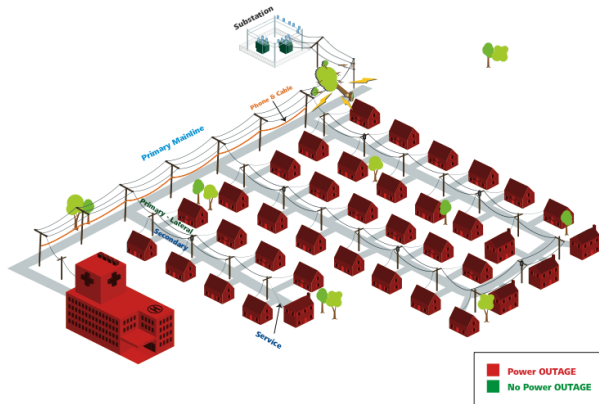
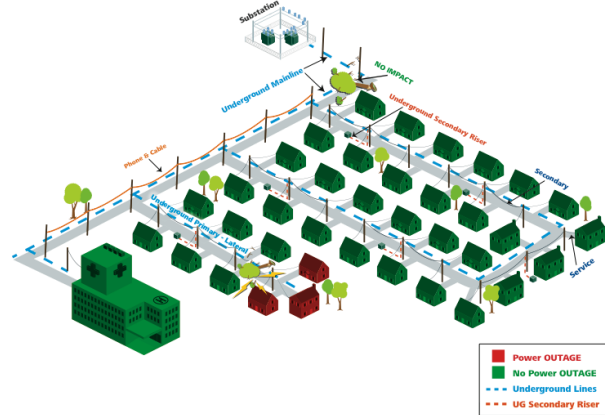


POWER LINE UNDERGROUNDING FACT SHEET

EXISTING OVERHEAD SYSTEM



PROPOSED UNDERGROUND PLAN



OVERVIEW

- On July 2, 2012, Mayor Vincent C. Gray publicly announced the need for a “game changer” as Pepco worked to restore power to the hundreds of thousands of customers who lost service after the Derecho moved through June 29.
- Mayor Gray called for the District of Columbia government to evaluate options that would prevent sustained electric service outages, for multiple days, during significant weather events, to define a plan that would accomplish this objective and to review the coordination between emergency response organizations during extended power outages.
- On Aug. 16, 2012, a mayoral order established the Mayor’s Power Line Undergrounding Task Force.
- Undergrounding power lines is not exclusively being reviewed and discussed in the District of Columbia. Other states are also exploring this subject as a direct result of severe weather events. For example, in Maryland, a Grid Resiliency Task Force established by Gov. Martin O’Malley in September 2012 issued a report in which it concluded, among other things, that selective undergrounding is an effective way to harden the electric grid.

TASK FORCE MAKEUP

- The 18-member panel includes government officials, regulators, local utility industry executives and residents of neighborhoods often affected by power outages.
- The task force is co-chaired by:
 - City Administrator Allen Y. Lew
 - Joseph M. Rigby, chairman, president and CEO of Pepco Holdings Inc., parent company of Pepco
- Other task force members include: Public members Herbert Harris, Jr. of Ward 7 and Matthew Frumin of Ward 3, representatives of two areas that routinely experience the highest number of outages.
- Additional task force members include: Ward 7 Councilmember Yvette M. Alexander--who at the time of appointment was Chair of the Council’s Committee on Public Services and Consumer Affairs; Deputy Mayor for Public Safety and Justice Paul Quander; Chief Financial Officer Natwar M. Gandhi; District Department of Transportation Director Terry Bellamy; District Department of the Environment Director Keith Anderson; Department of Public Works Director William Howland; Mayor’s Office of Budget and Finance Director Eric Goulet; D.C. Public Service Commission Chairman Betty Ann Kane; People’s Counsel Sandra Mattavous-Frye;

Verizon Vice President for Government Affairs Karen Campbell; Comcast Vice President of Government Donna Rattley-Washington; Washington Gas Light Company Division Head, Construction & Field Operations Steven Price; RCN Vice President and Regulatory Counsel Thomas K. Steel, Jr.; and D.C. Water and Sewer Authority Engineering Supervisor Brian McDermott.

RECOMMENDATIONS

The Task Force proposes to:

- Implement a multi-year undergrounding program focused on the top 60 high-voltage distribution lines. This would cost approximately \$1 billion.
- Underground the high voltage mainline and lateral portions of the feeders and retain the lower voltage secondary lines and communication lines overhead.
- Fund the project through a combination of Pepco debt and equity (\$500 million), funding provided by the City as part of DDOT Capital Improvement funding (\$62 million up to \$125 million), and funds obtained from securitized bonds (\$375 million).
- For residential customers, the rate impact will start at approximately \$1.50 per month and increase to a maximum of \$3.25 after seven years, or approximately a 3.23% increase in electric rates.
- For commercial customers, the rate impact will vary by the respective customer service class and will generally average between 5% and 9.25%.

BENEFITS

- By undergrounding the primary mainline, primary lateral and the overhead equipment, Pepco is expecting on average to reduce the frequency and duration of outages caused by the overhead lines by 95% ON IMPROVED FEEDERS.
- This is an opportunity for improving the infrastructure while also stimulating economic growth through job creation and career development. Based on our preliminary estimates, this work could mean about 950 jobs a year.
- The health, safety and welfare component benefits are also substantial. The reality is that high magnitude storms result in multi-day outages, often without warning. By limiting the impact of a storm, response time and outage duration will be significantly decreased.

TECHNICAL DETAILS

- Undergrounding only select mainline feeders and laterals but leaving secondary lines overhead will achieve nearly all of the reliability benefits at 40% lower cost than to underground all overhead lines including secondary lines along each feeder.
- This scenario would eliminate overhead causes of outages on the mainline and lateral primary feeders that occur day to day, normal storm days or during major storms.
- Pepco would coordinate its work where possible with other construction projects in the District to reduce costs and realize synergies.
- The PSC would oversee the implementation of the undergrounding program.

PROCESS FOR SELECTING FEEDERS

- The primary selection criteria are based on reliability benefits. Aesthetics were not a consideration.
- The ranking method selects feeders that improve both frequency and duration of outages and obtains the largest reduction in the minutes of interruption for the dollars spent to underground.

- Project selection will include the feeders most impacted by overhead related outages in Wards 3, 4, 5, 7 and 8, where overhead distribution lines currently exist.

NEXT STEPS

- To execute the recommendations of the task force, enabling legislation is necessary to:
 - Authorize securitization financing mechanism(s) to facilitate the approved work; **and**
 - Authorize the Public Service Commission to establish an undergrounding infrastructure charge to allow Pepco to adjust its rates to provide for the timely recovery of the costs associated with District issued bonds and for Pepco's costs as recommended by the Task Force.
- Legislation also will set forth the continued role of the PSC, relative to ongoing work related to the Task Force report. This includes evaluating the prudence of expenditures made when the company requests that the related assets be added to the rate base.