

The City of Dover
CAPITAL OF THE FIRST STATE

**REQUEST FOR PROPOSAL
FOR
CAPACITY AND ENERGY (POWER SUPPLY)
AND
PLANT OPERATION**

January 4, 2006

The City of Dover

CAPITAL OF THE FIRST STATE

SECTION I GENERAL INFORMATION AND OBJECTIVES

The City of Dover, Delaware Electric Department ("Dover") is requesting proposals to provide full requirements power supply.

Proposals will be received for the integrated operation of the Dover Generation (see Section III) and supply of full requirements energy and capacity; this would include the right to dispatch the generation to meet load and to use the Dover Generation to meet Dover's capacity obligation. Proposals to supply the full requirements supply of electricity and capacity from the market, and proposals to operate, maintain, and manage the Dover Generation (without responsibility for power supply) also will be accepted. Any proposal for plant operation and management should be no less than five years and no longer than ten years. Any proposal that would provide only full requirements supply to Dover, should specifically state whether the prospective supplier will or will not rely on the Dover Generation for a portion of its proposal.

Prospective suppliers must have experience relative to the nature of the proposal being offered.

Dover's objective is to have a power supply arrangement that will ensure competitive power supply costs while managing the risks of energy supply and fuel volatility. This RFP is issued on the basis of competitive negotiation rather than competitive bidding.

1. **Schedule.** Dover plans an expedited RFP process that will proceed according to the following schedule:

January
4: Issue RFP

- 17: Pre-Bid Conference (to respond to questions)(11:00 AM)
- 16-20: Dover Generation site tours

February

- 7: Integrated Supply and Operation Proposals Due (2:00 p.m.)
- 9: Proposals for O&M only or power supply only (2:00 p.m.)
- 23: Complete proposal evaluation
- 27: Presentation of evaluation to Dover City Council

March

- 8: Possible issuance of requests for Best and Final Offer.
- 13: Dover City Council to issue contract.

Any change in this schedule (or other matter involving this RFP) will be posted on the Dover website (www.cityofdover.com) and emailed to parties that have submitted a Notice of Intent.

Dover intends to award the contract(s) by March 13, 2006. This will ensure a smooth transition between the current supplier/plant operator and the next supplier and plant operator. Initial proposals shall include indicative pricing. Final pricing will be requested after the initial submission and after questions concerning the submissions have been resolved.

All correspondence and questions concerning this RFP should be directed in writing to Dover's Representative for power supply:

Kirk Howard Betts
Email: DoverRFP06@bettsandholt.com
Fax: 202-530-3389
Telephone: 202-530-3380

Confidentiality. The contents of any document submitted to Dover shall be accorded the confidential treatment permitted by law.

Disclaimer. This RFP is not an offer to purchase electricity or services. Dover reserves the right to accept or reject any and all responses to this RFP. The information

contained in this RFP is for background purposes only and is the best available information. Neither Dover nor its agent makes any representation as to the completeness of the information contained herein.

Dover reserves the right to select and combine proposals and/or to reject any and all proposals received in response to this RFP. Dover reserves the right to request indicative proposals, and to request additional proposals in the event that some or all of the proposals are rejected. Dover reserves the right to terminate or revise this RFP at any time.

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SECTION II CITY OF DOVER ELECTRIC SYSTEM – BACKGROUND INFORMATION

Current Power Supply Arrangements

In 1996, Dover entered into a comprehensive power supply and plant operating agreement with Duke Energy Trading & Marketing (Duke Agreement). The Duke Agreement, which expires on June 30, 2006, was a ten year full requirements power supply arrangement. Prices were fixed for each year of the ten year term and included the cost of operating, maintaining, managing, scheduling, and dispatching Dover's generating plant. Duke also acts as Dover's agent for various PJM matters. Duke recently notified Dover that it will no longer provide the type of services that it has provided to Dover.

Interconnection Agreement

Dover has an Interconnection Agreement with Delmarva Power & Light Company ("Interconnection Agreement") that provides for the integrated operation of a 230-69 kV tie at Dover's Cartanza Substation and certain standards for the operation of the systems. The interconnection capacity at that point is 500 MVA.

Generating Plant and Facilities

Dover has four generating units: Units 1, 2 and 3 at McKee Run Station and Unit 4, at the Van Sant Station ("Dover Generation"). The largest of these, Unit 3, was installed in 1975. Unit 3 has a 106.9 MW turbine generator supplied from a 1,800 psi 1000 degree Fahrenheit boiler which can be fired with #6 oil or gas. Units 1 and 2 were placed in service in 1962 and each have 16 MW nameplate turbine generators supplied from an 850 psi, 900

degree Fahrenheit boiler which can be fired with #6 oil or gas. The newest unit, Unit 4, is a 40 MW winter rated (35 MW summer rated) combustion turbine generator which can be fired with #2 oil or gas. It was placed in service in 1991.

Units 1 and 2 are maintained to meet capacity and periodic energy requirements. Although the units are operational, these units, for purposes of this RFP, will be operated in a “run to failure” mode for the term of the next supply agreement. For the period 1996-2004, the units operated, on average, 836 and 852 hours per year, respectively.

Unit 3 is able to cycle but it normally operates at a minimum load condition during seasonal peak periods to provide for more rapid ramping up to supply energy during peak periods. For the period 1996-2004, the unit operated, on average, 2,647 hours per year.

Unit 4 is able to ramp up to full load in 30 minutes. For the period 1996-2004, the unit operated, on average, 244 hours per year.

The plant complies with current Clean Air Act emission requirements, although more stringent emission requirements currently proposed for 2009 and thereafter would likely require addition capital investment to reduce emissions. Dover will evaluate whether the cost of compliance will be so great as to render compliance economically infeasible.

Tours and the opportunity to inspect the Dover Generation will be scheduled at the mutual convenience of the plant operator and the interested prospective operators. Dover encourages prospective operators to schedule a tour during the week of January 16, 2006.

Dover Transmission and Distribution Facilities

Transmission lines rated 69 kV and 22 kV are used to transmit power from the McKee Run and Van Sant Plants through Dover’s 68 square mile service area. At the substations, transmission voltage is reduced to the primary distribution voltage of 12.5 kV to

supply feeders that serve the entire City and certain adjacent rural areas. A 230-69 kV interconnection with Delmarva was placed in service in the fall of 2004; it is the only connection to the PJM grid.

Dover operates 46 miles of transmission lines at 69 kV and 7.2 miles of subtransmission lines at 22 kV. The 69 kV transmission system connects 16 distribution substations and 2 switching stations. Dover also has twelve distribution power transformers ranging from 2.5 MVA to 20 MVA, for a total of 131.2 connected MVA.

Operations

For the integrity of the networked system, Dover's units may be dispatched for system security purposes as well as to meet Dover's load. The units are bid into PJM daily, although the units are most likely to dispatch during peak periods in the summer and winter and during periods when PJM/Delmarva require transmission system support.

Customer Information

As of November 1, 2005, Dover's system served 21,049 meters. This total includes 18,069 residential meters, 2,937 commercial meters, 40 primary-industrial meters, and 3 transmission (69 kV) customer meters. Dover's largest consumers include the state government, Dover Air Force Base, and several large industrial facilities.

Dover has a monthly average system load factor of approximately 70%.

Customers served by a municipal utility in Delaware do not have customer choice.

Historic and Forecasted Demand and Energy Requirements

From July 2004 through June 2005, Dover delivered approximately 768.7 million kwh to its customers, and its peak demand was 159,800 KW. From July 2003 through June 2004, Dover delivered approximately 780.7 million kwh to its customers, and its peak was

demand was 163,300 KW. The peak demand for July 2005 through the December 2005 was 175,595 KW; this record peak demand occurred in July 2005 during a significant period of hot weather, but it appears to be an anomaly in the projected load growth curve. See **Exhibit C**.

Dover has forecasted an overall average annual growth rate of 2.5% through 2020.

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SECTION III POWER SUPPLY AND O&M CONCEPTS

Dover's power supply needs may be satisfied by a single supplier or a combination of supply concepts and suppliers. Prospective suppliers shall arrange transmission service from the supply resources(s) to the Delmarva Zone. Power supply pricing for energy may be proposed on a fixed or combination of fixed and variable pricing for the term, but all pricing must disclose the cost components (i.e., Western Hub price, congestion, capacity, transmission and ancillaries, etc.). Prices should be expressed in \$/MWh.

The proposal should include the duration of any offer, detailed pricing information segregating the cost for capacity and energy, including a description of the formula for fuel pricing, if any, information regarding flexibility of the term and notice provisions, and a description of the ability to schedule or economically dispatch the power supply resources.

The minimum acceptable term for any proposal for the operation and maintenance of the Dover Generation, whether as an integrated plant operation and power supply proposal or a standalone plant operating proposal, is five (5) years; the maximum term is ten (10) years. The minimum term for a standalone power supply proposal shall be three (3) years and the maximum shall be six (6) years.

Dover solicits proposals that incorporate the concepts discussed below. Dover also invites other creative proposals, or combinations of the following.

1. Integrated Operation-Dispatch of Dover Generation and Power Supply: This concept assumes the power supplier will become the full requirements supplier for Dover and also will operate the Dover Generation to serve the Dover load or

to provide energy into the power supply market. Proposals must satisfy the PJM capacity obligation and reserve requirements. Plant operators shall operate the Dover Generation in compliance with all laws.

2. Full Requirements (Energy and Capacity) Service (not incorporating Dover Generation). Proposals in this category would include all-requirements, load following service, but Dover Generation would not be dispatched to meet Dover load. Proposals in this category will be evaluated on the basis of delivered prices. Pricing shall disclose the information required in the first paragraph of Section III. Prices should be presented both seasonally (PJM summer/winter) and around the clock. Suppliers may include long-term output contracts for specific generating units within PJM, including renewable resources, but all such resources shall be PJM capacity resources. Suppliers shall plan to comply with Delaware's law governing renewable portfolios.
3. Operating and Maintenance Contract to Operate Dover Generation (operator contract only). Dover will consider proposals that provide for a third party to manage, maintain, and operate its existing generating resources. Operator will be responsible for maintaining the Dover Generation to comply with PJM reliability requirements and governmental regulations with respect to the operation of a generating station, and to dispatch the Dover Generation according to directions of a third party dispatcher. The proposal should address responsibility for normal plant maintenance, repairs and replacement, fuel acquisition, and environmental compliance costs required to maintain and operate the Dover Generation. The proposal should state, for example, whether it is a fixed cost proposal, a

combination of fixed and variable costs (i.e., how labor, normal O&M, capital repairs, etc., will be charged), or a pass-through of costs. For purposes of evaluation, Dover defines normal maintenance as customary repairs, lubricants, tools, etc., and it would prefer to see these incorporated into a plan that provides for predictability for at least a portion of the operating budget for the Dover Generation. Extraordinary expenditures, more typical of large equipment, scheduled maintenance, catastrophic failure, capital replacement, and compliance with new environmental requirements would be a pass-through cost. Operator will be expected to provide an annual maintenance and operating plan, a multi-year budget, a staffing plan, and provide advice concerning equipment conditions. The fuel acquisition strategy and compensation expectations should be addressed in the proposal. Operator will be expected to meet the following performance criteria, but Dover is prepared to negotiate performance incentives to reward performance that exceeds these criteria:

- a. Availability: >95% of Units 3 & 4.
 - b. Forced Outage Rate: <5%
 - c. Heat Rate: 10,450 gas; 9800 #6 Fuel Oil
 - d. Dependable Capacity: Units 1 & 2 (17 MW, subject to negotiation); Unit 3 = 102 MW; Unit 4 = 39 MW.
 - e. Environmental Compliance: No violations of environmental law.
4. Operation and Maintenance Contract plus Dispatch. See item 3 above. In addition to the requirements of item 3 above, operator will coordinate dispatch of the generating plant to optimize the economics of the plant and fuel acquisition in

coordination with the energy supplier. Operator may propose a compensation mechanism, in addition to the incentives provided in section 3 above.

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SECTION IV EVALUATION CRITERIA

Price Criteria

All pricing comparisons will be performed on a one year basis relying on data for purchases of energy and capacity requirements for the period July 2004 through June 2005. If the in-service date of a new resource is later than this date, the proposer should describe a plan for satisfying Dover's power supply resource requirements until the commercial operation date of the new resource. Dover may give greater weight to proposals that guarantee pricing or minimize Dover's risk for the duration of the proposed power supply arrangement.

The minimum acceptable term involving plant operations will be five (5) years, and the maximum term will be ten years. The minimum term of an energy and capacity only proposal will be three (3) years, but terms out to six (6) years will be considered. If the proposal does not include all costs necessary to deliver the capacity and energy from the resource, those costs will be added in making the price comparison. Examples of these types of costs include, but are not limited to, transmission, ancillary costs, other scheduled PJM charges, and line losses. The specific price evaluation criteria shall include, but not be limited to, the following:

- Bundled Energy & Capacity Price
- Capacity only price in \$/kW-mo. (including fixed operation and maintenance, scheduling costs, other fees, debt (with respect to Dover Generation), and losses);

- Energy only price in \$ MWH (including fuel costs, variable operation and maintenance costs, losses);
- Congestion assumptions
- Transmission price (including PJM transmission, ancillary, and other scheduled charges imposed on transmission);
- Total delivered price on a per MWH basis; and
- Any additional costs to utilize the resource.

Non-Price Criteria

Dover will weigh non-price criteria in evaluating the responses to this RFP. Dover invites prospective suppliers and operators to identify other non-price benefits contained in their proposal which should bear on the selection of the proposals. This may include:

- Reliability of supply, including the reputation of the proposer for success in performing or completing services similar to those offered.
- Efficiency of operation to manage long-term costs.
- Proposals to optimize Dover's existing resources and/or yield the most economic long-term power supply for Dover will be preferred. A proposal that recommends additional capacity that would operate in coordination with Dover's capacity must demonstrate how existing resources will be economically dispatched. Energy proposals should describe how the Dover system will be dispatched to produce the lowest costs.
- Proposals that improve Dover's ability to compete effectively in the electricity market place, and that have the potential to address the needs of increasingly price sensitive customers.

- Proposals that improve the well-being of the Dover community.
- Proposals that address means to meet environmental laws and regulations during the term of the agreement.
- Longer term proposals will be preferred to shorter term proposals. Operating proposals of less than five years will not be considered. Power supply proposals shorter than three (3) year will be disadvantaged.
- Staffing plan for the Dover Generation.
- The economic stability of the proposer. A complete list of projects developed or plants operated, wholesale customers served, or transactions completed during the most recent 24 months should be submitted along with the SEC Form 10-K or an audited financial statement.
- Dover will give weight to creative and innovative proposals involving demand side management, direct load control, and other creative means to manage peak loads and peak load periods. Such proposals may include guarantees and incentives for performance.

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SECTION V INSTRUCTIONS TO BIDDERS

1. Notice of Intent to Bid.

All potential suppliers shall submit an original copy of the Notice of Intent to Bid no later than January 20, 2006, by email or facsimile, provided such document exhibits a signature of the responsible representative of the supplier. The Notice of Intent to Bid is in Exhibit A. Please send the Notice of Intent to Bid to the Dover Representative address:

Kirk Howard Betts, Counsel
Betts & Holt
1333 H St., NW; West Tower 10th Fl.
Washington, DC 20005
Email: DoverRFP06@bettsandholt.com
Fax: 202-530-3389

2. Pre-Bid Conference.

A pre-bid conference will be held at the Dover City Hall, in accordance with the Schedule in this Section at the Dover Council Chambers, Loockerman St., Dover DE, starting at 11:00 a.m. Questions or clarifications concerning the RFP should be submitted in writing no later than 48 hours before the pre-bid conference. Written responses will be made available at the pre-bid conference. Other questions and answers, including those submitted in advance, will be circulated by email and posted on Dover's website at www.cityofdover.com. Every effort will be made to respond in a timely manner to such questions, but responses are not guaranteed.

3. Due Date for Proposals.

Offerors should review the schedule carefully to ensure timely submission of the two classes of proposals being requested. The format of the RFP contained in Exhibit B mandatory.

4. Procedures

Responses to Dover's RFP must contain the information required in Exhibit B of this RFP. Responses shall be submitted electronically in Word or Adobe. To expedite incorporation into Dover's evaluation, all data shall be in a format that allows it to be cut and pasted.

The first page of the submission shall identify the type of proposal(s) included in the document (integrated, power supply only, operator). Alternative proposals also shall be identified on the cover. Proposals that incorporate several of the options may be submitted in a single, comprehensive response.

An original and five (5) copies, and a CD-Rom containing the proposal(s) shall be submitted to Emailed proposals will not be considered.

EXHIBIT A

**NOTICE OF INTENT TO BID
CITY OF DOVER RFP DATED JANUARY 4, 2006**

Supplier/Operator: _____
(company name)

Mailing address:

Contact person, name and title:

Telephone:

Facsimile:

Email:

Web page:

We have reviewed the RFP and [do/do not] intend to submit a proposal.

We will submit a bid for (check all that apply):

- ___ Integrated Operation-Dispatch of Dover Generation & Power Supply
- ___ Full Requirements (Energy and Capacity) Service (no Dover Generation)
- ___ Operating and Maintenance Contract for Dover Generation (operator contract only)
- ___ Operation and Maintenance Contract plus Dispatch

We [do/do not] plan to attend the Pre-Bid Conference on January 17, 2006.

Signed by: _____
(name and title)

Email this executed NOI to: DoverRFP06@bettsandholt.com by January 16, 2006, 12 noon.

**EXHIBIT B
OUTLINE FOR PROPOSALS**

I. General Information

Include in this section the name, address, contact person, phone number, and email address of the proposer. State the date of the proposal and the date the proposal expires, if any. (Dover will receive indicative pricing for the submittal, incorporate the indicative pricing into a model for comparing the offers, and then issue a request for best and final offers.) The non-price provisions of the proposal may not expire before March 31, 2006. The proposal must be signed by the person submitting the proposal and it shall verify the authority of the person to make the proposal and bind the corporation.

II. Summary Description of Proposal

State the type of proposal being made (that is, whether the proposal is for Operation-Dispatch of Dover Generation & Power Supply; Full Requirements (Energy and Capacity) Service (no Dover Generation); Operating and Maintenance Contract for Dover Generation (operator contract only); and/or Operation and Maintenance Contract plus Dispatch), the term of the proposal and the price(s) of the proposal as required in the pricing section of RFP. Briefly describe any other important elements of the proposal, including how the proposal will provide for periodic changes in capacity and energy purchases.

III. Pricing Information to be Included in the Proposal

A. *Capacity Price.* State the capacity and/or reservation price on a \$/kW-year basis. Specify any escalation rate and the rationale therefore. Provide a table of the capacity price per year during the proposed term. The table should include the formula for any price escalators. Fully explain all assumptions used in

reaching the price.

- B. *Energy Price.* State the energy price on a \$/MWH basis. Specify any escalation rates and the rationale therefore. Provide a table showing the energy price per year during the proposed term. The table should also explain any price escalators. Fully explain all assumptions used in setting the price.
- C. *Congestion.* To the extent that Congestion is included in the price of energy, please state the assumptions for pricing congestion and disclose the amount on a \$/MWH basis. If it is not included in the price, please provide an estimated cost of congestion.
- D. *Transmission Price.* State the transmission price. Dover would accept proposals with a pass-through of transmission costs.
- E. *Non-Fuel O&M Price.* For plant operating or dispatch right proposals, identify the O&M prices per year and the start price for each generating unit during the term. Explain the basis of any escalators. Provide a table of the O&M costs (or the manner for recovering those costs) for each year of the life of the units, segregating fixed costs and variable costs. Fully explain all assumptions used in setting the price.
- F. *Other Costs in Proposal.* Identify any other cost included in the proposal and explain them in detail here. Provide tables as appropriate. Fully explain all assumptions used in reaching the price.
- G. *Other Costs not in Proposal.* Identify other costs that will be incurred by Dover that are not included in the proposal.
- H. *Regulatory Costs.* State whether the proposal includes the costs of all regulatory filings and compliance. Include an estimate of such costs. Fully

explain all assumptions use in reaching the cost estimates.

- I. *Total Price.* Express the total price of the proposal in dollars per kW of capacity and dollars per MWHR for each year of the proposal. If not already provided in Section III, fully explain all assumptions used in reaching the total price.
- J. *Further Explanation.* If the pricing provisions of the proposal require further explanation, do so in this section.

IV. Form of Full Requirements (Capacity and Energy) Contract

Please include a form of agreement for full requirements (capacity and energy) services on which the offer is based.

V. Price for Operating Dover Generation

State the price for operating Dover's generating units. Provide a narrative and an operating budget that explains the pricing assumptions. Explain any escalators and assumptions and the reasons therefore. Fully explain all assumptions used in reaching the price.

V. Renewable Portfolio Requirement

Explain how the proposal will satisfy Delaware's requirement and the resources that will be incorporated into the power supply plan for Dover. To the extent possible, provide the name, location and in-service date of the facility; a general description of the facility, and the nature of proposer's rights to the output of such facility.

VI. Operation of Dover Generation or Specific Generating Units

- A. State whether the proposal is to operate all Dover Generation or specific generating units. Provide a rationale for the selection if only some of the units are selected.

- B. If the proposal is for individual generating units, state which units. State whether the proposer intends to sell the power and energy back to Dover or to a third party. Dover has refinanced its Electric Bonds to allow a non-governmental operator to operate the Dover Generation and to avoid any claim of private activity relating to the generating facilities.
- C. If the proposal is to operate Dover's system or individual units provide the staffing plan.
- D. Provide a list of all legal and regulatory steps necessary to complete the proposal. Describe a plan for compliance with those steps.
- E. Please provide a form of contract for the operation and maintenance services proposed to be performed. A form of agreement for O&M services will be posted on the Dover website.

VII. Other Services

Describe any other services proposed that will add value to the overall offer being made. Provide information on how services will be provided and document past experience providing the specified services.

VIII. Proposers's Qualifications

Provide a list of other or similar projects completed by proposer during the most recent twenty-four (24) months and the status of each.

IX. Risk Management

Proposer should describe risk management strategies that will be employed to mitigate price and operating risk.

X. Other Data

Provide any other data that is relevant to the evaluation of the proposal.