

Pepco Holdings, Inc.



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Safe Harbor Statement - Continued

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PHI Offers an Attractive Total Return

- **Predictable free cash flow⁽¹⁾ with secure dividend**
- **Stable, regulated and diversified delivery business**
- **Positive free cash flow results in improving credit profile**
- **Participation in projected PJM market recovery for competitive energy businesses**
- **Potential upside when rate caps roll off**

(1) Free cash flow defined as net cash from operating activities less capital expenditures and dividends net of asset disposition proceeds.

PHI Overview

Pepco Holdings, Inc.

\$7.0B LTM Revenues
\$13.5B Total Assets
\$3.7B Market Cap
1.8 Million Electric Customers
118,000 Gas Customers

**Regulated
Electric
& Gas
Delivery
Business**

**Competitive
Energy
/Other**

pepco

conectiv
Power Delivery

71% of Operating Income

**conectiv
energy**

**pepco
Energy Services**

**POTOMAC
CAPITAL
INVESTMENT**

29% of Operating Income

Note: Financial data as of September 30, 2004. Operating Income percentages for the nine months ended September 30, 2004. Customer data as of December 31, 2004.

PHI Consistent Strategy

Focus on Core Delivery Business

Manage Complementary Unregulated Businesses

Strengthen Credit Profile

- Ensure high level of customer satisfaction
- Continue Power Delivery integration
- Maintain solid regulatory relations
- Aggressively execute regulatory plan in line with removal of rate caps
- Leverage assets and expertise in PJM market
- Maintain conservatively hedged position on generation output
- Capitalize on retail supply opportunities in PJM
- Receive stable, long-term earnings from energy leases
- Reduce debt by \$1.3 billion over the 5-yr period ending 2007
- Maintain low risk business profile
- Maximize free cash flow through disciplined capex
- Achieve equity ratio in the mid-40% area by 2007

PHI Recent Achievements

Focus on Core Delivery Business

- Solid core business results year-to-date September
- Favorable Maryland and DC regulatory settlements generating SOS margin
- O&M savings resulting from workforce reductions in 2004
- ACE base rate case in NJ pending; pursuing litigation and settlement tracks
- ACE filed appeal on 2003 NJ \$45 million deferral disallowance

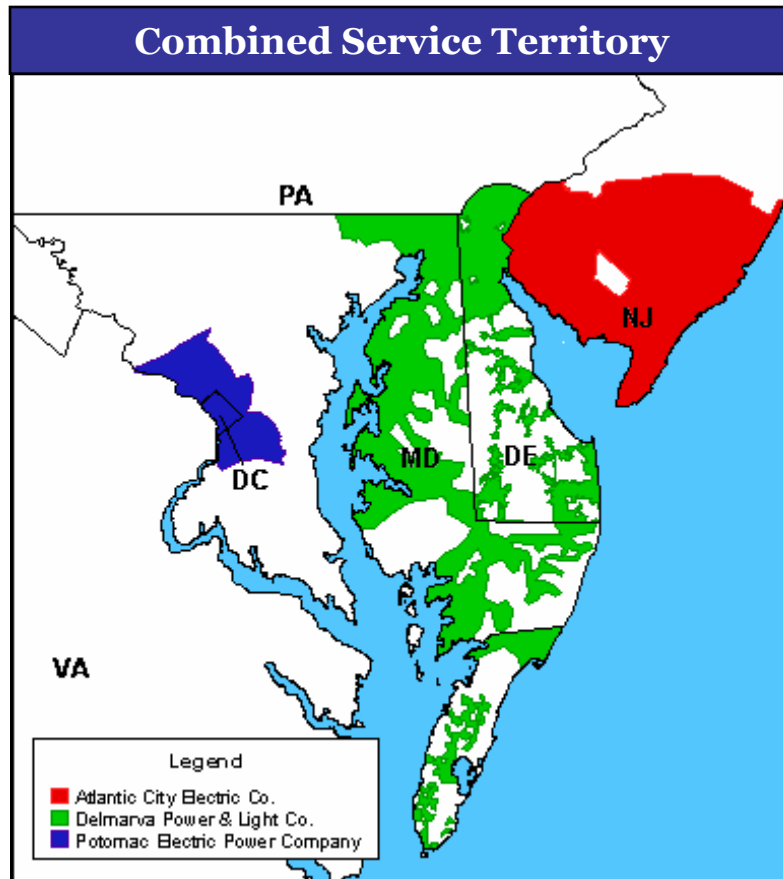
Manage Complementary Unregulated Businesses

- Profitable performance year-to-date September
- Maximizing profits of unhedged capacity through proven operating strategy
- Asset values and cash flow improving due to hedging and asset flexibility
- Steps taken to significantly lower risk – successful hedging strategy
- Sold non-core assets – Starpower and aircraft

Strengthen Credit Profile

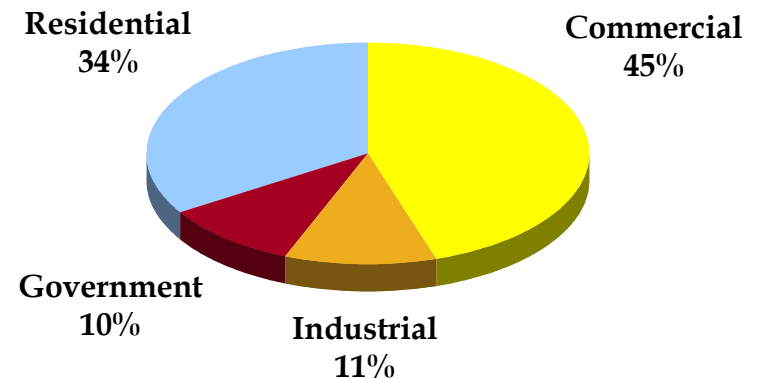
- Issued over \$340 million of equity in 2003-2004
- Paid down \$250 million of debt in 2003
- On track to reduce debt by \$1.3 billion over the 5-year period ending 2007
- Refinanced approximately \$945 million of higher cost securities in 2003-2004
- Replaced 364-day \$550 million credit facility with 5-year \$650 million facility

PHI Power Delivery - Business Overview



- Robust Service Territory Economy
 - Sales growth of approximately 2%
 - Employment growth exceeds national average
 - Diverse government and private sectors
 - Per capita income above national average
- Capital Expenditures of \$400 million to \$450 million per year

Diversified Customer Mix ⁽¹⁾



(1) 2003 MWh Sales.

PHI Regulatory Highlights

- Power Delivery will receive a margin as SOS provider in D.C. and Maryland (annually approximately \$8 million and \$17 million, respectively, after-tax)⁽¹⁾
- Rate case outcomes in Delaware (ancillary service rate increase of \$12.4 million annually and gas base rate increase of \$7.75 million annually)
- New Jersey rate case pending; pursuing both regulatory litigation and settlement tracks
- Filed appeal on 2003 New Jersey deferral disallowance decision
- Gearing up for post rate cap filings in other jurisdictions

(1) Based on 2003 SOS sales. Realized margin depends on customer migration.

PHI Regulatory Summary

	Maryland	District of Columbia	Delaware	New Jersey	Virginia
2003 MWh Sales¹	38% ²	22%	20%	19%	1%
Retail Delivery Rate Cap	Through December 2006 (Unless FERC Transmission rates increase more than 10%)	Through August 2007 (Unless FERC Transmission rates increase more than 10%)	Through April 2006 (with a one-time exception for FERC transmission rate changes)	No caps; rate case pending	Through December 2010 (with exceptions)
Default Service	Provided through a PSC approved wholesale bidding process; approximately 0.2¢/kWh margin to Pepco / DPL	Third party supplier through February 2005; thereafter provided through a PSC approved wholesale bidding process; approximately 0.2¢/kWh margin to Pepco	Third party supplier through April 2006 (provided by Conectiv Energy); thereafter TBD	Provided through a BPU approved wholesale bidding process	Effective 1/1/05, provided through DPL managed competitive bidding process
Recent Rate Case Outcomes	DPL – increased delivery rates by \$1.1MM Pepco – current rates unchanged	Filing in July 2004 – expect no change in delivery rates	Distribution rates unchanged; ancillary service rate increase of \$12.4MM effective 7/04; gas base rate increase of \$7.75MM effective 12/03	Rate case pending	None

(1) As a percentage of total Power Delivery.

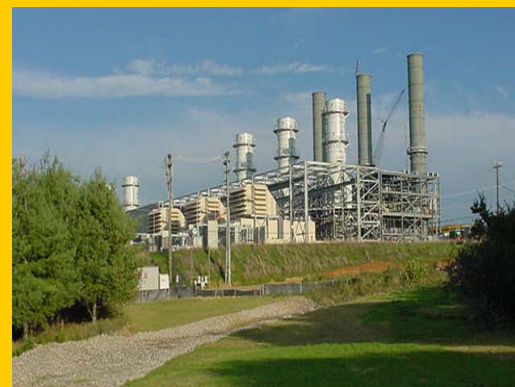
(2) Pepco = 30%; CPD = 8%.

Conectiv Energy - Business Overview

• Property, Plant & Equipment @ 9/30/04	\$ 1,345 million
• Average Net Cost of Installed Capacity	\$364/kW
• Number of Generating Units	52
• Number of Plant Sites	18
• YTD Earnings @ 9/30/04	\$ 49 million
• Debt @ 9/30/04	\$ 696 million
• Equity @ 9/30/04	\$ 651 million



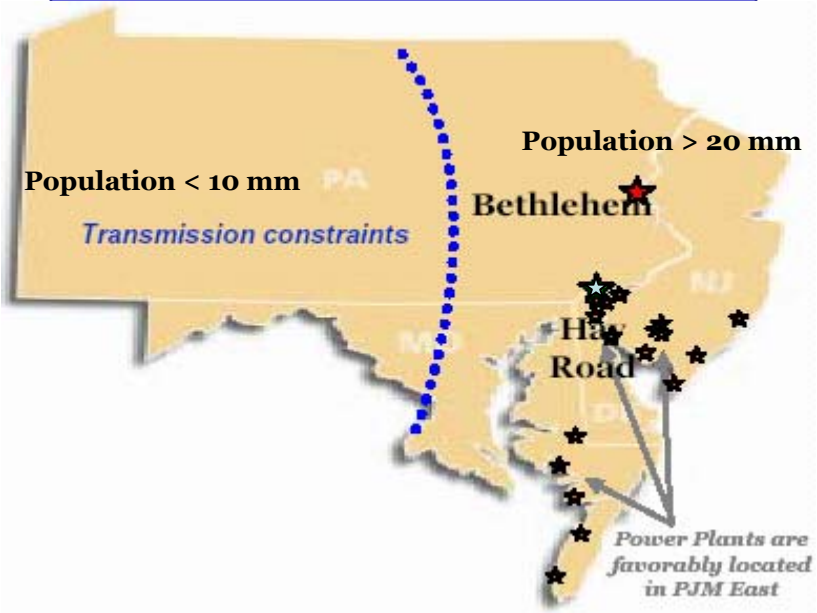
Hay Road – 1,066 MW's



Bethlehem – 1,092 MW's

Conectiv Energy - Business Overview

Geographic Location

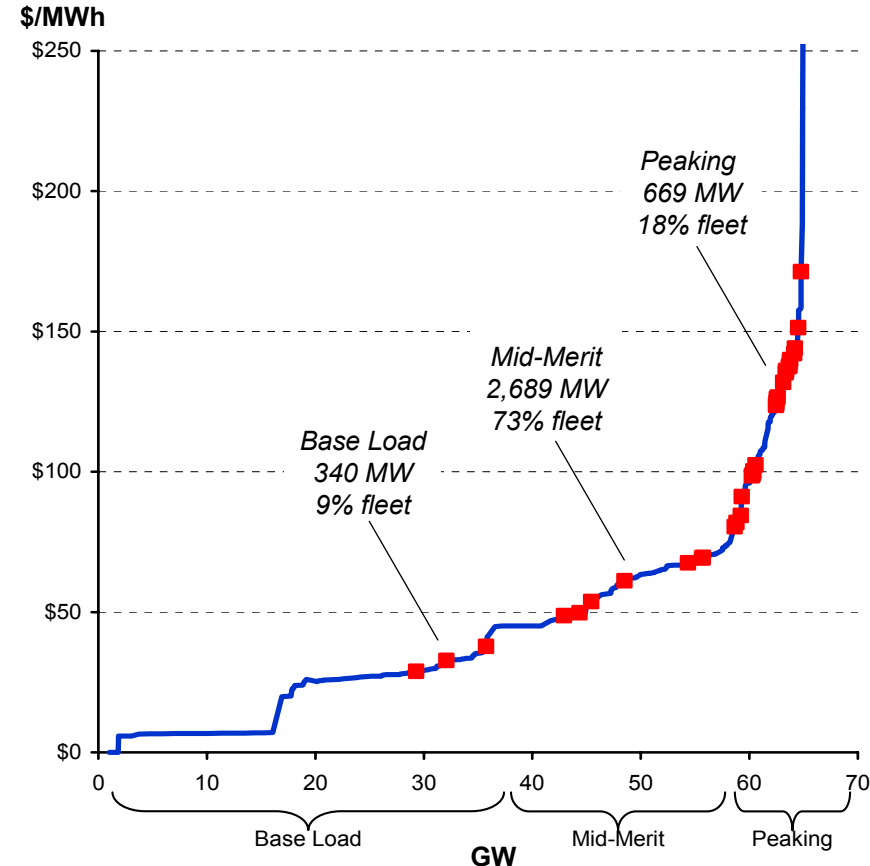


3,698 MWs (reflects completion of Bethlehem)

★ Conectiv Energy Power Plants

- Conectiv Energy Plants are located near large Northeast load pockets.

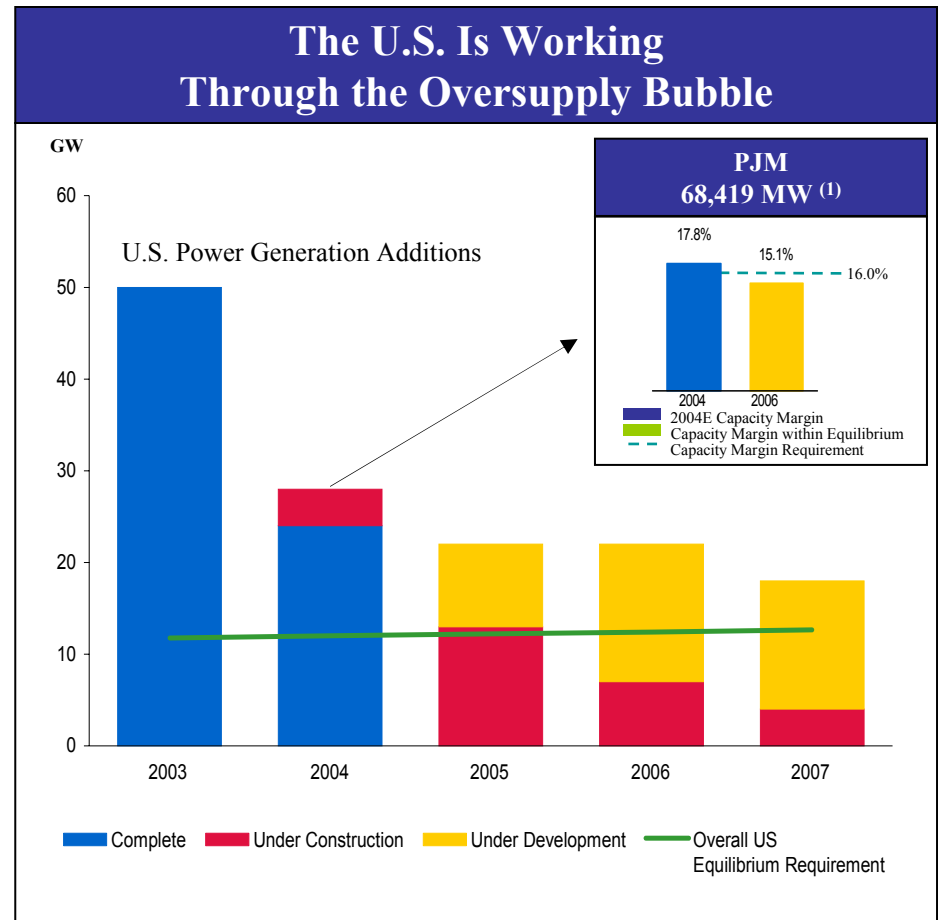
Positioning in PJM Supply Stack



- Fleet is focused on the mid-merit portion of the supply stack.

Potential for Market Recovery is Evident

- The 2004 12 GW capacity glut is being absorbed
- 2004 saw a 44% drop in new additions, the largest since 1996
- Certain regions, such as PJM, will require new generation before 2008
- PJM is considering a new capacity pricing model.



Source: Cambridge Energy Research Associates and Platts NEWGen® copyrighted database.

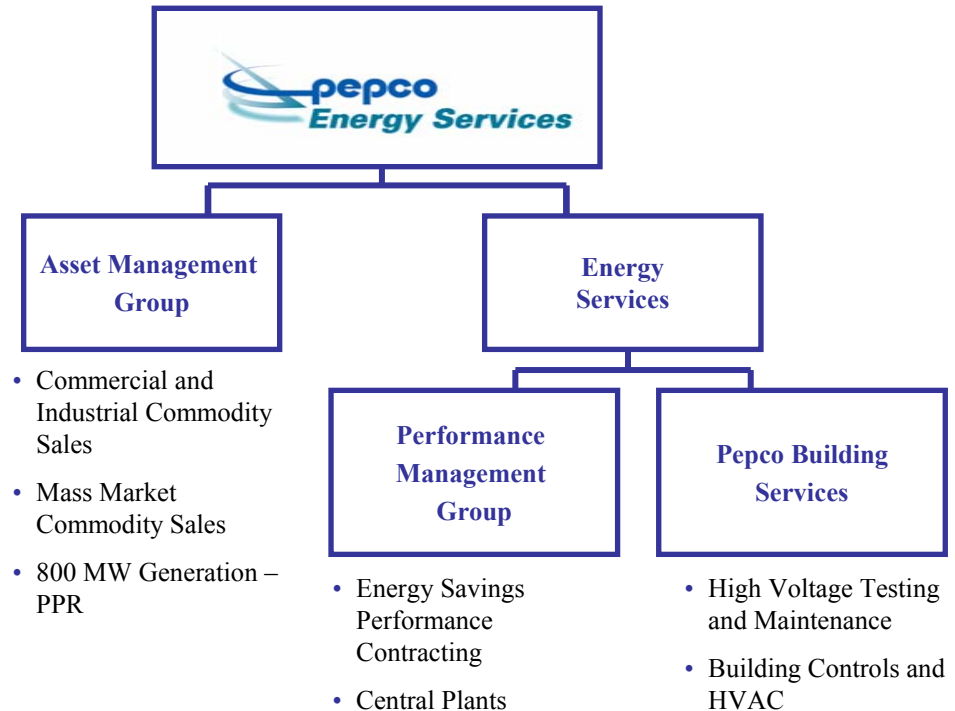
(1) 2004 Estimated Planned Capacity Resources.

PJM's Reliability Pricing Model (RPM)

- **PJM is planning to file a replacement for its current capacity pricing model (by March 2005).**
- **The new RPM is designed to provide forward price signals, recognize locational and operational values and avoid future supply shortfalls (“boom/bust” impacts).**
- **The RPM is proposed to be phased in from mid-2006 through mid-2009.**
- **Under the RPM, resources located in transmission constrained areas, and those that provide PJM with greater operational flexibility, will be paid a capacity premium.**
- **Conectiv Energy's units are ideally located to capture the locational premium and many of its plants also have significant operational flexibility.**

Pepco Energy Services - Business Overview

- A profitable C&I energy services business in the mid-Atlantic region.
- One of the largest retail energy providers in PJM.
 - Over 11.7 million MWH of electricity delivered in 2004.
 - Over 68 million dekatherms of delivered natural gas in 2004.
 - Eighty-eight percent of retail electricity load is large C&I.
- A full requirements energy service business for customers who wish to outsource their energy needs.



Pepco Energy Services – Gross Margins by Business Segment

September 2004 – YTD

(\$ in millions)

	Gross Margin	Percentage	Contribution to Total
Natural Gas	\$8.9	3%	12%
Electric	\$28.2	6%	38%
Energy Services	\$36.6	35%	50%
Pepco Energy Services, Inc.	\$73.7	9%	100%

- Natural Gas Gross Margin equals Natural Gas Operating Revenue of \$315.3 million less Natural Gas Cost of Sales of \$306.4 million.
- Electric Gross Margin equals Electric Operating Revenue of \$436.2 million less Electric Cost of Sales of \$408.0 million.
- Energy Services Gross Margin equals Energy Services Operating Revenue of \$104.1 million less Energy Services Cost of Sales of \$67.5 million.
- Percentage = (Revenues - Cost of Sales)/Revenues

Mirant Status

- **Transition Power Agreements (TPAs)**
 - * **Amended in 2003 (no longer in dispute)**
 - **TPA obligation through January 2005 in D.C.**
 - **\$105 million claim against Mirant bankruptcy estate**
- **Power Purchase Agreements (PPAs)**
 - * **Mirant seeking to reject two power purchase agreements**
 - **450 MW FirstEnergy contract through 2005**
 - **230 MW Panda contract through 2021**
 - * **U.S. District Court denied Mirant's motion to reject the PPAs – December 2004**
 - * **Considerable legal action has ensued and is continuing**
 - **Mirant's outstanding obligation for payment due December 2004 is \$11.1 million**
 - **Mirant's outstanding obligation for payment due January 2005 is \$4.4 million**
 - **Mirant filed to reject parts of the Asset Purchase and Sale Agreement (APSA) – January 2005**
 - **Hearing on Mirant's motion to reject parts of the APSA scheduled for February 16**
- **Mitigating factors in the event of an adverse outcome include:**
 - * **Claim against Mirant bankruptcy estates**
 - * **Regulatory recovery**

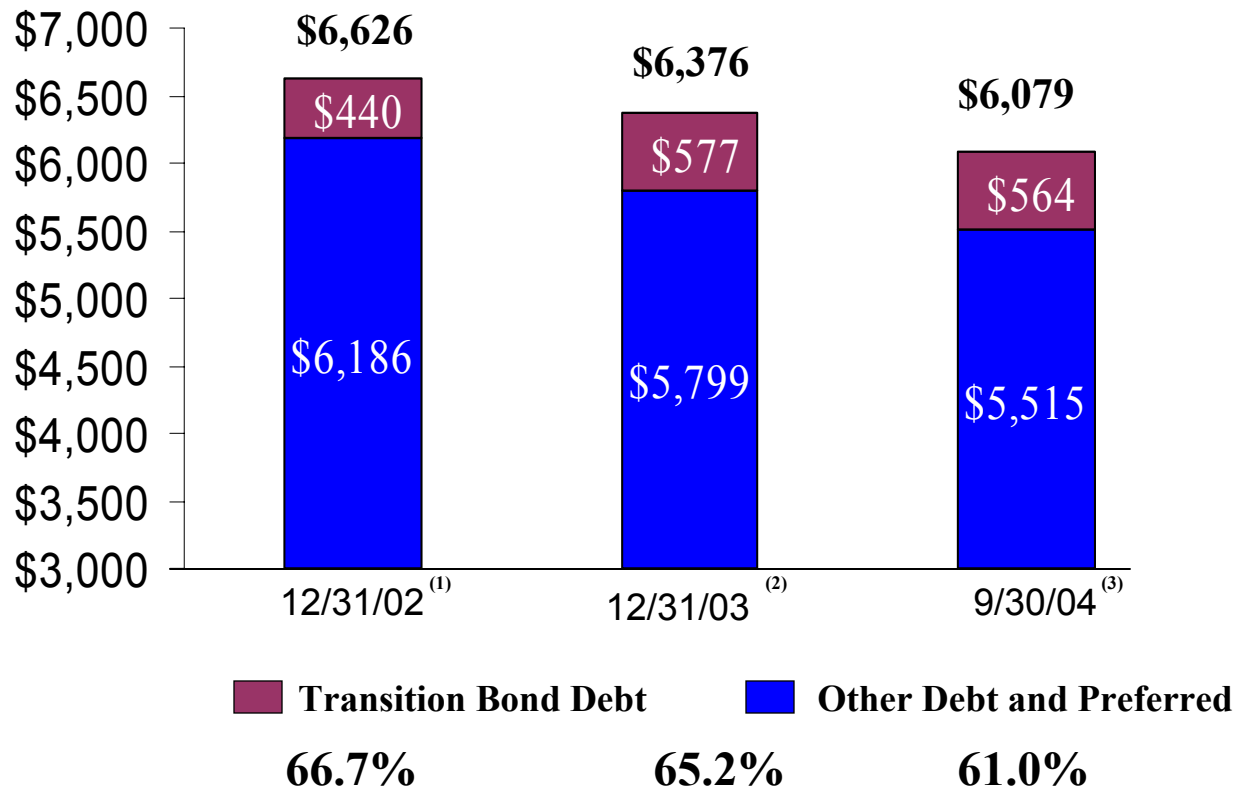
2004 Financial Highlights

- **Execution of the business plan generating solid financial results through September**
- **Power Delivery financial performance through September driven by: growth in customer base, strengthening regional economy, continued focus on cost reduction and positive weather impact**
- **Conectiv Energy posted significant improvement through September with earnings growth resulting from: increased wholesale margins and an effective hedging strategy**
- **Pepco Energy Services successfully and profitably capturing customers rolling off SOS**
- **Non-core asset sales completed: Starpower and aircraft**

PHI - Strengthening the Balance Sheet

Total Debt and Preferred Stock

(\$ in millions)



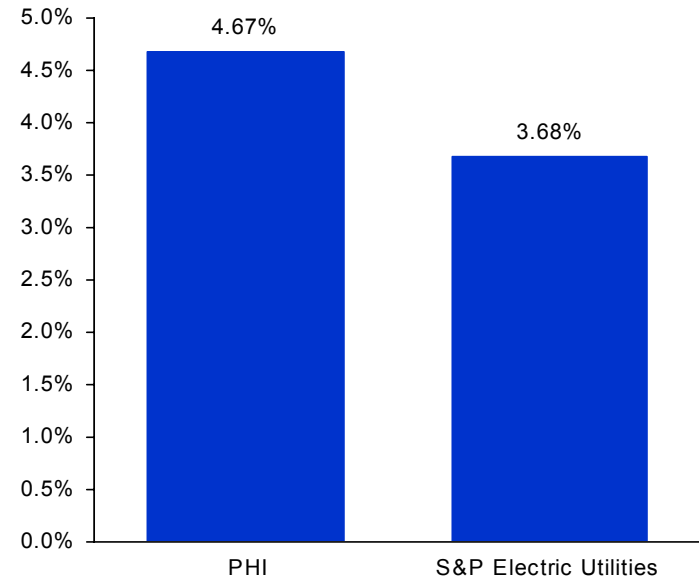
Notes:

- ⁽¹⁾ Other debt includes capital lease obligations (\$135.4MM), Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust which holds Parent Junior Subordinated Debentures (\$290.0MM), Mandatorily Redeemable Serial Preferred Stock (\$47.5MM) and Serial Preferred Stock (\$63.2).
- ⁽²⁾ Other debt includes capital lease obligations (\$131.2MM), Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust which holds solely Parent Junior Subordinated Debentures (\$98.0MM), Mandatorily Redeemable Serial Preferred Stock (\$45.0MM) and Serial Preferred Stock (\$63.2).
- ⁽³⁾ Other debt includes capital lease obligations (\$127.9MM), Mandatorily Redeemable Serial Preferred Stock (\$42.5MM) and Serial Preferred Stock (\$59.1).
- ⁽⁴⁾ Excluding Transition Bond Debt, Serial Preferred Stock and Redeemable Serial Preferred Stock.

Stable, Secure Dividend

- Indicated annual dividend of \$1 per share
- Current dividend yield is 27% higher than the average dividend yield for companies in the S&P Electric Utilities
- Utility cash flows completely cover dividend

Attractive Dividend Yield



Note: Dividend yield = Annual dividend per share / common stock price per share
 Pricing data as of January 26, 2005
 Source for S&P Electric Utilities information is Factset

Investment Highlights

- **Stable, regulated and diversified delivery business**
- **Conservatively managed competitive energy businesses profitably situated in mid-Atlantic region**
- **Solid financial results through September 2004 reflect execution of the business plan**
- **Predictable free cash flow**
- **Improving credit profile**
- **Attractive total return potential with a stable, secure dividend**