



## East Coast Utilities Seminar



**WELLINGTON SHIELDS & CO. • BERENSON & CO. • BOSTON • AUGUST 9 – 11, 2010**



# ***Safe Harbor Statement***

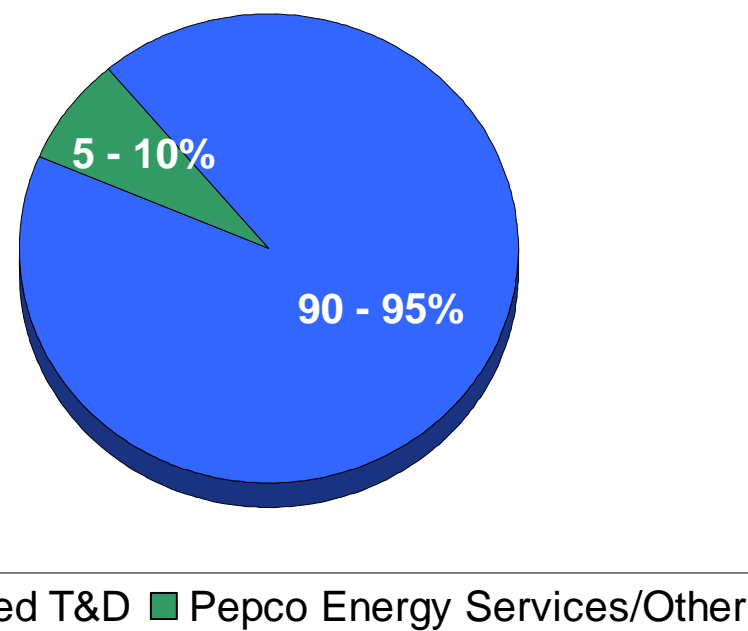
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# PHI's Strategic Repositioning

- We have been repositioning PHI over the last year
  - Wind-down of retail energy supply business at Pepco Energy Services
  - Completed sale of Conectiv Energy's wholesale power generation business
  - Liquidation of Conectiv Energy's remaining contracts and assets
- PHI is becoming fundamentally a regulated T&D company with significantly reduced direct exposure to the energy commodity markets

**Forecast Business Mix Based on 2011-2014 Projected Operating Income**



**Note:** See Safe Harbor Statement at the beginning of today's presentation.



# PHI's Strategic Focus



## Power Delivery



- Invest in T&D infrastructure
- Implement Blueprint for the Future – AML, energy efficiency, demand response, decoupling
- Achieve constructive regulatory outcomes
- Increase operational excellence

## Pepco Energy Services



- Build profitable market share in the energy performance contracting business focused on government customers
- Increase earnings contribution from energy services

**Note: See Safe Harbor Statement at the beginning of today's presentation.**



# ***Power Delivery Business Outlook***

- Over \$5.4 billion in planned infrastructure investment over next 5 years
- Accelerated smart grid deployment backed by \$168 million in stimulus grants
- Revenue growth through continued modest, long-term growth in the number of customers – comparatively strong, resilient economy
- Achieving constructive regulatory outcomes – ongoing rate cases, decoupling, FERC formula and incentive rates
- Continued improvement in operating performance – safety, customer satisfaction, reliability, cost

***Our plan positions us for significant long-term growth in both transmission and distribution.***

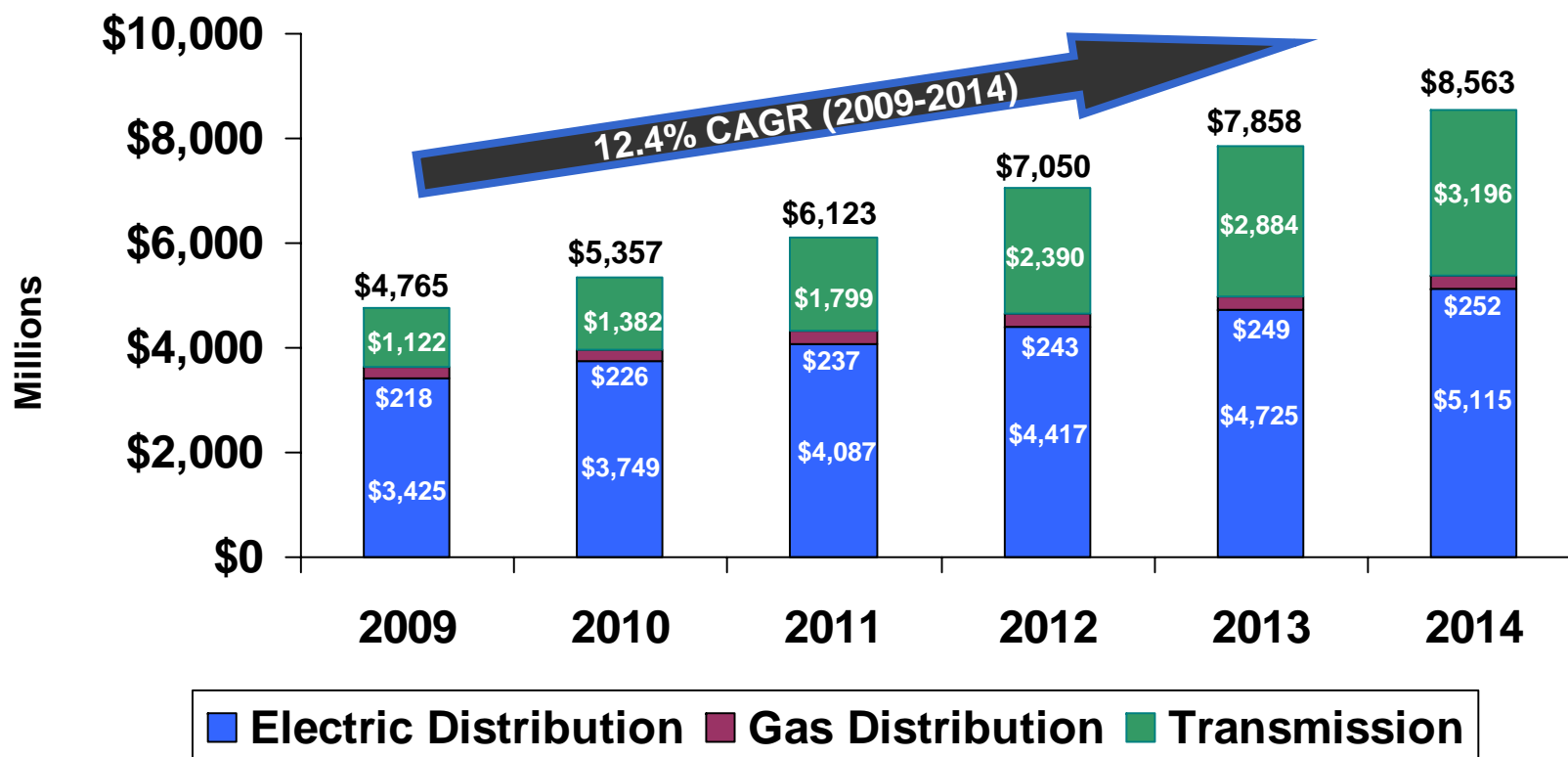
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# Power Delivery – The Driver of Growth

## Projected Year-End Rate Base



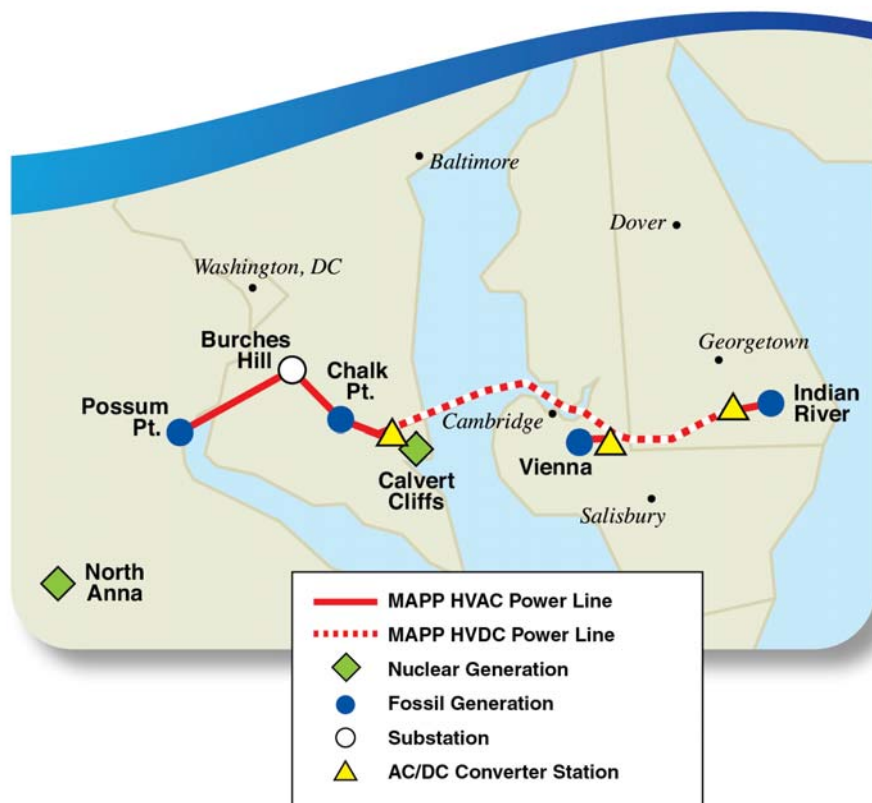
Total Rate Base  
Growth - 80%

Electric Distribution Rate  
Base Growth - 49%

Transmission Rate  
Base Growth - 185%

*Note: See Safe Harbor Statement at the beginning of today's presentation.*

# MAPP – Project Update



**Total Projected Construction cost: \$1.2 billion**  
**Current In-Service Date: June 2014**

## PJM

- PJM is finalizing its 2010 RTEP process; expect further direction on MAPP later this month
- RTEP study will establish need and timing for major transmission projects in PJM
- Preliminary results show reactive deficiencies in MAAC and EMAAC in 2015; alternatives under study
- PJM identified MAPP as the most robust EMAAC transmission alternative regardless of the MAAC alternative outcome

## Pending Regulatory Approvals

- CPCN procedural schedule suspended pending 2010 RTEP study completion
- Plan to file an updated CPCN by early 4Q2010
- Field reviews with state and federal environmental agencies continuing for Southern Maryland portion

## Ongoing Work

- Agreements in place for areas of new right of way and converter station locations
- Environmental permitting and engineering design
- Review of bids from HVDC vendors
- Construction activities on hold pending permits

**Note: See Safe Harbor Statement at the beginning of today's presentation.**

# Blueprint for the Future

***Combines smart grid technology with energy efficiency programs to help customers control their energy use and cost, while providing earnings potential for the Company***

- Advanced Metering Infrastructure
  - Meter installation underway in DE (155,000 meters installed through July 2010), regulatory asset approved
  - Meter installation to begin in DC in 4Q2010, regulatory asset approved
  - Filing pending in MD
- Energy efficiency and demand response programs
  - Demand response programs approved in MD and NJ, recovery through a surcharge; proposal pending in DC
  - Energy efficiency approved in MD and DC, recovery through a surcharge
- Revenue decoupling
  - Implemented in MD and DC; 66% of total distribution revenue is decoupled
  - To be implemented in DE following resolution of electric distribution base rate case (3Q2010)
- Innovative rate structures
  - Dynamic pricing proposals pending in DC and DE



**Projected Construction Costs: \$334 million <sup>(1)</sup>**  
**Other Expenditures: \$241 million <sup>(2)</sup>**

(1) Net of DOE Reimbursement

(2) Demand response and energy efficiency program costs are recorded as deferred regulatory assets

**Note: See Safe Harbor Statement at the beginning of today's presentation.**



# Distribution Rate Cases – Most Recent Decisions



<i>(Millions of Dollars)</i>	Pepco Maryland Electric Rate Case		ACE New Jersey Electric Rate Case	
	Final Position	Approved	Final Position	Approved
Date	5/21/10*	8/6/10	2/19/10	5/12/10
Rate Base	\$924.1	\$906.0	\$808.8	\$761.6
Equity Ratio	48.73%	48.87%	49.58%	49.10%
Return on Equity	10.75%	9.83%	11.50%	10.30%
Revenue Requirement	\$28.2	\$7.8	\$45.8	\$20.0
Residential Total Bill % Increase		0.5%		1.2%
New Rates Effective		7/29/10		6/1/10

## Maryland Order Summary

Revenue requirement – final position	\$28.2
Reduce return on equity to 9.83%	(7.0)
Denial of post test year expenses and other items	(7.0)
Depreciation/amortization related (no earnings impact)	(6.4)
Revenue increase per order	<u>\$7.8</u>

\* Final briefed position

# Distribution Rate Cases – Most Recent Decisions (continued)



<i>(Millions of Dollars)</i>	DPL Maryland Electric Rate Case		Pepco DC Electric Rate Case	
	Final Position	Approved	Final Position	Approved(2)
Date	11/4/09 <sup>(1)</sup>	12/2/09	12/9/09 <sup>(1)</sup>	3/2/10
Rate Base	\$311.8	\$306.4	\$1,020.0	\$1,010.3
Equity Ratio	49.87%	49.87%	46.18%	46.18%
Return on Equity	10.75%	10.00%	10.75%	9.625%
Revenue Requirement	\$13.6	\$7.5	\$44.5	\$19.8
Depreciation Expense Reduction/(Increase)	—	—	(\$4.7)	\$1.7
Residential Total Bill % Increase		1.3%		1.8%
New Rates Effective		12/2/09		3/23/10

(1) Date of company's reply brief.

(2) On 6/23/10, the Commission issued an order granting in part Pepco's application for reconsideration. The impact of the decision is an additional \$1.0 million of allowed rate base and an additional increase in revenues of approximately \$0.5 million annually effective 7/21/10.

# Distribution Rate Cases – Current Filed Positions



<i>(Millions of Dollars)</i>	DPL – DE Electric	DPL - DE Gas
Date of Most Recent Position	6/22/10	7/2/10
Test Period	12 mos. actual ended 3/31/09	6 mos. actual, 6 mos. forecasted ended 6/30/10
Rate Base	\$460.9	\$254.1
Equity Ratio	47.52%	48.80%
Return on Equity	10.75%	11.00% <sup>(2)</sup>
Revenue Requirement	\$24.2 <sup>(1)</sup>	11.9 <sup>(3)</sup>
Residential Total Bill % Increase	3.6%	8.1%
Years Since Last Rate Case Decision	3	3
Revenue Requirement Equating to 25 Basis Point Change in ROE	\$0.9	\$0.5

- (1) As permitted by law, an interim rate increase of \$2.5 million was put into effect on 11/17/09 and the remaining amount of the requested rate increase was put into effect on 4/19/10, subject to refund.
- (2) ROE with Modified Fixed Variable Rate Design (MFVRD) as addressed in Docket No. 09-277T, or 11.25% if the Commission does not approve MFVRD.
- (3) If the Commission does not approve MFVRD, the revenue requirement will increase by \$0.5 million.

*Note: See Safe Harbor Statement at the beginning of today's presentation.*

# PES Overview

- PES provides retail energy services to large customers
  - Government
  - Commercial and Industrial
  - Institutional
- Energy Services
  - PES develops, installs, operates, and maintains energy efficiency, renewable energy, and combined heat and power projects
- Energy Supply
  - PES is in the process of winding down the Retail Energy Supply business
  - PES also owns two peaking power plants that will be retired in 2012

***PES has shifted its strategic focus from Energy Supply to Energy Services***

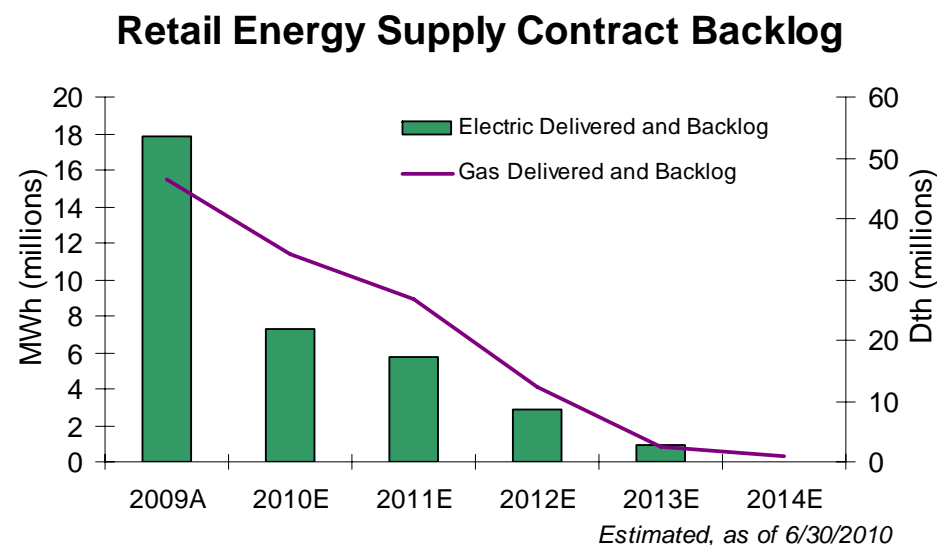
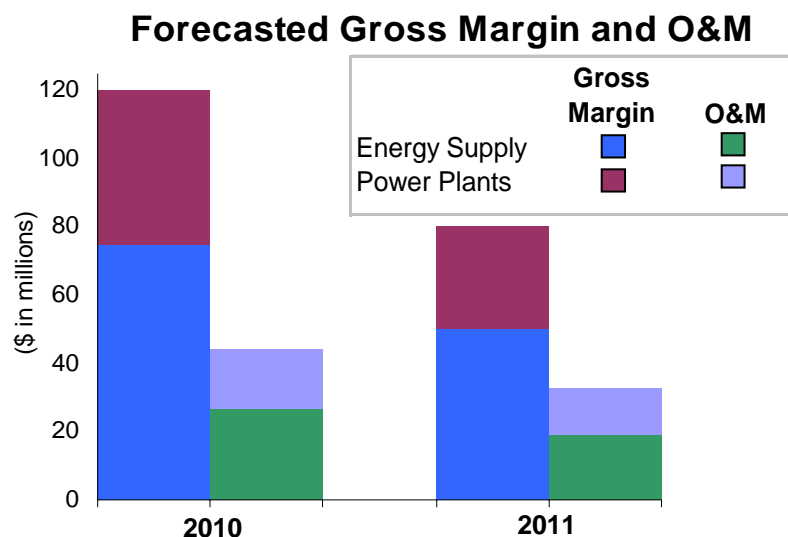


# Wind-down of Retail Electric and Natural Gas Supply and Power Plants



- PES is on track in winding down this business and the retail supply contracts completely roll off by 2014
- Power Plants are scheduled for retirement in May 2012
- Gross margin expectations for the contract backlog:
  - Electric: ~\$6.00/MWh
  - Natural Gas: ~\$0.35/Dth

Key Metrics	2010 YTD	2009	2008
Load Served - MW	2,389	3,195	4,388
MWh Delivered*	6.4	17.8	20.1
Dths Delivered*	28.5	45.8	36.1
O&M Expense*	\$23	\$60	\$50
* millions			
Gross Margins			
\$/MWh	\$6.07	\$6.40	\$3.71
\$/Dth	\$0.20	\$0.41	\$0.37



**Note:** See Safe Harbor Statement at the beginning of today's presentation.



# Energy Services Overview

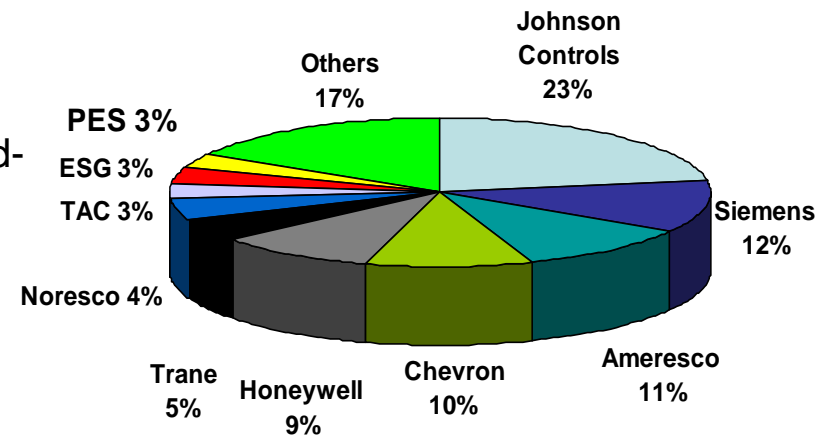
- **Energy Efficiency**
  - PES is a leading developer of energy efficiency projects
  - Since 1995, completed \$850 million of energy efficiency projects
- **Combined Heat and Power/ Thermal (CHP)**
  - PES develops, operates, and maintains central heating and cooling plants
    - 70,000 tons of cooling
    - 950 MMBtu/hour of heating
    - 23 MW of CHP
- **Renewable Energy**
  - PES owns and operates 12 MW of renewable energy facilities
    - Landfill gas to energy
    - Solar energy
- **Construction Companies**
  - Primarily underground high voltage transmission construction for utilities



# Growing Energy Services

- PES has an established track record and was ranked #10 in a 2008 survey with a 3% market share of the energy performance contracting market
  - PES approximates its market share in the Mid-Atlantic region in the range of 25% to 30%
  - PES has an experienced, commercially-oriented team
- PES is focused on government customers
  - Federal, State, and Local governments
  - Established contracts and energy efficiency mandates enable projects
- PES continues to grow its business development staff
  - Sales and engineering staff grew by 40% in 2009
  - Typical sales cycle averages 24 months, sometimes longer for the Federal government
  - Talent added now will create sustainable value over the longer term

**2008 North American Market Share  
Energy Performance Contracting**



Source: Frost and Sullivan

***Our sales team has doubled since 2008***

## Recently Signed Energy Efficiency Contract

- PES signs \$35 million energy efficiency contract with Prince George's County Public Schools
- **Services**
  - New energy infrastructure (heating/cooling)
  - Lighting/building improvements
  - Energy controls/renewable energy systems
  - 103 county school system facilities
- **Project**
  - Construction begins Mid-August; estimated completion December 2011
  - Fourth contract award to PES by the school system





# ***Conectiv Energy – Asset Sale Completion***



- Sale of wholesale power generation business completed on July 1, 2010
- Proceeds of \$1.63 billion (after adjustments) used to pay down PHI debt
- Liquidation of Conectiv Energy's contracts and remaining assets underway; expected completion by year-end 2010
- Total after-tax proceeds from the sale of the wholesale power generation business and the liquidation of the contracts and remaining assets currently expected to be approximately \$1.7 billion
- Total after-tax loss from the sale of the wholesale power generation business and the liquidation of the contracts and remaining assets currently expected to be approximately \$75 million to \$100 million

***Note: See Safe Harbor Statement at the beginning of today's presentation.***





# ***Conectiv Energy – Use of Asset Sale Proceeds***

- Applied proceeds from Conectiv Energy sale to debt reduction
  - Paid off \$450 million bridge financing put in place to fund
    - \$200 million of 4% Notes due May 2010
    - \$250 million of Floating Rate Notes due June 2010
  - Tendered/called \$944 million of long-term debt
    - \$750 million of Floating Rate Notes due 2012 (\$835 million purchase price)
    - \$129 million of 6.125% Notes due 2017 (\$145 million purchase price)
    - \$65 million of 7.45% Notes due 2032 (\$78 million purchase price)
  - Remaining proceeds used to pay down short-term debt
  - Charges for debt extinguishment costs and rate lock losses totaling approximately \$79 million, after-tax, will be recorded in 3Q2010

***Note: See Safe Harbor Statement at the beginning of today's presentation.***



# ***Second Quarter 2010***

## ***Financial Performance – Drivers***



<b>Second Quarter 2009 Earnings Per Share from Continuing Operations</b>	<b>\$0.18</b>
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### **Power Delivery**

Network Transmission Revenue	0.04
ACE Basic Generation Service (primarily unbilled revenue)	0.04
Distribution Revenue – Weather	0.03
Distribution Revenue – Rate Increases	0.02
Distribution Revenue – Other (primarily customer growth)	0.02
Operation and Maintenance	0.02
Depreciation	(0.01)

### **Pepco Energy Services**

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<b>Income Tax Adjustments</b>	<b>0.03</b>
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<b>Other, Net</b>	<b>(0.03)</b>
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<b>Second Quarter 2010 Earnings Per Share from Continuing Operations</b>	<b>\$0.34</b>
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# ***Year-to-Date 2010 Financial Performance – Drivers***



<b>Year-to-Date 2009 Earnings Per Share from Continuing Operations, excluding special item*</b>	<b>\$0.33</b>
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## **Power Delivery**

ACE Basic Generation Service (primarily unbilled revenue)	0.05
Network Transmission Revenue	0.04
Distribution Revenue – Rate Increases	0.04
Distribution Revenue – Other (primarily customer growth)	0.04
Distribution Revenue – Weather	0.01
Other	0.01
Operation and Maintenance	(0.02)
Depreciation	(0.02)

<b>Pepco Energy Services</b>	<b>0.03</b>
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<b>Income Tax Adjustments</b>	<b>(0.01)</b>
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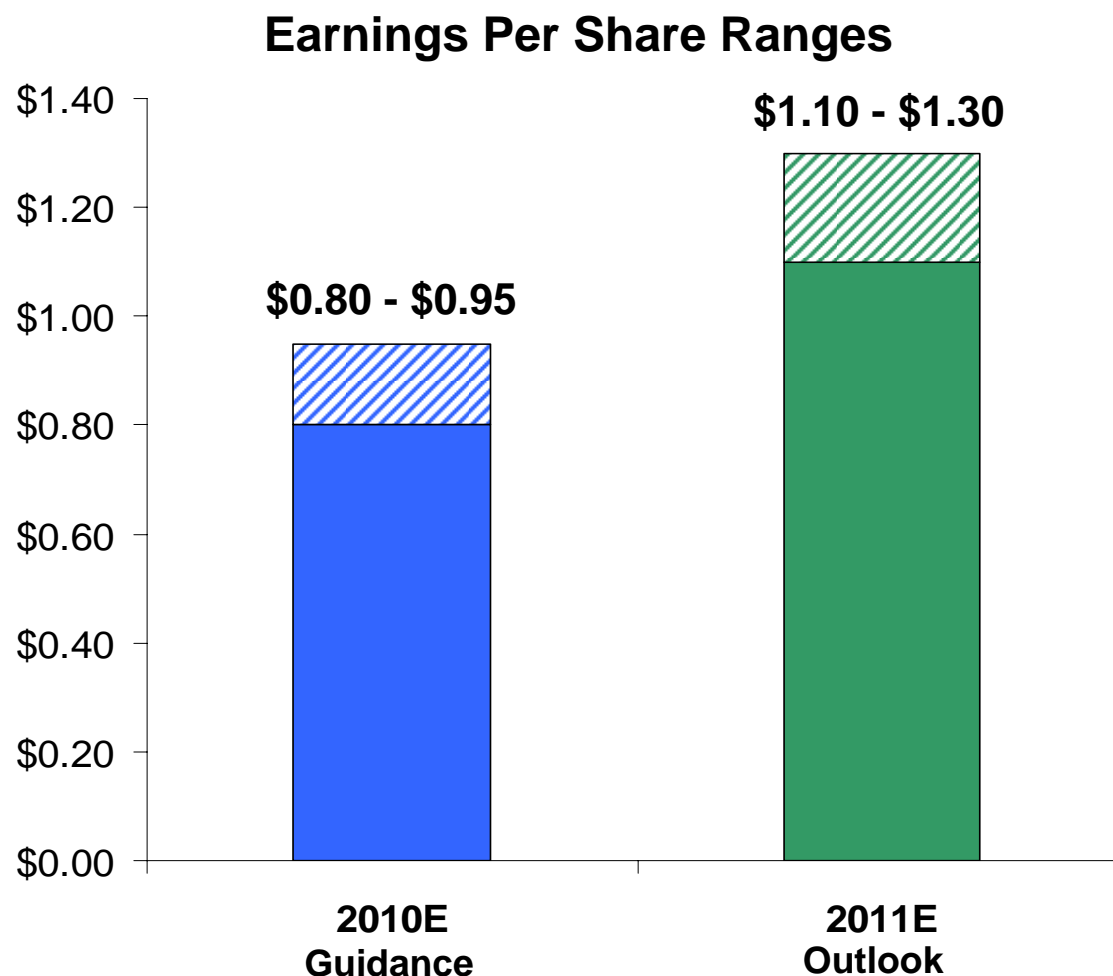
<b>Other, Net</b>	<b>(0.03)</b>
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<b>Year-to-Date 2010 Earnings Per Share from Continuing Operations</b>	<b>\$0.47</b>
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\* Excludes Mirant settlement special item of \$0.04 per share. Year-to-date 2009 earnings from continuing operations are \$0.37 per share.



# Earnings Guidance and Outlook



**Reflects earnings per share from ongoing operations (GAAP results excluding special, unusual or extraordinary items). See appendix for assumptions.**

**Note: See Safe Harbor Statement at the beginning of today's presentation.**



# ***POM Investment Case***

- Robust T&D growth – over \$5 billion planned investment, 42% in transmission
- Smart grid underway – aided by \$168 million in stimulus funds
- Reasonable regulatory outlook – including FERC formula rates
- No equity issuance needs until at least 2012
- Commitment to the current dividend
- Clear value proposition – fundamentally a regulated T&D business

***We are positioned to provide an attractive total return to our shareholders and growth for the future***

***Note: See Safe Harbor Statement at the beginning of today's presentation.***



# Appendix



# Sales and Customer Growth

	<u>Sales (GWh)*</u>		<u>Forecasted Annual Average Growth</u>			
	2009	2010	<u>Sales</u>	<u>Customer</u>		
			2009-2010	2009-2014	2009-2010	2009-2014
Pepco	26,530	26,930	1.5%	1.5%	1.0%	0.9%
Delmarva Power	12,515	12,508	-0.1%	0.6%	0.9%	1.2%
Atlantic City Electric	9,738	9,839	1.0%	1.0%	0.9%	1.0%
<b>Total Power Delivery</b>	<b>48,783</b>	<b>49,277</b>	<b>1.0%</b>	<b>1.1%</b>	<b>0.9%</b>	<b>1.0%</b>

\*Weather Normalized Sales

*While the economic downturn has slowed growth, we expect continued growth over the long-term across our service territory.*

**Note:** See Safe Harbor Statement at the beginning of today's presentation.

# MAPP – Construction Costs\*

(Millions of Dollars)

	Pepco	Delmarva Power	Total
2008	\$ 5	\$ 1	\$ 6
2009	22	8	30
2010	7	17	24
2011	129	117	246
2012	201	116	317
2013	114	183	297
2014	70	176	246
2015	-	55	55
<b>TOTAL</b>	<b>\$ 548</b>	<b>\$ 673</b>	<b>\$ 1,221</b>

- In-service dates currently under review by PJM, which may affect timing of certain expenditures.
- Construction costs based on proposed route through Dorchester County, announced on 5/5/10.

\* 2008 and 2009 actual costs; 2010 through 2015 planned costs

*Note: See Safe Harbor Statement at the beginning of today's presentation.*



# Blueprint for the Future – Updated Costs

## Construction Costs

(Millions of Dollars)

	2008A	2009A	2010	2011	2012	2013	2014	Total
<b>Advanced Metering Infrastructure (AMI)</b>								
Atlantic City Electric <sup>(1)</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8	\$ 92	\$ 100
Delmarva Power <sup>(1)</sup>	-	12	49	18	40	-	-	119
Pepco <sup>(1)</sup>	-	-	43	89	19	-	-	151
AMI System Improvements	4	11	13	21	-	-	-	49
Meter Data Management System	3	2	10	-	-	-	-	15
<b>Sub Total</b>	\$ 7	\$ 25	\$ 115	\$ 128	\$ 59	\$ 8	\$ 92	\$ 434
DOE Reimbursement <sup>(2)</sup>	-	-	(25)	(58)	(17)	-	-	(100)
<b>Total</b>	<b>\$ 7</b>	<b>\$ 25</b>	<b>\$ 90</b>	<b>\$ 70</b>	<b>\$ 42</b>	<b>\$ 8</b>	<b>\$ 92</b>	<b>\$ 334</b>

## Demand Response and Energy Efficiency Expenditures – 2010-2014<sup>(3)</sup>

	2010	2011	2012	2013	2014	Total
Pepco - District of Columbia	\$ 6	\$ 11	\$ 5	\$ 1	\$ 1	\$ 24
Pepco - Maryland	43	50	26	25	25	169
Delmarva - Delaware	-	4	5	3	2	14
Delmarva - Maryland	13	14	13	8	8	56
Atlantic City Electric - New Jersey	2	3	3	5	1	14
<b>Sub Total</b>	\$64	\$82	\$52	\$42	\$37	\$277
DOE Reimbursement <sup>(2)</sup>	(11)	(15)	(10)	-	-	(36)
<b>Total</b>	<b>\$ 53</b>	<b>\$ 67</b>	<b>\$ 42</b>	<b>\$ 42</b>	<b>\$ 37</b>	<b>\$ 241</b>

(1) Installation of AMI in Maryland and New Jersey is contingent on regulatory approval.

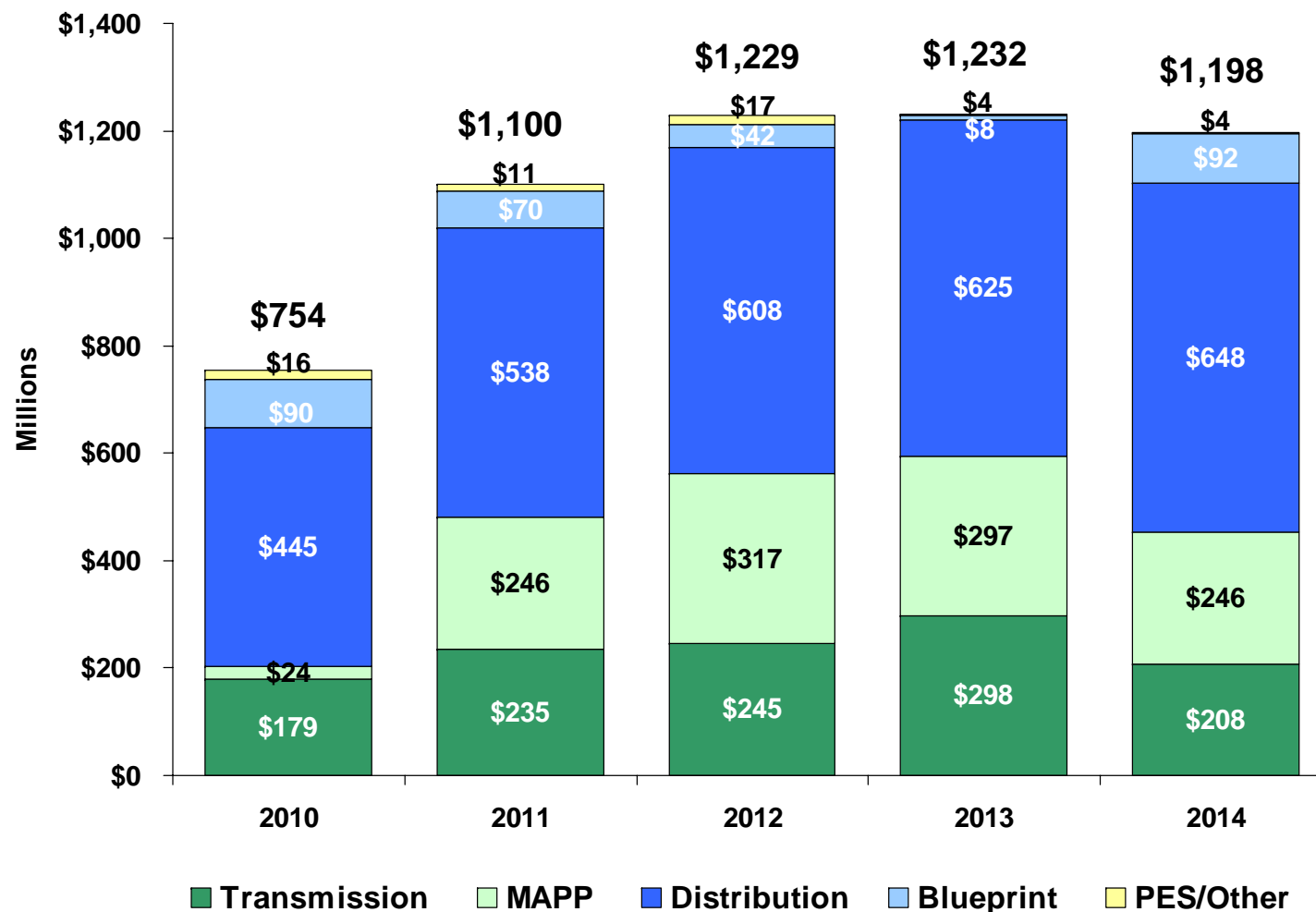
(2) DOE awarded PHI \$168 million under the ARRA. \$100 million will offset Blueprint construction costs and \$30 million will offset other capital expenditures. \$36 million will offset expenses associated with direct load control programs.

(3) Demand response and energy efficiency program costs are recorded as deferred regulatory assets.

**Note:** See Safe Harbor Statement at the beginning of today's presentation.



# Construction Expenditures\*



**Total projected capital expenditures are \$5.5 billion over 5 years**

\* Shown net of DOE Capital Reimbursement Awards, excludes Conectiv Energy

Note: See Safe Harbor Statement at the beginning of today's presentation.



# ***Earnings Guidance Assumptions***

## **Power Delivery**

- Normal weather and operating conditions
- Constructive regulatory outcomes for pending rate cases (Delmarva Power – Electric DE and Delmarva Power – Gas DE)
- Atlantic City Electric settlement reflected in rates June 1, 2010
- Additional rate cases reflect estimates based on projected rate base/cost-of-service growth and timing of filings
- Average forecasted growth in number of customers of 1% annually
- Average forecasted sales growth of 1% annually
- Construction expenditures of \$738 million in 2010 and \$1,089 million in 2011
- O&M expense, net of reimbursable/recoverable, of \$648 million in 2010 (excluding February 2010 storm expense); forecasted increase of ~3% in 2011
- Incremental O&M expense of \$15 million in 2010 due to February 2010 storm event
- Depreciation and amortization expense of \$367 million in 2010 and \$403 million in 2011

***Note: See Safe Harbor Statement at the beginning of today's presentation.***



# Earnings Guidance Assumptions – Continued



## Pepco Energy Services

- Growth in ESCO construction activity
- Retail Energy gross margins of \$120 million in 2010 and \$80 million in 2011
- Retail Energy O&M expense of \$44 million in 2010 and \$33 million in 2011

## Conectiv Energy

- Conectiv Energy asset sale and liquidation are both included in discontinued operations (and therefore excluded from 2010 guidance and 2011 outlook)

## PHI

- Conectiv Energy sale proceeds primarily used to pay down debt by end of 3Q2010
- Debt extinguishment costs excluded from 2010 guidance range
- Other non-regulated (primarily cross-border leases) earnings at approximate 2009 level
- Composite consolidated effective tax rate of approximately 38%

**Note:** See Safe Harbor Statement at the beginning of today's presentation.