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PHI's Strategic Focus

Power Delivery



A PHI Company



A PHI Company



A PHI Company

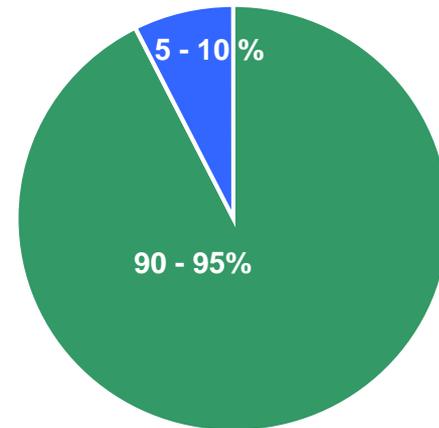
- Invest in T&D infrastructure
- Focused on reliability and operational excellence
- Implement Blueprint for the Future – advanced metering infrastructure (AMI), energy efficiency, demand response, decoupling
- Achieve reasonable regulatory outcomes

Pepco Energy Services



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

Operating Income Business Mix
Forecasted 2011-2015



■ Regulated Utility Operations ■ Pepco Energy Services

Rate Base Summary

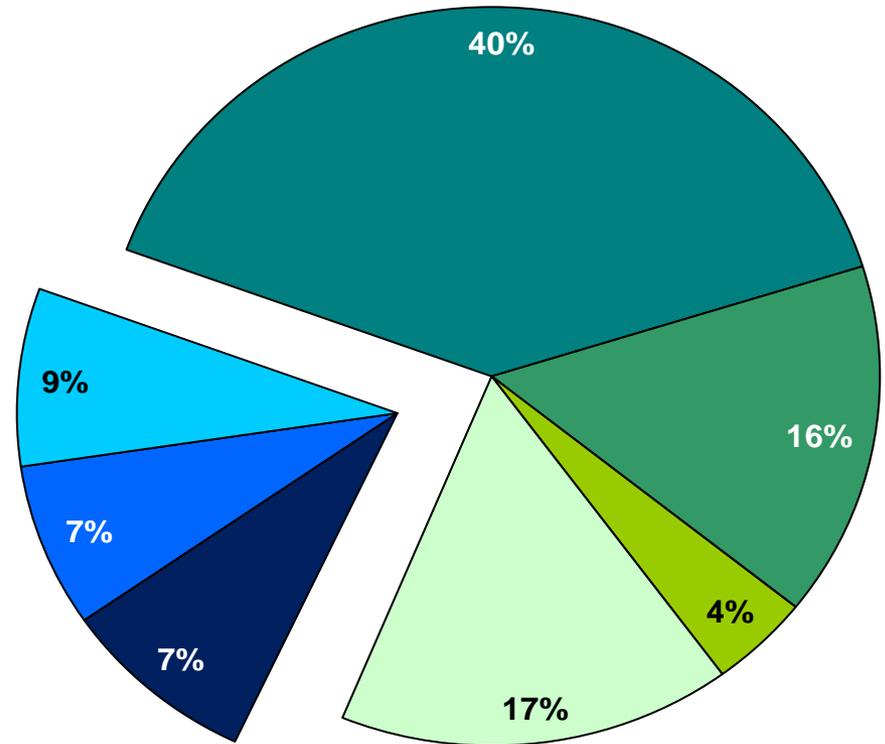
2010 Transmission and Distribution Rate Base by Company

(Millions of Dollars)

Transmission	
■ Pepco	\$ 443
■ Delmarva	372
■ Atlantic City	376
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Total - Transmission	\$ 1,191

Distribution	
■ Pepco - Electric	\$ 2,005
■ Delmarva - Electric	821
■ Delmarva - Gas	219
■ Atlantic City - Electric	844
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Total - Distribution	\$ 3,889

Total Rate Base \$ 5,080



Distribution is 77% and Transmission is 23% of our 2010 year-end rate base

Regulatory Environment

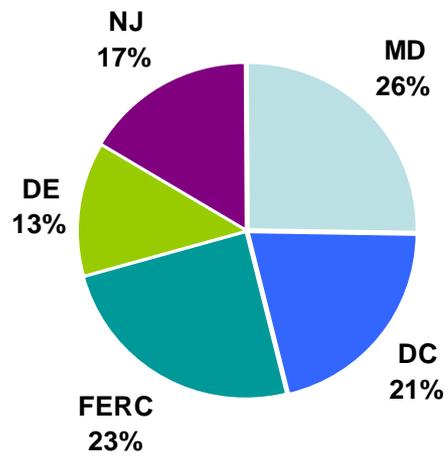
Strengths

- Recent distribution rate case decisions have generally reflected adherence to key ratemaking precedents
- Regulators have been supportive of cost recovery for AMI, energy efficiency and demand response initiatives
- Regulators have been supportive of decoupling efforts in Maryland, the District of Columbia and Delaware
- Formula rates in place at FERC

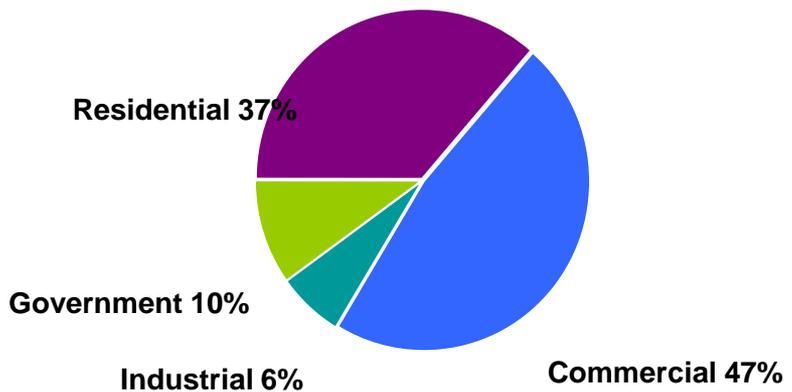
Challenges

- Regulatory lag in distribution business
- Recent lower ROEs in certain distribution jurisdictions
- Current focus on improving reliability and customer service

Regulatory Diversity, 2010 Rate Base*



Customer Diversity, 2010 MWh Sales



* Based on year-end 2010 rate base.

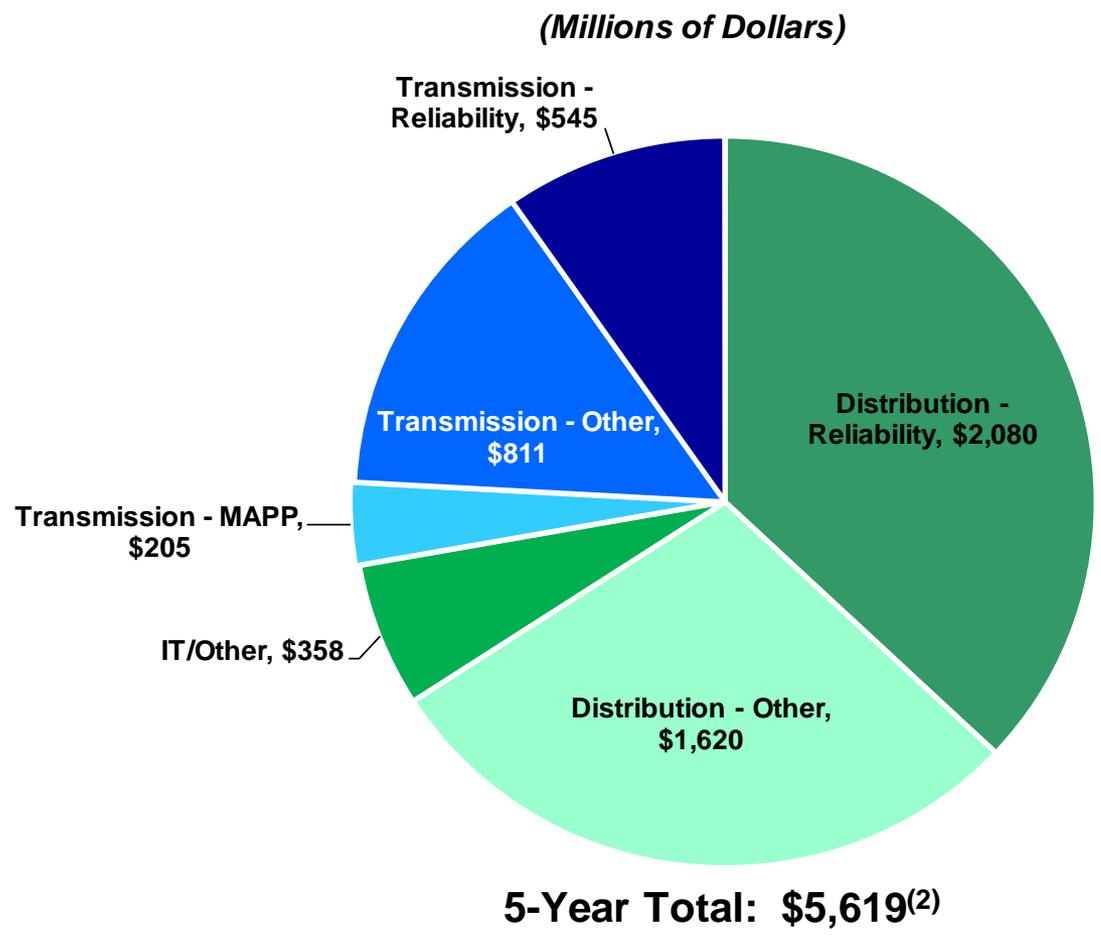
Decoupling Status

Jurisdiction	Status	Forecasted 2011 % Regulated Distribution Revenue
Pepco/Delmarva Power – MD	Implemented June 2007	64% { <ul style="list-style-type: none"> 40% 24% 14% } 78%
Pepco – DC	Implemented November 2009	
Delmarva Power – DE	Implementation pending final PSC approval; expected in first half of 2012	
ACE – NJ	Request deferred	22%

Decoupling provides benefits to both utilities and customers:

- Fosters energy conservation as it aligns the interests of customers and utilities
- Eliminates revenue fluctuations due to weather and changes in customer usage
- Provides for more predictable utility distribution revenues
- Stabilizes the delivery portion of customer bills over time
- More closely aligns cost recovery with the fixed cost nature of the delivery business

Capital Expenditures – 2012 – 2016 Forecast



(1) Assumes Mid-Atlantic Power Pathway (MAPP) in-service date of 2020.

(2) Reflects the remaining anticipated reimbursement pursuant to awards from the U.S. DOE under the ARRA.

Focus on Regulatory Lag

- Currently earning less than the allowed return on equity in distribution business
- Recent distribution rate case filings have included the following:
 - Comprehensive discussion of regulatory lag and its negative effects
 - Perspective of investors by addition of a new Company witness
 - Proposals for regulatory lag mitigation measures:
 - Reliability Investment Recovery Mechanisms
 - Fully forecasted test periods
 - Continuance and expansion of Infrastructure Investment Program in NJ
- Distribution rate cases currently pending in DC, NJ, and DE

Distribution Rate Cases – The Current Cycle

- | <u>Filing Cycle</u> | <u>Status</u> |
|--------------------------------|-----------------------------------|
| – Pepco DC | Pending - Filed July 2011 |
| – Atlantic City Electric NJ | Pending - Filed August 2011 |
| – Delmarva Power DE - Electric | Pending - Filed December 2011 |
| – Delmarva Power MD | Filing targeted for December 2011 |
| – Pepco MD | Filing targeted for December 2011 |
| – Delmarva Power DE - Gas | Filing targeted for 1Q2013 |
- Requested distribution rate increases for residential customers with typical usage are expected to range from 1% - 5% of the total bill
 - Targeted filing dates may be altered by financial projections and other considerations
 - Rate cases will be filed in 2012 if progress to reduce regulatory lag is less than satisfactory in the current cycle of base rate cases

Deep Regulatory Competency

- Demonstrated ability to achieve reasonable outcomes
- Demonstrated capability to manage simultaneous cases
- PHI strategy aligns well with states' energy efficiency objectives and customer interests
- Continued focus on improving reliability, managing costs, and achieving timely recovery and fair regulatory returns

Deep regulatory competency aligns with transmission and distribution strategy