



A PHI Company

June 23, 2008

VIA E-MAIL
VIA HAND DELIVERY

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

The Honorable Jennifer Wagner Davis
Director
Office of Management and Budget
Haslet Armory
122 William Penn Street
3rd Floor, Suite 301
Dover, Delaware 19901

Russell T. Larson
Controller General
Office of the Controller General, State of
Delaware
Legislative Hall
411 Legislative Avenue
Dover, Delaware 19901

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

Re: PSC Docket No. 06-241

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

Enclosed herein for your review and consideration is a negotiated and signed Power Purchase Agreement ("PPA") between Delmarva Power & Light Company ("Delmarva Power") and Bluewater Wind LLC ("Bluewater"). The PPA is, of course, subject to review and approval by the Four State Agencies pursuant to EURCSA § 1007(d)(3). This PPA represents the first power purchase agreement for offshore wind in the United States and may serve as a springboard to further development of offshore wind in this region.

This PPA is the product of successful negotiations between the parties. While many of the terms of this PPA are similar to those included in the proposed PPA presented to the State Agencies in December 2007, there are some significant differences that merit highlight:

- ✓ Delmarva Power will buy electricity generated by 200 MW of nameplate capacity from the Bluewater wind park at the same price as the December 2007 PPA. The overall price per megawatt hour (“MWh”) for Delmarva’s customers has been reduced, however, due to a negotiated decrease in the price of renewable energy credits. For instance under the previous proposal, the combined cost for energy and renewable energy credits (“RECs”) was \$121.64 per MWh (in 2008 prices). Due to a negotiated 22% reduction in the price Delmarva’s customers will pay for RECs, the combined price under the new agreement is \$117.10 per MWh.
- ✓ While the amount of power Delmarva’s customers will buy under this PPA is approximately one-half of that set forth in the proposed PPA from December, Bluewater is confident this PPA will allow it to build the Nation’s first offshore wind park and to do it in Delaware.
- ✓ The various provisions dealing with PJM-related costs, as well as collateral and liquidated damages, have been reduced on a pro rata basis to represent the reduced amount of power being purchased under this PPA.
- ✓ The Bluewater wind park can be as large as 600 MW. Of this 600 MW, Delmarva Power will buy a pro-rated share equal to 200 MW. Given today’s market and, in particular, the market changes over the past twelve months, Bluewater is confident that it can secure additional customers and will ultimately build a bigger wind park.
- ✓ Bluewater has two years to decide the final size of the wind park. During this time Bluewater will work to find additional buyers of its power. Delaware’s wind park will then be properly sized to meet the demand.
- ✓ Until Bluewater’s financing is in place, Delmarva Power customers are guaranteed to pay no higher price for energy and environmental attributes (such as RECs) than any other future Bluewater Wind offshore wind customer from any of Bluewater’s facilities within a 50-mile radius of the Delaware Offshore Wind Park.
- ✓ As an integral component of the agreement, and in an effort to make the development of this renewable resource and this potential new Delaware industry viable, Bluewater and Delmarva Power have asked the General Assembly to establish a 350% Renewable Energy Credit (“REC”) for each megawatt of energy purchased for Delmarva’s customers from this facility. The increased RECs will be used by Bluewater Wind to generate revenues needed to support this new facility. The existence of this credit multiplier also resulted in the 22% reduction in REC prices to Delmarva’s customers. Because this credit multiplier is limited to just this agreement, we believe it will protect the REC market in both the region and the State.

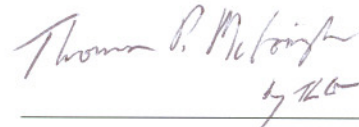
- ✓ Another essential element of the Agreement is the spreading of both the costs and associated benefits of the Agreement across Delmarva's entire customer base through a non-bypassable charge to be established by the Public Service Commission.
- ✓ As long as the PPA is approved pursuant to its terms, Delmarva Power will not challenge or otherwise appeal the approval of the PPA, which will help ensure that the project is not delayed in the courts. Bluewater believes that this may allow construction to commence a year earlier than might otherwise have been the case.
- ✓ Milestone dates have been extended by six months due to the delayed signing of the PPA from its submission December 2007.

Delmarva Power and Bluewater, jointly ask for your careful consideration and ultimate approval of this PPA under the current docket and stand ready to respond to any questions or concerns you may have.

Respectfully submitted:



Todd L. Goodman
Delmarva Power & Light Company
P.O. Box 231
Wilmington, Delaware 19899
(302) 429-3786
todd.goodman@pepcoholdings.com



Thomas P. McGonigle
WolfBlock
1100 N. Market Street, Suite 1001
Wilmington, Delaware 19801
(302) 777-6374
tmcgonigle@wolfblock.com

Attachment

Cc: Service List (by e-mail only)