



A PHI Company

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**Gary R. Stockbridge**  
President

January 7, 2008

The Honorable Arnetta McRae  
Commission Chair  
Delaware Public Service Commission  
Cannon Building, Suite 100  
861 Silver Lake Blvd.  
Dover, DE 19904

The Honorable John A. Hughes  
Secretary  
Department of Natural Resources and  
Environmental Control  
89 Kings Highway  
Dover, DE 19901

The Honorable Jennifer W. Davis  
Director  
Office of Budget and Management  
Haslet Armory  
122 William Penn Street  
Dover, DE 19901

The Honorable Russell T. Larson  
Controller General  
Office of the Controller General  
Legislative Hall  
411 Legislative Avenue  
Dover, DE 19901

RE: Delmarva Power Integrated Resource Planning

Dear Chairwoman McRae, Director Davis, Controller General Larson, and Secretary Hughes:

As I am sure you are aware, Delmarva Power, pursuant to the requirements of House Bill 6, filed an Integrated Resource Plan ("IRP") for Delmarva's standard offer service customers on December 1, 2006. The steps contained in this plan recommended that, subject to Commission approval, the Company evaluate securing more renewable resources, implement conservation, load control and Demand Side Management programs for Delmarva's customers and evaluate and monitor proposed major transmission facility upgrades affecting reliability in Delaware. Although the implementation of some of these objectives has been delayed during the RFP process, Delmarva remains committed to pursuing these objectives. It is important to move forward on our IRP to meet the needs of our customers, the expectations of the Public Service Commission, and also to meet the needs of upcoming Senate hearings announced this past weekend which will look into options for environmentally friendly energy for the State of Delaware. As the IRP process continues in 2008, I want to assure you, as President of Delmarva Power, that I will make every effort to collaborate and communicate with you and the agencies you represent to discuss key issues, receive input, and keep you informed of progress.

There are several issues identified in the 2006 IRP filing that remain key objectives and on track for Delmarva Power. First, demand side management, which is focused on reducing energy consumption through energy efficiency and shifting energy usage to off-peak periods, remains a cost-effective way to reduce overall energy cost and to benefit customers. On February 6, 2007 Delmarva Power filed its Blueprint for the Future. The filing promotes advanced meters and demand response programs, and

envisions a coordinated effort with the Sustainable Energy Utility to help Delaware reduce electricity usage and lower the cost of energy for our customers. We also hope that this year we can implement a decoupling mechanism that will remove the connection between increased electricity usage and our earnings, thus removing the current perceived disincentive for Delmarva Power to promote conservation.

Second, with the recent approval by PJM, our Mid-Atlantic Power Pathway “(MAPP)”, a transmission line helping to improve the infrastructure across this region, is on track and also will remain a key component of our plan. The MAPP line, with its benefits of improving reliability, lowering costs and creating a solid backbone to our transmission system, is a very important component in our plan. This line is strongly supported by the Delaware Electric Cooperative, The Delaware Electric Municipalities, Old Dominion Electric Cooperative as well as Governor Minner. In 2007 we launched a significant multi-state effort to assure effective communication and execution of this important project and you will be hearing more in the coming months.

In addition, there also are three significant areas where we will reach out to obtain further input from stakeholders prior to providing recommendations. These are areas where we received ongoing feedback about concerns with our filed plan. We hope to get additional input from the key stakeholders in the region allowing us to build a better plan. We will seek input from your agencies, PJM, and the Public Advocate.

The first issue involves questions about reliability in lower Delaware. We will prepare analysis showing projections of reliability and power flow analysis by the company and PJM using the most recent data and share this information with key stakeholders. We also will share and discuss specific contingency plans and alternatives to address the many scenarios that could play out in the future. Our hope is to have a common understanding of the facts and alternatives and to gather appropriate input in order to bring forward a plan all can support.

The second area is the transition to a resource portfolio approach to supply for our customers. As we explore various portfolio options, we will continue a dialogue that was started with the Public Service Commission Staff in 2007. Important issues to be decided include the timing of moving from the existing process to a more actively managed portfolio, the specific resources to be included within the portfolio, integration of green contracts, utility-owned generation, the nature of cost recovery and avoiding the creation of stranded costs.

The final area of focus will be meeting the objectives of the Renewable Portfolio Standards (“RPS”) of the State. In 2007 we supported some of the most aggressive goals in the country in Senate Bill 19. We recognize the current proposal is still being considered, but it is important that we explore the many options that exist and could be used to meet the RPS standard in order to implement a cost-effective and flexible strategy. We will be exploring these options and sharing our findings with all of the parties involved the IRP process, including your agencies and the Senate Energy and Transit Committee.

Delmarva Power has learned a great deal over the last year and we intend to use these lessons to develop a “green only” RFP process that will be competitively bid and result in contracts that will benefit our customers. We have a new opportunity to approach this process in a way that all options will be considered through a robust IRP process. This has several benefits:

- Costs of various options are better explored and understood,
- Parameters of the supply needs such as size, term, load following characteristics, etc., are thoroughly developed,
- Energy procurement that fits appropriately into the overall portfolio of supply needs,
- Suppliers better understand these supply needs and the high likelihood of contract execution which results in more robust competition,
- Taking these steps and basing the results on the IRP, we will strongly support moving quickly to execute contracts to implement the findings.

We realize there is a need to move quickly on this process and we will focus our resources on doing this in an expedited fashion. This type of process will result in robust competition and in the end, solutions for our customers that will provide them with strong environmental benefits, low costs, and stability. We are confident, after talking to regional suppliers of green energy, that this process will result in robust competition for the supply of our Delaware customers. Attached you will find letters from just two of the many onshore wind suppliers expressing their enthusiasm to participate in this process. Our RFP will look at long term contracts, include REC's energy and capacity, and bring to the table solid proposals on which we will be prepared to move forward.

Our goal is to develop an affordable portfolio of green energy supply assets that fulfills the goals of House Bill 6 and also achieves the goals of the RPS legislation, making Delaware a leading state in the use of green energy. Not only will we meet the renewable energy needs of our customers, but we will also develop optional programs to allow customers to go above State renewable energy goals. All of this will involve many in the State and the results will be made available to you and other key stakeholders, in order to assure we know all of our options going forward along with the advantages and disadvantages of each.

As you all know, this has become a complex and challenging industry, involving many stakeholders. We believe the best chance of success going forward is to work cooperatively with all stakeholders to gather input and develop a plan that blends the best of all interests. We look forward to a partnership with the State where we work together to solve the challenges facing us. Should you have any questions about our plans or ongoing progress, please feel free to reach out to me at any time.

Sincerely,



Gary R. Stockbridge  
President, Delmarva Power Region

cc:

Commissioner Jaymes Lester  
Commissioner Joann Conaway  
Commissioner Dallas Winslow  
Commissioner Jeffrey Clark  
G. Arthur Padmore, DPA

Bruce Burcat  
Michael Sheehy  
Janis Dillard  
Honorable Ruth Ann Price  
James McC. Geddes, Esq.