divisions/energy/bgs08.html>

Each bid day did have some process issues involving bid submission and receipt. During the first bid day there were some errors involving issues such as duplicate bids, software issues, and bids to the incorrect RFP. Delmarva personnel worked with Boston Pacific and Commission Staff to identify errors, notify bidders, and arrange for correct bids to be submitted. The second bid day was relatively uneventful. Despite these issues, all bids in both tranches were received and evaluated and no bids were disqualified.

C. Recommendations

Based upon our experience, the Delaware competitive solicitation has several strengths. Most importantly, it is a fair and transparent process. It is fair because all suppliers sign the same supply agreement. And, since all non-price terms (such as performance guarantees) are standardized in that agreement, a price-only bid evaluation is used, which eliminates any subjectivity and, thereby, assures transparency. The fact that the RFP documents are the result of a collaborative process also adds to transparency. The full requirements wholesale supply service solicited here is a common product in the PJM region and a high-value product for Delaware ratepayers. Key to this value is the fact that winning suppliers take on market risk – they serve a percentage share of customer needs, whatever level demand results, and they do so at a fixed price for three years into the future.

Although Boston Pacific believes that the Delaware process is very good, we do have some recommendations on issues to study that could improve future solicitations. We suggest the following:

- We suggest the Commission continue to explore the possibility of offering different contract-term lengths. As rate stability is, to our understanding, a goal of many parties, we would suggest that Delmarva begin exploring the possibility of four or five-year contracts. Longer term contracts would lead to even smoother rate adjustments and slow rate increases in a rising cost environment. On the downside, they would slow rate decreases in the event of a price drop.
- We would suggest that Delmarva communicate with financial bidders (i.e. investment banks and their trading houses) to see what changes, if any, could be made to attract more bidding from those market participants.
- We would suggest that Delmarva create a more formal backup bidding procedure and document that procedure in its RFP. Currently, bidders with issues submitting bids call in or are called by Delmarva and backup procedures are worked out on the spot.
- We would suggest that Delmarva work to further detail and explain its “increment/decrement” mechanism to mitigate the risk of customers switching to and from third-party suppliers. While the mechanism is

intended to provide bidders with a hedge against SOS load fluctuations comments from bidders at the pre-bid conference suggested that the mechanism was still not well understood by bidders.

- Finally, we would suggest that the Commission undertake a study to determine what generation and transmission resources are getting built within PJM in general and Delaware in particular and whether or not those resources are adequate to serving the regions' future electricity needs. This concern has been raised recently by the Maryland Public Service Commission, which concluded that the region had not seen adequate resource additions and could face power shortages in the coming years. The Commission could include this study as part of the IRP process or conduct it separately.

II. BACKGROUND AND PURPOSE OF THIS REPORT

A. Standard Offer Service (“SOS”) in Delaware

In 1999, the Delaware General Assembly passed the Electric Utility Restructuring Act (the “Act”). This legislation required, among other things, Delmarva to submit a restructuring plan containing provisions to provide Standard Offer Service for an initial transition phase. The approved restructuring plan resulted in Residential rates that were reduced and then frozen through September 30, 2003 and Non-Residential rates that were frozen through September 30, 2002. However, before the rate freezes expired, a merger between Delmarva and Potomac Electric Power Company (“PEPCO”) was proposed. One condition of the accepted merger was that Delmarva continue to provide SOS service through May 1, 2006 at new frozen rates that reflected market conditions.

On October 19, 2004, the Commission opened Docket No. 04-391 to garner answers to the following questions: (a) which entity shall provide SOS service once rate caps were lifted and (b) what prices should be charged after the rate freeze expires. It was determined by the Commission that these issues would be resolved in two phases. In Phase I, pursuant to Order No. 6598, the Commission determined that SOS service would be procured through a “wholesale” model with Delmarva serving as the SOS provider. Phase II issues, such as (a) the method the wholesale power would be procured, (b) the “retail adder”, and (c) how SOS could be used to promote demand response and renewable resources, were resolved in a Settlement agreement outlining the RFP process.

Delmarva successfully completed its first energy procurement solicitation in February 2006 and its second in January 2007. Boston Pacific served as the monitor in the latter procurement. In September 2007, the Commission again selected Boston Pacific to monitor Delmarva’s third SOS RFP process and on October 1, 2007 Delmarva launched its 2007-2008 SOS solicitation. In November 2007 and January 2008, Delmarva held two separate bid days in which they received and ranked bids for four different customer classes. In this solicitation, Delmarva successfully solicited full requirements service for approximately 577 MW of peak load contribution (“PLC”).

B. Product Offering

Delmarva’s 2007-2008 RFP sought a total of 577.5 MW of Peak Load Contribution (PLC) for full requirements SOS service. Bidders were required to provide all components of full requirements service, including: energy, capacity, losses, renewable requirements, congestion costs and ancillary services. Winning bidders served a specified share of SOS load.

Table Three below outlines that distribution among the different customer classes. The column called “SOS Bid Out” shows the PLC bid out in this RFP for customers taking SOS at the time of bidding. The column called “Eligible Bid Out” shows the PLC bid out for all customers; the difference between the Eligible and SOS reveals the PLC

for customers who have chosen another retail supplier. The third column shows the total SOS Eligible load, including load secured in previous RFPs.

**TABLE THREE
DELMARVA BID PLAN INFORMATION
CAPACITY PLC (MW)**

Service Type	SOS Bid Out	Eligible Bid Out	Total Eligible SOS Load	% of Eligible Load Bid Out
Residential	300.3	311.9	935.8	33%
MGS	192.6	261.2	261.2	100%
LGS	53.6	115.0	115.0	100%
GS	31.0	448.9	448.9	100%
Total	577.5	1,137.0	1,760.9	65%

Winning bidders will serve a fixed percentage of Delmarva’s peak load and not a specific number of megawatts. The peak load for each customer class was divided into blocks of approximately 50 MW (when possible) for suppliers to bid on.

For the Residential class Delmarva sought 36-month contracts, accounting for approximately 33% of the necessary generation. The remaining 67% is split between 36-month contracts procured last year and 37-month contracts procured in 2005-2006. For commercial customers, Delmarva bid out the entire SOS load. The following table outlines the distribution of bid blocks by customer class, term length, and tranche.

**TABLE FOUR
DELMARVA BID PLAN INFORMATION
OVERVIEW**

Type of Service	# of Blocks	MW per Block	Total MWs	Block Size %	Term	Date of Service	Tranche 1	Tranche 2
Residential and Small Commercial and Industrial	6	50.1	300.3	5.56%	36-Month	June 1, 2008 - May 31, 2011	3	3
Medium General Service - Secondary	4	48.2	192.6	25%	12-Month	June 1, 2008 - May 31, 2009	2	2
Large General Service - Secondary	1	53.6	53.6	100%	12-Month	June 1, 2008 - May 31, 2009	1	0
General Service - Primary	1	31	31	100%	12-Month	June 1, 2008 - May 31, 2009	1	0
Total	12		577.5				7	5

C. Consumer Protections

The RFP approved by the DE PSC had several structural features to protect consumers. From a rate impact standpoint, the process protects residential customers by minimizing the impact of volatility in energy and capacity prices on customer bills by allowing for a diversified contract portfolio. Customer needs are solicited through contracts over multiple years. Staggering the contract terms minimizes consumers’ exposure to any one year’s market conditions. For example, while prices for Residential supply in this solicitation were somewhat higher than the 2005 contracts that were being

replaced, the rate impact was lessened because only one-third of the current contracts were replaced.

Another consumer protection lies in the full requirements service each supplier is obligated to provide. First, each supplier must supply all the components of full requirements service. Second, each winning supplier agrees to take responsibility for a fixed percentage of the customer load, thus taking on the risk of volatility in the size of market load. This volatility comes from customers switching to another supplier or returning to the SOS from an alternative supplier.³

There are other consumer protections, too. The structure of the process involves using multiple tranches, or rounds, of bidding to secure the load. This minimizes risks to consumers by protecting them from high energy prices that may occur on any single bid day.

Finally, the solicitation process was designed to attract as many credible suppliers as possible to assure the most competitive prices possible. The RFP is a transparent process, with clear qualification guidelines, product definitions and a clear price-based method of determining winners. The qualification guidelines assured customers that each bidder was appropriately vetted as credit worthy and could post appropriate performance assurance in case of a default. The load for each customer class was divided into relatively small percentage shares (blocks) of power and suppliers bid to serve the blocks of power. The relatively small size allowed for a number of competitors to be involved and also helped increase the number of winners, thus making it more competitive. Contract conditions were written to encourage non-traditional suppliers to also bid.

D. Role of the Technical Consultant

In the fall of 2007, Boston Pacific's contract was renewed to serve as Technical Consultant for Delmarva's 2007-08 RFP process.

The Technical Consultant's role is to help the Commission and its Staff achieve the goal of the RFP; which is, to get the best possible deal for Delaware's electric consumers while upholding the integrity of the process. Specifically, the Technical Consultant is responsible for (i) monitoring Delmarva's SOS RFP solicitation process, (ii) evaluating the bid process and results to ensure that it was conducted in a manner consistent with the RFP and Commission Orders, and (iii) preparing a Final Report at the conclusion of the bid process documenting the evaluation of the bid process and the awarding of contracts.

³ The RFP contains provisions to limit the amount of customer migration risk suppliers are responsible for through an "increment/decrement" mechanism which ensures that Delmarva will be responsible for customer migration above certain levels.

We accomplished these goals by evaluating the RFP using two different review processes. First, there is a process-based review. In this review we are looking to see that the Company conducted the RFP as it was laid out by Commission Orders and in the RFP documents. The Technical Consultant ensured compliance with the RFP in all four phases of the solicitation: (i) advertising the RFP and establishing a website for communication with potential bidders, (ii) conducting a pre-bid conference and following up on issues raised in that conference, (iii) pre-qualifying bidders through a financial credit application process, and (iv) conducting the RFP (choosing winning bidders and executing the FSAs).

Second, the Technical Consultant undertook a competitive or results-based review of the solicitations. We compared participation levels to previous solicitations and reviewed prices to check if they were in line with market conditions.

Additionally, the Technical Consultant is required to notify the Commission as to whether the solicitation was conducted in compliance with the RFP and Commission Orders. In briefings to the Commission and its Staff, the Technical Consultant documented and explained the basis for its conclusion on compliance. This was done within two days of Delmarva awarding the winning bids.

Finally, the Technical Consultant was available to consult with the Commission and its Staff as issues arose and raised any issues that it believed the Commission should address. Boston Pacific kept the DE PSC and its Staff apprised, as necessary, of its work through written briefings.

III. MONITORING DELMARVA'S REQUESTS FOR PROPOSALS

A. Advertising the RFP and Establishing a Website

Delmarva issued a press release announcing the upcoming RFP process for full requirements wholesale supply service to meet its SOS obligation in Delaware.⁴ As scheduled, Delmarva's RFP website went active on October 1st with draft copies of the FSA, the RFP and schedule, related DE PSC Orders, the bid plan, bidder application materials, and relevant load data. There were eighteen entities that showed interest in the process by filling out an expression of interest (EOI) form from the RFP website. This number was down from last year, which saw 20 bidders fill out the same form.

B. Pre-Bid Conference and Follow Up

Delmarva held its pre-bid conference at their Newark, Delaware office on November 8, 2007. Boston Pacific was in attendance for this event. Representatives from 11 potential bidders joined the conference, either in person or via WebEx.

The meeting featured a review of the RFP process as well as detailed information regarding changes from previous years. During this meeting, several quality questions were asked demonstrating the suppliers' experience with this type of RFP process. Delmarva was well prepared for the bidders' conference as demonstrated by (a) the information provided (each attendee was provided a binder of the relevant RFP information and was guided through the solicitation process and documents), and (b) Delmarva's responsiveness to the questions raised by attendees. Delmarva also gave a brief tutorial of the electronic platform used in the process.

One area of bidder confusion was the functioning of Delmarva's "increment/decrement" mechanism to control for the risk of migration to and from third party suppliers. Multiple questions asked by bidders showed that the mechanism caused some confusion among bidders. Since the mechanism is intended to protect bidders from large shifts in load we recommend that Delmarva create a stronger tutorial for next year in order to better educate bidders and remove uncertainty from the process.

Boston Pacific took notes and provided Delmarva and the Commission with a memorandum detailing the questions asked and responses given at the conference. Delmarva used our Q&A to help populate the Q&A section of the RFP website.

C. Pre-qualifying Bidders

As mentioned, there were eighteen entities that showed interest in the process by participating at the pre-bid conference and/or requesting access to the RFP website. To become eligible, interested bidders were required to submit their (a) Credit Application and financial information, (b) Confidentiality Agreement, (c) PJM certification, (d) FERC certification, and (e) an executed Binding Bid Agreement by November 9, 2007.

⁴ See Attachment One for a copy of the press release.

Bidder eligibility was determined and issued on November 16th. Twelve bidders became eligible to participate in the tranche process. Based on our observations, all suppliers that submitted eligibility documents were declared eligible to participate in the solicitation process.

Delmarva used an on-line platform for both the submission of Bid Form Spreadsheets and supplier eligibility documents. To mitigate problems, we reviewed the system for potential issues. Boston Pacific believes Delmarva conducted the pre-qualification process as required by the RFP and Commission Orders.

D. Conducting the RFPs

On November 26, 2007 and January 28, 2008, Delmarva held the first and second tranches of the bid process, respectively, in Baltimore, MD. Present at Delmarva's evaluation site were (a) the utility's evaluation personnel, (b) personnel from Boston Pacific, and (c) personnel from the DE PSC. During each tranche Boston Pacific was present from 9 a.m. through the final ranking of bids.

Once a bid was submitted, the following process occurred: (i) Delmarva's web-based software saved and tagged the bid, (ii) Delmarva's software immediately alerted the bidder regarding the validity of the bid, and (iii) Boston Pacific independently recorded each bid. Once all bids had been verified for accuracy, Boston Pacific and Delmarva each independently ranked the bids and then compared results.

Throughout each bid day, Boston Pacific monitored all communication into and out of the bid rooms. Once the first bid was received the bidding room was locked and no one went in or out of the room until the winners were determined. Bids were awarded on the next day (Tuesday), and both the winning and losing suppliers were notified. On Wednesday of each bid week, the winning suppliers had executed the FSA.

During the solicitations there were a number of small issues which arose including:

- In Tranche One, some bidders submitted an offer to a PHI RFP in another jurisdiction. Those bidders were contacted and told to re-submit their offers.
- In Tranche One, a bidder had placed an incorrect date on a letter of credit. The bidder was notified and took action to rectify the situation. The bidder was still permitted to bid.
- In Tranche One, bidders received submission errors that were traced to security settings within Microsoft Excel. Bidders were able to submit backup bids via e-mail and fax. Prior to the second tranche Delmarva sent out an e-mail informing bidders of this error and what to do to prevent it in the future.
- In Tranche One, bidders submitted duplicate bids. The bidders were contacted and withdrew the duplicates.

- In Tranche Two, a bidder did not receive their notification of an accepted bid in a prompt fashion and subsequently re-submitted their offers, leading to duplicate offers. The bidder was notified and withdrew the duplicate bids.
- In Tranche Two a bidder had their bids initially rejected because their credit limit was not set properly. The bidder was contacted and allowed to submit their bids via e-mail.

Despite these issues, all non-duplicate bids submitted were considered in the evaluation. Within two days of Delmarva awarding the winning bids for each tranche, Boston Pacific provided the Commission with a briefing on the bid results. Those briefings included detailed information on (i) bidders (number of eligible bidders, number of actual bidders, number of bids by product type); (ii) winners (name of winners, megawatts won, and percent of total won plus other information including credit rating and ownership of any assets in PJM); (iii) prices (discounted average term price and nominal price for each winning bidder); and (iv) a comparison of winning prices to benchmarks based on current market conditions.

Finally, by close of business on Thursday of each bid week, the Commission voted to approve the results, which signified that all transactions executed were deemed to be in compliance with the RFP and approved by the Commission in accordance with Section 6 of the RFP.

IV. RESULTS OF THE RFPS

In both tranches, eleven of the twelve eligible bidders submitted bids,⁵ and Delmarva received more MW bid than MW solicited for each product. On average, as seen in Table Five below, Delmarva received 8.6 MW bid for every MW solicited. This represents an increase over last year, where the ratio was about 7.2. As shown in Table Six below, the number of entities that submitted bids was the same as last year. While there was no increase in the number of bidders, the increase in MW offered is a positive sign and shows that bidders are becoming more familiar and comfortable with the SOS RFP process.

**TABLE FIVE
NUMBER OF MW OFFERED COMPARED
TO MW AWARDED BY PRODUCT**

Product	MW Offered	MW Awarded	Ratio
Residential and Small Comm. and Ind.	2,653.0	300.3	8.8
Medium General Service - Secondary	1,734.0	192.6	9.0
Large General Service - Secondary	375.0	53.6	7.0
General Service Primary	217.0	31.0	7.0
Total	4,979.0	577.5	8.6

**TABLE SIX
NUMBER OF ELIGIBLE AND ACTUAL BIDDERS
BY SOLICITATION**

Solicitation	Number of Bidders	
	Eligible	Actual
2005-2006	15	9
2006-2007	14	11
2007-2008	12	11

Two of the eleven bidders actually won a slice of the load to be served starting in June 2008. While this may seem to be a small number, it is worth noting several important points about the selection of winners and the bidding pool in general. First, all bidders offered a standard product and the winning bids were awarded based on price alone. Second, bidders have contracted to supply at the fixed price which they offered, so they cannot raise prices after the fact. Third, neither bidder is an affiliate of Delmarva, which removes the concern of affiliate abuse. Fourth, while the other bidders did not win, their offers, (based on a comparison of the bids to the output of our Benchmark

⁵ The bidder who chose not to participate informed Delmarva of the fact before bids were due.

model) were competitive. Table Seven below shows the winning suppliers and PLC MW won.

**TABLE SEVEN
LIST OF WINNING SUPPLIERS AND SHARES OF MW WON**

Supplier Name	MW Won	Share of Total MW
Constellation Energy Commodities Group	225.5	39%
Hess Corporation	352.0	61%
Total	577.5	100%

Table Eight shows the percentage of load that each supplier will serve in 2008-09. For Residential customers this includes contracts won last year and in 2005-2006. Six different suppliers will be serving residential customers for the 2008-09 term. Each supplier and the percentage of each class that they will serve is shown below.

**TABLE EIGHT
2008-09 SUPPLIERS AND % OF NEED SUPPLIED**

Winner	2008-09 Percentage of Load to be Served
Residential and Small Commercial & Industrial	
Conectiv Energy Supply Inc.	39%
Constellation Energy Commodities Group	6%
DTE Energy	6%
Hess Corporation	28%
NRG	11%
PPL EnergyPlus	11%
Total	100%
Medium General Service - Secondary	
Constellation Energy Commodities Group	75%
Hess Corporation	25%
Total	100%
Large General Service - Secondary	
Hess Corporation	100%
Total	100%
General Service - Primary	
Constellation Energy Commodities Group	100%
Total	100%

As noted previously, Delmarva solicited bids to fulfill load obligations for each of its four customer classes: (1) Residential and Small Commercial and Industrial, (2) Medium General Service – Secondary, (3) Large General Service – Secondary, and (4) General Service Primary. As shown in Table Nine, the winning prices varied across these four classes. Note that the prices shown are the average winning load-weighted prices in \$/MWh.

**TABLE NINE
LOAD-WEIGHTED AVERAGE
WINNING PRICES (\$/MWh)
BY PRODUCT AND BY TRANCHE**

Product	Tranche One	Tranche Two	Average
Residential and Small Comm. and Ind.	\$108.21	\$111.58	\$109.90
Medium General Service - Secondary	\$100.79	\$102.26	\$101.53
Large General Service - Secondary	\$97.23	N/A	\$97.23
General Service Primary	\$95.80	N/A	\$95.80

The bids received in this RFP were generally higher than in the previous years. Residential winning bids were about 15% higher than last year and commercial and industrial bids were anywhere from 9% higher to 1% lower than last year. The next table compares the winning Load Weighted Average bids for this solicitation versus previous years.

**TABLE TEN
WINNING BIDS COMPARED TO PREVIOUS YEARS (\$/MWH)**

Product	2005-06 Winning Bids Load Weighted Average Price (\$/MWh) ¹	2006-07 Winning Bids Load Weighted Average Price (\$/MWh)	2007-08 Winning Bids Load Weighted Average Price (\$/MWh)	Percent Change from 2005-06	Percent Change From 2006-07
RSCI 36-Month	103.38	95.78	109.90	6%	15%
MGS 12-Month	105.74	92.90	101.53	-4%	9%
LGS 12-Month	116.58	98.00	97.23	-17%	-1%
GSP 12-Month	111.05	92.15	95.80	-14%	4%

1. 2005-06 RSCI products were 13, 25 and 37 months in duration. The 37 month product is shown for comparability. The 2005-06 contracts being replaced in this procurement were 25 months in duration and had an average price of \$101.82.

Note the column labeled “Percent Change from 2005-06”. For Residential customers this reflects the difference between the current bids and the bids that are being replaced. This number is key because it will drive the final Residential rate impact. The reason this difference does not match the Residential rate change is because only a portion of the Residential load (in each product) is bid out in any one year. Also, while the SOS solicitations are a significant portion of the rates, there are still some components of the rates that are not driven by the results of this RFP. Note that large

commercial and industrial customers will have contracts from last year replaced. Table Eleven below shows the estimated impact of the current solicitation on the average customer bill.

**TABLE ELEVEN
AVERAGE CHANGE IN THE MONTHLY BILL**

AVERAGE MONTHLY BILL CHANGE			
	Bill Amount	Change in Bill	Percentage Change
RS	\$108.63	\$2.10	1.97%
SGS	\$291.17	\$5.28	1.85%
MGS	\$1,670.74	\$115.26	7.41%
LGS	\$17,344.65	-\$223.60	-1.27%
GS-P	\$36,993.79	\$771.96	2.13%

As noted above, Residential prices have increased since last year. This rise is chiefly driven by two factors: (i) increases in energy cost and (ii) increases in capacity cost. Those costs, and related markets, are shown in Table Twelve below

**TABLE TWELVE
COMPARISON OF ENERGY MARKET CONDITIONS**

Product	Prices During 2005-06 Solicitation (37-Month)	Prices During 2006-07 Solicitation	Prices During 2007-08 Solicitation	Percent Change From 2005-06	Percent Change From 2006-07
Res. and Small Comm. & Ind. (\$/MWh)	\$103.38	\$95.78	\$109.90	6%	15%
NYMEX Peak PJM Electricity Futures (\$/MWh)	\$83.58	\$72.27	\$83.49	0%	16%
Henry Hub Futures (\$/MMBtu)	\$9.69	\$8.03	\$8.41	-13%	5%
NYMEX Central Appalachian Coal Futures (\$/ton)	\$56.66	\$43.40	\$63.77	13%	47%
NYMEX Light Sweet Crude Oil Futures (\$/bbl)	\$67.95	\$62.76	\$89.62	32%	43%
PJM Capacity Prices (\$/MWh)	\$4.94	\$10.37	\$18.14	267%	75%

PJM Electricity futures, Henry Hub futures, and PJM Capacity Prices are averages of the three year service periods, while oil and coal futures are averages of a single year. All prices are based on the corresponding RSCI product months. PJM Capacity Prices are based on broker quotes for 2005-2006 and 2006-07, and on the PJM RPM results in 2007-08.

In the past year, electricity prices for the related three-year residential service period, as represented by the PJM On-Peak futures market on the NYMEX exchange, have risen 16%. A graphic representation of this trend can be found in Figure One of Attachment Two. This graph shows, since 2005, the average dollars per MWh one would have to spend *at the date given* to purchase one full service year (June to May) of on-peak energy for the PJM marketplace on the NYMEX exchange. For example, if in

October 2005, we were to purchase a full year of energy, from June 2006 to May 2007, in the PJM forward market it would cost an average of about \$90/MWh. At the same date, if we wished to buy supply for the following year (June 2007 to May 2008) the cost would be about \$80/MWh. The figure shows a steep run up in prices through 2005, a decline through 2006 and a rise again through the recent RFP and beyond.

Another price trend to note is the convergence and lock-step movement of electricity prices from differing time periods. Note that in Figure One there is a distinct price difference between power for June 2006 to May 2007 and power for the following years. Part of this is due to the temporary price disruptions caused by Hurricane Katrina. In recent times we have observed the price for differing service years converging to a similar level. This effect can be shown in Attachment Two, Figure Two which shows again the average price for one service year of PJM on-peak electricity on the NYMEX exchange for each of the three upcoming service years since January of 2007. Here the recent run-up in prices is more magnified and we see that all three service year prices are moving in the same direction and are at similar levels. The implication that we draw from this data is that the current energy market conditions are not expected to change in the near future. In fact, after the conclusion of this RFP prices increased even further.

The past year's electricity price increase is driven chiefly by a rise in all three major generating fuels, with coal and oil rising the fastest. Natural gas prices have actually decreased from their 2005-2006 levels. Normally, we would expect this to drive down electricity prices, but corresponding increases in oil and coal prices have helped to prevent this from happening.

A second component of the price increase is capacity prices. With the implementation of PJM's RPM model the capacity component of the SOS price has increased, by our estimation, about 267% from its 2005-2006 levels, adding about \$13/MWh to the full requirements price in the process.

To translate market conditions into expected bid prices Boston Pacific utilized our Benchmark model. The model takes current energy market data and attempts to create a bid as a bidder might. Because bidders can have different opinions on many inputs, we build in custom distributions of key elements. The result is a range of offers that we would expect to see given market conditions. A comparison of the bids received to the output of our model showed that bids were in the range of what we would expect to see based on the state of the markets.

V. RECOMMENDATIONS

Based upon our experience, the Delaware competitive solicitation has several strengths:

- Delaware uses a price-only bid evaluation which eliminates the subjectivity that often leads to allegations of inequitable treatment and affiliate abuse. Such allegations can diminish supplier confidence in the wholesale market. Delaware's transparent process enhances supplier confidence and encourages participation.
- The full requirements wholesale supply service solicited here is a sophisticated energy product backed by a replacement cost guarantee (Performance Assurance) and in this sense, is a high value product for consumers. This product (a) provides the consumer with all the necessary components of electricity supply that ensure contract delivery and (b) transfers many financial risks from the consumer to the supplier.
- Full requirements service is used across the PJM region (e.g., New Jersey, DC, Maryland, and part of Virginia solicit similar products). This familiarity allows suppliers to easily participate in multiple procurements.
- The RFP documents are the result of a collaborative process that resolves most of the non-price issues and the resulting product fits the needs of the consumer, the utility, and suppliers.
- Keeping the process roughly the same from year to year gives bidders a product and process with which they feel comfortable, encouraging repeat participation and new entry.

Although Boston Pacific believes that the Delaware process is very good, we do have some recommendations on issues to study that could improve future solicitations. We suggest the following:

- We suggest the Commission continue to explore the possibility of offering different contract-term lengths. As prices have been rising, and as rate stability is, to our understanding, a goal of many parties, we would suggest that Delmarva begin exploring the possibility of four or five-year contracts. One way to do this would be for Delmarva to offer one four or five-year block in the first tranche of its next solicitation. If the offering receives market-competitive offers then Delmarva could take the bid. If the offering does not receive any competitive offers then Delmarva can simply re-bid that load as a normal three-year block in the second tranche. Note that, while this would slow rate increases if prices keep increasing, it would also slow rate reductions in the event that prices moved downward.

- We would suggest that Delmarva communicate with financial bidders (i.e. investment banks and their trading houses) to see what changes, if any, could be made to attract bidding from those market participants. The current process attracts a strong field of bidders, but trading arms of the top investment banks do not participate to the extent they do in some other procurements. In the interest of increasing participation and potentially lowering rates it would be useful to see if there are any changes that could encourage these parties to participate.
- We would suggest that Delmarva create a more formal backup bidding procedure and document that procedure in its RFP. Currently, bidders with issues submitting bids call in or are called by Delmarva and backup procedures are worked out on the spot. Currently, most bidders are directed to submit bids by e-mail and fax. This system is effective, but could run into trouble if voice communication between Delmarva and bidders is blocked. A formal backup plan would allow bidders to know what to do before running into trouble.
- We would suggest that Delmarva continue to further detail and explain its “increment/decrement” mechanism. The mechanism is supposed to provide some protection to suppliers against customers leaving or coming to SOS service in large numbers. However, bidder questions at the pre-bid conference revealed that bidders are unsure as to how the mechanism works. If Delmarva can provide more clarity on this point, bidders may see this mechanism for the source of value that it is.

Finally, separate from the RFP process, we would suggest that the Commission undertake a study to determine what resources, both generation and transmission capacity, are getting built within PJM in general and Delaware in particular and whether or not those resources are adequate to serving the regions future electricity needs. The price increases in the RFP process are caused by increases in both energy and capacity prices. These increases, in turn, have been driven by increases in the cost of fuels and the implementation of PJM’s new RPM construct. The RPM construct is based on the premise that the prices coming from the RPM process will act as signals to locate new capacity and transmission expansion. Despite this, there are concerns that the PJM marketplace is not seeing enough new construction, and that reliability will soon be jeopardized. This concern was made most evident in a recent report by the Maryland Public Service Commission.⁶

Given the potential dangers of a capacity shortfall we think that it would make sense for the Commission to conduct a study to investigate whether or not Delaware is getting the capacity and transmission expansion it needs to serve future load and if not, what can be done about it. This may be a part of the IRP process, or a separate study.

⁶ *Interim Report of the Public Service Commission of Maryland to the Maryland General Assembly, Part I: Options for Re-regulation and New Generation*. December 3, 2007.

With regard to the scope of such a study we would include: (a) a complete review of the quantitative basis for Maryland's conclusions, (b) for generation and transmission in PJM, a review of what has been built and what is in the queue, (c) for load, a review of load projections with the goal of seeing whether the uncertainty in future demand is so great as to adversely effect both reliability and prices, and (d) a computation of how new demand side or supply side capacity in Delaware would affect the RPM price.

VI. NOTIFICATION, CONSULTATIONS, AND REPORTS TO THE COMMISSION

Boston Pacific worked closely with Delmarva and Commission Staff to ensure that the solicitation process was consistent with Commission Orders on the RFP. As already noted, throughout the engagement, Boston Pacific provided the DE PSC with written reports on any issues and the status of the solicitation. Boston Pacific also met and worked with Delmarva.

On November 13th, 2007, Boston Pacific met with the company in Baltimore for the purpose of holding a “dry run” simulation of bid day. The purpose of the dry run was to establish the set-up for bid day and to allow both sides to test their bid submission, receipt, and evaluation software. Boston Pacific first reviewed the bid day set up with Delmarva personnel to establish and confirm security measures and communication procedures. We then submitted multiple mock bids which attempted to emulate many of the mistakes a bidder could make. Then we independently received the bids and evaluated them, comparing our results to the bid system output. Through the results of our testing we were able to identify small issues with the Bid Form Spreadsheets which allowed deficient bids to pass through and be approved. We found the source of the errors and Delmarva altered the sheets to fix the problem. In addition, we were able to help Company personnel identify and correct some issues with their access control.

Prior to bid day we discovered that a macro in the Bid Form Spreadsheet would disable certain functions in Microsoft Excel. We notified Delmarva of the problem and they removed the sheets from the RFP website to prevent the problem from affecting bidders. The Bid Form Spreadsheets were corrected and reposted prior to the first bid day.

In addition, Boston Pacific requested to be carbon copied on all e-mail communication between Delmarva and potential bidders and, throughout the process, Boston Pacific had a number of phone conversations with Delmarva in order to ensure that the utility was in compliance with their bid plan.

VII. CONCLUSIONS

Boston Pacific, as Technical Consultant, was tasked with monitoring the entire RFP process, from the launching of the RFP website to the approval of bids. We reviewed the RFP from two standards; (i) a competitive standard of review which looked to determine if the level of competition was satisfactory and if the prices of bids received were in line with market conditions and (ii) a process-based standard of review which looked to see if the process was conducted in line with Commission guidelines and the RFP documentation.

On both of these standards the RFP was successful. Therefore, in conclusion, we believe that Delmarva's 2007-08 RFP process achieved the Commission's goal of providing Delaware's electric consumers with the best deal possible given market conditions while, at the same time, maintaining the integrity of the process.

**ATTACHMENT ONE
DELMARVA'S PRESS RELEASE**



October 1, 2007

**DELMARVA POWER & LIGHT COMPANY,
REQUEST FOR PROPOSALS FOR
FULL REQUIREMENTS WHOLESALE ELECTRIC POWER SUPPLY**

Ladies and Gentlemen:

Delmarva Power & Light Company (Delmarva) provided electric supply service to Delaware customers through fixed price power supply tariffs offered by Delmarva pursuant to orders issued by the Delaware Public Service Commission (“Commission”) in Docket No. 99-163 and Docket No. 01-194. These offers expired as of April 30, 2006. As of May 1, 2006, Delmarva continues to provide generation supply for specified periods, procured through a competitive wholesale bidding process and pursuant to procedures that are set forth in Commission Docket 04-391. Delmarva will conduct a multi-tranche (multi-round) bidding process to solicit proposals from suppliers interested in providing Fixed Price Standard Offer Service (“FP-SOS”) to Delmarva for its Delaware customer service classifications.

Delmarva is soliciting competitive bids for full requirements wholesale supply service for the load associated with the supply obligation as is more fully described in the Request for Proposal (“RFP”) documents. The solicitation is for supply agreements for varying terms up to three years. Bid due dates for this multi-tranche solicitation can be found in the RFP documents which are provided on the RFP website as noted below.

The load to be bid upon in the RFP is divided into four service types. An approximation of that portion of the load (stated in megawatts) associated with customers currently receiving supply service for each service type and for whom wholesale supply will be solicited is indicated in the following table. The load figures will be updated prior to the bid due dates.

<u>Service Type</u>	<u>Delmarva</u>
Residential and Small Commercial & Industrial FP-SOS	300
Medium General Service-Secondary FP-SOS	200
Large General Service-Secondary FP-SOS	60
General Service-Primary FP-SOS	<u>30</u>
TOTAL	590 MW

If you are interested in participating in the RFP, you must submit an Expression of Interest Form. The Expression of Interest Form is provided, electronically, for submission on the RFP website. The RFP website which became active on October 1, 2007 is as follows:

Delmarva: www.delmarva.com/derfp

Prospective bidders who have submitted the Expression of Interest Form will be given access to password protected RFP material.

Additionally, Delmarva will be holding a pre-bid conference in early November to review the general RFP structure and process, the bid plan, and the Full Requirements Service Agreement (the contract that will be used to purchase generation supply under the RFP). We encourage your review of such documents (as posted on the website) prior to the conference to enhance the question and answer session. Please visit the RFP website in the coming weeks for additional details on the pre-bid conference, including registration information.

All questions related to this RFP should be submitted through the RFP website.

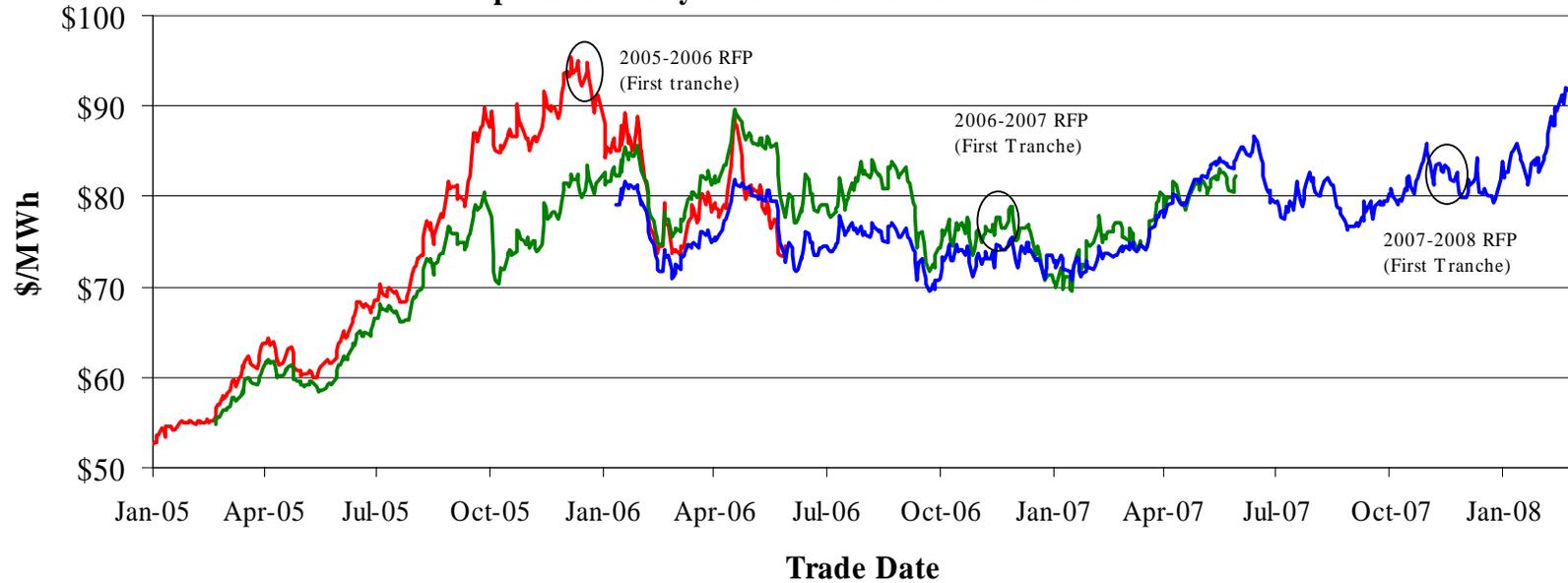
Sincerely,

A handwritten signature in black ink, appearing to read "Peter E. Schenk". The signature is written in a cursive, flowing style.

General Manager, Energy Supply
Delmarva Power & Light Company

ATTACHMENT TWO
PJM MONTHLY ON-PEAK ELECTRICITY FUTURES PRICES

Figure One: Average cost to purchase one year of peak electricity from the PJM forward market



— June 06 - May 07 — June 07 - May 08 — June 08 - May 09

Figure Two: Average cost to purchase one year of peak electricity from the PJM forward market

