



## Wells Fargo Utility Symposium



NEW YORK, NY • DECEMBER 8, 2010



# ***Safe Harbor Statement***

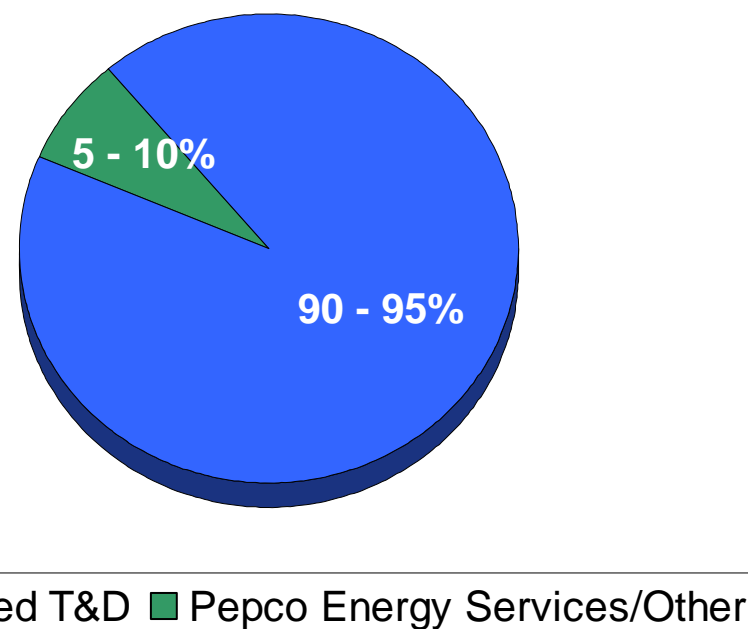
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# PHI's Strategic Repositioning

- We have been repositioning PHI over the last year
  - Wind-down of retail energy supply business at Pepco Energy Services on track
  - Completed sale of Conectiv Energy's wholesale power generation business
  - Liquidation of Conectiv Energy's remaining contracts and assets on track
- 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 – Positioned for Growth***



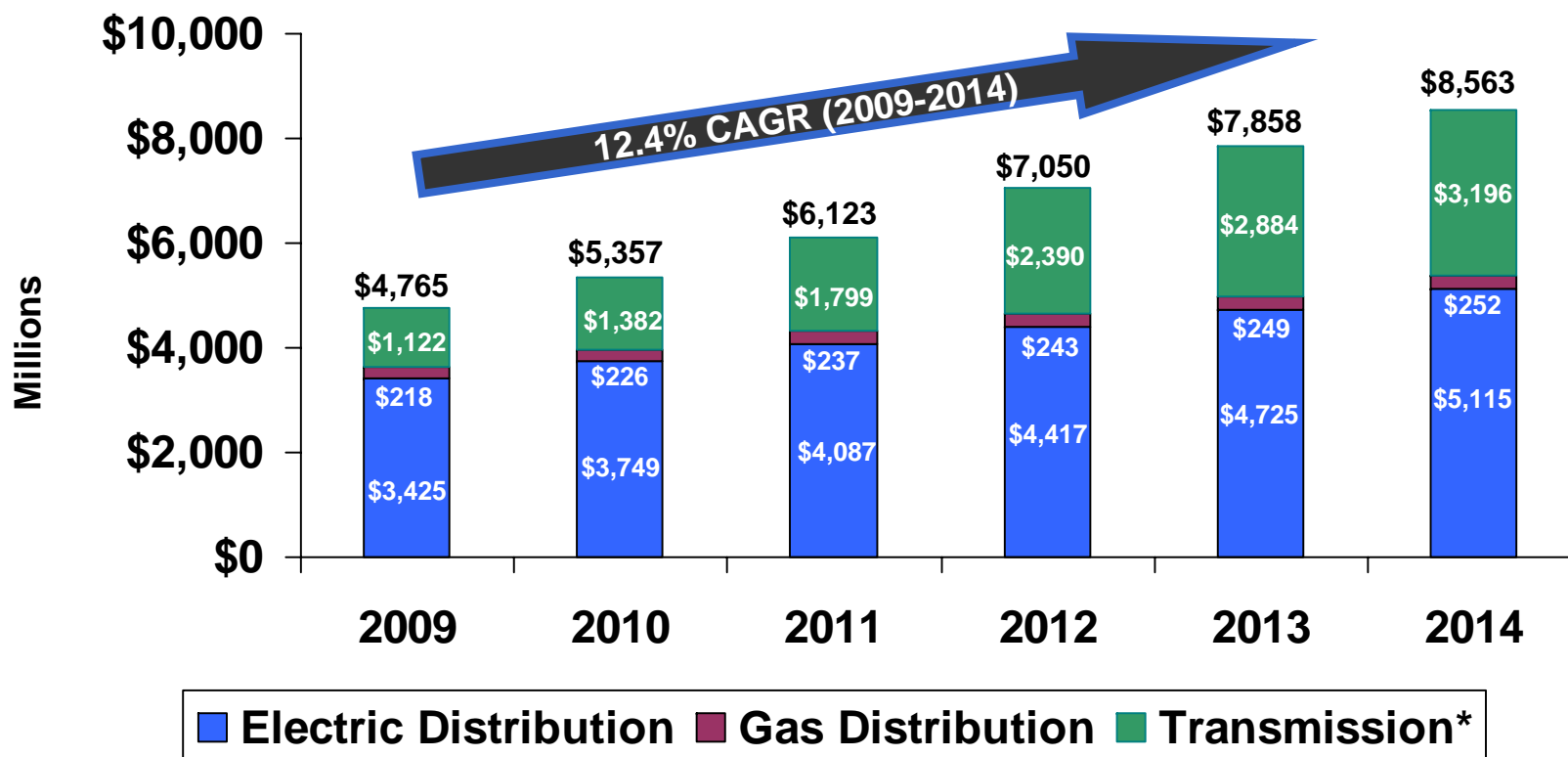
- Over \$5 billion in planned infrastructure investment over 5 years, with 41% in transmission
- Transmission to grow from 24% of total rate base in 2009 to a projected 37% in 2014
- MAPP reaffirmed by PJM, CPCN filing made in Maryland
- Smart grid deployment accelerated, backed by \$168 million in stimulus grants
- Revenue growth through continued modest, long-term growth in the number of customers – comparatively strong, resilient economy
- Reasonable regulatory outlook – ongoing rate cases focused on timely cost recovery, decoupling, FERC formula and incentive adders
- Continued improvement in operating performance – safety, customer satisfaction, reliability, cost

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



# Power Delivery – Rate Base Growth

## Projected Year-End Rate Base



**Total Rate Base  
Growth - 80%**

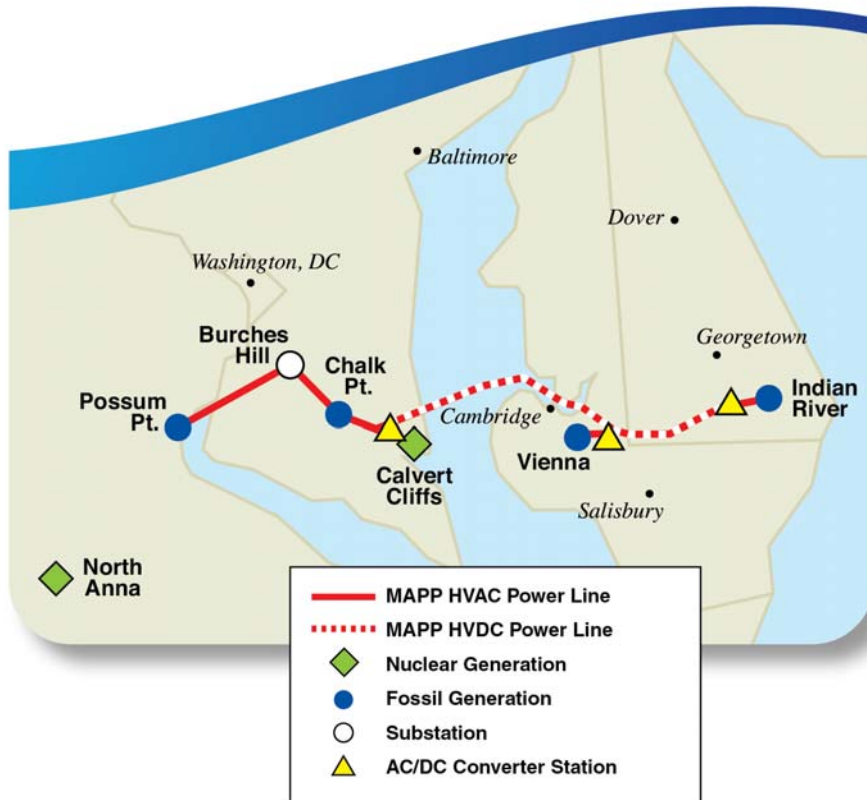
**Electric Distribution Rate  
Base Growth - 49%**

**Transmission Rate  
Base Growth - 185%**

\* Does not reflect updated phasing of MAPP capital expenditures based on revised 2015 in-service date

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

# Mid-Atlantic Power Pathway (MAPP) – Project Update



**Total Projected Construction Cost: \$1.2 billion**  
**Current In-Service Date: June 2015**  
**FERC Approved ROE: 12.8%**

## PJM

- Analyses show significant violations of reliability criteria in MAAC and EMAAC in 2015, requiring additional transmission capability be put in place
- In October 2010, the PJM Board reaffirmed the need for MAPP with the in-service date revised from June 2014 to June 2015

## Pending Regulatory Approvals

- Filed an updated CPCN in Maryland November 12, 2010
- Field reviews with state and federal environmental agencies substantially completed for Southern Maryland portion
- Plan to file for Maryland State environmental permit in the first quarter 2011

## Ongoing Work

- Agreements in place for areas of new right of way and converter station locations
- Environmental permitting and engineering design underway
- Review and award of bids from HVDC vendors to be completed in first quarter 2011
- Construction activities to begin upon receipt of environmental permits

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

# MAPP Construction Expenditures – Revised for 2015 In-Service Date



(Millions of Dollars)	2008 A	2009 A	2010 F	2011	2012	2013	2014	2015	2016	TOTAL <sup>(2)</sup>
<b>Previous Forecast</b>										
Delmarva Power	\$1	\$8	\$17	\$117	\$116	\$183	\$176	\$55	–	\$673
Pepco	5	22	7	129	201	114	70	–	–	548
<b>TOTAL</b>	<b>\$6</b>	<b>\$30</b>	<b>\$24</b>	<b>\$246</b>	<b>\$317</b>	<b>\$297</b>	<b>\$246</b>	<b>\$55</b>	<b>–</b>	<b>\$1,221</b>
<b>Current Forecast <sup>(1)</sup></b>										
Delmarva Power	\$1	\$8	\$12	\$51	\$146	\$138	\$74	\$60	–	\$490
Pepco	5	22	18	112	216	166	139	45	8	731
<b>TOTAL</b>	<b>\$6</b>	<b>\$30</b>	<b>\$30</b>	<b>\$163</b>	<b>\$362</b>	<b>\$304</b>	<b>\$213</b>	<b>\$105</b>	<b>\$8</b>	<b>\$1,221</b>
<b>Increase/(Decrease)</b>	<b>–</b>	<b>–</b>	<b>\$6</b>	<b>(\$83)</b>	<b>\$45</b>	<b>\$7</b>	<b>(\$33)</b>	<b>\$50</b>	<b>\$8</b>	<b>–</b>

(1) Reflects current June 2015 in-service date

(2) Shift of \$183 million of construction expenditures from Delmarva Power to Pepco in the current forecast is based on the final route selected for the Chesapeake Bay crossing

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



# Blueprint – Project Status by Jurisdiction

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

	DC	Pepco MD	Delmarva Power MD	DE	Atlantic City Electric NJ
<b>Decoupling</b>	Implemented November 2009	Implemented June 2007	Implemented June 2007	To be implemented following resolution of the electric distribution base rate case, 4Q2010*	Filed request for approval, August 2009
<b>Forecasted 2010 % of Distribution Revenue</b>	24%	42%		13%	21%
<b>Advanced Metering Infrastructure</b>	Meter installation underway (to be completed 4Q2011), regulatory asset approved	Meter deployment approved (subject to implementation of PSC-approved customer education/communication plan), regulatory asset approved	Meter deployment pending (subject to PSC approval of adjusted business case and implementation of PSC-approved customer education/communication plan)	Meter installation underway (to be completed 1Q2011), regulatory asset approved	Deferred
<b>Energy Efficiency and Demand Response Programs</b>	Demand response proposal pending. Sustainable Energy Utility (SEU) to be established for energy efficiency	Demand response and energy efficiency programs approved, recovery through a surcharge	Demand response and energy efficiency programs approved, recovery through a surcharge	Demand response approved as part of AMI. Energy efficiency managed by SEU	Demand response programs approved, recovery through a surcharge
<b>Innovative rate structure</b>	Dynamic pricing proposals pending	Critical Peak Rebate form of dynamic pricing approved	Critical Peak Rebate form of dynamic pricing approved pending AMI deployment authorization.	Dynamic pricing proposals pending	Deferred

\* DPL - DE Gas decoupling to be implemented following base rate case decision expected in April 2011

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

# Sales and Customer Growth

	<u>Forecasted Annual Average Growth</u>			
	<u>Sales*</u>		<u>Customer</u>	
	2009-2010	2009-2014	2009-2010	2009-2014
Pepco	1.5%	1.5%	1.0%	0.9%
Delmarva Power	-0.1%	0.6%	0.9%	1.2%
Atlantic City Electric	1.0%	1.0%	0.9%	1.0%
<b>Total Power Delivery</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.

# Distribution Rate Cases – Most Recent Decisions

(Millions of Dollars)	Pepco MD Electric Rate Case	
	Final Position	Approved
Date	5/21/10	8/6/10
Rate Base	\$924.1	\$906.0
Equity Ratio	48.73%	48.87%
Return on Equity	10.75%	9.83%
Revenue Requirement	\$28.2	\$7.8
Residential Total Bill % Increase		0.5%
New Rates Effective		7/29/10

## Maryland Order Summary

– Revenue requirement – final position	\$28.2
Reduce ROE 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	\$7.8

## Application for Rehearing filed 9/2/10

	<u>Revenue Impact</u>
– Request corrections to formulas calculating annual cost of removal	\$4.7
– Reconsider proposed ratemaking adjustments for reliability expenditures	\$2.3
– Reconsider proposed ratemaking adjustments for Enhanced Vegetation Management costs	\$1.5

# Distribution Rate Cases – Most Recent Decisions (continued)



<i>(Millions of Dollars)</i>	DPL MD Electric Rate Case		Pepco DC Electric Rate Case		ACE NJ Electric Rate Case	
	Final Position	Approved	Final Position	Approved(2)	Final Position	Approved
Date	11/4/09 <sup>(1)</sup>	12/2/09	12/9/09 <sup>(1)</sup>	3/2/10	2/19/10	5/12/10
Rate Base	\$311.8	\$306.4	\$1,020.0	\$1,010.3	\$808.8	\$761.6
Equity Ratio	49.87%	49.87%	46.18%	46.18%	49.58%	49.10%
Return on Equity	10.75%	10.00%	10.75%	9.625%	11.50%	10.30%
Revenue Requirement	\$13.6	\$7.5	\$44.5	\$19.8	\$45.8	\$20.0
Depreciation Expense Reduction/(Increase)	–	–	(\$4.7)	\$1.7	–	–
Residential Total Bill % Increase		1.3%		1.8%		1.2%
New Rates Effective		12/2/09		3/23/10		6/1/10

(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 – Pending Delmarva Power – Electric



(Millions of Dollars)	DPL DE Electric Case - Docket 09-414			
	DPL <sup>(1)</sup>	Hearing Examiner	Staff <sup>(1)</sup>	DPA <sup>(1)(4)</sup>
Adjusted Rate Base	\$461.3	\$427.3 <sup>(3)</sup>	\$427.9	\$401.7
Equity Ratio	47.52%	47.52%	47.52%	47.52%
Return on Equity <sup>(2)</sup>	10.75%	8.50%	8.50%	7.52%
Revenue Requirement	\$24.2	\$6.3 <sup>(3)</sup>	\$6.4	(\$4.6)
Revenue Requirement Equating to 25 Basis Point Change in ROE	\$0.9			

***Commission decision expected by year-end 2010***

- (1) Brief filing position
- (2) Recommended return on equity without revenue decoupling is 11.00% for DPL, 9.50% for Hearing Examiner and Staff and 9.58% for DPA
- (3) Company calculation
- (4) Division of Public Advocate

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



# Distribution Rate Cases – Pending Delmarva Power – Gas

	DPL DE Gas Case - Docket 10-237		
	DPL <sup>(1)</sup>	Staff	DPA <sup>(2)</sup>
Adjusted Rate Base	\$236.5	\$233.7	\$202.6
Equity Ratio	48.28%	48.28%	48.28%
Return on Equity	11.00% <sup>(3)</sup>	8.25%	7.17%
Revenue Requirement	\$10.2	(\$0.7)	(\$4.7)
Revenue Requirement Equating to 25 Basis Point Change in ROE	\$0.5		

## Procedural Schedule

Initial Filing Date	7/2/10	<ul style="list-style-type: none"> <li>Interim rate increase of \$2.5 million put into effect August 31, 2010, subject to refund</li> <li>Balance of requested increase may be put into effect February 2, 2011, subject to refund</li> </ul>
Staff/DPA Testimony	10/28/10	
Rebuttal Testimony	12/3/10	
Evidentiary Hearings	1/18 – 1/19/11	
Initial Briefs	2/7/11	
Reply Briefs	2/16/11	
Expected Timing of Decision	April 2011	

(1) Current filed position as of 12/3/10

(2) Division of Public Advocate

(3) Recommended return on equity position without revenue decoupling is 11.25%

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



# ***Distribution Rate Cases – The Next Cycle***

<u>Preliminary Filing Cycle</u>	<u>Tentative Filing Date</u>
– Delmarva Power MD	Late 2010
– Pepco MD	Spring 2011
– Pepco DC	Summer 2011
– Atlantic City Electric NJ	Summer 2011
– Delmarva Power DE - Electric	Summer 2011
– Delmarva Power DE - Gas	Early 2012
• Filing cycle may be altered by financial projections and other considerations	

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## ***Regulatory Lag Reduction Mechanisms***

- Reduced time between rate case filings
- Future test periods
- Cash return on CWIP
- Alternative incentive regulation, performance based ratemaking
- Surcharge clauses/tracker mechanisms
- Formula rates at retail level / annual review process
- Use of terminal rate base
- Develop and pursue reasonable settlements

# ***Pepco Energy Services Overview***

- PES provides retail energy services to large customers
  - Government
  - Institutional
  - Commercial and Industrial
- Energy Services
  - PES develops, installs, operates, and maintains energy efficiency, renewable energy, and combined heat and power and thermal projects
    - Since 1995, PES has completed more than \$850 million of energy efficiency 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***



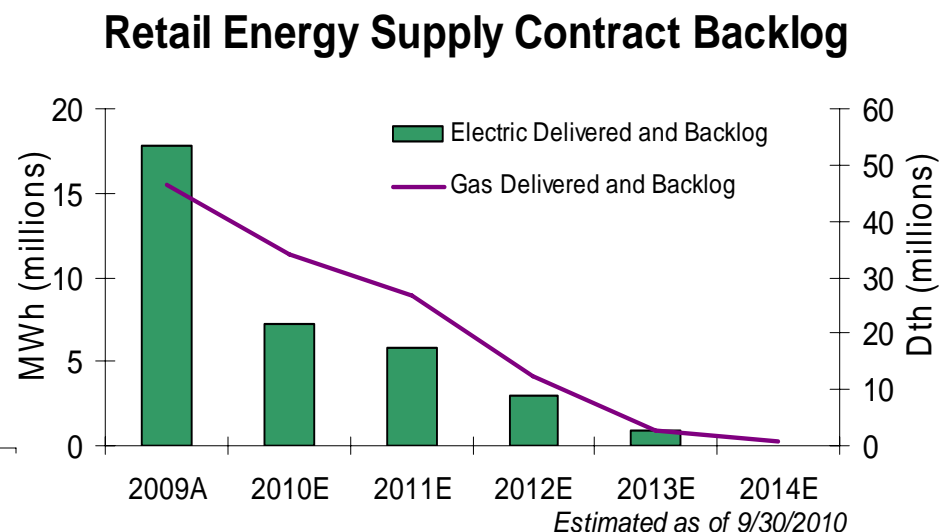
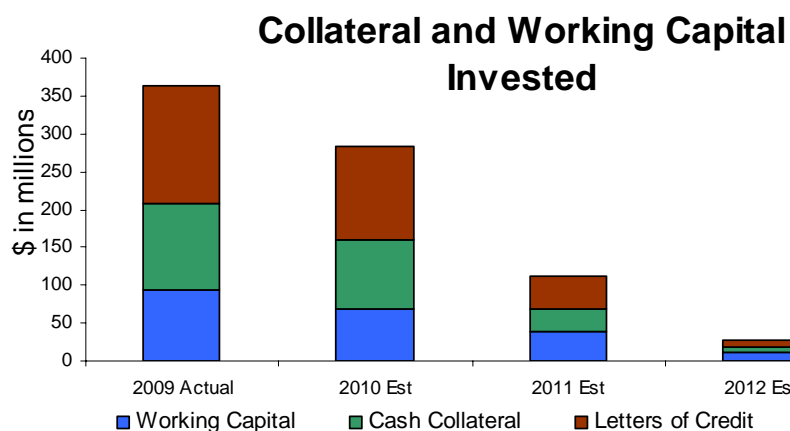
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# Wind-down of Retail Electric and Natural Gas Supply and Power Plants



- PES is on track in winding down this business; 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	9/2010 YTD	2009	2008
Load Served - MW	2,195	3,195	4,388
MWh Delivered*	9.3	17.8	20.1
Dths Delivered*	36.5	45.8	36.1
O&M Expense*	\$37	\$60	\$50
* millions			
Gross Margins			
\$/MWh	\$6.49	\$6.40	\$3.71
\$/Dth	\$0.20	\$0.41	\$0.37



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# Energy Services: Make-up of Earnings

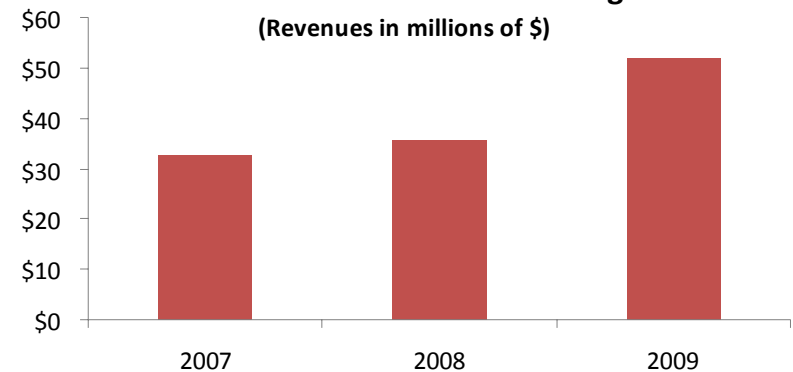
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## Construction Revenues from Energy Efficiency Projects

### Typical projects:

- Construction contract value:
  - \$5 to \$25 million (revenue)
- Gross margins:
  - 20% to 25% range
- Strong track record for performance contracts requiring on going measurement/ verification of energy savings
- Projects are financed by 3<sup>rd</sup> parties and require minimal capital by PHI

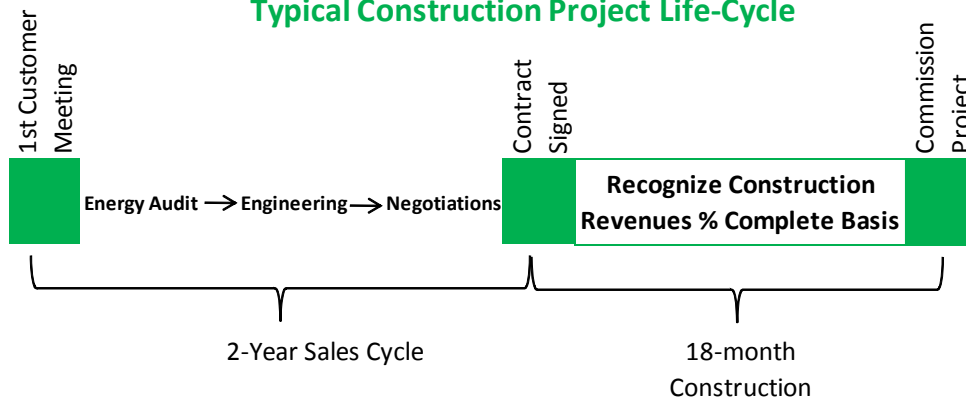
Value of Construction Contracts Signed  
(Revenues in millions of \$)



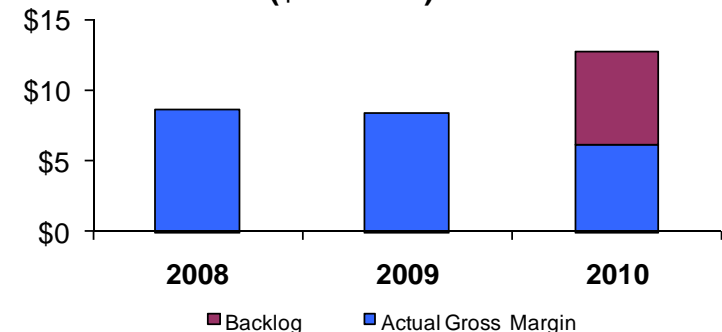
### Contract backlog

- \$21 million of gross margin at 9/30/10
- 14-month weighted average remaining construction period

### Typical Construction Project Life-Cycle



Construction Gross Margin  
(\$ millions)



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

# Energy Services: Make-up of Earnings

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## Recurring Revenue

Operations and maintenance contracts related to energy efficiency projects; 3-15 year contracts

Long-term CHP and thermal contracts from facilities that we operate and maintain

Renewable Energy Projects

Construction Companies

## Projects

- Military District of Washington
- Baltimore City Schools
- BWI Airport
- Other universities, state agencies, and municipal governments

- Atlantic City District Energy
- Wilmington District Energy
- 23 MW NIH Combined Heat and Power, Bethesda, MD
- Washington Convention Center Thermal Facility\*\*

- 2 MW Atlantic City Convention Center Solar
- 5 MW Bethlehem Landfill Gas (LFG), PA
- 2 MW Fauquier County LFG, VA
- 3 MW Eastern LFG, MD

- Primarily W. A . Chester - underground high voltage transmission construction for utilities

## Gross Margin Expectations

**\$28 million Contract Backlog**  
6-year remaining contract life\*

**\$251 million Contract Backlog**  
13-year remaining contract life\*

**Recurring Gross Margin**  
\$5-\$6M per year

**Recurring Gross Margin**  
\$6-\$10M per year

\* Weighted average, contract backlog at 9/30/10

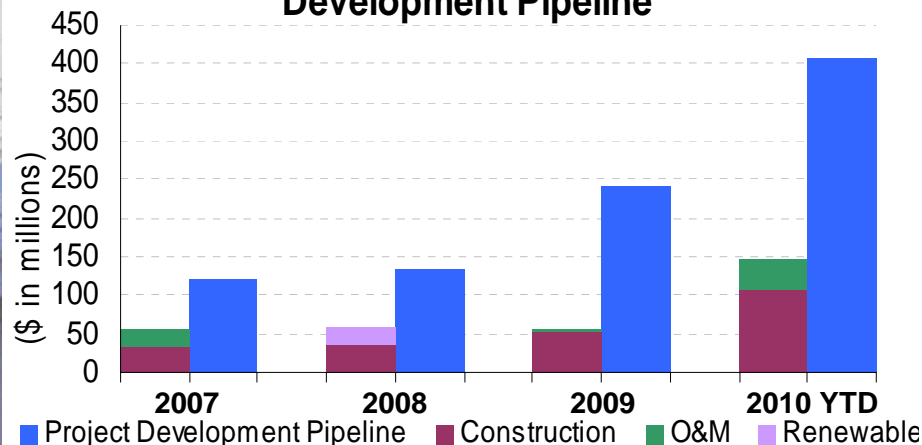
\*\* Excluded from backlog (partnership income)

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

# Pace of Contract Signings has Picked Up

Energy Efficiency Contracts (\$ in millions)	Contract Revenue
<b>First Half 2010</b>	
Marine Corps, Arlington, VA	\$5
Marine Corps - O&M, Arlington, VA	20
Other Projects	4
	<b>\$29</b>
<b>Second Half 2010</b>	
Prince George's County Schools, MD	\$35
BWI Thurgood Marshall Airport, MD	21
Maryland Aviation Admin - O&M	15
Judiciary Square, Washington, DC	8
Maryland Transit Authority	7
Other Projects	31
	<b>\$117</b>
<b>2010 YTD</b>	<b>\$146</b>

## Contracts Signed and Project Development Pipeline



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

## 2010 Activity

- PES experienced a slowing of contract signings through the first half of 2010
- Since July, contract signings have picked up and PES has signed \$117 million of new energy efficiency contracts

## Longer-term Growth Estimate

- PES is now targeting annual earnings of 15¢ /share by 2014, down from 20 ¢/share\*
- PES has fewer Federal projects currently under development than originally anticipated
  - The government's focus on the stimulus program has put energy performance contracting on the back burner
- While we expect the focus to shift back to performance contracting over time, given the lengthy sales cycle, we have shifted our growth estimate to later in the planning horizon

*\*Based on shares outstanding at 9/30/10*

# ***BWI Thurgood Marshall Airport Project***

PES signed a \$21 million energy performance contract with the Maryland Aviation Administration (MAA) for the BWI Thurgood Marshall Airport in Maryland

- **Project**

- PES will implement 13 energy conservation measures
- The scope covers 30 airport buildings, including the main terminal (9 million square feet)
- Installation of more than 1 acre of solar power generation equipment

- **Construction schedule**

- Construction began in September 2010; estimated completion is December 2011

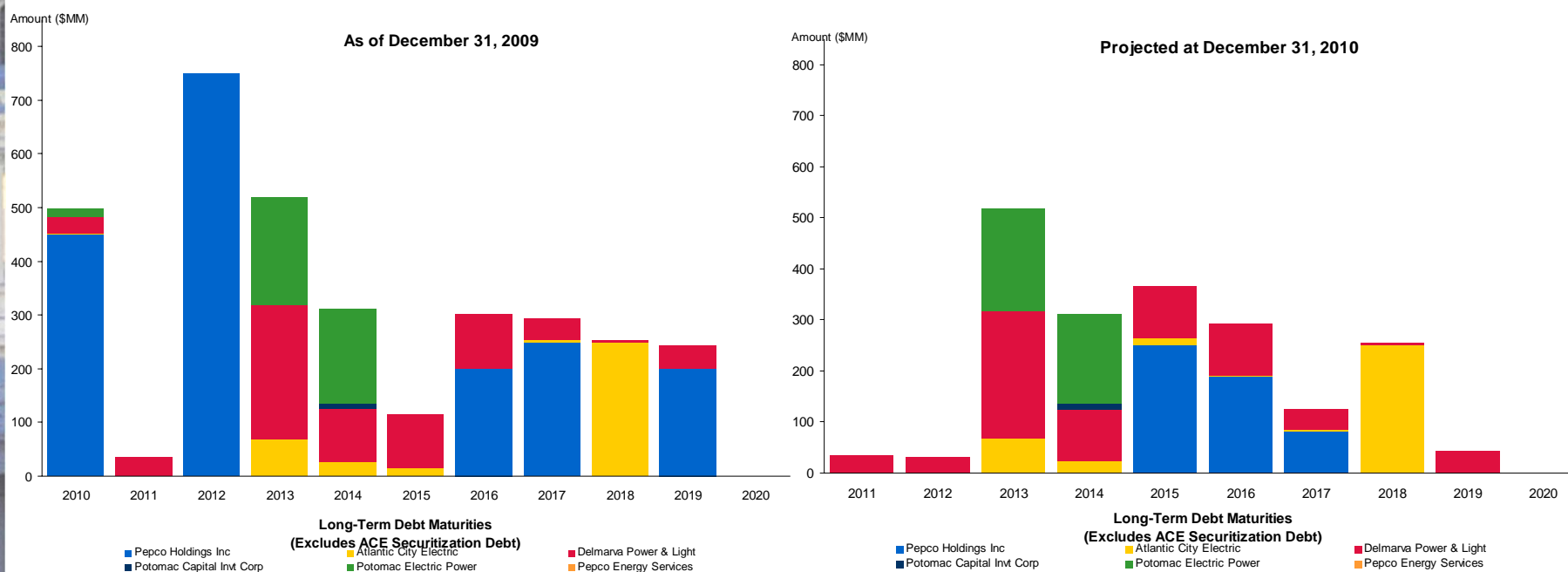
**The project allows MAA to beat its 15% energy reduction goal set by the EmPOWER Maryland Initiative**

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



# PHI Debt Refinancing

- On October 1, 2010, PHI issued \$250 million of 2.7% notes due October 1, 2015
- A portion of proceeds was used on October 13, 2010 to repurchase \$40 million of 6.125% notes due 2017
- Remaining proceeds were used in November 2010 to redeem \$200 million of 6.0% notes due 2019 and \$10 million of 5.9% notes due 2016
- Annual earnings impact, beginning in 2011, is lower interest expense of approximately \$0.02 per share



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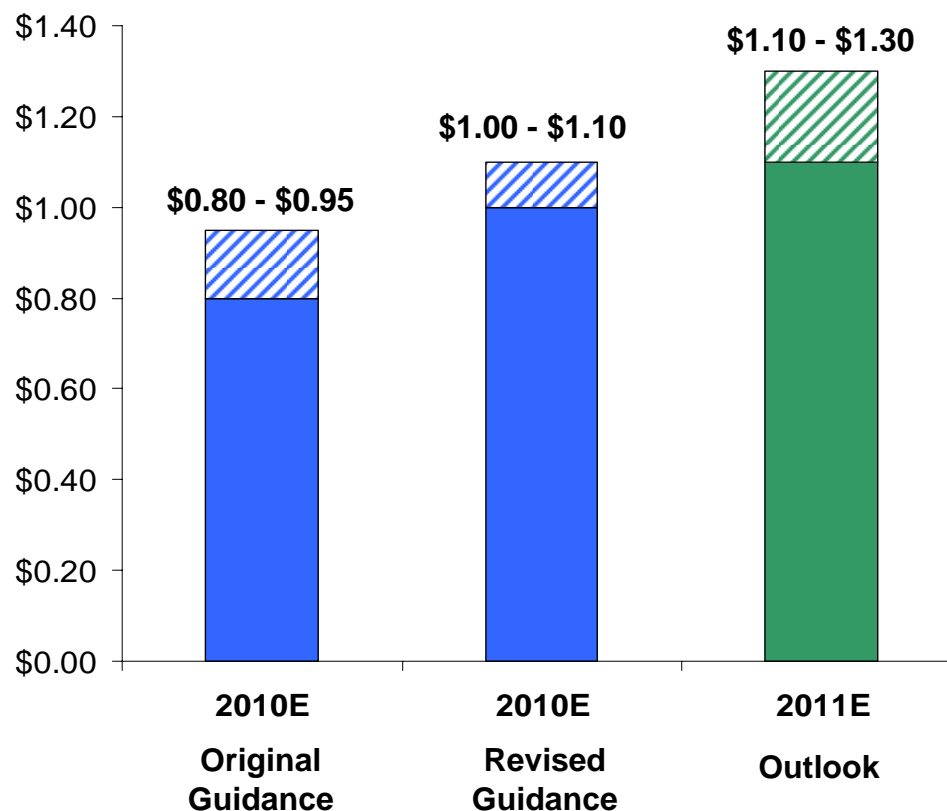


# Earnings Guidance and Outlook

## Earnings Per Share Ranges

The revised guidance range represents:

- Strong Power Delivery operating performance through the first nine months of 2010
- The impact of hot summer weather on electric distribution revenue in certain jurisdictions
- Partially offset by the effects of a much higher level of storm activity in 2010, compared to 2009



Reflects earnings per share from ongoing operations  
(GAAP results excluding special, unusual or extraordinary items)

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# ***POM Investment Case***

- Robust T&D growth – over \$5 billion planned investment, 41% 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 dividend; attractive current yield at 5.8%\*
- 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***

\* As of 12/2/10

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