FINAL REPORT OF THE
TECHNICAL CONSULTANT ON
DELMARVA'S 2006-07
REQUEST FOR PROPOSALS
FOR FULL REQUIREMENTS WHOLESALE SUPPLY
TO DELAWARE'S STANDARD OFFER SERVICE CUSTOMERS

PRESENTED TO

THE DELAWARE
PUBLIC SERVICE COMMISSION

BY

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ONE	Delmarva's Press Release Notification to the Public
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I. EXECUTIVE SUMMARY

In November 2006 and January 2007, Delmarva held two separate bid days in which they received and ranked bids for four different customer classes: (i) Residential and Small Commercial and Industrial ("Residential"), (ii) Medium General Service – Secondary, (iii) Large General Service – Secondary, and (iv) General Service Primary. Each bidder pledged to provide full requirements wholesale supply service for a percentage share of a customer class's electricity needs. Full requirements service includes all elements of wholesale electricity supply except network transmission – that is, it includes capacity, energy, ancillary services, renewable energy, and losses, etc.

A. Summary of Findings and Results

Boston Pacific Company, Inc. ("Boston Pacific") served as the Technical Consultant to the Delaware Public Service Commission ("DE PSC" or "Commission") and was charged with monitoring the implementation of Delaware's Request for Proposals ("RFP"). The Technical Consultant is required to provide this Final Report with the purpose of (a) summarizing its findings, (b) documenting the record of the RFP, and (c) providing recommendations on how to improve the process in the future.[1] While there are many detailed requirements for the Technical Consultant, Boston Pacific was guided by the Commission's 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. To assess whether this goal was realized, we answered the following eight questions.

1. Was all the need successfully filled?

Yes. Delmarva sought and successfully contracted for six blocks of Residential need (about 301 MW of peak need which is one third of the total need for that class). Delmarva also sought and successfully contracted for six blocks of need for the three commercial classes (about 250 MW of peak need which is 100% of these classes' total needs).

2. Was there robust competition in the solicitation?

Yes. There were eleven different bidders including a wide range of power marketers and some of the most well-known electricity companies. On average Delmarva received 7.2 MW bid for every MW solicited. Moreover, of the eleven bidders, eight won some portion of the load. Based on our experience, the competition was very robust.

[1] Pursuant to the Delaware Public Service Commission's Order No. 7053 at pp. 27 to 28, the following information can be released 21 days after the Commission's selection of the winning bidders for the final tranche: (1) aggregate information about bids received and winning bids; (2) the names of the winning bidders for each customer class; (3) the percentage of load won by each winning bidder (by name) for each customer class; and (4) retail rates for the upcoming contract period beginning June 1, 2007.

3. How do bid prices compare to prices from last year's solicitation?

Bid prices this year are lower than those of last year. Residential prices are approximately 5% lower and medium to large commercial prices range from 12% to 17% percent lower. The average winning load-weighted bid price per MWh was $95.78 for Residential customers, $92.90 for Medium General Service customers, $98.00 for Large General Service customers, and $92.15 for General Service Primary customers.

4. Were bid prices in line with market conditions?

Yes. According to Boston Pacific's analysis, bid prices were in a range that accurately reflected market conditions. Boston Pacific calculates a range of possible bid prices based on market prices for the components of full requirements service and the uncertainty surrounding these components. Energy market conditions during this RFP were very different from those during last year's RFP. It is important to note that, prior to the 2005-2006 solicitation, prices for fuels used to generate electricity rose dramatically when compared to prices a year earlier, with Hurricanes Katrina and Rita exacerbating the problem. However, as compared to last year's energy prices, this year's energy prices have come down. For example, natural gas forward prices are down 24%. Electricity prices, as indicated by PJM forward energy prices, are down 19%.

Even though energy prices were down as compared to last year, capacity prices were significantly higher than those seen during last year's solicitation. These higher costs for capacity are most likely offsetting most of the impacts of the lower energy prices. A few potential causes of higher capacity prices include: (i) increasing demand for electricity, (ii) new generating capacity not keeping up with that increasing demand, and (iii) the pending introduction of PJM's new capacity market, the Reliability Pricing Model ("RPM").

5. What is the impact on rates?

Rates will decrease for all customers in Delaware; however, the decrease for the Residential class is very small. The portfolio approach used here for that class protects consumers from being subject to the full effects of large increases in SOS prices, but it also dampens the effect of price declines. By portfolio approach we mean that two-thirds of the electricity needs of this class for 2007-08 was procured last year through multi-year contracts; only one-third was procured in this solicitation. This year the portfolio approach dampens the decrease seen in bid prices. As was stated previously, bid prices for Residential customers are down 5% from last year; however, since that decrease only relates to one-third of the SOS load, the total bill impact is dampened. The final rates for Residential customers decreased by only 0.8%.[2]

Delmarva only solicits one-year contracts for the larger classes of customers (Medium General Service – Secondary, Large General Service – Secondary, and General

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[2] The rate impacts reflected in this report are based on Delmarva's *projection.* A formal rate filing has not been filed with the Delaware PSC and therefore these rate impacts are not final.

Service Primary). There is no portfolio effect here. The idea here is that SOS prices will better reflect market conditions each year allowing Alternative Energy Suppliers to compete. Prices for both the medium and large customer classes were lower than last year's prices and the resulting rates decrease anywhere from 10% to 16%.

6. Did Delmarva run the solicitation in conformance with Commission Orders on the RFP?

Yes. We found that Delmarva conducted the solicitation in conformance with Commission Orders on the RFP. This is significant because conformance is the Commission's primary standard of review for the RFP.

7. Were the bid days secure?

Yes. 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 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. To do so, utility personnel with access to the bids on bid day were limited to those in the bid room.

8. Was there an *extraordinary* event or circumstance that required a change to the bid process?

No. Based upon our review of current energy market conditions there was not an extraordinary circumstance prior to the bid days that that would require the Commission to defer the schedule or modify the terms.[3] In our opinion nothing unusual occurred that had a material impact on solicitation.

B. Recommendations

1. Process Specific 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 to determine the winners. This eliminates any subjectivity and, thereby, assures transparency. The fact that the RFP documents are the result of a collaborative process also adds to the transparency. The full requirements wholesale supply service solicited here is a high-value product for Delaware ratepayers. Key to this value is the fact that the winning suppliers of Residential customers take on market risk – they serve a percentage

[3] *See* Order No. 7053 at p. 27. It is our understanding that the term *extraordinary* is not limited to any one circumstance, but rather extreme events such as hurricanes or acts of terrorism. It is also our understanding that high prices that appear to be in-line with market conditions are not classified as extraordinary.

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:

- In order to encourage more competition, we recommend that parties explore altering the RFP and Full Requirements Service Agreement to allow bidders to use a foreign guarantor.

- Delmarva and the Commission should continue to work with stakeholders and potential suppliers to determine if there are any improvements that can be made to the process.

- Next year, it is expected that at least five jurisdictions (MD, DC, NJ, DE, and IL) will be soliciting bids within three months of each other. We recommend that the Commission explore whether or not this will affect bidders' interest in the Delaware solicitation.

- Since the eligibility documents are very similar in the other jurisdictions (MD, VA, and DE) that Delmarva is soliciting SOS, we suggest examining the possibility of streamlining the eligibility process.

- To avoid discouraging participation in the SOS process next year, we recommend that parties work to clearly resolve how the SOS process and the unit contingent RFP contract(s) will be integrated. It is recommended that this be determined well in advance of next year's solicitation.

- We suggest the Commission continue to explore the possibility of offering different contract-term lengths such as three consecutive one-year contracts or a five-year contract.

- We suggest that Delmarva develop a procedure for ensuring that the most up to date load data be posted and that this data is provided at least a week prior to the each tranche.

2. Assessing Market Conditions

Delmarva solicits bids for full requirements service, which includes but is not limited to, capacity, energy, ancillary services, losses, and renewable energy. The underlying markets for these components of full requirements service are constantly evolving. No solicitation process can hide the effects of changing market conditions; that is, if energy prices are up, prices will also be up here. We see evidence of the effects of changing market conditions in this year's solicitation.

As you are aware, on-peak electricity futures have decreased since last year's solicitation, however, retail rates for Residential customers will remain relatively flat. The main driver behind this is the increased cost of capacity. In addition, PJM's upcoming move to Marginal Loss Pricing for transmission losses could have also created some upward pressure on prices.

Given this, we suggest that the Commission work with PJM and the Organization of PJM States, Inc. ("OPSI") to routinely assess market conditions and to determine what actions can be taken to improve market conditions (e.g. new transmission lines, new power plant sites, etc.).

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 Power and Light Company ("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 issued a Request for Proposals ("RFP") and completed its first energy procurement solicitation in February 2006. Since then, the following events occurred which led to this year's RFP process: (a) on April 6, 2006 the Delaware legislature enacted the Electric Utility Retail Customer Supply Act of 2006, (b) on June 20, 2006 the Commission issued an order designating issues to be addressed in order to improve the solicitation process, (c) the Commission approved issues in which stakeholders were in a consensus, and (d) the Commission approved the RFP documents including the Full Requirements Service Agreement for the second year of bidding.

In October 2006, the Commission selected Boston Pacific to monitor Delmarva's second SOS RFP process and, on October 16, 2006, Delmarva launched its 2006-2007 SOS solicitation. In November 2006 and January 2007, 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 550 MW of peak load contribution ("PLC").

B. Product Offering

Delmarva's 2006-2007 RFP for Delaware sought a total of 550.9 MW of PLC for full requirements SOS service. Table One below outlines that distribution among the different customer classes. The column called "SOS" shows the PLC for customers taking SOS at the time of bidding. The column called "Eligible" shows the PLC for all customers; the difference between the Eligible and SOS reveals the PLC for customers who have chosen another retail supplier.

TABLE ONE
DELMARVA BID PLAN INFORMATION
CAPACITY PLC (MW)

Service Type	SOS	Eligible
Residential	300.9	306.3
MGS	175.5	260.7
LGS	29.4	102.5
GSP	45.1	438.6
Total	550.9	1,108.1

Note that suppliers were bidding to 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. Due to the small amount of load for small commercial and industrial customers, these classes were combined with the Residential class to force suppliers to bid on these classes together.

For the Residential and Small Commercial and Industrial ("Residential") class, Delmarva sought only 36-month contracts accounting for approximately 33% of the total SOS load. The remaining 67% is composed of 25-month and 37-month contracts procured last year.[4] For large commercial customers, Delmarva sought a contract portfolio of 12-month contracts composing 100% of the necessary load. The following table outlines the distribution of bid blocks by customer class, term length, and tranche.

TABLE TWO
DELMARVA BID PLAN INFORMATION
OVERVIEW

Type of Service	# of Blocks	MW per Block	Total MWs	Block Size %	Term	Date of Service	Tranche 1	Tranche 2
Residential and Small Commercial and Industrial	6	50.2	300.9	5.56%	36-Month	June 1, 2007 - May 31, 2010	3	3
Medium General Service - Secondary	4	43.9	175.5	25%	12-Month	June 1, 2007 - May 31, 2008	2	2
Large General Service - Secondary	1	29.4	29.4	100%	12-Month	June 1, 2007 - May 31, 2008	1	0
General Service - Primary	1	45.1	45.1	100%	12-Month	June 1, 2007 - May 31, 2008	1	0
Total	12		550.9				7	5

C. Consumer Protections

The RFP approved by the DE PSC had several structural features to protect consumers. The most notable consumer protection lies in the full requirements service each supplier is obligated to provide. Each winning supplier agrees to take responsibility

[4] Note that the remaining 67% is split evenly between 25-month and 37-month contracts.

for a fixed percentage of customer needs, whatever that turns out to be. In this way the supplier takes on market risk – the risk that customers may leave to choose another supplier or may return to SOS after an alternative supplier's deal terminates.[5] Contrary to rules in other jurisdictions, there are no minimum-stay provisions in Delaware, which increase suppliers' risk in handling non-residential customer migration.

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

In addition, starting with this solicitation, the process further protected Residential customers by minimizing the impact of volatility in energy prices on customer bills by allowing for a diversified contract portfolio. That is, Residential customer needs were solicited through contracts from last year and this year. Consequently, consumers are protected from absorbing the impact of one year's prices all at once. That is, the staggering of contract terms minimizes consumers' exposure to any one year's market conditions. For example, the 2007-08 Residential SOS load will be served by winning suppliers in last year's solicitation as well as this year's solicitation.

Finally, the solicitation process was designed to attract as many credible suppliers as possible to protect consumers against the risk of having only one supplier, and to assure the most competitive prices possible. The load for each customer class was divided into relatively small percentage shares (blocks) of power and suppliers bid to serve a number of blocks. The relatively small size allowed for a number of competitors to be involved and also helped diversify the number of winners. Contract conditions are such that non-traditional suppliers were encouraged to bid, most notably investment banks.

D. Role of the Technical Consultant

In 2006, the DE PSC sought a Technical Consultant to assist the Commission and its Staff with the monitoring and review of Delmarva's second competitive procurement process. A competitive procurement for the Technical Consultant was issued and Boston Pacific won the contract.

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

[5] The RFP contains provisions to limit the amount of risk suppliers are responsible for. For more detail, please see Section 2.1 of the RFP.

The Technical Consultant monitored compliance with the RFP in all phases of the solicitation. The solicitation process can be divided into four phases: (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).

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

Additionally, the Technical Consultant was available to consult with the Commission and its Staff as issues arose and raised any issues that it believed the Commission should address. Boston Pacific kept the DE PSC and its Staff apprised, as necessary, of its work through written briefings.[6]

[6] Please see Attachment Three for more detail on Boston Pacific's role as Technical Consultant.

III. MONITORING DELMARVA'S REQUESTS FOR PROPOSALS

A. Advertising the RFP and Establishing a Website

Delmarva issued a press release announcing the upcoming RFP process for wholesale full requirements service to meet its SOS obligation in Delaware.[7] As scheduled, Delmarva's RFP website went active on October 16, 2006 with draft copies of the FSA, the RFP and schedule, related DE PSC Orders, the bid plan, bidder application materials, and relevant load data. There were twenty entities that showed interest in the process by participating at the pre-bid conference and/or requesting access to the RFP website. The Technical Consultant found minor errors in the load data and the bid plan and made Delmarva aware of these issues. Delmarva corrected the necessary data and information.

B. Pre-bid Conference and Follow Up

Delmarva held its pre-bid conference in Newark, DE on November 2, 2006. Boston Pacific was in attendance for this event along with approximately 20 other participants representing a number of different firms. During this meeting, several quality questions were asked demonstrating the suppliers' experience with this type of RFP process. Delmarva was well prepared for the bidders' conference as demonstrated by (a) the information provided (each attendee was provided a binder of the relevant RFP information and was guided through the solicitation process and documents) and (b) Delmarva's responsiveness to the questions raised by attendees. Delmarva also gave a brief tutorial of the electronic platform used in the process.

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

This Q&A section was vital to ensuring all relevant information was made available to all bidders. The Q&A section of the website was (a) periodically updated by the utilities and (b) continually monitored by the Technical Consultant.[8]

C. Pre-qualifying Bidders

As mentioned, there were twenty entities that showed interest in the process by participating at the pre-bid conference and/or requesting access to the RFP website. To become eligible, interested bidders were required to submit their (a) Credit Application and financial information, (b) Confidentiality Agreement, (c) PJM certification, (d) FERC certification, and (e) an executed Binding Bid Agreement, by November 9, 2006. Bidder eligibility was determined by and issued on November 17th. Fourteen bidders became eligible to participate in the tranche process. Based on our observations, all

[7] *See* Attachment One, Delmarva's Notification to the Public, for a copy of the press release.
[8] *See* Attachment Two for the Q&A.

suppliers that submitted eligibility documents were declared eligible to participate in the solicitation process.

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

D. Conducting the RFPs

On November 27, 2006 and January 29, 2007, Delmarva held the first and second tranches of the bid process, respectively, in Baltimore, MD. Present at Delmarva's evaluation site were (a) the utility's evaluation personnel, (b) personnel from Boston Pacific, and (c) personnel from the DE PSC. During each tranche Boston Pacific was present from 9 a.m. through the final ranking of bids.

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

Throughout each bid day, Boston Pacific monitored all communication into and out of the bid rooms.[9] Bids were awarded on the next day (Tuesday), and both the winning and losing suppliers were notified. On Wednesday of each bid week, the winning suppliers had executed the FSA.

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

- In Tranche One, one supplier did not participate in the SOS process because they did not agree to the bankruptcy clause.
- In Tranche One, one supplier did not participate in the SOS process because they did not have financial statements in conformance with the U.S. Generally Accepted Accounting Principles ("GAAP") and the guaranty was a foreign guarantor.
- In Tranche Two, one supplier was unable to get the original letter of credit submitted electronically, but a faxed, executed LOC was received on time.

Within two days of Delmarva awarding the winning bids for each tranche, Boston Pacific provided the Commission with a briefing on the bid results. Those briefings included detailed information on (i) bidders (number of eligible bidders, number of actual bidders, number of bids by product type); (ii) winners (name of winners, megawatts won,

[9] During the dry-run Boston Pacific realized that some utility personnel would have access to the bid results remotely. Boston Pacific asked the utility to give viewer accounts only to those that would be present on bid day.

and percent of total won plus other information including credit rating and ownership of any assets in PJM); and (iii) prices (discounted average term price and nominal price for each winning bidder, and comparison of winning prices to benchmarks (e.g., to previous tranches)).

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

IV. RESULTS OF THE RFPS

Eleven of the fourteen eligible bidders actually submitted bids. Delmarva received more MW bid than MW solicited for each product in each Tranche. On average, as seen in Table Three below, Delmarva received 7.2 MW bid for every MW solicited. As a result, Delmarva filled its Tranche targets. As shown in Table Four below, the number of entities that submitted bids was the same when compared to last year's process; however, there was much less load being solicited this year. Overall, this reflects an increase in participation in the process. We understand that a number of factors could be contributing to this increase including: (i) participants being more comfortable with Delaware's RFP process as this is the second year, (ii) more stable futures prices, and (iii) increased certainty in the PJM wholesale market rules. Even so, in Section V, we provide some recommendations on how to continue to assure a more robust, competitive environment in future solicitations.

TABLE THREE
NUMBER OF MW OFFERED COMPARED
TO MW AWARDED

Product	MW Offered	MW Awarded	Ratio
Residential and Small Comm. and Ind.	2,530.7	303.9	8.3
Medium General Service - Secondary	1,149.8	177.0	6.5
Large General Service - Secondary	147.0	29.4	5.0
General Service Primary	180.4	45.1	4.0
Total	4,007.9	555.4	7.2

TABLE FOUR
NUMBER OF ELIGIBLE AND ACTUAL BIDDERS
BY SOLICITATION

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

Eight of the eleven bidders actually won a slice of the load to be served starting in June 2007. As Technical Consultant, Boston Pacific wanted to ensure that the competitive solicitation was fair and unbiased. To that end, it is important that no one supplier, especially an affiliate of the utility, was given preferential treatment. Since the utility affiliate only won a small portion of the load, there is no concern of affiliate abuse in this solicitation. Had the share been large we would have assessed (a) the transparency of bid evaluation, (b) the robustness of competition, and (c) that prices were in line with market conditions. Table Five, below, shows the number of MW won, by company, in this solicitation.

TABLE FIVE
LIST OF WINNING SUPPLIERS AND SHARES OF MW WON

Supplier Name	MW Won	Share of Total MW
Con Edison Energy Inc.	74.5	13%
Conectiv Energy Supply Inc.	51.1	9%
Coral Power LLC	44.6	8%
DTE Energy Trading Inc.	50.2	9%
Energy America, LLC	87.8	16%
NRG Power Marketing Inc.	100.4	18%
PPL EnergyPlus LLC	102.2	18%
Sempra Energy Trading Corp.	44.6	8%
Total	555.4	100%

Table Six, below, shows the percentage of load that each supplier will serve in 2007-08. This includes contracts won last year and this year; eight different suppliers will be serving customers for the 2007-08 term.

TABLE SIX
PERCENTAGE SHARE BY COMPANY OF 2007-08 LOAD

Winner	2007-08 Percentage of Load to be Served
Residential and Small Commercial & Industrial	
Conectiv Energy Supply Inc.	56%
DTE Energy Trading Inc.	6%
NRG Power Marketing Inc.	11%
PPL EnergyPlus LLC	28%
Total	100%
Medium General Service - Secondary	
Coral Power LLC	25%
Energy America LLC	50%
Sempra Energy Trading Corp.	25%
Total	100%
Large General Service - Secondary	
Con Edison Energy Inc.	100%
Total	100%
General Service - Primary	
Con Edison Energy Inc.	100%
Total	100%

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

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

Product	Tranche One	Tranche Two	Average
Residential and Small Comm. and Ind.	$98.32	$93.23	$95.78
Medium General Service - Secondary	$97.24	$88.57	$92.90
Large General Service - Secondary	$98.00	N/A	$98.00
General Service Primary	$92.15	N/A	$92.15

As noted, Delmarva uses a portfolio approach to fulfill its SOS load for Residential customers. This allows consumers to be protected from the full effects of large swings in SOS prices. However, for its larger classes of customers (Medium General Service – Secondary, Large General Service – Secondary, and General Service Primary), Delmarva only solicits one-year contracts. The idea here is that SOS prices will better reflect market conditions allowing Alternative Energy Suppliers to compete. This year's prices for both the small and large customer classes were lower than last year's prices, and as a result, the table below estimates the decrease in total customer bills based upon Delmarva's rate projection. Delmarva will make a formal rate filing with the Commission in the future and thus, this table does not necessarily reflect the final rates.

TABLE EIGHT
ESTIMATED CHANGE IN
SOS GENERATION AND TOTAL BILL

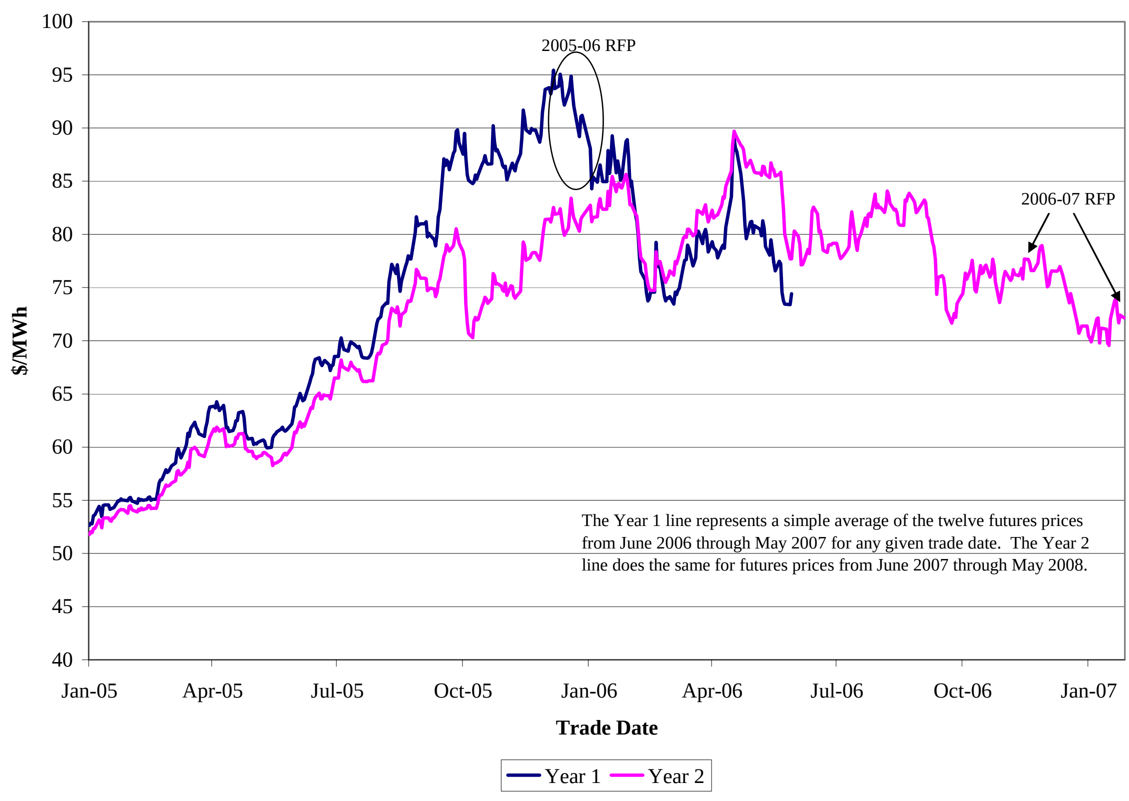
Average Monthly Bill Change			
Rate Class	Bill Amount	Change in Bill	Percentage Change
RS	$ 105.13	$ (0.85)	-0.8%
SGS	$ 281.18	$ (2.09)	-0.7%
MGS	$ 1,533.02	$ (170.62)	-9.8%
LGS	$ 19,820.23	$ (3,335.93)	-14.4%
GS-P	$ 35,745.48	$ (6,912.97)	-15.7%

Energy market conditions during this RFP were very different from those during last year's RFP. It is important to note that, prior to the 2005-2006 solicitation, all prices for fuels used to generate electricity rose dramatically when compared to prices a year earlier, with Hurricanes Katrina and Rita exacerbating the problem. However, as compared to last year's energy prices, this year's prices have come down. For example, natural gas forward prices are down 24%. Electricity prices as indicated by PJM forward energy prices are down 19%.

Even though energy prices were down as compared to last year, capacity prices were significantly higher than those seen during last year's solicitation. As a result, the decrease in energy costs was offset, to some extent, by the increases in the cost of capacity. A few potential causes of higher capacity prices include: (i) increasing demand, (ii) introduction of new generating capacity not keeping up with demand, and (iii) the pending introduction of PJM's new capacity market, the Reliability Pricing Model ("RPM").

Boston Pacific is also aware that extraordinary events that are not directly related to energy markets can also affect the RFP process. The impacts of such an event, however, would show up in the price of PJM electricity futures. Figure One, below, demonstrates the trend in PJM electricity futures since January 2005 and shows that no extraordinary event affected futures prices leading up to the RFP. You can see from the chart the run up in the electricity futures price prior to the 2005-2006 solicitation and where prices currently stand today for the 2006-2007 solicitation.

FIGURE ONE
TRENDS IN PJM ON-PEAK FUTURES
BY SOS CONTRACT PERIODS



V. RECOMMENDATIONS

A. Process Specific 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.

- The full requirements wholesale supply service solicited here is a sophisticated energy product backed by a replacement cost guarantee (Performance Assurance) and in this sense, is a high value product for consumers. This product (a) provides the consumer with all the necessary components of electricity supply that ensure contract delivery and (b) transfers many financial risks from the consumer to the supplier. Full requirements service is used across the PJM region (e.g., New Jersey, DC, Maryland, and part of Virginia solicit similar products).

- The RFP documents are the result of a collaborative process that resolves most of the non-price issues and the resulting product fits the needs of the consumers, the utility, and suppliers.

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:

- In order to encourage more competition, we recommend that parties explore altering the RFP and Full Requirements Service Agreement to allow bidders to use a foreign guarantor. In addition to the Guaranty, parties will need to examine Section 3.5 of the RFP which requires the bidder's financial documents be in U.S. dollars and adhere to U.S. GAAP. The New Jersey Basic Generation Service ("BGS") auction process allows for the use of a foreign guarantor and as that was a result of a collaborative process it might be an appropriate starting point for parties.

- Delmarva and the Commission should continue to work with potential suppliers to determine if there are any contract terms or conditions that, if included in future RFPs, would allow them to lower their bid prices without changing the risk-bargain to the consumer.

- Discuss with potential suppliers whether the RFP process could be modified to encourage more robust competition. (i.e., if you did not bid in the solicitation what can be done to encourage your participation?)

- This year subsidiaries of PEPCO Holdings, Inc. ("PHI"), (which includes DPL) solicited bids in four jurisdictions (MD, DC, NJ, and DE) all within three months of each other. Next year, not only will these jurisdictions, but also Illinois will be soliciting bids for standard offer service customers. We are concerned that with multiple jurisdictions bidding out SOS around the same time period that suppliers may be constrained (for a number of reasons including personnel or collateral) that could prevent some suppliers from bidding. We recommend that this issue ('do near-simultaneous RFPs reduce the number of bidders in Delaware?') be raised during the post bid process to determine if there are procedural steps that can be taken to ensure the same or additional participation in the SOS process.

- Similarly, as the eligibility documents are very similar in the other jurisdictions (MD, VA, DE) that Delmarva is soliciting SOS, we suggest examining the possibility of streamlining the eligibility process so that only one set of documents needs to be submitted by suppliers across jurisdictions. The hope would be to minimize the time and effort it would take suppliers to participate in the SOS process.

- Currently, the SOS process requests suppliers to sign three-year contracts for Residential customers. The Commission has already moved toward a rolling three-year contract process which will minimizes the volatility of any one years market conditions going forward. However, we understand that there is currently an RFP for baseload capacity in Delaware. This RFP will most likely affect the next solicitation process if the unit is able to come on-line in the first half of 2011. One benefit of Delaware's SOS process is that the product and contract terms are clearly defined. To avoid discouraging participation in the SOS process next year, we recommend that parties work to clearly resolving how the SOS process and the unit contingent RFP contract(s) will be integrated. It is recommended that this be determined well in advance of next year solicitation.

- Although the Commission has already examined the issue of contract lengths, we suggest that the Commission continue to discuss this issue with suppliers. While the use of three-year contracts will minimize consumer's exposure to any one year's market conditions, it may discourage those suppliers who are unable to participate in longer term contracts from bidding in the SOS process. So we suggest the Commission continue to discuss with suppliers whether they would prefer to bid on any different contract terms. One possibility is three consecutive, one-year contracts rather than one three-year contract. For example, if the utility wanted to solicit 50 MW under a three-year contract, today it would offer one bid block and execute one contract for a 36-month period. Alternatively, the utility could break up the three-year contract into three one-year contracts and offer 3 bid blocks for 50 MW each (one bid block for each 12-month period). Illinois and the District of Columbia are examining this alternative. It is also our understanding that some market participants may be willing to offer contract terms of five years or more in the SOS process. Different parties will have opinions regarding what is the appropriate term length for SOS contracts. We simply note here that different SOS contract lengths are a potential option to entice more competition and should continue to be raised with suppliers.

- We suggest that Delmarva develop a procedure for ensuring that the most up to date load data be posted and that this data is provided at least a week prior to each tranche. It is our understanding that bidders would like the most recent data. If that data can not be finalized, then adding a caveat that the data is 'as is and subject to revisions' would be appropriate.

B. Assessing Market Conditions

There are factors outside of the SOS procurement process itself that heavily influence the winning bid prices and the resulting change in consumer bills. As you are aware, on-peak electricity futures have decreased since last year's solicitation, however, retail rates will remain relatively flat. The main driver behind this effect is one of the many components of full requirements service, the cost of capacity. Based upon our research we believe that the increase in the cost of capacity is due to a(n) (i) increase in demand, (ii) decrease in supply, and most notably (iii) change in the design of the wholesale market for capacity (or the PJM Reliability Pricing Model ("RPM")). In addition, PJM's upcoming move to Marginal Loss Pricing for transmission losses could have created some upward pressure on prices.

VI. 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. Through our vigorous monitoring, Boston Pacific determined that (i) the RFP solicitation was a robustly competitive process with prices that are reflective of current market conditions, (ii) no bid information was leaked and no bidders received preferential treatment, and (iii) the process was conducted in conformance with Commission Orders on the RFP. Therefore, in conclusion, we believe that Delmarva's 2006-07 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 AND
NOTIFICATION TO THE PUBLIC

delmarva power

A PHI Company

NEWS RELEASE

Contact: Merrie Street
302-283-5811 (office)
866-655-2237 (pager)
mstreet@pepcoholdings.com
www.delmarva.com
NYSE: POM

FOR IMMEDIATE RELEASE
October 17, 2006

Delmarva Power to Issue RFP for Wholesale Electric Power for Delaware Customers

Pre-Bid Conference Set for November 2, 2006

WILMINGTON, DE - Delmarva Power today announced a Request for Proposals (RFP) for wholesale electric power supplies to meet its Standard Offer Service (SOS) obligation in the state of Delaware. Standard Offer Service is the market-based fixed-price electricity Delmarva Power buys on behalf of its customers who do not purchase their electricity from competing retail suppliers and who do not choose the option of hourly priced service.

Delmarva Power is requesting proposals to supply some 590 megawatts (MW) of electricity. Peak load contributions by customer class include approximately 310 MW for the combined Residential, Small Commercial and Industrial customers; 190 MW for the Medium General Service-Secondary (MGS-S) customers; 40 MW for the Large General Service-Secondary (LGS-S) customers; and 50 MW for the General Service-Primary (GS-P) customers.

A pre-bid conference for prospective bidders will be held November 2, 2006 at Delmarva Power's Conference Center in Newark, Delaware. The conference will review the general RFP structure, process improvements, the Delmarva Power bid plan for its Delaware customers and the power supply contract.

The RFP is being issued in accordance with the Delaware Public Service Commission (DPSC) terms and conditions established in Docket No. 04-391 for the competitive provision of electric service beginning on and after June 1, 2007. It is structured as a multi-phase bidding process with pre-bid preparation activities which started on October 16, 2006. The first round of bidding will begin on November 27, 2006 and the final round will conclude in February 2007. The winning bidders will be awarded service contracts to supply electricity for Delmarva Power customers beginning on June 1, 2007.

- more -

Later this year, Delmarva will be sending out a separate RFP for longer term supply contracts as a result of recent legislation in Delaware that requires the company to explore all supply options, including buying from generating facilities in Delaware. Until such time as these other longer term supply options are found to be a better option for customers, Delmarva Power will continue to conduct its normal Standard Offer Service bids to ensure that the lowest supply price is secured for its customers from the wholesale market.

Further details regarding the RFP or the pre-bid conference can be found by visiting the RFP website: www.delmarva.com/derfp. The Web site will provide interested parties with additional contact information.

###

Delmarva Power, a public utility owned by Pepco Holdings, Inc. (NYSE: POM), provides safe, reliable and affordable regulated electric and natural gas delivery services to more than 500,000 customers in Delaware, Maryland , and Virginia .

delmarva power

A PHI Company

October 16, 2006

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

Ladies and Gentlemen:

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

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

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

Service Type	Delmarva
Residential and Small Commercial & Industrial FP-SOS	310
Medium General Service-Secondary FP-SOS	190
Large General Service-Secondary FP-SOS	40
General Service-Primary FP-SOS	50
TOTAL	590 MW

If you are interested in participating in the RFP, you must submit an Expression of Interest Form. The Expression of Interest Form is provided, electronically, for submission on the RFP website. The RFP website which became active on October 16, 2006 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 on Thursday, November 2, 2006, at Delmarva's Conference Center in Newark, DE, 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. For additional details on this meeting, including registration information and hotel accommodations, please visit the RFP website.

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

Sincerely,

Peter E Schaub

General Manager, Energy Supply
Delmarva Power & Light Company

ATTACHMENT TWO
RFP QUESTIONS AND ANSWERS

Frequently Asked Questions

Answers to Frequently Asked Questions (FAQs) are provided here. General Questions have been categorized into three Areas:

Pre Bid Conference Presentation can be found in Announcements on the RFP Website
FAQs can be searched for keywords using the Edit/Find tool.

I. Request for Proposals Questions

Q1. Which firm was hired to be the Delaware Public Service Commission's Consultant?
A. The Commission chose Boston Pacific Company, Inc. to be its monitoring consultant.

Q2. Please provide details regarding the process of posting cash collateral.
A. The process for posting cash Bid Assurance collateral is provided below. Delmarva will provide specific information to its potential bidders regarding specific wire instructions for its cash collateral bank account prior to the November 27, 2006 bid due date for the first tranche.

Bid Assurance Collateral

- As set forth in Section 3.8 (Bid Assurance Collateral and Alternative Letter of Credit Form) Bid Assurance based on $300,000 per bid block is due at the time the bid(s) is submitted. Collateral may be posted in the form of cash.
- Cash collateral must be sent by wire transfer to the bank account specified by Delmarva.
- Bidder should provide Delmarva with wire amount and Fed Reference number(s) for wire(s) so funds receipt can be confirmed with the bank in order to qualify the bid.
- Delmarva will establish a separate bank account to hold all cash collateral received from bidders.
- Funds received no later than 1:00 p.m. EPT will be invested in Overnight U.S. Government Repurchase Agreements. Funds received after 1:00 p.m. EPT will not begin receiving interest until they are invested on the next Business Day.
- Interest will be calculated daily and credited to the bidder's collateral balance upon the earlier of repayment of the cash collateral to the bidder or on the first day each calendar quarter.

Unless instructed otherwise in writing by the bidder, Delmarva will return cash collateral, including accrued interest, by wire transfer, within one Business Day from the earlier of the bidder's proposal being rejected in whole or the bidder executing the FSA. The bidder may also elect to have the utility hold the collateral for more than one tranche of bidding.

Q3. Is historic hourly usage on the retail meter level or the generation level?
A. The historic hourly load data is at the generation level. The loss factors provided can be used to convert the data to the retail meter level.

Q4. In the data file, "Eligible Historical Loads May 2006-June 2006.xls" and "SOS Historical Loads May 2006-June 2006.xls" there are many more class breakouts for the types MGS, GS and RSCI, such as Residential Time of Use Super Off Peak, etc. Please provide data for June 1, 2004 through May 31, 2006 including these new classes. If this data is not available, please provide a detailed explanation of how

each of the more granular classes maps to the class breakout employed in the data from June 1, 2004 to May 31, 2006.

A. The more granular data in the May 2006 – June 2006 file are unavailable prior to that time. The more detailed reporting of class data in the May 2006 – June 2006 file became available as a result of the settlement system designed to process the SOS contracts, which began May 1, 2006. However, the class breakouts in both of the data files (the June 2004 – April 2006 file and the May 2006-June 2006 file) are mapped into the same Service Type categories in column B of the data.

Q5. In the RFP Data section of the Website, a file titled DE Migration, May - Sept 2006 (KW and Customer Count) is provided. Please provide corresponding PLCs and customer counts for either a) those customers Eligible for SOS service, or; b) those customers accepting service from a Third Party Supplier.

A. Two files, *DE PLC and Customer Count – May 1, 2006* and *DE PLC and Customer Count – September 1, 2006* – have been posted to the RFP data section of the website. These files contain SOS and Eligible PLCs and Customer Counts for May 1, 2006 and September 1, 2006.

Q6. Can you provide SOS PLCs and Number of Customer Accounts for May 1, 06 for the classes DE_SGSBASICP, DE_RSHEATINGP, DE_RSBASICP?

A. The data indicate that there were no customers within these three classes as of May 1, 2006.

Q7. When will the final bid form spreadsheet be posted to the website?

A. The final bid form spreadsheet(s) will be available as tasks for you to download from the website by Close-of-Business on Friday November 17, 2006.

Q8. For the PJM Qualification Certification Form, does an executed PJM Reliability Assurance Agreement (RAA) satisfy the condition of "good standing"?

A. No. An executed Reliability Assurance Agreement does not satisfy the condition of "good standing". Rather, if your company, or any company for which you are acting as agent, is on the PJM Member List and is able to secure generation or otherwise obtain and deliver electricity in PJM through compliance with all applicable requirements of PJM to fulfill a full requirements obligation.

Q9. For the SGS-S eligible load, beginning 5/1/06 the data for this class is split into three additional classes (DE_SGSBASIC, DE_GSSPHTG, DE_GSWTRHTG) and from 5/1/06 the sum of these three classes is less than the prior SGS-S load. Was SGS-S divided into those three classes? On 5/1/06 was there additional reclassification that resulted in load moved from SGS to another class? Can you please provide an explanation for the difference in load for SGS before and after 5/1/06?

A. The load labeled SGS in the data prior to 5/1/2006 was disaggregated as of that date into the three classes that you mention above. There were no other reclassifications of load data. The load varies from month to month based on weather, among other factors.

Q10. Can the PSC approve some but not all of the winning bids? If so, how would the PSC select which winning bids to approve?

A. The criterion that the PSC will use in order to approve winning transactions is whether or not Delmarva followed its bid plan as approved by the Commission. The PSC may reject a contract if, in awarding the contract, Delmarva did not comply with its bid plan. A role of the PSC's consultant (Boston Pacific) is to closely monitor the process such that the consultant can conclude in a timely fashion whether or not Delmarva was in conformance with its bid plan. In accordance with Section 6 (Schedule for RFP Process) of the RFP, the winning transactions will be deemed to be in compliance with Delmarva's bid plan and approved by the PSC within two days following the filing of such transactions with the PSC.

Q11. What criteria will the Public Service Commission use to approve the results of the RFP? Is price a criterion for approving the results?

A. Please refer to question I0 under the RFP section of the DE SOS FAQs 2006-2007.

Q12. Can you explain how retail rates will be set for DE DPL customers as a result of this auction? Will a Retail Pricing Model be provided for use this year?

A. The retail rates to be set for Delmarva Delaware customers as a result of the wholesale bidding process will be determined using the retail pricing spreadsheet. Delmarva has provided the spreadsheet by following the link Bidder Information > RFP Data > Retail Pricing Model on the RFP website. The pricing model is designed to take the winning bids from the Standard Offer Service (SOS) RFP and translate them into SOS generation rates. Delmarva expects that this model is substantively the basis for translating winning bids into generation rates for the second SOS year (June 1, 2007 – May 31, 2008) subject to changes that may be initiated by the PSC, PSC Staff, or the DPA. Please note that the model is currently populated with average prices for on-going contracts and dummy data that were used to test it. These data have no correlation to current or anticipated prices.

Q13. Will preliminary bid form spreadsheets be posted in lieu of the final bid form spreadsheets before Friday November 17, 2006?

A. Yes. Preliminary bid form spreadsheets are typically available on the RFP website in the Bid Form Spreadsheet Sandbox a week prior to when the final bid form spreadsheets are available as tasks for download.

Q14. What is the definition of the service class DE_RSBASICP, and how is this service class different from DE_RSBASIC? When did the class DE_RSBASICP become available to residential customers?

A. The service class DE_RSBASICP applies to residential customers on the SOS Phase In/Deferred Cost Adjustment Rider as explained of pages 121-122 of the Delmarva Power Tariff Schedule (Tariffs - Delmarva Power). This rider is intended to phase in the effect of the full SOS increases that became effective on May 1, 2006.

Q15. In the data file, "Eligibile Historical Load for May 2006-August 2006.xls," there are two sets of data for each hour ending for each of the following classes: RSBasic, RSHeating and all of the commercial classes. Could you please explain why there are two data streams and how they should be manipulated to correctly represent the historical load?

A. There were, indeed, two sets of data when the data were initially posted to the website. This happened because classes in the August data were designated by the Class name only (e.g. RSBasic), whereas for the months of May through July the data were designated by the Jurisdiction and Class name (e.g. DE_ RSBasic). The data have since been changed to be consistent and posted to the website.

II. Full Services Agreement Questions

Q1. The Delivery Point definition states that the Seller may elect the point(s) within the PJM Control Area to deliver to the Buyer. Are there any limits to what the Seller may elect? When is this election made (during the bidding period or after the bidding period)?

A. It is the responsibility of the Seller to deliver to the Buyer's Zone (sink) their Full Requirement Service obligation in an amount sufficient to meet customers' consumption at the retail meter level. The Delivery Point in the context of the FSA is the point of injection (source) into the PJM Control Area where the Seller delivers energy to meet their Full Requirements Service obligations. However, the Seller is responsible for all congestion costs associated with its Full Requirement Service obligation, as set forth in Article 4.1 (Congestion and Congestion Management) of the FSA. The LMP settlement point is the DPL Zone (pnode 51293).

Q2. For the Residential and Small Commercial & Industrial Customers, do bids have to cover the entire duration of the 36 month term? In other words, are bidders allowed to bid on a portion of the term (for example, 12 months only)?

A. Bidders are not allowed to bid on a portion of the 36-month contract term. Bids are made for the entire term.

Q3. Will a supplier with an existing FSA be required to execute a new FSA should they submit a successful bid during this year's solicitation, or will there be an amendment to the existing FSA.

A. A supplier with an existing FSA will be required to execute a new FSA for this year's solicitation.

Q4. The RFP states that the bid price is for$/ Mwh at the retail meter level. Does this mean that the volume amounts paid to the winning supplier will be at the retail meter level plus UFE but will not include losses?

A. Yes.

III. Pre Bid Conference Questions

Q1. Could you please provide me with the location and time of the pre-bid information session scheduled for November 2? How do I register for this meeting?

A. To find the location and the time of the pre-bid conference and to register for the conference, go to www.delmarva.com/derfp and click on "conference". Then fill out the registration form and submit it.

Q2. What does the term "tranche" represent?

A. The term "tranche" in the Delaware SOS solicitation process represents or refers to bid round (See RFP, Section 2.3- Multi-Tranche Process). The use of the term in this process is different from its use in the New Jersey auction process. In the latter case, the term represents a fixed percentage share or "slice" of load being solicited.

Q3. The Commission reserves the right to alter the SOS bid solicitation 5 business days prior to a tranche or bid round. Tranche 1 is scheduled to be held on November 27th – the first Monday following Thanksgiving. How does the holiday schedule affect this timing?

A. After factoring the holiday schedule, the decision regarding changes to the solicitation will be made on Thursday, November 16th.

Q4. Is there any change in the criteria by which the Commission will accept/reject bids?

A. No. As long as the bidder meets all the requirements of the bid process, the Discounted Average Term Price will be the single parameter to compare all offers within the same Service Type and the same contract term, and to subsequently award the bids, as set forth in the RFP Section 4.6 (Evaluation of Proposals). Bids with the lowest Discounted Average Term Price will be selected within each tranche until the tranche target is met. On Tuesday, bidders will be notified whether they are winners or losers. On Thursday, the contracts will be deemed approved by the Commission unless the Commission orders otherwise. The only change from last year is that the Commission decision occurs on Thursday as opposed to Friday (see the next Q&A).

Q5. When is the Commission scheduled to approve contracts?

A. The RFP Section 6- Schedule for RFP Process identifies Friday; however, the Commission meets on Thursdays, and therefore the decision will be made on Thursday.

Q6. Are alternative forms of Guaranty accepted?

A. No. The Form of Guaranty approved by the PSC is non-negotiable and is the only Guaranty that Delmarva will be accepting. Suppliers desirous of making changes can make their suggestions for future year solicitations during the Process Improvement process.

Q7. What form of Performance assurance is required?

A. Performance assurance may be in the form of cash, LOC, or corporate guaranty of an affiliate of the supplier acceptable to Delmarva as discussed in the RFP Section 3.9 (Alternative Forms of Performance Assurance). Pursuant to Section 3.9 of the RFP, bidders may choose to submit an alternative LOC form or other form of security for performance assurance with its Credit Application and financial information. The acceptability of such alternative forms will be at Delmarva's sole discretion. If suppliers choose to use an alternative form of performance assurance, Delmarva encourages them to submit such forms as soon as possible in order to meet the deadline for issuance of eligibility.

Q8. Does being approved for eligibility require that alternative forms of assurance be agreed upon?

A. Yes. Also see response to Q6.

Q9. Can bidders cure any deficiencies in eligibility documents between the November 9th (date eligibility documents due) and the 17th (date Delmarva determines eligibility)?

A. Yes. All deficiencies must be cured in time for bidders to be deemed eligible on November 17th. Delmarva will work with bidders to identify deficiencies in their submitted eligibility documents and the cures required for qualification.

Q10. Slide 29 of the RFP portion of the Pre-Bid presentation shows the bid plan. For residential and small commercial customers, the total percentage being solicited shows 100%. What does that represent?

A. The total percentage value represents that 100% of the Residential and Small Commercial customers' load is being solicited this year. Roughly one-third of the total SOS load for Residential and Small Commercial customers is being solicited this year. This is represented by multiplying the block size percentage (5.5556%) by the number of blocks available (6). Therefore, 33.3336% of the total residential and small commercial customers SOS load is being solicited this year.

Q11. There is currently a Delmarva RFP solicitation for long-term generation. Can you clarify the difference between that RFP and this SOS RFP?

A. The Delmarva long-term supply contract IRP/RFP solicitation is in response to the "Electricity Utility Retail Customer Supply Act of 2006". The SOS RFP solicitation represents Delmarva's second year of procurement for full requirements service to meet its SOS customer supply obligations.

Q12. How would the long-term generation RFP affect the load in SOS RFP?

A. Contracts awarded in the SOS RFP process will be honored. It is not anticipated that load awarded in the SOS RFP process will be affected by the contract that results from the generation RFP. It is highly unlikely that a baseload plant will be built to affect any contracts signed in this SOS process.

Q13. Delmarva is disaggregating data that it is sending to PJM. How will this affect the settlements for suppliers?

A. This will not affect suppliers' settlements with PJM. The disaggregated data is being provided to each winning supplier on a password protected supplier support website so as to share more detailed information about their monthly Delmarva invoice settlements.

Q14. What eligibility documents are required to be submitted in hard copy form?

A. The Confidentiality Agreement and the Binding Bid Agreement must be submitted electronically and physically. Applicants should submit an original signed copy of the Confidentiality Agreement to Delmarva (a fully executed copy will be returned). See RFP, Section 3.3 - Confidentiality Agreement for more information. The Binding Bid Agreement must be submitted electronically and a signed hard copy must be faxed to Delmarva. See RFP, Section 3.6 for more information.

Q15. Delmarva stated that both hourly load and daily PLC data will be updated on the RFP website. Can you please indicate what data will be updated and by what date?

A. SOS and Eligible hourly load data by customer class is available through the August 2006. Daily SOS PLC data is provided through mid November 2006.

Q16. The FSA does not explain the mechanics of how the PJM's revised capacity market (RPM) will be handled – who will participate in the auction, Delmarva as the LSE or the suppliers? Will the cost of RPM be passed onto the suppliers?

A. PJM has filed an RPM settlement at FERC. It is Delmarva's understanding that once RPM is approved and implemented, PJM will conduct auctions to determine the Market Clearing Price for capacity in certain areas, which may consist of several zones in the initial years of RPM implementation. In accordance with the filed settlement, the details of RPM implementation will be determined in the PJM stakeholder process. These details include whether, at the time of delivery, PJM will look to the LSE (Delmarva) for the capacity obligation needed to serve its SOS load and Delmarva will then look to the SOS providers for the capacity needed to serve its portion of the load. A likely outcome of the stakeholder process will be that Delmarva and the SOS provider will submit and approve the transfer of capacity from the suppliers to Delmarva (for the term of the SOS agreement) using PJM's web-based eCapacity (eRPM) application. In this manner, Delmarva's load obligation will be met by capacity procured by the SOS provider. Delmarva will have a simultaneous and perfect offset of its obligation on a daily basis. The SOS providers will obtain the capacity used to serve their portion of the SOS load from their choice of sources. PJM will develop a load forecast and this load forecast will be used as the basis for the LSEs' capacity obligation. The demand curve through which the capacity market clearing price will be determined is developed using factors including the load forecast, cost of new entry, and other factors. The Base Residual Auction, and then the second incremental auction, determines the price all load must pay for capacity. This value will be known to all market participants in advance of actual delivery. A party that has a load obligation and owns capacity may use its capacity to offset its obligation. A party that doesn't wish to use its capacity for the SOS requirement, or a party that doesn't own capacity, will settle its capacity obligation through the PJM eRPM application and will be charged the market clearing price in effect at the time. Therefore, an SOS provider can use capacity it owns or pay the RPM PJM clearing price to settle its obligation with PJM. Therefore, the capacity required to serve all customers will always be bid into the RPM through inclusion in PJM's forecasted pool load, regardless of whether they are covered by a supply contract or not.

Q17. Will CTRs be assigned to suppliers?

A. Nothing is known for certain at this time on the issue of CTR assignment and will not be until FERC approves the filed settlement and PJM finalizes its RPM mechanism through the stakeholder process.

Q18. The FSA does not address how refunds from over-collection of Marginal Loss revenue will be determined between the Buyer and the Seller. Will this revenue be passed on to the Sellers?

A. PHI will follow the direction provided by the FERC associated with the refund of the over-collection caused by the implementation of marginal losses in PJM. PJM has filed, and FERC has approved, a mechanism whereby PJM will allocate any overcollection of marginal loss revenues to load based on the megawatt ratio of each load to total load across the entire PJM system. The effective date of PJM's tariff changes is June 1, 2007. PHI will participate in and cooperate with the PJM accounting process that follows this FERC-approved mechanism. Any refund due to marginal loss overcollection received by PHI from PJM will be credited in the appropriate ratio to those parties supplying the associated SOS load. For more detail, see FERC Docket No. EL06-55 or contact PJM or FERC directly.

Q19. Now that FERC has approved PJM's RPM, how do the EDCs intend to handle Capacity Transfer Rights? Specifically, will the EDCs assign Capacity Transfer Rights to winning suppliers (similar to Auction Revenue Rights)?

A. Based upon the draft business rules as published by PJM on December 13, 2006 the EDCs would transfer or assign Capacity Transfer Rights ("CTR") to the winning bidders in a fashion similar to how CRRs are transferred, subject to future changes in PJM business rules. CTRs will follow the capacity obligation. Since the winning bidders have the capacity obligation, the CTRs will be assigned to them. Should load migrate to third-party suppliers, the capacity obligation and the CTRs would move with the load.

Disclaimer

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ATTACHMENT THREE
OTHER NOTIFICATIONS, CONSULTATIONS, AND REPORTS TO THE COMMISSION

OTHER NOTIFICATIONS, CONSULTATIONS, AND REPORTS TO THE COMMISSION

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

On November 15, 2006, representatives from Boston Pacific and Delmarva's representatives conducted a dry run simulation for Delmarva at its Baltimore office. As Delmarva is using an online RFP platform, Boston Pacific and Delmarva staff submitted a significant number of mock bids. Based upon our experience with bidders' behavior on bid day, Boston Pacific submitted a number of bids that were intended to cause trouble to assess the platform's capability to accurately receive, record and evaluate data.[1] During the dry run simulation Boston Pacific encountered a number of issues. Most notably, we discovered that the online platform under certain circumstances would (i) record the wrong DATP, (ii) accept nonconforming bid form spreadsheets, or (iii) overlook conforming bid form spreadsheets. We notified Delmarva of these issues and requested that they perform a more thorough review of each bid to ensure that no bids would be missed. Further, Boston Pacific's AutoRetriever software, which was used on bid day, was able to catch all of these errors.

In addition, we found that when the bidding was first opened it was very slow to notify bidders (i) that they could begin submitting bids and (ii) that their bids were received and processed. Our concern was that bids would either not be received by the 5 p.m. deadline or that suppliers would submit the same bid multiple times because they did not receive a notification that the bid was submitted. As a result, during the dry run, Boston Pacific requested that Delmarva contact its software vendor to review this issue. We were informed that the first time the bidding portion of system is brought online it creates a number of folders, which takes time and processing power. Once the program was fully loaded this was no longer a problem. Boston Pacific participated in the dry run through the afternoon. We noticed that by the end of the day all the kinks were worked out of the system and it was alerting bidders appropriately.

These issues were all minor and both the utilities and Boston Pacific were confident they would be remedied by the first bid day. After the dry run, we requested that Delmarva complete a few activities prior to the bid day to ensure success. For example, we requested Delmarva, as soon as possible, post (i) the final bid form spreadsheets and (ii) respond to outstanding questions.

In addition, Boston Pacific requested to be carbon copied on all email communication between Delmarva and potential bidders and, throughout the process,

[1] To facilitate the dry run, Appian Corp (Delmarva's vendor) restricted access to the website to parties participating in the dry run and set up the website to mimic a bid day in all possible manners.

Boston Pacific had a number of phone conversations with Delmarva in order to ensure that the utilities were in compliance with their bid plans.

Finally, we stressed that Delmarva should provide a number of troubleshooting tips in an email to minimize confusion on bid day.[2]

[2] For example, Delmarva accepted bids via the on-line platform, email or facsimile. While email and fax were intended to be used only as a back-up in case the bidder was having difficulties with the system, based upon our experience, we know that some bidders will submit the same bid via the on-line platform and via facsimile thus creating a potential duplicate bid. We suggested that Delmarva request bidders to state if they are submitting an intentional back-up bid so as to minimize confusion on bid day.