

**FINAL REPORT OF THE  
TECHNICAL CONSULTANT ON  
DELMARVA'S 2009-2010  
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

BOSTON PACIFIC COMPANY, INC.

Contact:

Craig R. Roach, Ph.D.  
Frank Mossburg  
Katherine Gottshall  
Andrew Gisslequist

Boston Pacific Company, Inc.  
1100 New York Avenue, NW, Suite 490 East  
Washington, DC 20005  
Telephone: (202) 296-5520  
Fax: (202) 296-5531

Email: [fmossburg@bostonpacific.com](mailto:fmossburg@bostonpacific.com)

February 16, 2010

BOSTON PACIFIC COMPANY, INC.

## TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY .....	1
	A. Introduction.....	1
	B. Reasons for Recommending Acceptance.....	1
	C. Broader Recommendations.....	3
II.	BACKGROUND .....	4
III.	RESULTS OF THE RFPs.....	6
IV.	ANALYSIS OF PRICES .....	10
V.	DISCUSSION OF PROCESS.....	13
VI.	RECOMMENDATIONS.....	16
VII.	CONCLUSIONS.....	17

## ATTACHMENTS

## **LIST OF ATTACHMENTS**

### ATTACHMENT

### DESCRIPTION

ONE

Delmarva's Press Release

TWO

PJM Monthly On-Peak Electricity Futures Prices

## **I. EXECUTIVE SUMMARY**

### **A. Introduction**

Delmarva Power & Light Company (“Delmarva” or “the Company”), annually procures full requirements supply for its Standard Offer Service (SOS) customers through a Request for Proposals (RFP). SOS Service is for ratepayers who elect not to utilize a third-party supplier. Boston Pacific Company, Inc. (“Boston Pacific”) served as the Technical Consultant to the Delaware Public Service Commission (“Commission”) for the 2009-2010 RFP for Full Requirements Wholesale Electric Power Supply, as we have done for the past four years. The purpose of this report is to provide the results of the RFP and to detail our actions and recommendations as Technical Consultant.

By way of background, Boston Pacific has extensive hands-on experience monitoring most of the major full requirements solicitations in the country, including the solicitations for: Delaware, the District of Columbia, Illinois, Maryland, New Jersey, Ohio, and part of Pennsylvania.<sup>1</sup> Additionally, we design and monitor unit-contingent procurement processes, which solicit bids for long-term contracts from individual power plants and other resources. Examples include our engagements in Mississippi, Oklahoma, Oregon, and the Virgin Islands. Boston Pacific also has served since 2004 as a Market Advisor for the Southwest Power Pool Regional Transmission Organization.

### **B. Reasons for Recommending Acceptance**

Soon after the completion of each of the two bid days in this years’ RFP, Boston Pacific appeared before the Commission to recommend that the Commission accept the results. We made this recommendation for four reasons. First, prices were in line with market conditions. Second, there was sufficient competition. Third, the process design was open, fair, and transparent and conducted in accordance with Commission Orders and as envisioned in the RFP documents. Fourth, there were no issues with the bid day process which would invalidate the results.

#### **1. Prices in Line with Market Conditions**

We found prices to be in line with market conditions. The average winning price for three years of Residential and Small Commercial and Industrial (RSCI or Residential) service was \$89.95/MWh, a 13 percent decrease from last year. This decline was both expected and in line with broader market conditions, which saw sharp drops in energy prices over the past year. As a further check on prices, we compared winning bids on both bid days to the output of our

---

<sup>1</sup> Boston Pacific monitors many of the major full requirements solicitations in the country, including our engagements for (a) New Jersey’s 2007, 2008, 2009, and 2010 Basic Generation Service (BGS) Auctions, (b) the 2005 through 2010 Standard Offer Service (SOS) Request for Proposals (RFPs) for the District of Columbia, (c) Delaware’s 2007 through 2010 SOS RFPs, (d) Maryland’s SOS RFPs in 2004, 2005, 2006, and 2010 for all four utilities, (e) Allegheny Power’s 2009 RFP for full requirements supply in Pennsylvania, (f) the 2006 Illinois Auction and 2008, 2009, and 2010 Illinois RFPs, and (g) First Energy’s 2009 Auction for its Ohio load.

Benchmark model. This model looks at current data for components of the full requirements product and generates a range of reasonable bids given that data. For both bid days, winning bids were within a reasonable range, as determined by the model. When compared to the RSCI contracts being replaced (procured in the 2006-2007 RFP), the winning bids are 6.1 percent lower.

On the commercial side, the average winning price was \$87.37/MWh for Medium General Service (MGS) customers, \$82.38/MWh for Large General Service (LGS) customers, and \$80.44/MWh for General Service (GS) customers. These represent changes ranging from about a 12 percent to a 21 percent decline compared to last year's prices for these customers. Again, these declines were expected given the decrease in energy costs over the past year.

As a result of this RFP, rates for RSCI customers are estimated to drop by about 1.2 percent. This decrease is driven by the difference in price between the contracts being replaced and the new winning bids, which, as noted, were about 6.1 percent less expensive. The rate decrease is smaller than the difference in bid prices because only one-third of the RSCI load is bid out and because the total bill contains some items unrelated to SOS service. Rates are estimated to decline between 8 percent and 21 percent for MGS, LGS, and GS customers.

## **2. Sufficient Competition**

We found the level of competition to be satisfactory. In total, this year there were 11 eligible bidders and 9 actual bidders. This is the same number of bidders as last year. In our experience this is satisfactory participation. It is also important to note that no bidders were denied registration. In addition, there was a diversity of winners, as five bidders won some share of supply.

In addition to the 5 winning bidders this year, 3 other firms are supplying part of the RSCI need through contracts won in the previous two years' RFPs. Therefore, going forward, there are 8 bidders who will be providing the total SOS need in 2010-2011. This represents a healthy diversity of suppliers for the State.

## **3. Process was Open, Fair, and Transparent**

We found the RFP was inherently and structurally open, fair, and transparent. We concluded this because all of the non-price terms and conditions were standardized, all of the suppliers, including utility affiliates, sign the same supply agreement and provide the same product, and all of the bid evaluation was done purely based on price. This price-only bid evaluation of a standard product is the ultimate in transparency. In addition, Delmarva conducted the RFP as directed in the Commission Orders and envisioned in the RFP documents. This is significant because conformance is the Commission's primary standard of review for the RFP.

#### **4. No Process Issues on Bid Days**

There were no issues during either of the two bid days which would have led us to invalidate the results of the RFP. There were no major technical difficulties and all bids submitted within the designated time window were considered in determining the winning suppliers. Additionally, we believe that all security protocols were properly followed and that no confidential information was provided to unauthorized sources.

#### **C. Broader Recommendations**

The Delmarva SOS RFP does what it was designed to do very well. That is, it attracts a diversity of suppliers who reliably deliver full requirements service at a reasonable price with some measure of rate stability. This is not insignificant, “old line” utilities provided full requirements service, but never at fixed prices nor with reliability guarantees. If the Commission wishes, it may continue to employ the same process in the future without any major modifications.

Stepping back however, we want to note that the SOS RFP was never meant to be a “policy for all seasons” – i.e. a substitute for a comprehensive energy policy. Currently, many state and federal governments are setting policy goals such as dictating a specific mix of generating resources or implementing demand-side management measures such as Advanced Metering Infrastructure (AMI).

Going forward the Commission should choose the procurement methods and initiatives it feels will best benefit ratepayers, whether that means continuing with SOS RFPs such as this, integrating other resources (such as the PPA with Bluewater Wind) or switching to other procurement methods entirely. We would simply add that care must be taken to make sure (a) the promised benefits are actually realized by ratepayers and (b) that changes do not unintentionally damage the current SOS process.

## II. BACKGROUND

Delmarva provides SOS supply to all ratepayers who elect not to utilize third-party suppliers. To provide SOS, Delmarva acquires electricity supply through an auction in which bidders pledge to provide a percentage (not a fixed number of MWs) of a customer class's electricity need at a fixed price. Each customer class's electricity need, or peak load, is divided into approximately 50 MW blocks (when possible) for suppliers to bid on. When a supplier bids, they pledge to provide full requirements service, which includes all elements of wholesale electricity supply except network transmission – it includes energy, capacity, congestion costs, ancillary services, and losses.<sup>2</sup> Bids are ranked strictly on the basis of price with the lowest-priced bids winning the right to supply the SOS service.

Delmarva completed its first energy procurement solicitation in February 2006. Since then Delmarva has held two separate bid days each year where they received and ranked bids for four different customer classes. In the 2009-2010 solicitation, Delmarva successfully solicited full requirements service for approximately 533 MW of peak load contribution (“PLC”).

Bid days were held on November 30, 2009 and January 25, 2010. Bids for Standard Offer Service were received and ranked for each the four different customer classes: (i) Residential and Small Commercial and Industrial, (ii) Medium General Service – Secondary, (iii) Large General Service – Secondary, and (iv) General Service – Primary. Table One outlines the distribution of the load among the four different customer classes. The column called “SOS Bid Out” shows the Peak Load Contribution (PLC) bid out in this RFP for customers taking SOS at the time of bidding. The column called “Eligible Bid Out” shows the PLC for all eligible customers in the class, whether they take SOS or not; the difference between the Eligible and SOS bid out columns reveals the PLC for customers who have an alternative retail supplier. The final two columns show the percent of total load eligible to be bid out, and the duration of the contracts. Note that one third of the RSCI supply is bid out each year while commercial supply is bid annually in its entirety.

---

<sup>2</sup> Bidders are 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.

**TABLE ONE  
DELMARVA BID PLAN INFORMATION  
CAPACITY PLC (MW) <sup>3</sup>**

Service Type	SOS Bid Out	Eligible Bid Out	Total Eligible SOS Load	Percent of Eligible Load Bid Out	Dates of Service
Residential	300.8	310.2	930.6	33%	June 1, 2010 - May 31, 2013
MGS	173.7	281.8	281.8	100%	June 1, 2010 - May 31, 2011
LGS	20.6	106.9	106.9	100%	June 1, 2010 - May 31, 2011
GS	38.0	422.7	422.7	100%	June 1, 2010 - May 31, 2011
Total	533.1	1121.6	1742	64%	-

For the Residential class Delmarva sought 36-month contracts to supply about one-third of the total need, the remaining two-thirds will be supplied under 36-month contracts procured in 2007-2008 and in 2008-2009. This tiering of bids helps reduce the price volatility for these customers. For commercial customers, Delmarva procures annual contracts for 100% of their needs.

---

<sup>3</sup> The SOS and Eligible PLC bid out for Residential and MGS were obtained from Tranche Two's bid plan, which varies slightly from Tranche One's final bid plan. The amounts bid out for LGS and GS are from the Tranche One bid plan.

### III. RESULTS OF THE RFPs

This section of the report describes the results of the RFP. We begin analyzing the results by looking at participation. Table Two, below, shows the number of potential bidders who submitted expression of interest forms (EOIs), the number of eligible bidders, and the number of actual bidders.<sup>4</sup> As shown in Table Two the number of entities that were eligible to bid declined slightly from last year by just one bidder.

The number of bidders this year was equal to the number last year, remaining sufficiently high at nine actual bidders. However, this number of bidders is slightly below the number of bidders in recent years. There are a number of potential explanations: This decline in participation may be more or less permanent if it results from a consolidation of trading and generating entities or if some firms, especially financial firms, are winding down their trading operations as they become more selective about directing scarce capital. Alternatively, this participation drop in the last couple years may be somewhat temporary, driven by lower electricity prices leading to less attractive profit margins. In any case, the number of bidders should continue to be closely monitored, with an eye to ensuring sufficient participation in future procurements.

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

Number of Bidders	2006-07	2007-08	2008-09	2009-10
EOIs:	20	18	26	24
Eligible Bidders:	14	12	12	11
Actual Bidders:	11	11	9	9

The bid format used was a multi-round auction on the World Energy Auction Platform. In this bid format bidders essentially bid on one “block” of supply at a time. Every 15 minutes bidding closes for a block and the bidder with the lowest bid wins the right to supply at that price. Active bidders can see (a) their bid history, (b) the current low bid for a block, and (c) the winning price for each block. Bidders may submit as many bids as they wish until bidding closes.

Table Three shows a summary of what was solicited, the number of bidders who participated by product, the average bids received for each block, and the average winning price for each product in each tranche. As noted previously, Delmarva solicited bids to fulfill load obligations for each of four product types: (1) Residential and Small Commercial and Industrial (RSCI), (2) Medium General Service – Secondary (MGS), (3) Large General Service –

---

<sup>4</sup> The bidders who chose not to participate informed Delmarva of the fact before bids were due.

Secondary (LGS), and (4) General Service Primary (G-PS). Results are groups by product type and tranche.

**TABLE THREE  
SUMMARY OF RESULTS**

Product		Total MW Solicited / Awarded	Number of Blocks	Number of Bidders		Average Number of Bids Per Block	Average Winning Load Weighted Average Bid (\$/MWh)
				Qualified	Actual		
Tranche One	RSCI	149.7	3	10	7	15.3	\$89.54
	MGS	89	2	10	5	10.5	\$86.50
	LGS	20.6	1	10	4	7.0	\$82.38
	GS-P	38	1	10	3	7.0	\$80.44
Tranche Two	RSCI	150.3	3	11	8	19.0	\$90.35
	MGS	86.8	2	11	6	12.5	\$88.24
Total		534.4	12	11	9	13.6	--

We draw our attention to three facts in Table Three. First there was an additional bidder who qualified and submitted bids for Tranche 2. Second, prices rose very slightly from the first bid day to the second. Third, the level of competition (as measured by the average number of bids per block) was higher in the second tranche. We note that this metric is not perfect as, given the auction format, bidding on each block can be affected greatly by the timing of bids. Sometimes an early and aggressive offer by one party may serve to keep other bidders from bidding their minimum prices if that price has already been surpassed. We also note that looking at another metric, the average number of bidders within 5% of the winning price, indicates that the level of competition increased in the second tranche.

Importantly, Table Four compares the winning Load Weighted Average bid prices for this solicitation to previous years. On the whole, the average Residential winning bid was about 13 percent lower than last year and bids for the other three customer classes were anywhere from about 12 percent to about 21 percent lower than last year.

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

Product	Winning Bids Load Weighted Average Price (\$/MWh)				Percent Change	
	2006-07	2007-08	2008-09	2009-10	From 2006-07	From 2008-09
RSCI 36-Month	\$95.78	\$109.90	\$103.49	\$89.95	-6.1%	-13.1%
MGS 12-Month	\$92.90	\$101.53	\$98.95	\$87.37		-11.7%
LGS 12-Month	\$98.00	\$97.23	\$103.33	\$82.38		-20.3%
GSP 12-Month	\$92.15	\$95.80	\$101.97	\$80.44		-21.1%

Also, in Table Four, note the column labeled “Percent Change from 2006-07”. For Residential customers this reflects the difference between the current bids and the bids that are being replaced, the three-year contracts procured in the 2006-2007 RFP. This number drives the final Residential rate impact shown in Table Five. The reason this difference does not match the Residential rate change is because only a portion of the Residential load (roughly one-third) 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, including transmission and distribution. The one-year contracts for commercial customers are simply replacing contracts from last year, so the column “Percent change from 2008-09” informs the rate impact for these customers.

Table Five, shows the estimated impact of the current solicitation on the average customer bill, which is calculated assuming a constant amount of electricity usage. As can be seen here, a 1.2% rate decrease is expected for Residential customers. For the other three classes the rate decrease ranges from 8.2% for MGS customers to 20.7% for the GS customers.

**TABLE FIVE  
ESTIMATED AVERAGE CHANGE IN MONTHLY BILLS**

AVERAGE MONTHLY BILL CHANGE			
	Bill Amount	Change in Bill	Percentage Change
RS	\$135.90	-\$1.65	-1.2%
SGS	\$118.28	-\$1.10	-0.9%
MGS	\$1,028.82	-\$91.76	-8.2%
LGS	\$11,359.82	-\$2,080.96	-15.5%
GS-P	\$30,878.98	-\$8,082.10	-20.7%

Finally, 5 of the 9 bidders in this year's solicitations won a share of supply: American Electric Power Service Corp., Conectiv Energy Supply, Inc., Constellation Energy Commodities Group, DTE Energy Trading, Inc., and NRG Power Marketing, Inc. A large number of winners is beneficial because : (a) it helps keep a larger number of participants active in future RFPs, (b) it sends an encouraging signal to potential new entrants that no bidder or bidders have a monopoly on the market, and (c) it lowers 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.

Table Six shows the percentage of the load each supplier will serve in 2010-11 across all four products. The three Commercial products are served by the winners of this year's RFP, while the Residential load for 2010-11 will be served by the winners of Residential load from this RFP as well as from the 2007-08 and 2008-09 auctions.

**TABLE SIX  
LIST OF SOS SUPPLIERS AND PERCENT OF SUPPLY SERVED  
JUNE 2010 TO MAY 2011**

Supplier Name	Percentage of 2010-11 Load Served
HESS Corporation	31%
Conectiv Energy Supply, Inc.	22%
Constellation Energy Commodities Group	19%
NRG Power Marketing, Inc.	9%
American Electric Power Service Corp	6%
DTE Energy Trading, Inc.	4%
Macquarie Cook Power	4%
PPL EnergyPlus, LLC	4%
Total	100%

#### IV. ANALYSIS OF PRICES

We also compared the prices received in the RFP to market prices on bid days and to results from solicitations in nearby jurisdictions. The purpose of this section is to provide background for the conclusion that winning prices in these solicitations were in line with market conditions.

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 market data for all components of the SOS product and calculates a bid price 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 winning bids were in the range of what we would expect to see based on the state of the markets.

Another way in which we reviewed prices was to compare prices received to previous winning prices and to broader market conditions, to see if changes in these market conditions were evident in bid prices. Table Seven shows this comparison for the RFPs from 2006-2007 to the present. The changes in bid prices appear driven largely by changes in market prices.

**TABLE SEVEN  
COMPARISON OF ENERGY MARKET CONDITIONS<sup>5</sup>**

Product	Prices During 2006-07 Solicitation	Prices During 2007-08 Solicitation	Prices During 2008-09 Solicitation	Prices During 2009-10 Solicitation	Percent Change From 2006-07	Percent Change From 2008-09
Res. and Small Comm. & Ind. (\$/MWh)	\$95.78	\$109.90	\$103.49	\$89.95	-6%	-13%
NYMEX Peak PJM Electricity Futures (\$/MWh)	\$72.27	\$83.49	\$68.20	\$60.80	-16%	-11%
NYMEX Off-Peak PJM Electricity Futures (\$/MWh)	--	\$52.91	\$49.53	\$41.67	NA	-16%
Henry Hub Futures (\$/MMBtu)	\$8.03	\$8.41	\$7.15	\$6.51	-19%	-9%
NYMEX Central Appalachian Coal Futures (\$/ton)	\$43.40	\$63.77	\$66.41	\$59.64	37%	-10%
NYMEX Light Sweet Crude Oil Futures (\$/bbl)	\$62.76	\$89.62	\$61.24	\$81.15	29%	33%
PJM Capacity Prices (\$/MWh)	\$10.63	\$18.09	\$16.73	\$15.97	50%	-5%

<sup>5</sup> 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 2006-07, and on PJM RPM results in 2007-08, 2008-09, and 2009-10.

In reviewing this table we can see that the year-to-year change in bid prices, a 13 percent decline for RSCI customers, was driven chiefly by declines in energy prices. In the past year, electricity prices for the related three year residential service period, as represented by the PJM Peak futures market on the NYMEX exchange, have declined 11 percent while off-peak prices declined by 16 percent.

A graphic representation of the trend in energy prices 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 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 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, a steep decline in the second half of 2008 and fairly steady prices throughout 2009.

Looking further into the data we can see that the declines in energy prices appear, to some extent, to be a reaction to declining fuel prices. Natural gas prices for the upcoming three-year service period dropped by 9 percent and coal prices dropped by 10 percent. Note that this data suggest there is more going on than just fuel price declines, as oil prices have risen, and energy costs have dropped more than fuel costs. A possible cause for this could be a further decrease in expected demand, which would lead generators to shut off less efficient units.

Another factor in declining RSCI prices is the cost of capacity. The cost of capacity for Delaware is derived from PJM's Reliability Pricing Model (RPM) Base Residual Auction results. The RPM prices resulting for the Delmarva region were 5 percent lower for this 2009-2010 solicitation than for last year's solicitation because the 2012-2013 RPM price was a little lower than the 2008-2009 RPM price being replaced.

A final, though hard to measure, factor in declining prices is lower credit and risk costs. These costs enter into bid prices from the FSA that bidders sign, which commits them to posting credit if market prices increase above prices bid, and from bidders' exposure to electricity price changes before they have fully hedged their bids. These costs appear to be lower this year than last year. Electricity prices have been mostly flat over the past year, lowering the perceived risk of sharp price changes. There has also been a decline in general market risk and credit costs since late 2008. Financial market risk is often measured by the Chicago Board Options Exchange Volatility Index, while one common indicative measure of credit costs is the TED spread.<sup>6</sup> Both have declined very sharply since the end of 2008.

If we compare the current winning prices to the contracts that are being replaced, which again came from the 2006-2007 RFP, the story is a bit different. As before, the major price decrease was driven by lower energy costs, which derive from lower natural gas prices. However, this decrease in energy prices was offset to some degree by increases in capacity prices

---

<sup>6</sup> The TED spread is the difference between the interest rate on interbank loans and short-term U.S. government debt.

with the implementation of RPM. Capacity prices increased, in our estimation, by 50 percent, which helped limit the decline in prices to only 6 percent.

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 \$96/MWh.<sup>7</sup> This result is roughly in line with Delaware's RFP once we account for New Jersey bid prices including network transmission and the cost of meeting the State Renewable Portfolio Standard.

Maryland is another state which procures SOS service and has some public data available. For the current Maryland 2009-10 RFP only the October and January bid days have occurred, with the October bid day procuring the majority of the residential supply. Participation in the October bid was between 4 and 9 bidders, depending on the utility. This is in line with the level of participation in Delaware.

Maryland does not disclose prices, but provides estimated average bill changes. After the October bid day Maryland PSC Staff estimated average bill decreases ranging from 2.2 to 7.0 percent for Pepco's, Delmarva Power's and Baltimore Gas and Electric's residential customers. To compare this rate change to Delmarva's rate change it is important to know that Maryland utilities were replacing supply from two years ago, when power was more expensive. If Delmarva was replacing power from the 2007-2008 RFP their rate changes would have been in line with the Maryland utilities.

Lastly, Pepco recently filed rates resulting from its SOS procurement in the District of Columbia (which is very similar to Delaware's). The 2010-2011 rates show a decrease of about 1 percent for Residential customers. This is similar to the change in Delmarva's Residential rates.

---

<sup>7</sup> See results at <http://www.bpu.state.nj.us/bpu/newsroom/news/pdf/20100211.pdf>

## **V. DISCUSSION OF PROCESS**

Beyond analyzing the results of each bid day, Boston Pacific, as the Technical Consultant to the Delaware Public Service Commission, was charged with monitoring the implementation of Delmarva's RFP. This meant ensuring that the RFP was carried out according to Commission Orders and in the manner proscribed in the RFP documents. Following are descriptions of key steps in this process.

### **a. Advertising the RFP and Establishing a Website**

The solicitation process was designed to attract as many credible suppliers as possible to assure the most competitive prices possible. Delmarva issued a press release announcing the RFP on October 7<sup>th</sup>, 2009.<sup>8</sup> As scheduled, Delmarva's RFP website went active the same day 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 24 entities that showed interest in the process by filling out an Expression of Interest (EOI) form from the RFP website. This number is slightly lower than last year (26), but higher than in 2006-07 (18) and 2007-08 (20).

### **b. Pre-Bid Conference and Follow Up**

Delmarva held its pre-bid conference at their Newark, Delaware office on October 29<sup>th</sup>, 2009. Boston Pacific was in attendance for this event. One representative from a potential bidder joined the conference in person, with an additional 9 bidders participating on the phone and internet via WebEx.

The meeting featured a review of the RFP process as well as information regarding changes from the previous year. Delmarva was well prepared for the bidders' conference as demonstrated by the information provided. Delmarva also gave an overview of the World Energy platform, on which bidders would be submitting bids. Few questions were asked during the meeting. We believe the lack of questions about the RFP process and documents demonstrates the suppliers' experience with this type of RFP.

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.

### **c. Pre-qualifying bidders**

As mentioned, there were 24 entities that showed interest in the process by 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 30<sup>th</sup>, 2009. Initial bidder eligibility was determined and issued on November 6<sup>th</sup>, 2009. 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

---

<sup>8</sup> See Attachment One for a copy of the press release.

costs) by November 11<sup>th</sup>, 2009. Eleven bidders submitted the full set of required eligibility documents. All suppliers that submitted eligibility documents were declared eligible to participate in the solicitation process.

Leading up to the first bid day there was an issue with a bidder wishing to change their credit package after the deadline for such changes. After discussions with Boston Pacific, Delmarva decided not to allow the bidder to make the requested changes. The reasons were that (a) the bidder had been qualified with its original credit package, (b) the bidder had more than enough time to alter its package to address its concerns and propose an alternate package prior to the registration deadline, (c) it would not be fair to other bidders, and (d) it would establish a precedent that would threaten the current fixed deadlines 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**

Two tests of Delmarva's electronic systems were conducted; each proceeded smoothly. First, 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.

Second, 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.

#### **e. Conducting the RFPs**

On November 30<sup>th</sup>, 2009 and January 25<sup>th</sup>, 2010, 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, (c) personnel from World Energy, and (d) for Tranche 2 personnel from the Commission (Commission personnel monitored Tranche 1 bidding remotely). During each bid day Boston Pacific was present from 9 a.m. through the final ranking of bids.

The bids were received by World Energy Solutions' reverse auction platform. This format allows the bidder to view the current lowest offer during the auction, presenting the bidder with a competitor's price they would have to beat to secure the block of power. The point of the auction is to pit bidders against each other to secure the best price for ratepayers. This format relies upon bidders' awareness of the actions of other bidders to attempt to drive prices down. To be able to see other bids, bidders must submit a bid below a starting price which is set ahead of time for each product by Boston Pacific and World Energy.

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 gets bid 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. The hope is that losing bidders will become more competitive in the following rounds so as not to lose the opportunity to supply the load, thus bidding down the price as far as possible.

Boston Pacific provided the Commission with a briefing on the bid results by the end of each bid week, consistent with the Commission's schedule. Those briefings included detailed information on (a) bidders (number of eligible bidders, number of actual bidders, number of bids by product type), (b) winners (name of winners, megawatts won, and percent of load served by supplier for the 2010-2011 service year), (c) prices, and (d) 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.

## VI. RECOMMENDATIONS

The Delmarva SOS RFP does what it was designed to do very well. That is, it attracts a diversity of suppliers who reliably deliver full requirements service at a reasonable price with some measure of rate stability. This is not insignificant, “old line” utilities provided full requirements service, but never at fixed prices nor with reliability guarantees. If the Commission wishes, it may continue to employ the same process in the future without any major modifications.

Stepping back however, we want to note that the SOS RFP was never meant to be a “policy for all seasons” – i.e. a substitute for a comprehensive energy policy. Currently, many state and federal governments are setting policy goals such as dictating a specific mix of generating resources or implementing demand-side management measures such as Advanced Metering Infrastructure (AMI).

For example, in order to achieve a certain resource mix and ensure reliability, some Commissions have considered longer-term unit-contingent RFPs. Another initiative in many areas is to increase demand-response resources. Smart Grid and AMI are very popular elements of the current vision for the future and many States are trying to integrate these programs (which depend on ratepayers responding to prices in real-time) with procurement schemes like the SOS RFP, which feature stable pricing.

Going forward the Commission should choose the procurement methods and initiatives it feels will best benefit ratepayers, whether that means continuing with SOS RFPs such as this, integrating other resources (such as the PPA with Bluewater Wind) or switching to other procurement methods entirely. We would simply add that care must be taken to make sure (a) the promised benefits are actually realized by ratepayers and (b) that changes do not unintentionally damage the current SOS process. For example, any long-term unit contingent RFP should be closely coordinated with PJM to ensure that the new capacity really would lower the RPM price and provide congestion relief and consideration should be taken for how the resource will bid into the SOS RFP. In the case of AMI implementation, the process should be meshed so that suppliers have access to the data to properly price their product.

## **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 recommended acceptance of the RFP results based on four factors. First, prices were in line with market conditions. Second, there was sufficient competition. Third, the process design was open, fair, and transparent and conducted in accordance with Commission Orders and as envisioned in the RFP documents. Fourth, there were no issues with the bid day process which would invalidate the results.

In conclusion, we believe that Delmarva's 2009-10 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 I**



A PHI Company

October 7, 2009

**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	300
Medium General Service-Secondary FP-SOS	180
Large General Service-Secondary FP-SOS	20
General Service-Primary FP-SOS	<u>30</u>
TOTAL	530 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 7, 2009 is as follows:

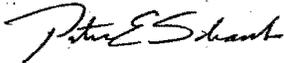
Delmarva: [www.delmarva.com/derfp](http://www.delmarva.com/derfp)

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 late 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 II**

**Figure One: NYMEX Futures Price for Peak Electricity at the PJM Western Hub Long -Term**

