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September 14, 2007

SENT VIA EMAIL and HAND DELIVERY

Ms. Karen J. Nickerson
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

Re: PSC Docket No. 06-241

Dear Ms. Nickerson:

Pursuant to the directive of the Public Service Commission of the State of Delaware, the Delaware Energy Office, the Office of Management and Budget, and the Controller General, as set forth in Finding, Opinion and Order No. 7199 ("Order 7199") and pursuant to the schedule set forth in Order No. 7277, Delmarva Power & Light Company encloses its Term Sheet Filing herewith. In addition to the enclosed original filing, 10 copies are also provided. Copies of the filing have also been provided electronically to the three bidders, Commission Staff, the State Agencies, and the distribution list for this docket.

Should you have any questions please do not hesitate to contact me.

Respectfully submitted,

A handwritten signature in black ink that reads "Todd L. Goodman" with a stylized flourish at the end.

Todd L. Goodman
Assistant General Counsel

Encl.

Cc: Distribution List

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE,
THE DELAWARE ENERGY OFFICE,
THE OFFICE OF MANAGEMENT AND BUDGET,
AND THE CONTROLLER GENERAL**

In The Matter Of Integrated Resource)	
Planning For The Provision Of)	
Standard Offer Supply Service By)	
Delmarva Power & Light Company Under)	
26 <i>Del. C.</i> § 1007(C) & (D): Review)	PSC Docket No. 06-241
And Approval Of The Request For)	
Proposals For The Construction Of New)	
Generation Resources Under 26 <i>Del. C.</i>)	
§ 1007(D) (Opened July 25, 2006))	

**DELMARVA POWER & LIGHT COMPANY'S
FILING OF BIDDERS' PROPOSED TERM SHEETS**

Delmarva Power & Light Company ("Delmarva"), pursuant to the directive of the Public Service Commission of the State of Delaware, the Delaware Energy Office, the Office of Management and Budget, and the Controller General (the "State Agencies"), as set forth in Finding, Opinion and Order No. 7199 ("Order 7199") and pursuant to the schedule set forth in Order No. 7277, hereby provides its Filing of the Bidders' Proposed Term Sheets.

The individual proposed "Term Sheets" between (1) Delmarva and Bluewater Wind Delaware LLC; (2) Delmarva and New Indian River Genco, LLC; and (3) Delmarva and Conectiv Energy Supply, Inc. (individually referred to as "Bluewater Wind," "NRG," and "Conectiv"; collectively referred to as "the bidders") are attached hereto as Exhibits 1, 2 and 3. As discussed further below, Delmarva cannot agree on certain key terms because the best offers proposed by the bidders pose unacceptable costs and risks on Delmarva's electric customers.

As directed by the Commission, Delmarva has negotiated diligently and in good faith since the end of May 2007 in an effort to reach mutually acceptable terms to be incorporated into both a primary power purchase contract with Bluewater Wind and a back-up power purchase contract with either NRG or Conectiv, which contracts must satisfy the unique requirements of the primary wind facility/back-up natural gas facility hybrid structure outlined in Order 7199. Throughout the negotiations, Delmarva has been, and remains, mindful of the Delaware General Assembly's directive, embodied in Section 1007(c)(1)(b) of the Energy Utility Retail Customer Supply Act of 2006 ("EURCSA), to "investigate all potential opportunities for a more diverse supply at the lowest reasonable cost."

The Term Sheets, as they currently stand, reflect the best terms that Delmarva has been able to obtain from each of the bidders after months of continuous and extensive negotiations. There remain, however, certain key items where the parties have been unable to reach agreement. These items fall into two basic categories. The first category is denoted in the text of the Term Sheets with brackets ([]). The brackets contain the disputed recommended language of the parties. The terms that fall within the second category are denoted with an asterisk (*). The disagreement between the parties on this second category of items is not a matter of opposing language; rather, it is either because Delmarva has not yet had an opportunity to fully evaluate the economic impact of the proposed term or because the proposed term imposes, in Delmarva's view, unacceptable costs and/or risks to Delmarva's Standard Offer Service electric customers.¹ Therefore,

¹ Because of the complexity of the Term Sheets, and the interrelationships between the various provisions embedded therein, the list of items identified by an asterisk, while representative of the main areas of disagreement, should not be considered an exhaustive list. In addition, Delmarva reserves the right to

Delmarva wishes to emphasize that the attached documents contain disputed provisions. They do not and are not intended to create binding contracts.

As Delmarva represented to the State Agencies during the regularly scheduled Commission meetings on both August 21, 2007 and September 4, 2007, Delmarva will begin working with each of the bidders to convert the Term Sheets into draft Power Purchase Agreements ("PPA"). In this regard, Delmarva does not believe that the absence of agreement on all terms will prevent the parties from working together to draft proposed PPA language. However, the proposed PPAs will, of course, be based upon the terms contained in the "Term Sheets," some of which are currently contested. As such, unless these items are resolved, the proposed PPAs, which are currently targeted for delivery in late November, will also contain contested provisions.

Order No. 7277 provides that Delmarva shall circulate proposed Term Sheets on September 14, 2007; Commission Staff will provide its report evaluating the bidders' proposed Term Sheets on October 29th; interested parties may comment on the Staff report and the Term Sheets on November 12th; and the Commission will hold a hearing on November 20th. Consistent with that Order, Delmarva will not comment in detail on the Term Sheets at this time. It would be inappropriate to do this in light of the schedule set forth in Order No. 7277, which instructs the parties to comment on November 12th. It would also be premature because neither Commission Staff, the State Agencies nor Delmarva have as of yet had an opportunity to evaluate the pricing and certain other provisions in the Term Sheets, which were only recently provided by the bidders. Rather, Delmarva will provide a complete and reasoned analysis of the bidders' proposed Term

identify additional areas of disagreement following a complete analysis and evaluation of each Term Sheet, including but not limited to the economics of the Term Sheets.

Sheets, which will permit the State Agencies and Delaware's SOS customers to judiciously evaluate the Term Sheets, at the appropriate time.²

Delmarva Power & Light Company

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Dated: September 14, 2007

² Delmarva notes that on September 13, 2007, before the proposed Term Sheets had even been filed, Bluewater disregarded the schedule set forth by the State Agencies in Order No. 7277 and filed comments on its proposed Term Sheet. In light of the clear schedule set forth in Order No. 7277, which calls for the filing of comments by parties on November 12th, Bluewater's comments have been filed contrary to the procedures established by the Commission and the state agencies. Bluewater's comments are also inaccurate and misleading in many respects. For instance, it is not true that key commercial terms have been agreed to between Delmarva and Bluewater. To the contrary, among other things, there is no agreement on the size of the wind project, the price being offered to Delmarva's customers, or the proposed in service date. Delmarva, however, will file its detailed comments to both the proposed Bluewater Term Sheet and Bluewater's September 13th letter-filing at the appropriate time.

**KEY COMMERCIAL TERMS OF
POWER PURCHASE AGREEMENT**

SUMMARY OF PRINCIPAL COMMERCIAL TERMS

This Key Commercial Terms of Power Purchase Agreement (“**Term Sheet**”) is preliminary and is intended to set forth certain basic terms of, and to serve as a basis for further discussions and negotiations between the Parties with respect to, the potential Transaction described herein (“**Transaction**”) to be set forth in a definitive Power Purchase Agreement entered into by the Parties (the “**Definitive Agreement**”).

*** As explained in the PSC Docket No. 06-241 transmittal filing of this proposed Term Sheet by Delmarva Power & Light Company on September 14, 2007, terms marked with an asterisk [*] indicate terms where the parties are either not in agreement or where Delmarva Power has not had sufficient opportunity to adequately assess the effect of the proposed terms and, therefore, must reserve its right to oppose the term once a full assessment has been completed.**

Parties Bluewater Wind Delaware LLC, a Delaware limited liability company (“**Seller**”), and Delmarva Power & Light Company, a Delaware corporation (“**Delmarva**” or “**Buyer**”), referred to individually as “**Party**” or collectively as “**Parties**”.

Transaction Seller will provide and make available to Buyer and Buyer will purchase and pay for all Products (as defined below) provided pursuant to the terms of the Definitive Agreement.

Project Project shall mean a wind-powered electric generating facility capable of producing the Products, to be located on the outer continental shelf in the Atlantic Ocean off the coast of the State of Delaware (“**Project**”) in the area generally shown on Attachment 1 hereto. The Project is currently anticipated to consist of 150 wind turbines manufactured by Vestas Offshore A/S, each with a nameplate capacity of 3 MW and related interconnection facilities and facility assets. The final nameplate capacity and expected generation of the Project set out in the Definitive Agreement will be materially consistent with the projected generation schedule provided to Delmarva on September 12, 2007.

None of the wind turbines comprising the Project will be placed into Commercial Operation before the Execution Date (as defined below).

“**Commercial Operation**” is defined to mean that all commissioning

activities have been completed, all performance testing has been satisfactorily completed, that the Project is capable of regular commercial operation (as demonstrated pursuant to the terms of the Definitive Agreement), and that the Project has been accepted as a Capacity Resource by PJM Interconnection, LLC (“PJM”).

**Contract Term
and Services
Term**

The “**Contract Term**” will commence upon execution and delivery by both Parties of the Definitive Agreement and continue until final settlement (after the end of the Services Term, as defined below). The date the Definitive Agreement is executed and delivered by both Parties and Seller posts the initial installment of the Development Period Security (as defined below) is the “**Execution Date**.” The Definitive Agreement will include conditions, including relating to Buyer’s receipt of Regulatory Approval (as defined below), which must be satisfied prior to the time the Parties’ remaining obligations become effective. Only upon satisfaction of such conditions will the “**Effective Date**” be deemed to have occurred.

The “**Services Term**” will be the period during which Seller is obligated to provide Products (as defined below) to Buyer (other than Pre-Initial Delivery Date Products, as described below). The Definitive Agreement will specify the length of the Services Term. The Services Term shall commence on the Initial Delivery Date (as defined below) and continue until the earlier to occur of (i) the date that is twenty-five (25) years after the Initial Delivery Date, and (ii) June 1, 2039, as such date may be extended for up to eighteen (18) months for reasons of Force Majeure, Buyer’s failure to perform its obligations under the Definitive Agreement or permitting delays beyond Seller’s control (including a delay in publication of the MMS Regulations (as defined below) beyond November 30, 2010). The Initial Delivery Date and the commencement of the Pre-Services Term Period (defined below) may be no earlier than the Effective Date and the Guaranteed Initial Delivery Date shall be June 1, 2014. The commencement of the Pre-Services Term Period and the Services Term is subject to the satisfaction of certain conditions as set forth herein.

Seller acknowledges that it is Buyer’s intention to negotiate a power purchase agreement with an additional electric generation facility in Delaware (the “**Back-up Facility**”) to be developed either by NRG Energy, Inc. (or one of its affiliates) or Conectiv Energy Supply, Inc. (or one of its affiliates) (“**the Back-up Supplier**”) to provide electrical energy (“**Energy**”), capacity and other products to Buyer during any period of the Services Term when the Project is supplying less than 300 MWh of Energy in any given hour (as such amount may be adjusted pursuant to the terms hereof) to Buyer under the Definitive Agreement, as well as certain pre-determined quantities of Energy, capacity and other products prior to the Services Term.

Product

“**Product**” shall mean, collectively, Contract Capacity, Energy and Environmental Attributes, all as defined herein. Seller may not enter into any agreement or arrangement under which Product attributable to Buyer’s entitlement relating to the Project may be claimed by any person other than Buyer for purposes of satisfying such person’s obligations to PJM or any other independent system operator having jurisdiction over such person or the Project. Following the occurrence of the Initial Delivery Date, Seller’s obligation to deliver Product will be dependent upon the availability of the Project, subject to the possibility of default, as set forth herein, for specified levels of unavailability over time.

* “**Contract Capacity**”: means the Capacity Value of the Project (as determined from time to time pursuant to PJM’s Manual for Rules and Procedures for Determination of Generating Capability in effect from time to time, or any successor publication in effect from time to time), less one (1) MW for each MW of such Capacity Value over 100 MW up to and including 117 MW, up to a maximum Capacity Value of 122 MW, that Seller is offering to make available to Buyer in each month of the Services Term. By way of example, (i) if the Capacity Value of the Project is 108 MW, the Contract Capacity would be 100 MW, (ii) if the Capacity Value of the Project is 120 MW, the Contract Capacity would be 103 MW, and (iii) if the Capacity Value of the Project is 173 MW, the Contract Capacity would be 105 MW.

* “**Energy**”: All Energy produced by the Project up to a maximum of 300 MWh in any given hour (as may be adjusted pursuant to the terms hereof) and an aggregate maximum of 1,357,402 MWh per year, as measured at the Revenue Meter, as defined in the Definitive Agreement.

“**Environmental Attributes**” means the Renewable Energy Credits (as defined by the Delaware Public Service Commission’s Rules and Procedures to Implement the Renewable Energy Portfolio Standard, or any successor publication in effect from time to time) attributable to the Energy delivered to Buyer pursuant to the Definitive Agreement. Seller shall deliver to Buyer and Buyer shall pay for up to a maximum of 175,000 Renewable Energy Credits per year, according to the following schedule of amounts of Renewable Energy Credits, in each year commencing with the year in which the Initial Delivery Date occurs:

2012	105,000
2013	135,000
2014	150,000
2015 and beyond	175,000

During the Pre-Services Term Period, Seller shall deliver to Buyer the

