

**FINAL REPORT OF THE
TECHNICAL CONSULTANT ON
DELMARVA'S 2008-2009
REQUEST FOR PROPOSALS
FOR FULL REQUIREMENTS WHOLESALE ELECTRIC POWER SUPPLY
TO DELAWARE'S STANDARD OFFER SERVICE CUSTOMERS**

PRESENTED TO

THE DELAWARE
PUBLIC SERVICE COMMISSION

BY

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February 17, 2009

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I. EXECUTIVE SUMMARY

On November 17, 2008 and January 26, 2009, Delmarva Power & Light Company (“Delmarva” or “the Company”) held bid days in which they received and ranked bids for Standard Offer Service for four different customer classes: (i) Residential and Small Commercial and Industrial (“Residential” or “RSCI”), (ii) Medium General Service – Secondary (“MGS”), (iii) Large General Service – Secondary (“LGS”), and (iv) General Service – Primary (“GS”).

Standard Offer Service, or SOS, is meant to serve all ratepayers who elect not to utilize a third-party supplier. In order to provide SOS, 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 at a fixed price. Full requirements service includes all elements of wholesale electricity supply except network transmission – that is, it includes capacity, energy, congestion costs, ancillary services, and losses, etc.¹ 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 (“Commission”) and was charged with monitoring the implementation of Delaware’s Request for Proposals (“RFP”). The Technical Consultant provides 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.² 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

Boston Pacific concludes that Delmarva’s 2008-2009 SOS RFP was a competitive process, conducted as directed in Commission Orders and envisioned in the RFP documents, and resulted in fair results for the ratepayers of Delaware. This report lays out in detail the basis for that conclusion.

Following are answers to key questions concerning the results of the 2008-2009 RFP.

¹ Beginning this year, bidders were not required to supply renewable energy. Instead, Delmarva will significantly meet its obligations under Delaware’s Renewable Portfolio Standard through four long-term contracts for wind energy. See Delaware Public Service Commission Order No. 7432, August 19, 2008.

² 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, 2009.

1. How much supply was procured in the RFP?

Delmarva sought and successfully contracted for six “blocks” of Residential need (296.6 MW or about 33.3 percent of peak SOS need for this class). Delmarva also sought and successfully contracted for six “blocks” of commercial supply, or 308.2 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 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 price for three years of Residential and Small Commercial service was \$103.49/MWh, a 6 percent decrease from last year. On the commercial side, the average winning bid price was \$98.95/MWh for MGS customers, \$103.33/MWh for LGS customers, and \$101.97/MWh for GS customers. As shown in Table One below, these represent changes ranging from about a 3 percent decrease to a 6 percent increase over last year’s prices.

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

Product	2006-07 Winning Load Weighted Average Price (\$/MWh)	2007-08 Winning Load Weighted Average Price (\$/MWh)	2008-09 Winning Load Weighted Average Price (\$/MWh)	Percent Change from 2007-08
RSCI 36-Month	\$95.78	\$109.90	\$103.49	-5.8%
MGS 12-Month	\$92.90	\$101.53	\$98.95	-2.5%
LGS 12-Month	\$98.00	\$97.23	\$103.33	6.3%
GS 12-Month	\$92.15	\$95.80	\$101.97	6.4%

Note that there was a significant difference between the prices received in the first and second bid days, or tranches, as bidders reacted to changing market conditions. For example, the average winning Residential and Small Commercial bid price was about \$110/MWh in the first tranche, but was about \$97/MWh in the second tranche, or about 11 percent lower. The increase in prices for LGS and GS products is largely explained by the single block of each of these products being solicited in the first tranche, rather than in the second tranche.

3. Who were the winning bidders?

The solicitation produced six winning bidders.

- Conectiv Energy Supply, Inc.
- Consolidated Edison Energy, Inc.

- Constellation Energy Commodities Group
- Hess Corporation
- Macquarie Cook Power, Inc.
- PPL EnergyPlus, Inc.

There is reason to believe that the new auction format may result in a greater variety of winners as compared to the previous “sealed bid” format because it allows for bidders to see and react to each other’s bids. Based on these results, it would appear that this dynamic certainly played out in this RFP. The new auction format is discussed below.

4. What is the impact on rates?

Rates for Residential and Small Commercial customers, whose supply is solicited together, will remain essentially unchanged. As seen in Table Two below, there are zero percent changes in the Residential and Small Commercial products. To make sense of rate changes it is important to note three key issues. First, the comparison that drives the rate change for RSCI products is not a comparison with last year’s results, but rather a comparison with the contracts that are being replaced. This year’s RSCI contracts replace those from 2005-2006, when winning bid prices were almost exactly the same as this year’s winning bid prices. Second, to mitigate the rate impact, Delmarva only bids out a portion (about one-third) of its Residential and Small Commercial 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. Note that all rate changes are approximate; last year Delmarva filed updated generation rates in April. We have contacted the Company and have received no indication that they will change their filing method this year.

Commercial contracts are only one year in duration, so the entire SOS supply is bid out each year. As seen in Table Two below, commercial customers will see rate decreases of about 2 percent for MGS customers, and increases of 5 percent and 6 percent for LGS and GS customers.

**TABLE TWO
PERCENT CHANGE IN RATES³**

Product	Percentage Change from Last Year
Residential	0.0%
Small Commercial	0.0%
Medium General Service	-2.0%
Large General Service	5.1%
General Service	5.8%

³ The change in rate for Residential is actually the change for the RS rate class, and the change in rate for Small Commercial is the change for the SGS rate class. RS and SGS are each the largest of the several rate classes in the Residential and Small Commercial categories.

5. Were there major changes to the product or RFP format this year?

The bidding process was somewhat different this year than in previous years, as Delmarva replaced its internal website for receiving bids with the reverse auction platform from World Energy Solutions, Inc. The old format was a simple, one round, sealed bid RFP in which bidders would have a single chance to submit their bid for any or all of the blocks available, without knowledge of the actions of any other bidder. The idea behind this format is that bidders are forced to submit their best price, for fear of losing out.

In contrast, the new format relies upon bidders' awareness of the actions of other bidders to attempt to drive prices down. Prior to bidders being able to submit bids, Boston Pacific and World Energy develop start prices for each product. On bid day, a separate auction is conducted for each block available to bid on. These auctions open simultaneously. Bidders are able to submit as many bids as they like on each block, as long as each bid is below the start price. Once bidders submit a bid, they are able to view the current low bid price as it ticks down over the course of the auction. After 30 minutes, the first block closes and the lowest bid offered is declared the winner. Another block closes every 15 minutes after that, until the bid day is complete. After each block closes all bidders participating in that auction are able to see the winning price.

This platform appears to have been a success in that there were no technical difficulties, all need was met, and a large number of different bidders won.

B. Summary of Conclusions

As the Technical Consultant to the Commission, Boston Pacific uses two standards of review; a competitive standard looks at the level of competition in the RFP in terms of bidders and prices, while a process standard 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 as compared to our benchmark bid prices. Generally speaking, there exists a strong correlation between these two measures. 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 slightly to 11 from 12 last year. The number of actual bidders also declined to 9 from 11. This result is not surprising given the current economic environment. It is worth noting that this year saw the same number of bidders as

participated in the 2005-2006 RFP, which was conducted within a few months after Hurricane Katrina, another time of crisis for electric suppliers. In light of the difficult economic and credit environment, we were encouraged to see levels of participation that were comparable to previous years. Importantly, no bidders were denied registration.

Another area we like to examine is the number of winners. As mentioned above, the solicitation produced 6 winning bidders. The chief benefits of a larger number of winners are (a) keeping a larger number of participants active in future RFPs, (b) sending an encouraging signal to potential new entrants that no bidder or bidders have a monopoly on the market, and (c) lowering ratepayer risk through supplier diversity. Note that while one winning bidder is an affiliate of Delmarva, there is no evidence of affiliate abuse; from the qualification documents through bidding behavior, the affiliate was treated the same as any other bidder.

Additionally, there are 8 bidders who will be providing some of the total need in 2009-2010. Two bidders who did not win supply in the 2008-2009 RFP are supplying part of the RSCI need through contracts won in the previous two RFPs.

Turning to the price of bids received, we found prices to be in line with market conditions. As mentioned, the average winning price for three years of RSCI service was \$103.49/MWh, a 6 percent decrease from last year. On the commercial side, the average winning price was \$98.95/MWh for MGS customers, \$103.33/MWh for LGS customers, and \$101.97/MWh for GS customers. These represent changes ranging from about a 3 percent decrease for MGS to a 6 percent increase over last year's prices for LGS and GS customers.

Our conclusion that bid prices are in line with market conditions is supported by the output of our Benchmark bid price 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 within our price benchmark range.

Another check on our conclusions comes from the results of other procurements in the PJM region. New Jersey completed its SOS (there known as Basic Generation Service) Auction in early February. It is difficult to compare New Jersey's results directly to Delaware's results due to the fact that each state has somewhat different electricity markets, procurement mechanisms, and disclosure restrictions. Nonetheless, we can find one public point of comparison. The tranche-weighted average price for three years of the Fixed-Price product (the New Jersey equivalent of Residential service) was about \$104/MWh.⁴ This result is roughly in line with Delaware's RFP. Note that the New Jersey bid price includes network transmission and the cost of meeting the State

⁴ See results at <http://www.nj.gov/bpu/newsroom/news/pdf/20090206.pdf>

Renewable Portfolio Standard. Also, New Jersey's auction was held at a single point in time rather than over two separate bid days.

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 Delmarva to be successful in this regard. 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 the Company to help resolve any issues that came up and updated the Commission with regular 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 that led to prices that were identifiable as likely being temporarily high. We found that electricity futures prices had decreased in energy and capacity markets. While we were concerned about the effects of the credit and economic downturn on bidder turnout and prices offered, we did not see any evidence that such effects could be avoided by postponing or amending 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 the Technical Consultant monitored, on-site, all communication between Delmarva and the bidders. Boston Pacific was also able to listen in on the phone line on which bidders could call either Delmarva or World Energy with questions. Most importantly, Boston Pacific was able to independently view the bidding in real time and reach agreement with Delmarva on winners and winning prices.

There were no technical issues encountered on either bid day. All bidders who submitted the required documentation were allowed to participate. 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:

- As the Technical Consultant Boston Pacific is charged with updating the Commission prior to bid day as to whether the RFP should be delayed or amended due to extraordinary circumstances. Our report is due approximately two weeks prior to bid day. Because bidder participation is key to a successful result we would request that the Company schedule its issuance of eligibility status to bidders more than two weeks prior to bid day so that this information can be included in our assessment. We make this request because lower than expected numbers of registered bidders could be a cause for amending or delaying the RFP.
- PJM is preparing to move to weekly billing beginning in June, 2009. This creates something of a mismatch with the Full Requirements Service Agreement, or FSA, the contract all winning bidders sign with Delmarva, which pays suppliers monthly. This mismatch can create a credit need for a supplier, which could increase costs. We suggest the Company investigate the effect of weekly PJM settlement on bidder costs, and also look into possible remedies.
- We would suggest that a survey be conducted with bidders and potential bidders (defined as those who have filled out Expressions of Interest in Delaware’s RFP in the past or participated in related RFPs in the District of Columbia, New Jersey or Maryland). The goal of the survey would be to find out if there are any changes that could be made to increase participation and lower prices (without incurring undue risk to ratepayers). This would essentially be a more aggressive version of the “process improvement” phase that the Company goes through yearly. Delmarva could conduct the survey itself or, alternatively, Boston Pacific could perform it under our current contract.
- We encourage the Commission to give thought to collateral requirements as a potential means by which to lower bid prices. Though there are many components that make up full requirements service, only a few of those components can be directly affected by Commission action. One such component is collateral costs. The collateral that bidders need to post could be capped at a specific dollar amount or percentage of the contract

value. This could limit bidders' potential credit costs, which could lower bid prices.

- We understand Delaware conducts an Integrated Resource Planning (IRP) process. The IRP process is probably the broadest check on whether the state is moving in the right direction in terms of assuring a reliable supply of electricity at reasonable price and risk and with acceptable environmental performance. The IRP should help the Commission judge the SOS process results and, similarly, the SOS process results should help inform the IRP.
- Finally, we would encourage the Commission to think broadly about electricity supply in Delaware. The SOS process has been successful for several years in Delaware in providing the necessary supply at market prices. We do not see any immediate need to significantly change the SOS process, but it is always constructive to identify and consider possible changes. Issues that the Commission could consider include (a) coordinating procurement efforts with other jurisdictions, (b) consideration of the effects of increased renewable (particularly wind) use on RFP participation, (c) consideration of decreased demand (due to the recession) on RFP participation, and (d) potential changes to the SOS product to increase bidder participation.

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 by which 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, its second in January 2007, and its third in January 2008. Boston Pacific served as the monitor in the last two procurements. In November 2008 and January 2009, 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 605 MW of peak load contribution (“PLC”).

B. Product Offering

Delmarva’s 2008-2009 RFP sought a total of 604.8 MW of Peak Load Contribution for full requirements SOS service. Bidders were required to provide all components of full requirements service, including energy, capacity, losses, congestion costs and ancillary services. Winning bidders will serve a specified share of SOS load.

Table Three outlines the distribution of the load among the four different customer classes. The column called “SOS Bid Out” shows the PLC bid out in this 2008-2009 RFP for customers taking SOS at the time of bidding. The column called “Eligible Bid Out” shows the PLC bid out for all customers in the class, whether they take SOS or not; the difference bid out 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. The column on the far right shows the percent of the Total Eligible load that was bid out in this RFP.

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

Service Type	SOS Bid Out	Eligible Bid Out	Total Eligible SOS Load	Percent of Eligible Load Bid Out
Residential	296.6	305.4	916.1	33%
MGS	203.4	274.8	274.8	100%
LGS	56.0	120.1	120.1	100%
GS	48.8	470.8	470.8	100%
Total	604.8	1,171.1	1,781.8	66%

Again, 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 percent of the necessary generation. The remaining 67 percent is split between 36-month contracts procured in 2006-2007 and in 2007-2008. 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	Blocks Solicited	Tranche One	Tranche Two	MW per Block	Block Size %	Dates of Service
Res. and Small Comm. & Ind. 36-	6	3	3	49.4	5.6%	June 1, 2009 - May 31, 2012
Medium Gen. Service - Secondary 12-Month	4	2	2	50.9	25.0%	June 1, 2009 - May 31, 2010
Large Gen. Service - Secondary 12-Month	1	1	0	56.0	100.0%	June 1, 2009 - May 31, 2010
Gen. Service - Primary 12-Month	1	1	0	48.8	100.0%	June 1, 2009 - May 31, 2010
Total	12	7	5	-	-	--

C. Consumer Protections

The RFP approved by the Commission had several structural features to protect consumers. From a rate impact standpoint, the process protects residential customers by requiring a fixed price for three years going forward. This protects residential ratepayers from the volatility of electricity spot prices. The process also minimizes the impact of volatility in energy and capacity prices on customer bills by soliciting contracts over multiple years. Staggering the contract timing minimizes consumers' exposure to any one year's market conditions.

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 increases or decreases in the size of market load. This volatility comes from customers switching to another supplier or returning to the SOS from an alternative supplier.⁵

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

The Technical Consultant's role is to help the Commission and its Staff achieve the goal of the RFP – 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.

We evaluate the RFP using two different review processes, a competitive standard of review, and a process-based standard of review, as summarized above. In the competitive standard of review, we undertook a competitive or results-based review of the solicitations. We compared participation levels to previous solicitations and reviewed

⁵ 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.

prices to check if they were in line with market conditions. In the process-based standard of review, we looked to see that the Company conducted the RFP as it was laid out by Commission Orders and in the RFP documents. We 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). In briefings to the Commission and its Staff, we documented and explained the basis for our conclusion on compliance. This was done in the same week as the bid days and as Delmarva awarded the winning bids.

Finally, we were 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 Commission and its Staff apprised of its work, as necessary, through written briefings.

III. MONITORING DELMARVA'S REQUESTS FOR PROPOSALS

A. Advertising the RFP and Establishing a Website

On October 8th, 2008, Delmarva issued a press release announcing the upcoming RFP process for full requirements wholesale supply service to meet its SOS obligation in Delaware.⁶ As scheduled, Delmarva's RFP website went active on October 8th with draft copies of the FSA, the RFP and schedule, related Commission Orders, the bid plan, bidder application materials, and relevant load data. There were 26 entities that showed interest in the process by filling out an Expression of Interest (EOI) form from the RFP website. This number was up from recent years when 20 and 18 bidders filled out the same form.

B. Pre-Bid Conference and Follow Up

Delmarva held its pre-bid conference at their Newark, Delaware office on October 16th, 2008. Boston Pacific was in attendance for this event. Representatives from 2 potential bidders joined the conference in person, with an additional 5 bidders participating on the phone and internet via WebEx.

The meeting featured a review of the RFP process as well as detailed information regarding changes from previous years. During this meeting, the only questions asked were related to participation via WebEx or how up to date was the description of the Delmarva website. We believe the lack of questions about the RFP process and documents demonstrates the suppliers' experience with this type of RFP. Delmarva was well prepared for the bidders' conference as demonstrated by the information provided (each attendee was provided a binder of the relevant RFP information and was guided through the solicitation process and documents). Delmarva also gave an overview of the World Energy platform, first used this year, on which bidders would be submitting bids.

C. Pre-qualifying Bidders

As mentioned, there were 26 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 to Delmarva their (a) Credit Application and financial information, (b) Confidentiality Agreement, (c) PJM certification, and (d) FERC certification by October 31, 2008. Initial bidder eligibility was determined and issued on November 7th. Bidders were also required to submit an agreement to World Energy (i.e. an agreement to pay World Energy a success fee to cover their costs) by November 12th, 2008. Twelve bidders submitted all the required eligibility documents to Delmarva, but only 11 submitted the required World Energy agreement to become eligible to bid.⁷ All suppliers that submitted eligibility documents were declared eligible to participate in the solicitation process.

⁶ See Attachment One for a copy of the press release.

⁷ The bidder who declined to submit the World Energy agreement did not offer any specific objections. We presume that this bidder simply decided not to participate in the RFP.

Delmarva used an on-line platform for submission of 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. Pre-bid testing

Prior to bid day Boston Pacific was given the opportunity to test World Energy's system through a technical "dry run." Boston Pacific employees posed as bidders and submitted bids through multiple rounds of a mock auction. During this time we stress tested the system to ensure that it operated correctly in the face of potential bidder errors.

Bidders were given an opportunity to conduct their own mock auction prior to bid day. This was a chance for bidders to become familiar with the World Energy platform, for World Energy to again test their software, and for Boston Pacific to practice our bid receipt and monitoring functions. Both tests proceeded smoothly.

E. Conducting the RFPs

On November 17th, 2008 and January 26th, 2009, 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 Commission. During each tranche Boston Pacific was present from 9 a.m. through the final ranking of bids.

As described above, this year Delmarva replaced its internal website for receiving bids with the reverse auction platform from World Energy Solutions, Inc. The new format relies upon bidders' awareness of the actions of other bidders. Just prior to bid day, Boston Pacific and World Energy agree on start prices for each product. On bid day, a separate auction is conducted for each available block. These auctions opened simultaneously at 10 a.m. Bidders are able to submit as many bids as they like on each block, as long as each bid is below the start price. Once a bidder has submitted a bid, they are able to view the current low price as it ticks down over the course of the auction. Authorized individuals, including representatives from the Delaware Commission, Boston Pacific and World Energy are able to view the names and bids of each bidder. After 30 minutes the auction for the first block closes, with the current low bid being declared the winner. All bidders see the winning price for each auction immediately. Another block closes every 15 minutes after that, until the bid day is complete. Bidders can see winning prices as each block closes. This platform appears to have been a success in that there were no technical difficulties and all need was met.

By the end of the bid week, as was consistent with the Commission's schedule, 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 load served by supplier for the 2009-2010 service year), (iii) prices, 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 in accordance with Section 6 of the RFP. This signified that all transactions executed were deemed to be in compliance with the RFP.

IV. RESULTS OF THE RFPs

In Tranche One, 9 of the 11 eligible bidders submitted bids. Eight of the eligible 11 submitted bids in Tranche Two.⁸ As shown in Table Five below, the number of entities that submitted bids was down slightly from last year, but more or less consistent with previous participation levels.

**TABLE FIVE
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
2008-2009	11	9

Six of the 9 total bidders won a slice of the load to be served starting in June 2009. This is a robust number and may provide evidence that the new process used contributes to a large number of winners. Since each block is solicited separately, and with a 15 minute lag from other blocks, the auction for the first block of a product can give bidders an idea of the price needed to win. This can push bidders who had submitted a higher price for the first block lower in subsequent blocks for that product. However, the reverse is true as well; bidders who may have been willing to submit lower prices in subsequent blocks may see the winning price as evidence that lower prices are not necessary to win. Either way, for products with multiple blocks, the information on winning bid prices revealed to bidders through the World Energy platform makes clusters of bids more likely than under a single-bid RFP process as was previously used. Such clusters may lead to a greater number of winners.

Note that when taking account of winning bidders for the three year residential products in the previous two years, fully 8 bidders will be serving some portion of Delmarva's load for 2009-2010. See Table Six.

⁸ The bidders who chose not to participate informed Delmarva of the fact before bids were due.

**TABLE SIX
LIST OF 2009-10 SUPPLIERS AND PERCENT OF SUPPLY SERVED**

Supplier Name	Percentage of 2009-10 Load Served
Conectiv	12%
ConEd	13%
Constellation	12%
DTE Energy	4%
Hess	33%
Macquarie	4%
NRG	8%
PPL	12%
Total	100%

As noted previously, Delmarva solicited bids to fulfill load obligations for each of four product types: (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 Seven, the winning prices varied across these four products and across the two bid days. Note that the prices shown are the average winning prices in \$/MWh.

**TABLE SEVEN
AVERAGE WINNING PRICES (\$/MWh)
BY PRODUCT AND BY TRANCHE**

Product	Tranche One	Tranche Two	Average
Residential and Small Comm. and Ind.	\$109.58	\$97.39	\$103.49
Medium General Service - Secondary	\$106.68	\$91.22	\$98.95
Large General Service - Secondary	\$103.33	N/A	\$103.33
General Service Primary	\$101.97	N/A	\$101.97

The bids received in Tranche One of the RFP were generally equal to or higher than in the previous years, while bids received in tranche two were equal or lower. The difference in the two tranches reflects a measurable drop in the wholesale price of electricity and related fuels between the two bid days. For RSCI, prices in Tranche Two were 11 percent lower than prices in Tranche One.

The new auction format raises issues for any metric of competitiveness more complicated than the number of bidders, since not all bidders necessarily make competitive offers. One way to assess if there were competitive offers made is to look at the number of bidders who offered a final price within 5 percent of the winning price.

This would help to show whether the bidding was a close race, with lots of bidders pushing the price down, or a competition between a relative few bidders.

This metric is not perfect, as bidding on each block is different. Sometimes an early and aggressive offer by one party may serve to keep other bidders from participating as actively as possible. Nevertheless, we present the number of bidders within 5 percent of the winning bids as an additional metric. On average, as seen in Table Eight below, Delmarva received 5 bidders within 5 percent of the winning bid for each block solicited.

**TABLE EIGHT
NUMBER OF BIDDERS WITHIN 5 PERCENT OF THE WINNING PRICE
BY PRODUCT**

Product	Average Number of Bidders within 5% of the Winning Bid
Residential and Small Comm. and Ind.	6.2
Medium General Service - Secondary	4.5
Large General Service - Secondary	2.0
General Service Primary	3.0
Total	5.0

On the whole, the average Residential winning bid was about 6 percent lower than last year and commercial bids were anywhere from about 6 percent higher to about 3 percent lower than last year. Table Nine compares the winning Load Weighted Average bids for this solicitation versus previous years.

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

Product	2005-06 Winning Load Weighted Average Price (\$/MWh)	2006-07 Winning Load Weighted Average Price (\$/MWh)	2007-08 Winning Load Weighted Average Price (\$/MWh)	2008-09 Winning Load Weighted Average Price (\$/MWh)	Percent Change from 2005-06	Percent Change from 2007-08
RSCI 36-Month	\$103.38	\$95.78	\$109.90	\$103.49	0.1%	-5.8%
MGS 12-Month	\$105.74	\$92.90	\$101.53	\$98.95	-	-2.5%
LGS 12-Month	\$116.58	\$98.00	\$97.23	\$103.33	-	6.3%
GSP 12-Month	\$111.05	\$92.15	\$95.80	\$101.97	-	6.4%

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 commercial customers will have contracts from last year replaced. Table Ten below shows the estimated impact of the current solicitation on the average customer rates and average customer bill, which is calculated assuming a constant amount of electricity usage.

**TABLE TEN
AVERAGE CHANGE IN MONTHLY RATES AND BILLS⁹**

	Bill Amount	Change in Bill	Percentage Change
Residential	\$137.39	-\$0.06	0.0%
Small Commercial	\$115.92	\$0.01	0.0%
Medium General Service	\$1,085.26	-\$21.91	-2.0%
Large General Service	\$12,965.46	\$624.00	5.1%
General Service	\$44,459.47	\$2,452.41	5.8%

Though rates will remain steady for Residential and Small Commercial customers, there have been changes in broader energy market conditions. While energy prices have declined from the 2005-2006 RFP, capacity prices have increased with the implementation of RPM. The table below reports winning Residential bid prices across the years as well as various related market prices.

**TABLE ELEVEN
COMPARISON OF ENERGY MARKET CONDITIONS¹⁰**

Product	Prices During 2005-06 Solicitation (37-Month)	Prices During 2006-07 Solicitation	Prices During 2007-08 Solicitation	Prices During 2008-09 Solicitation	Percent Change From 2005-06	Percent Change From 2007-08
Res. and Small Comm. & Ind. (\$/MWh)	\$103.38	\$95.78	\$109.90	\$103.49	0%	-6%
NYMEX Peak PJM Electricity Futures (\$/MWh)	\$83.58	\$72.27	\$83.49	\$68.20	-18%	-18%
NYMEX Off-Peak PJM Electricity Futures (\$/MWh)	NA	NA	\$52.91	\$49.53	NA	-6%
Henry Hub Futures (\$/MMBtu)	\$9.69	\$8.03	\$8.41	\$7.15	-26%	-15%
NYMEX Central Appalachian Coal Futures (\$/ton)	\$56.66	\$43.40	\$63.77	\$66.41	17%	4%
NYMEX Light Sweet Crude Oil Futures (\$/bbl)	\$67.95	\$62.76	\$89.62	\$61.24	-10%	-32%
PJM Capacity Prices (\$/MWh)	\$4.94	\$10.37	\$18.14	\$15.84	220%	-13%

⁹ The percentage change for Residential is actually the change for the RS rate class, and the change for Small Commercial is the change for the SGS rate class. RS and SGS are each the largest of the several rate classes in the Residential and Small Commercial categories.

¹⁰ Residential and Small Commercial & Industrial prices are average load weighted prices for each solicitation. 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. Data comes from the last full trade date before the bids are due. PJM Capacity Prices are based on broker quotes for 2005-06 and 2006-07, and on PJM RPM results in 2007-08 and 2008-09.

As noted above, the price for Residential service has declined by 6 percent since last year. This decline was driven by decreases in electricity prices, which were driven by decreases in fuel prices, notably natural gas prices. 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 declined 18 percent while natural gas prices dropped by 15 percent. 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 January 2008, we were to purchase a full year of energy, from June 2009 to May 2010, in the PJM forward market it would cost an average of about \$85/MWh. If we wished to buy that same supply in January 2009, the cost would be about \$60/MWh. The figure shows a steep run up in prices through 2005, a decline through 2006, a rise through 2007, a sharp rise in the first half of 2008, and a steep decline since then. Note the aforementioned decline between the first and second tranches of this RFP.

Other price drivers have included a decrease in the cost of capacity (reflected in replacing last year's 2008-2009 RPM price with a relatively cheaper 2011-2012 RPM price), a decrease in off-peak prices, and an increase in credit and risk costs. The relatively modest change in off-peak prices, down 6 percent, may be linked to the stability in coal prices between last year and this year. Credit and risk costs stem from the FSA that bidders sign, which commits them to posting credit if market prices increase above prices bid. This provides ratepayers with protection should the bidder stop serving their contract. However, this past year has demonstrated that prices are much more volatile than initially believed. Therefore, bidders may be extra cautious in pricing their bids and allowing for credit cost recovery.

To provide a systematic check on bid prices, and to translate market conditions into expected bid prices, Boston Pacific utilized our Benchmark model. This model takes current energy market data and creates bid prices as a bidder might. Because bidders can have different opinions on many inputs, we build in distributions of key bid components. 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) – 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., District of Columbia, Maryland, and New Jersey). This familiarity allows suppliers to easily participate in multiple procurements.
- The RFP documents are the result of a collaborative process that resolves most non-price issues. The resulting product fits the needs of the consumer, the utility, and suppliers.
- Keeping the process consistent from year to year gives bidders comfort, encouraging repeat participation and new entry.
- The World Energy auction platform used for the first time this year is a simple way to conduct bid day that appears to sharply reduce the number and possible type of technical issues that can arise.

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:

- As the Technical Consultant Boston Pacific is charged with updating the Commission prior to bid day as to whether the RFP should be delayed or amended due to extraordinary circumstances. We typically look at energy market conditions and indications of bidder interest in the RFP process in order to make our opinion. Prior to actually bidding, bidders have two steps in which to indicate their interest in the process: (i) filling out an Expression of Interest (EOI) form and then (ii) registering to bid in the RFP. In our experience, not all bidders who fill out EOIs end up registering.

Our report is due approximately two weeks prior to bid day. Unfortunately, this year final bidder eligibility was not declared until November 7th, after our report was due. A more accurate picture of bidder participation may reveal that many bidders who expressed interest are not planning to participate. Such a result could be cause for us to recommend delaying or amending the RFP. Therefore, we would request that the Company schedule its issuance of eligibility status to bidders more than two weeks prior to bid day so that this information can be included in our assessment.

- PJM is preparing to move to weekly billing beginning in June, 2009. This creates something of a mismatch with the FSA, which pays suppliers monthly. This mismatch can create a credit need for a supplier. If a supplier has purchased services from PJM (e.g. capacity, ancillary services) they would have to spend cash weekly during the month to buy their services and wait for payment at the end of the month. This is in contrast to the old system, where PJM's bill was due monthly, meaning suppliers got money and paid their bills at the same time. We suggest the Company investigate the effect of weekly PJM settlement on bidder costs and also look into possible remedies such as switching the FSA to weekly settlement. We understand the Company is already looking into this matter.
- Because bidder participation is so important we would suggest that a survey be conducted with bidders and potential bidders (defined as those who have filled out EOIs in the past or participated in other related RFPs such as those in the District of Columbia, Maryland, or New Jersey). The goal of the survey would be to find out if there are any changes that could be made to increase participation and lower prices (without incurring undue risk to ratepayers). This would essentially be a more aggressive version of the "process improvement" phase that the Company goes through yearly. Delmarva could conduct the survey itself or, alternatively, Boston Pacific could perform it under our current contract.
- We encourage the Commission to give thought to collateral requirements as a potential means by which to lower bid prices. Though there are many components that make up a bidder's cost to serve full requirements service, only a few of those components can be directly affected by Commission action. Collateral is one such component. Currently bidders must post collateral if market prices rise above their bid price. While this collateral, as noted above, serves to provide ratepayers with some protection if the supplier abandons the contract, there is no limit on the amount of collateral bidders may have to post. This may be a concern to bidders as the past year has shown prices to be far more volatile than most people suspected. The Commission could act by imposing a cap on

collateral at either a specified dollar amount or as a specified percentage of the contract. This would trade off some ratepayer protection in “worst case” scenarios for potentially lower bid prices. Note that this change would only affect the collateral a bidder supplied; suppliers who default would still be obligated to pay full damages per the FSA.

- We understand Delaware conducts an Integrated Resource Planning (IRP) process. The IRP process is probably the broadest check on whether the state is moving in the right direction in terms of assuring a reliable supply of electricity at reasonable price and risk and with acceptable environmental performance. The IRP should help the Commission judge the SOS process results and, similarly, the SOS process results should help inform the IRP.
- Finally, we would encourage the Commission to think broadly about electricity supply in Delaware. The SOS process has been successful for several years in Delaware in providing the necessary supply at market prices. We do not see any need to significantly change the SOS process. However, it would be imprudent to say that significant changes were not even worth considering. For example:
 - There are several states in the Mid-Atlantic region with processes to meet electricity load needs using electricity products and auctions that are similar to Delaware’s. Coordinating these processes may hold potential benefits for all parties, especially for smaller jurisdictions such as Delaware. This coordination could be done in a number of ways and to various degrees, from establishing compatible pre-qualification processes and documents to encourage greater bidder participation, through holding joint auctions. We encourage the Delaware Commission to raise the prospect of coordination with neighboring Commissions such as those in the District of Columbia, Maryland, and New Jersey.
 - Delmarva Power & Light recently signed four contracts to supply wind power. We encourage the Commission to examine (to the extent not already done) whether these contracts will make load following for SOS suppliers more difficult and to mitigate such effects to the extent possible.
 - The ongoing recession is driving down electricity use. The Commission could investigate whether such drops in usage pose difficulties for local utilities or SOS suppliers and, if so, whether mitigation measures are appropriate.
 - The Commission may want to investigate whether there are ways to structure the full requirements product so as to increase bidder

participation. One example would be to break up the full requirements product into component products (e.g. energy, capacity and ancillary services) in an attempt to get more competitors and lower prices.

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 Commission with written reports on any issues and the status of the solicitation. Boston Pacific also met and worked with Delmarva.

On November 6th, 2008, Boston Pacific participated in a “dry run” of World Energy’s auction platform. We were able to submit multiple mock bids to test the robustness of the system, information that bidders and authorized personnel are able to see during an auction, and any system outputs created after the auction. Then we independently compared our results to the bid system output.

Boston Pacific requested to be carbon copied on all email 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.

In the week of each bid day, Boston Pacific presented the auction results and our recommendation on approval of the bids to the Commission.

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. In conclusion, we believe that Delmarva's 2008-09 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 8, 2008

**DELMARVA POWER & LIGHT COMPANY,
REQUEST FOR PROPOSALS FOR
STANDARD OFFER SERVICE 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. Since May 1, 2006, Delmarva has provided 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 has conducted 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, excluding the provision of Renewable Energy Credits (“RECs”). The supply will be procured using the World Energy reverse auction process as is more fully described in the Request for Proposals (“RFP”) documents. The solicitation is for supply agreements for varying terms up to three years. Auction dates and auction rounds 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 auction dates.

<u>Service Type</u>	<u>Delmarva</u>
Residential and Small Commercial & Industrial FP-SOS	295
Medium General Service-Secondary FP-SOS	210
Large General Service-Secondary FP-SOS	65
General Service-Primary FP-SOS	

BOSTON PACIFIC COMPANY, INC.

TOTAL

620 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 8, 2008 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 mid October 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 days 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,



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 on-peak electricity from the PJM forward market

